DEVELOPING POST-WAR BEIRUT (1990-2016): THE POLITICAL ECONOMY OF ‘PEGGED URBANIZATION’

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Abstract

Beirut, today, is a giant construction site. Over the past 25 years, the Lebanese metropolis has experienced a property-led (re)development process that has gone far beyond the controversial downtown megaproject, Solidere, initiated just after the country emerged from civil war. Its most conspicuous manifestations are the proliferation of condominium towers, the three-digit inflation of land and real estate prices, and the unprecedented growth of mortgage-based homeownership. The objective of this thesis is to unravel the mystery of this post-war property frenzy by identifying the major drivers, mechanisms and agents that underlie a financialized trajectory of urban change, a trajectory clearly embedded in globalized circuits of capital and people. To do so, it develops an institution-based and regulation-inspired investigation that reveals, by means of a concept I have termed 'pegged urbanization,' the interdependance of Beirut's urban production and the amplification and reproduction of Lebanon's rentier and finance-led form of capitalism. This shows the nature, intensity and features of the city's development activity to be, first and foremost, socially produced phenomena shaped by the post-1990 recovery and the growth strategy intended to restore the country's position as a financial hub in the Middle East.

The thesis begins with an explanation of its plurilevel and multidisciplinary theoretical social science framework. It then introduces the work's key conceptual contribution, the regulation-urbanization nexus of post-war Lebanon's political economy in which the property market, through its financing of both demand and supply, is the peg. The market, more specifically, is conceptualized as an institution of regulation governed through the state by local elites in order to stimulate economic growth and secure short-term financial and monetary stability. In contrast to mainstream beliefs in the failure of the Lebanese state and the spontaneous and self-adjusting character of supply and demand, the local property market is argued to be the product of public policies, particularly those of the central bank. Analysis of the state-sponsored centrality of real estate and construction activity to Lebanese capitalism, and its links to the financial sector, has exposed the influence of polical-economic dimensions such as elite growth politics and the accelerated financialization of property on Beirut's production of space. It is shown to be equal to that of the country's sectarianism.

Next explored are the concrete repercussions of the state-sponsored nexus on the key workings of the development process (i.e., price formation, property cycles, construction dynamics); the profile, practices and elite networks of city builders; and the financing and functioning of the system of local housing provision. Also brought to light are its implications for social structures and relations in Lebanese society and for the multidimensional nature and exercise of urban power. The research concludes with an identification of the risks, to 2018, run by the Beirut-based property sector. Against a background of the further entwinment of the property and finance spheres, a property crisis, if it occurs, could weaken the fundamentals of the local model of 'pegged urbanization' and, more widely, threaten the precarious stability of post-war Lebanon's political economy.

Résumé

Beyrouth est une métropole en chantier. La capitale libanaise connaît depuis 25 ans un processus de (re)développement urbain intensif qui dépasse largement la reconstruction controversée de son centre-ville (Solidere) initiée au lendemain de la guerre civile. La multiplication des tours résidentielles de standing, l'inflation galopante des prix du foncier et de l'immobilier, et l'expansion sans précédent des programmes de prêts pour l'accession à la propriété en sont les manifestations les plus évidentes. L'objectif de cette thèse est de percer le mystère de cette frénésie immobilière, en identifiant les principaux moteurs, mécanismes et acteurs d'une expansion urbaine de plus en plus connectée aux réseaux transnationaux de capitaux et de personnes. Pour ce faire, cette étude adopte une approche institutionnelle, influencée par la théorie de la régulation, et élabore la notion 'd'urbanisation arrimée' pour conceptualiser l'interdépendance croissante entre la fabrique de la ville à Beyrouth et les transformations et la reproduction d'un capitalisme libanais toujours plus rentier et financiarisé. Ainsi, la nature, l'intensité et les principales caractéristiques de la production urbaine locale sont analysées comme des phénomènes sociaux générés par une stratégie de reconstruction et de croissance qui vise, depuis le début des années 1990, à restaurer la position du Liban comme l'une des principales places bancaires du Moyen-Orient.

À l'issue de la présentation d'un cadre théorique qui adopte une approche multiscalaire et interdisciplinaire en sciences sociales, cette recherche commence par examiner le rôle du marché immobilier comme point d'ancrage (*peg*) de l'interaction entre urbanisation et régulation du capitalisme au Liban. Le marché immobilier à Beyrouth est plus particulièrement théorisé comme une institution de régulation, gouvernée, à travers l'État, par des élites locales qui cherchent, à tout prix, à stimuler la croissance économique et à préserver une stabilité financière et monétaire précaire. À rebours des croyances dominantes sur l'absence de l'État au Liban, et sur le caractère naturel et spontané de l'offre et de la demande, ce marché est décrit comme une construction sociale façonnée par les politiques publiques, en particulier celles de la banque centrale. À bien des égards, cette analyse de la centralité des secteur de l'immobilier et de la construction dans le capitalisme libanais, ainsi que leurs liens étroits avec le secteur financier, est une étape obligée pour démontrer pourquoi et comment les dimensions d'économie politique (politiques de croissance et financiarisation de l'immobilier) sont devenues des composantes essentielles de la production de l'espace à Beyrouth, au même titre que les dimensions politico-confessionnelles.

Cette thèse examine ensuite les répercussions et manifestations concrètes de cette dyade régulation-urbanisation sur les mécanismes clés du développement urbain: formation des prix, cycles immobiliers et forme urbaine. Elle en identifie aussi les conséquences sur le profil, les pratiques et les réseaux des acteurs de l'industrie immobilière ainsi que sur le financement et le fonctionnement des filières de production de logements. Elle met également en évidence son impact croissant sur les structures et les relations sociales au sein de la société libanaise ainsi que sur la nature et les formes d'exercice du pouvoir urbain. En guise de conclusion, cette recherche au long cours met en garde contre les risques sérieux qui pèsent sur le secteur immobilier beyrouthin en 2018. Dans le contexte d'un enchevêtrement accru de l'immobilier et de la finance, une crise immobilière majeure, si elle venait à advenir, pourrait remettre en question les fondamentaux de ce modèle 'd'urbanisation arrimée' et menacer, plus largement, la stabilité financière, sociale et politique d'un Liban aux équilibres fragiles.

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I would firstly like to warmly thank my two supervisors at McGill: Raphaël Fischler and Lisa Bornstein. Their unwavering support, availability and trust have been invaluable in helping me navigate this intellectual journey; their guidance and high standards have also pushed me into developing this work further. Likewise, I am very grateful to Rex Brynen for his advice and interest in my research and his warm welcome into the extended family of the Montréal-based Inter-university Consortium of Arab and Middle Eastern Studies. I am also indebted to Mona Fawaz for her mentorship, guidance and support while conducting my fieldwork in Beirut. She helped me tremendously by opening up a number of new research avenues and pointing me towards the right doors to knock on. Likewise, I would like to warmly thank Charbel Nahas who always found time to meet and engage in thought-provoking conversations. His outstanding expertise, rich experience and critical approach have continually guided me through the puzzles of Lebanon's political economy and provided particular inspiration.

In Beirut, I would like to express my gratitude to a number of colleagues and institutions that were instrumental in making this thesis possible. I would like to say a big thank you to scholars, colleagues and friends from the Neighbourhood Initiative and the Department of Architecture and Design at the American University of Beirut, in particular Cynthia Mintti, Mona Khechen, Mona Harb, Hayat Gebara and Dalia Chabarek. I would also like to thank the Institut français du Proche-Orient (Caecilia Pieri, Myriam Catusse), ESA Business School, Public Works (Nadine Bekdache and Abir Saksouk), Legal Agenda (Nizar Saghieh) and the Order of Engineers and Architects of Beirut. I owe a heartfelt thanks to Alexa and Wajih Hechaime for their tremendous help and very nice welcome. Special thanks also go to Serge Yazigi, who shared his passion and erudition on Beirut, and Sibylle Rizk for the very stimulating discussions we had. Likewise, I am immensely grateful to my Beirut-based family, Stéphane, Delphine and their children, for their support and endless generosity. And, of course, I would be remiss if I did not thank my friends Selim, Soulafa, Rasha, Pauline, Stanley, Bilal, Dima, Nisreen, Bassem, David, Laura, Fernande, Sébastien, Kawa, Sophie, Marie, Lily and all the others for the amazing time we spent together and the countless number of arak glasses we shared in Mezyan and elsewhere.

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Thank you. Merci. شكرا

Preface

Contribution to knowledge in this thesis is original and based on seven years of personal research, guided and inspired by a number of mentors, colleagues and friends (see acknowledgments) and nourished by dozens of interviews (see list of interviews). A noteworthy exception is the Beirut Building Database, whose design and construction were suggested by Mona Fawaz (Department of Architecture and Design, American University of Beirut) and carried out with my colleagues Hayat Gebara and Mona Khechen (Neighbourhood Initiative, American University of Beirut). The maps and some of the findings presented in Chapter 6 come from this joint research initiative.

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Boxes

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List of Acronyms

American University of Beirut (AUB)

Association of Banks in Lebanon (ABL)

Association for Specialization and Scientific Guidance (ASSG)

Banque du Liban (BdL)

Beirut Building Database (BBD)

Beirut Central District (BCD)

Beirut Stock Exchange (BSE)

Caisse Autonome de l'Habitat (CAH)

Central Administration of Statistics (CAS)

Centre d'Etudes et de Recherche sur le Moyen-Orient Contemporain (CERMOC)

Chief executive officer (CEO)

Conseil et Gestion Immobilière (CGI)

Council of Development and Reconstruction (CDR)

Directorate General of Urbanism (DGU)

Entrepreneurial Development Foundation (EDF)

Finance capital investors (FCIs)

Floor area ratio (FAR)

Foreign direct investment (FDI)

Gross national income (GNI)

Gross national product (GDP)

Gulf Cooperation Council (GCC)

High net worth individual (HNWI)

Housing Bank (HB)

Institut français du Proche-Orient (IFPO)

Institutional model of development (IDM)

Internal rate of return (IRR)

International financial institutions (IFIs)

International Monetary Fund (IMF)

Investment Development Authority of Lebanon (IDAL)

Lebanese pound (LBP)

Member of Parliament (MP)

Middle East and North Africa (MENA)

Middle East Capital Group (MECG)

Ministry of Finance (MoF)

Ministry of Housing and Cooperatives (MoHC)

National Social Security Fund (NSSF)

Non-governmental organization (NGO)

Non-performing loan (NPL)

Offshore financial centre (OFC)

Order of Engineers and Architects (OEA)

Public Corporation for Housing (PCH)

Real Estate Developers Association of Lebanon (REDAL)

Real Estate Investment Trusts (REIT)

Real Estate Syndicate of Lebanon (REAL)

Return on equity (ROE)

Return on investment (ROI)

Société Anonyme Libanaise (SAL)

Société Générale Banque du Liban (SGBL)

Special purpose vehicle (SPV)

United States dollar (USD)

Urban political economy (UPE)

Value added tax (VAT)

Chapter 1 – Introduction

"Beirut in times of peace has been more disfigured and destroyed than in times of war," maintained a spokesperson of the non-governmental organization Save Beirut Heritage back in 2010.[1] This is a provocative statement, and in many respects it exemplifies the growing recognition of the ills induced by a property-led redevelopment process that has rearranged the city's physical and social fabrics far beyond post-war reconstruction in recent years. One of the first things to catch a visitor's attention driving around Beirut, apart from terrible traffic and the absence of a vibrant city center, is indeed the burgeoning skyline of modern glass and steel high-rises and construction cranes evoking the iconic waterfronts of fast-globalizing metropolises from Dubai to Shanghai. This landscape of urban opulence contrasts dramatically with the chaotic representations of war-damaged buildings, checkpoints guarded by heavily armed militiamen, and political messages blanketing public space that dominate the (at least Western) collective unconscious of conflict-shattered cities such as Beirut, Baghdad and Sarajevo. But for any social scientist interested in making sense of the growth and decline of cities, the property frenzy first and foremost indicates a booming, liquid economy where the built environment[2] is a giant 'safety deposit box' and land and real estate assets, prime targets for rent-maximizing capital holders.[3] This condition is common to many rapidly developing cities across the globe where a multiplication of condominium towers signals the nexus of money, space and power.[4] Yet the extreme scope, pace and features of urban change are particularly puzzling in Beirut, where a longstanding civil conflict, a permanent risk of political and financial instability, a dysfunctional state and an unattractive urban environment make the massive channelling of private capital into property quite unexpected. The core objective of this doctoral research is thus to solve this puzzle by better understanding the actual drivers, mechanisms and agents underlying the production of

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[1] Interview with a 'Save Beirut Heritage' spokesperson in Bou Melhem, Y. (2010, October 10th). *Saving Beirut* [Television Broadcast]. Australia: SBS Dateline. Retrieved from www.sbs.com.au/dateline/story/watch/id/600811/n/Saving-Beirut.

[2] I refer to the built environment as "all buildings, structures, and land forms that have been created for human use and appreciation" (Beauregard, 1994, p. 716). (Beauregard, R. A. (1994). Capital switching and the built environment: United States, 1970-89. *Environment and Planning A, 26*(5), 715-732)

[3] Fernandez, R., Hofman, A., & Aalbers, M. B. (2016). London and New York as a safe deposit box for the transnational wealth elite. *Environment and Planning A: Economy and Space*. *48*(12), 2443-2461.

[4] In this dissertation, I use a range of terms for urbanization: urban production, urban development, spatial production, city-making and city-building. They all refer to the social process underlying the "transformation of the physical form, bundle of rights, and material and symbolic value of land and buildings" in which a number of cooperating and competing private and public agents interact whose choices shape and are shaped by the prevailing economic, social, political, and cultural institutions (Healey, 1992, p. 36). This process has anticipated and unanticipated economic, social, political, cultural and symbolic implications, all of which critically mould the city's development trajectory and urban life. (Healey, P. (1992). An institutional model of the development process. *Journal of Property Research*, *9*(1), 33-44)

space in Beirut since the end of the civil war. My overarching argument is that the growth of real estate and construction activity and the three-digit inflation of property asset prices in the city are linked primarily to the pivotal role of property in stimulating economic growth and securing financial and monetary stability in post-war Lebanon's rentier and finance-led form of capitalism. By showing how this is case, my ambition is to demonstrate that property exuberance, a phenomenon that has manifold social, economic, financial and political implications, has been socially constructed by a multi-confessional ruling elite that governs *through* the state to maintain, by way of elaborate (dis)incentive structures, a high level of real estate and construction activity. The research refutes mainstream discourses and deterministic accounts of local urbanization that often reflect a limited undertstanding of the proper place of sectarianism in the domestic political economy, an uncritical faith in a supposedly free market, and the illusion of a failed state.

To support and structure my demonstration of the intertwinment of urbanization and the regulation of Lebanese capitalism, I propose the notion of 'pegged urbanization.'[5] I explain that the property market, through the financing of both its demand and supply, is the peg that pins city-making to short-term capitalist reproduction. What I attempt to document, analyze and conceptualize is just how the centrality of the property market, in what I call the regulation-urbanization nexus, is responsible for the baffling development trajectory of the Lebanese metropolis. This critical role of land and real estate in regime (in)stability is not unique in the region or in the world: property booms in resource-rich countries such as Japan in the late 1980s and the United Arab Emirates in the 2000s were also intimately linked to regulation concerns. However, property-based regulation remains an uncommon and understudied phenomenon in countries emerging from war and in Southern economies, where financial resources are usually scarce. Just here is one of Lebanon's major specificities: it has an outward-oriented, resource-rich economy. Beirut has historically been a key banking hub in the Middle East and the state-designed post-war recovery strategy has purposively intensified this function. Considerable flows of diasporic and oil wealth, which have surged in the past quarter century, pour into the country

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[5] Here and throughout the dissertation, my understanding of regulation is situated in a political economy perspective. Unlike the definition adopted by mainstream economists and the popular media that see in regulation "anything that limits the workings of market mechanisms," this term refers to the way elite agents, most generally through the state, purposively shape and direct market and non-market mechanisms in order to create the conditions for reproducing prevailing economic structures and social relations and for rescheduling potential economic and financial crises in a given capitalist system (Aalbers & Haila, 2018, p. 11; Aglietta, 1998; Boyer, 2003). (Aalbers, M. B., & Haila, A. (2018). A conversation about land rent, financialisation and housing. *Urban Studies*. *55*(8), 1821-1835; Aglietta, M. (1998). Capitalism at the turn of the century: Regulation theory and the challenge of social change. *New Left Review*. 232, 41–90; Boyer, R. (2003). Les institutions dans la théorie de la régulation. *Cahiers d'économie politique: Histoire de la pensée et théories, 44*(1), 79-101)

and reinforce the significance of a powerful domestic financial sector. Local capitalism has thus required tight regulation to function and remain stable, and urbanization has become a critical piece of the political-economic puzzle.

In scholarly terms, my interpretation, situated in a political economy approach, is that the property market has become an intermediate-level *institution of regulation* in post-1990 Lebanon.[6] More concretely, this means that the intensive real estate and construction activity and the three-digit inflation of property asset prices observed in post-war Beirut are not manifestations of self-adjusting market forces. Rather, they are the result of a number of state decisions and interventions that make urbanization both a *consequence of regulation* and an *instrument of regulation* to ensure economic growth and financial and monetary stability. Just as importantly, I will show how this state-sponsored regulation-urbanization nexus has transformed the workings of the development process, the profile and practices of development agents, the organization of housing provision, and the structure of social relations and urban power. And I will conclude by explaining why and how this unconventional mode of city development, even though efficiently stabilizing the domestic growth regime[7] in the short run, may ironically have laid the foundation for its own collapse by opening the door to political protest and financial instability in what is in fact a fragile environment.

The thesis is expected to generate at least three major policy and conceptual contributions. First, it offers a better understanding of the political economy of Beirut's model of urban production. The study, through the identification of an ever-intensifying finance-property link and the role of the state in urban affairs, manages to unravel the mystery of local property attractiveness and vitality. It also identifies a number of very concrete policy implications in terms of housing production, urban planning and the organization of the real estate and construction sectors. Second, the smaller story of 'pegged urbanization' in the Lebanese capital also connects to the larger story of urban development in metropolises of the Global South. From a theoretical perspective, this Lebanon-focused investigation particularly highlights the heuristic power and traveling capacity of Northern political economy constructs (e.g., regulation theory,

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[6] I refer to institutions as the humanly devised normative, regulative and cognitive rules of the game that structure, organise and legitimate economic, social and political action and interactions in a society (Hodgson, 1988, 2006; North, 1991, Scott, 2014). (Hodgson, G.M. (1988) *Economics and institutions*. Cambridge: Polity Press; Hodgson, G. M. (2006). What are institutions? *Journal of Economic Issues*, *40*(1), 1-25; North, D. C. (1991). Institutions. *Journal of Economic Perspectives, 5*(1), 97-112; Scott, W. R. (2014). *Institutions and organizations: Ideas, interests, and identities* (4th Ed.). Los Angeles, CA: Sage)

[7] As reviewed and detailed in Chapter 2, scholars of regulation theory such as economists Robert Boyer and Michel Aglietta suggest that a growth regime, also termed mode of development, combines a system of wealth accumulation and distribution with a mode of social regulation.

elite growth politics, financialization) and methodological approaches (e.g., institutionalism) in the understanding and conceptualization of Southern spatial production. Finally, this dissertation is expected to make a set of policy and conceptual contributions useful for scholars and practitioners working on and in conflict-affected cities. It emphasizes the increased significance of the political-economic dimension in the production of space by showing that concerns of economic growth and financial and monetary stability, which spur elite cooperation and consensus, matter just as much as the sectarian-ethnic divides and the previous episodes of violence usually highlighted by the literature on polarized cities.

1.1 Beirut, the Capital City of a Widespread Diaspora Community and a Conflict-Ridden Country

Before going into the details of my research questions, findings and methodology, some background information about the contemporary history of Lebanon and Beirut will better situate the political, social and economic environment in which 'pegged urbanization' unfolds.

1.1.1 Lebanon: Figures and Facts

Lebanon is a small state in the Eastern Mediterranean whose recent history is closely intertwined with the upheavals of the contemporary Middle East. Surrounded by Syria and Israel, the country has a surface area of 10,452 sq. km., i.e., similar to countries such as Qatar, Kosovo and the Bahamas, with an approximate population of a little over 4.5 million, including more than 425,000 permanent Palestinian refugees.[8] Another 1.2 million Syrian refugees have arrived since 2011. Just as importantly, Lebanon has an old and widespread diaspora of about 10 million emigrants maintaining more or less intense economic and cultural ties with their homeland. This longstanding tradition of emigration, a modern and contemporary history of successive foreign occupations, and a multifaceted civil conflict encompassing a 15-year civil war (1975-1990), are features that have fundamentally structured Lebanon's development trajectory and power relations.

[8] In the absence of any demographic census since 1932, unofficial sources affirm that the sectarian balance of the Lebanese population runs as follows: Christians account for about 15 percent, Sunni Muslims for 40 percent, Shia Muslims for 40 percent, and other communities (including Druze communities) for about 5 percent.

1.1.1.1 A land of permanent and temporary emigration

The permanent and temporary emigration of skilled workers has been a recurrent trend in Lebanon since the late 19th century. Millions of Lebanese nationals and descendants live today in Africa, Gulf countries, the Americas, Europe and Australia.[9] Waves of expatriation generally coincided with periods of political trouble and economic stagnation. The number of departures progressively gained significance in pre-war and war years; yet, they have markedly accelerated post-war in the face of an ever-increasing difficulty with rebuilding a well-functioning state and an economy capable of providing jobs and redistributing wealth. Today the Lebanese diaspora, whose members account for more than twice the resident population, constitutes a critical component of Lebanon's political economy. On the one hand, the exportation of white-collar workers (e.g., businessmen, engineers, doctors, bankers, etc.) generates large incoming money transfers mostly through remittances and bank deposits (see Chapter 3). On the other, returnees come back with new cultural practices, consumption patterns, and professional know-how, enhancing family, clan and community solidarity with social networks that affect the Lebanese economy and society at large.[10] In short, emigrants are Lebanon's top asset and their role in domestic affairs is crucial in a larger political-economic environment that has historically been shaped by foreign occupation and influence, and by deep political-sectarian divisions, all fuelling protracted civil strife.

1.1.1.2 A brief political history of contemporary Lebanon

The land of present-day Lebanon was under Ottoman rule from the 16th century to the Treaty of Sèvres in 1920.[11] Unsurprisingly, four hundred years of Ottoman presence left its mark on the local social, cultural, economic and cultural structures and political organization. Notably, the principle of sectarian representation and power sharing emerged during that time.[12] France subsequently occupied Lebanon from 1920 to 1943 as part of its colonial mandate over Greater

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[9] Traboulsi, F. (2007). *A history of modern Lebanon*. London, UK: Pluto

[10] Taffin, C., Roy, F., Gonnet, L., & Nahas, C. (2010). *Real estate market activity and exposure of the financial sector in Lebanon*. Washington, DC: World Bank, Social and Economic Development Group, Middle East and North Africa Region; Picard, E. (2005). Trafficking, rents, and diaspora. In C. J. Arnson, & I. Wi. Zartman (Eds.). *Rethinking the economics of war: the intersection of need, creed, and greed* (pp. 27-67). Washington, DC: Woodrow Wilson Center Press. p. 44

[11] The Treaty of Sèvres settled the dissolution of the Ottoman Empire and its partitioning among the European powers after World War I.

[12] Bahout, J. (2016). *The unraveling of Lebanon's Taif Agreement: Limits of sect-based power sharing*. Carnegie Endowment for International Peace. Retrieved from http://carnegieendowment.org/2016/05/16/unraveling-of-lebanon-s-taif-agreement-limits-of-sect-based-power-sharing/iy99?mkt_tok=eyJpIjoiWmpsa05qWTVNekU%E2%80%A6

Syria. It played a critical role in state formation by creating the state of Greater Lebanon in 1920, establishing the Lebanese Republic in 1926, and building a number of legal and constitutional arrangements, based on political sectarianism and a strong presidential regime, which persist today. As importantly, the French reinforced Lebanon's sectarian divisions by consolidating and institutionalizing the economic and political hegemony of its Christian communities.

Lebanon finally gained its independence in 1943 in the midst of World War II. The same year, the newly independent Republic came up with its National Pact. In many ways this unwritten constitution, which was mostly a "compromise between the Maronite and Sunni bourgeoisie," has organized the country's current political functioning by setting up the inclusive distribution of legislative and executive powers along sectarian lines.[13] Likewise, a significant number of organizational state structures were built in post-independence years, especially under the mandate of President Fuad Chehab (1958-1964) who attempted to lay the foundations of a developmental state.[14] This period was also marked by fast-paced economic growth allowing Beirut to become a key financial, cultural and intellectual center in the Middle East and North Africa (MENA) region.[15] However, the unequal distribution of political and economic powers sparked resentment and calls to rebalance "prerogatives between Muslims and Christians."[16] The fragility and vulnerability of Lebanon's post-independence development model and political settlement were conspicuous and, associated with the regional turmoil induced by the Arab-Israeli conflict, they soon led to civil war.

Lebanon at war (1975-1990)

Alternating periods of lull and intense fighting, the Lebanese civil war (1975-1990) has been documented as especially complex in terms of chronology, causes and stakeholders. Alliances and political combinations often shifted and a number of foreign countries and/or populations, namely Syria, Israel and Palestinian refugees living in Lebanon, were directly involved in the strife. Synthetically, three intertwined domestic and external factors are usually held responsible for its outbreak: inter-communal tensions stemming from the control of

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[13] Baumann, H. (2012a). The 'new contractor bourgeoisie' in Lebanese politics: Hariri, Miqati and Faris. In A. Knudsen, & M. Kerr (Eds.), *Lebanon: after the Cedar revolution* (pp. 125-144). London, UK: Hurst, p. 127

[14] Baumann, 2012a, p.128

[15] As the MENA region is not an official entity or organization, it has no official member list. Yet, international organizations such as the United Nations, the World Bank and the International Monetary Fund generally treat the region has encompassing the following states and territories: Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian Occupied Territories (West Bank and Gaza), Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

[16] Bahout, *op. cit.*

Southern Lebanon by Palestinian military groups that had been launching attacks on Israel; mounting acrimony amongst sectarian groups over the "redistribution of sectarian shares in the political system;" and the fast-growing socio-economic inequality between Beirut's historically dominant, well-off populations (i.e., mostly Sunni Muslims and Greek-Orthodox Christians), on the one hand, and its rural and neo-urban disadvantaged groups (i.e., mostly Shia Muslims and Maronite Christians who had been attracted by the capital's 1970s tertiary-based economic development), on the other hand.[17] Without going into too much detail, the second phase of the war had the most striking implications for post-war political and economic reconstruction: its split of the Lebanese army and the subsequent collapse of the state and the economy paved the way for the full control of militias over the country's territory and financial resources.[18] The 1980s were also the decade of the free-fall of the domestic currency, i.e. the Lebanese pound (LBP), which ruined a large portion of the population. After 14 years of fighting, the Taif Agreement finally ended the violence that had caused 120,000 casualties, displaced 800,000 residents, and forced the emigration of hundreds of thousands in addition to ravaging the country's infrastructure and economy, weakening its state power and crystallizing its political-sectarian divides.

The Taif Peace Accords (1989): the reorganization and constitutionalization of political sectarianism

The 1989 Peace Accords, brokered and signed in the Saudi town of Taif, brought a formal end to the hostilities without addressing the root causes of the civil conflict or formalizing "clear and immediate winners or losers."[19] The country's "domestic social and political structures, political sectarianism, and unruly capitalism remained virtually untouched," confirms French political scientist Élizabeth Picard.[20] Just as importantly, the constitutional and organizational foundations of the Second Lebanese Republic, i.e. the power-sharing and governing system at play in post-war Lebanon, were laid during a process that gathered warring political factions under the sponsorship of regional and international players, particularly Syria and Saudi Arabia.[21]

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[17] *Ibid*

[18] Picard, E. (2000). The political economy of Civil War in Lebanon. In S. Heydeman (Ed.). *War, institutions, and social change in the Middle East* (pp. 292-324). Berkeley, CA: University of Southern California Press.

[19] Leenders, R. (2012). *Spoils of truce corruption and state-building in postwar Lebanon*. Ithaca, NY: Cornell University Press, p. 123

[20] Picard, 2005, p. 49

[21] All political factions were indeed represented in Taif with the notable exception of current Lebanese President Michel Aoun who opposed the negotiation and acted as a 'spoiler' following Stephen John Stedman's definition (2004). (Stedmand, J. (2004). Spoiler problems in peace processes. *International Security*. *22* (2), 5-53)

According to most analysts, the Taif Agreement, which was first and "foremost an arrangement among elite groups," in fact consolidated the flawed political-economic and power-sharing formula that led Lebanon to civil war instead of abolishing it and opting for a secular arrangement.[22] In particular, it constitutionalized the principle of "consociational democracy,"[23] also termed "constrained democracy," with the sectarian allocation of the three top state positions, known as the troika, that had been introduced by the 1943 National Pact: the Presidency of the Republic for Maronites, the Prime Ministership for Sunnis, and the Speakership of Parliament for Shias.[24] The Accords also rebalanced power distribution in favour of the Muslim establishment in state executive, legislative and administrative branches and introduced procedural and constitutional modifications that transferred prerogatives from the President of the Republic to the Council of Minister and the Parliament.[25] As a result, Lebanon found itself with "three presidents" with very similar scopes of power, ending the pro-Christian bias of the pre-war political settlement.[26] Such institutional arrangements relying largely on veto and consensus, have significantly influenced the divided structure and bargaining-based practice of power and decision-making within and outside the state over the past 25 years. In fact, a number of analysts suggest that the shortcomings of Taif intentionally served the interests of post-war Lebanon's key power broker and arbiter: Syria.[27] Reinforcing sectarian power sharing and governance indeed facilitated the set-up of the "*de facto* protectorate" of Hafez and Bachar Al-Assad's regime over Lebanon after 1990.[28]

From Pax Syriana to the Syrian civil war: Lebanon in the post-war period (1990-2016)

In many ways, the 1989 peace settlement opened a period of "lengthy truce" without preventing occasional episodes of violence and protracted instability whose causes are partly the result of Taif's limitations and shortcomings.[29] Overall, two major cycles characterize the

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[22] El-Husseini, R. (2012). *Pax Syriana: Elite politics in postwar Lebanon*. Syracuse, NY: Syracuse University Press, p. 23; Shehadi, N. (2015). *What happens after Lebanese tell politicians #YouStink*? (Chatham House – The Royal Institute of International Affairs). Retrieved from www.chathamhouse.org/expert/comment/what-happens-after-lebanese-tell-politicians-youstink
[23] Elaborated by Dutch scholar Arend Lijphart (1969), the concept of "consociational democracy" refers to a political system where an elite cartel turns "a democracy with a fragmented political culture into a stable democracy" in which stability is contingent on "the behaviour of the political elites." (Lijphart, A. (1969). Consociational democracy. *World Politics*. *21*(2). 207-222).
[24] Makdisi, S. A. (2004). *The lessons of Lebanon: The economics of war and development*. London, UK; New York, NY: I.B. Tauris, p. 3
[25] Bahout, *op. cit*.; Picard, 2005, p. 49
[26] Leenders, 2012
[27] Bahout, *op. cit*.
[28] Bahout, *op. cit*.
[29] Leenders, 2012, p. 15; Traboulsi, 2007

trajectory of Lebanon after 1990: an initial period of overwhelming Syrian domination and occupation (1990-2005), and a subsequent period of emancipation from Syrian tutelage accompanied by a series of political tremors (2006-2016).

As of the early 1990s, Lebanon emerged from war with a shattered state and economy and a powerful guardian ruling over its political affairs. The Syrian occupation of Lebanon gave Al-Assad's regime control over the very lucrative physical and economic reconstruction process detailed in Chapter 3. It also injected powerful leverage into international negotiations aimed at terminating the conflict opposing a number of Arab powers to Israel — which itself had occupied Southern Lebanon until 2000. An acute observer of Lebanese politics who declined to go on record commented that during those post-war years, decisions on major Lebanese political issues were made by Syria in Syria. Any disagreement within the troika was settled not within Lebanese political institutions but systematically in Damascus. Likewise, powerful mechanisms of control in the hands of the Syrian regime organized economic life, especially in rentier sectors.[30] But "the international consensus around Syria's effective protectorate of Lebanon started to erode after 2001" and terminated in the subsequent US invasion of Iraq and the 2005 assassination of former Prime Minister Rafiq Hariri (1992-1998 and 2000-2004).[31] Al-Assad's regime is regularly depicted as the sponsor of the car bomb that killed the architect of Lebanon's reconstruction, although a United Nations Special Tribunal is still investigating the case. Apart from the considerable international pressures it brought to bear to end Syrian military occupation, Hariri's assassination eventually smashed the "unstable political equilibrium" that had kept the country afloat and "brought on the clinical death of Taif" against a regional background of Saudi Arabia-Iran tensions and increased Sunni-Shia polarization.[32]

A new era was ushered in and a series of violent episodes marked the second half of the 2000s. Waves of assassinations targeting Lebanese scholars, journalists and politicians critical of Al-Assad's regime rattled the Lebanese capital city and a war, known as the July War, broke out with Israel in the summer of 2006. The short but intense period of fighting devastated infrastructure countrywide and decimated entire residential areas in the Hezbollah-controlled southern suburbs of Beirut and Southern Lebanon. Just as importantly, Hariri's assassination re-

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[30] Zbeeb, M. (2013a, April 22). Lebanon: capitalist cabal demands government representation. *Al-Akhbar English*. Retrieved from http://english.al-akhbar.com/node/15597

[31] Bahout, *op. cit*.

[32] Bahout, *op. cit*.; Makdisi, S. (2007). Rebuilding without resolution: The Lebanese economy and state in the post-civil war period. In L. Binder (Ed.), *Rebuilding devastated economies in the Middle East*. New York, NY: Palgrave Macmillan, p. 109

orchestrated the post-war environment of political sectarianism as a new rift based on orientation to the Syrian regime emerged amongst political-sectarian groups. On the one hand, the March 8th alliance brought together pro-Syrian, pro-Iranian political parties led by the two major Shia movements, Hezbollah and Amal, along with the Free Patriotic Movement headed by Christian General Michel Aoun. On the other hand, the March 14th alliance united those with close ties to Saudi Arabia and opposed to the Syrian regime and its pervasive influence in local politics: the main Sunni party (the Hariri family-led Future Movement), the other major Christian parties (Lebanese Forces, Phalanges Party), and a number of independent groups and leaders. This two-block system led the legislative and executive branches of the Lebanese state to a complete deadlock: Parliament has failed to pass any public budgetary law between 2005 and 2017, elections have been postponed on several occasions, and parliamentary activity has been minimal.[33] The political-sectarian split also, as importantly, brought about the May 2008 clash during which Hezbollah, politically reinforced by its containment of the Israeli army during the July 2006 War, deployed gunmen in the Sunni-dominated neighbourhoods of West Beirut to oppose to a March 14th-led government decision that sought to block the party's parallel telecommunication network.[34] This military escalation and the resulting political stalemate were finally ended by the Doha Agreement of May 2008, which confirmed the Taif-inherited political settlement.[35]

Several years of political stability and economic renaissance between 2008 and 2011 were then upended by the outbreak of civil war in Syria. The war has reignited political-sectarian strife pitting the March 14th alliance supporting the Syrian opposition against the March 8th, supporting Bachar Al-Assad's regime. At the same time, more than a million Syrians found refuge in Lebanon. Although military fighting rarely crossed the Lebanese border, the Syrian crisis cruelly plunged the Lebanese political system into further crisis by causing a protracted vacancy of power: from March 2013 to December 2016, political groups and leaders of the March 14th and March 8th alliances failed to agree on a Prime Minister, placing a caretaker government in office, instead; and from April 2014 to November 2016, they were unable to choose a new President of the Republic. Yet, a number of recent domestic political developments have finally reduced

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[33] World Bank (2015). *Lebanon economic monitor - The great capture*. Washington, DC: Global Practice for Macroeconomics & Fiscal Management, Middle East and North Africa Region.
[34] Perry, T. (2008, May 7). Lebanon political conflict turns violent. In *Reuters*. Retrieved from www.reuters.com/article/us-lebanon-strike/lebanon-political-conflict-turns-violent-idUSL0761005520080507
[35] Picard, E., & Ramsbotham, A. (2012). Whose Lebanon? A post-war history of people, power and peace initiatives. *Accord,* 24, 11-13, p. 13

tensions and begun to question, but not eliminate, the significance of the March 8th vs. March 14th polarization.[36] The latest evidences of this thaw were the election of Michel Aoun as President of the Republic in the fall 2016 and the parliamentary election successfully organized on May 8 2018.

1.1.1.3 The post-war mutations of elite politics in a divided polity

Apart from this brief summary of the political events and arrangements that have shaped the political economy of Lebanon in recent decades, a discussion of the recent mutations of local elite politics is needed to better understand the prevailing power relations in which 'pegged urbanization' unfolds in post-war Beirut. In many respects, the Taif Agreement was a "constitutive moment" for the ruling class: the constitutionalization of the sectarian sharing of political spoils consecrated its complete domination.[37] Yet, the supremacy of a multisectarian elite, which is by definition the by-product of consociational democracy, goes back to pre-war years: it was a central component of the political-economic systems at play under Ottoman and French occupations. Likewise, it also played an instrumental role during the war years with militia leaders sharing a number of interests.[38] This longstanding reality has led the Lebanese historian and political scientist Fawwaz Traboulsi to conclude that, historically, it has been an oligarchic rather than a multiconfessional system that has run the country and its economy.[39] What I want to point to here is how the composition of this confessional-rentier oligarchy, also called cartel or consortium, has evolved with the empowerment of new actors after 1990. I also want to show, though, how its mode of cooperation and consensus has persisted, especially within the Lebanese state which has remained a key locus of power and a pivotal arena for the aggregation of interests.

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[36] Dot-Pouillard, N. (2016). Un plafond de verre confessionnel au Liban. *Orient XXI*. Retrieved from http://orientxxi.info/magazine/un-plafond-de-verre-confessionnel-au-liban,1324,1324
[37] Hafez, Z. (2009). The culture of rent, factionalism, and corruption: a political economy of rent in the Arab World. *Contemporary Arab Affairs*, 2, 3, 458-480, p. 477; Leenders, 2012, p. 14; Picard, 2005
[38] Hourani, N. (2010). Transnational pathways and politico-economic power: globalisation and the Lebanese Civil War. *Geopolitics, 15*(2) 290-311, p. 296
[39] Fawwaz Traboulsi interviewed in Confavreux, J., & Poinssot, A. (2017, February 14). «C'est un système oligarchique qui gouverne le Liban». *Mediapart*. Retrieved from www.mediapart.fr/journal/international/130217/serie-liban-3-ce-n-est-pas-le-multi-confessionnalisme-mais-un-systeme-oligarchique-qui-gouverne-le?onglet=full

The domination of warlords and returnee entrepreneurs

The control of Lebanese politics in the pre-war period was essentially in the hands of sectarian leaders (*zu'ama*), the predominantly Christian entrepreneurial class, bank tycoons and the landowning bourgeoisie.[40] But the war years brought about two major changes. First, a significant portion of the economic upper class left the country allowing armed groups and foreign organizations to gain access to spheres of government and wealth.[41] Second, increased sectarian polarization, aggravated competition for spoils, and reduced intra-elite compromise reshuffled elite politics.[42] The Taif Accords essentially formalized the alliance between the traditional pre-war oligarchy and warlords and a number of influential returning business and political entrepreneurs.[43] The subsequent years of reconstruction were key to elite formation where readjustments were made to the weight of each group. Reduced was the influence and bargaining power of *zu'ama* and the long-established bourgeoisie; increased was that of the former warlords and war profiteers who were transformed into high-profile political leaders (e.g., Nabih Berri, Walid Jumblatt). In the process, the "new contractor bourgeoisie" acquired a critical role.[44] After 1990, with the blessing of the Syrian regime, elite capitalist emigrants (e.g., Rafiq Hariri, Najib Mikati, Mohammad Safadi, Issam Fares), who had left in the 1970s to amass large fortunes in the Gulf and Africa, returned to Lebanon to "invest and to seek political influence."[45] They also helped to rebalance the sectarian dimension of these entrepreneurial circles as the importance of Sunni and Shia business tycoons rose.[46] Although the ruling class they form is far from homogeneous, the interests of these political and economic elites do intersect.

The salience of elite cooperation and consensus

A critical feature of post-war Lebanon's consociational democracy is the primary role of cooperation and consensus in the exertion of power despite recurring intra- and inter-elite

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[40] Baumann, H. (2012b) *Citizen Hariri and neoliberal politics in postwar Lebanon*. (Doctoral dissertation). SOAS, University of London. Retrieved from: http://eprints.soas.ac.uk/14240/1/Baumann_3400.pdf (p. 26); Hourani, 2010, p. 295; Traboulsi, 2007; Traboulsi, F. (2014). *Social classes and political power in Lebanon*. Beirut, Lebanon: Heinrich Böll Foundation

[41] Nasr, S. (1993). New social realities and post-war Lebanon: issues for reconstruction. In S. Khalaf, S., & P. S. Khoury (Eds). *Recovering Beirut: urban design and post-war reconstruction* (pp. 72-73). Leiden, Netherlands; New York, NY: Brill; Picard 2005, p. 50

[42] Chaaban, J., & Gebara, K. (2007) *Development in a polarized society: looking at economic and social development in Lebanon through a different lens*. Abaad. 11, Lebanese Center for Policy Studies (in Arabic), p. 8; Picard 2005, p. 50

[43] Hafez, *op. cit*., p. 477; Picard and Ramsbotham, *op. cit*., p. 11

[44] Specifically, Baumann (2012b) identifies five distinct elite categories in the post-war period: the pre-war commercial financial bourgeoisie, Chehabist technocrats, the military and security establishment, militia leaders and allied businessmen, and the new contractor bourgeoisie. He sees members of the new contractor bourgeoisie, who are generally the heads of business empires, as a "faction of the 'transnational capitalist class'" with powerful business and political connections (2012a, p. 128).

[45] Baumann, 2012a, p. 128

[46] Nasr, 1993, p. 73

disagreements on both national and regional issues. Coercion and consent are dimensions of power regularly privileged in studies of the dynamics of fragmented societies. These do exist in Lebanon, but they are interlaced with a third: cooperation. The significance of mutual interests and interdependence in elite politics dates back to the pre-war period. Pre-1975 politics, according to Lebanese scholar Najib Hourani, was a "careful balance of interests between elite families as they competed for power and prestige and, at the same time, cooperated to preserve the stability of the post-colonial order."[47] In particular, Lebanese politics experts illuminate the way in which inter-confessional ties in the banking sector, and to a lesser extent the commercial sector, played a key role in elite cooperation, consensus and cohesion.[48] For US scholar Clement Henry Moore,"the banking sector and the institutions that governed it – both governmental and non-governmental" were mediums of elite cohesion and cooperation in post-Independence decades as well as during the civil war when "banks were almost as much political as financial intermediaries."[49] Put another way, Moore argued, "financial intermediation can be understood as the elite adhesive required to make consociational democracy work," given that it performs "a function of elite integration" and ensures resources needed for patron-client structures.[50] Elite consensus and cooperation remained central in the post-Taif political and institutional settlements. In many ways, the domination of a pro-growth, profit-based, and rent-seeking agenda during reconstruction years widely contributed to further elite integration whose cement was further wealth accumulation. A prominent Beirut-based economist confirms the degree to which Lebanon is still ruled by plutocrats:[51]

> When it comes to business and the economy, they [elite members] all agree. Vertical divisions [i.e., political-sectarian divisions] vanish and horizontal divisions [i.e., elite interests or class divisions] prevail. There are no better friends than Fuad Siniora and Nabih Berri[52] when it comes to doing business and making money.

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[47] Hourani, *op. cit*., p. 296
[48] Moore, C. H. (1987). Prisoners' financial dilemmas: a consociational future for Lebanon? *The American Political Science Review*, *81*(1), 201-218
[49] Moore, *op. cit*.
[50] Moore, *op. cit*., p. 202
[51] Lebanese Economist 1, multiple communications, 2014 and 2015
[52] Fuad Siniora is a major leader of Future Movement and the March 14 coalition. He is a former Prime Minister and Minister of Finance, former head of the central bank's Banking Control Commission, and former Chairman of BankMed. Inversely, Nabih Berri is a former warlord, head of Amal movement, Speaker of Parliament, and a central figure of the March 8 alliance.

In this regard, it can be argued that post-war elite politics navigate the two poles: competition for power and resources, on the one hand; and cooperation to preserve the stability of the political-economic and sectarian systems and to foster its capital accumulation, on the other. As shown throughout this dissertation, the financial sector, rapidly joined by the property industry, has, by maximizing rent mechanisms, never ceased to play an essential role in uniting the ruling class. More specifically, elite cooperation and consensus within the "confessional elite cartel" have been conspicuous in one form of political organization: the state.[53]

The state: a neopatrimonial arena for elite interests aggregation

Debates about the nature of the Lebanese state are recurrent among local and foreign scholars, journalists and politicians. The 'weak state' discourse, supported by international rankings on Fragile States, prevails in the media and society at large.[54] Likewise, analyses adopting Weberian and Westphalian perspectives have long fuelled this perception in the academic literature, as scholars Hannes Baumann and Jamil Mouawad underline.[55] On many levels, it is true that Lebanon is the archetype of an anti-developmental state: public organizations are weak, nepotistic, clientelist, corrupted and barely capable of ensuring proper security and justice and of delivering basic public services.[56] In scholarly terms, the Lebanese state is not a homogeneous, unitary, independent and efficient rational-bureaucratic agent capable of imposing its views on other domestic and external actors.

Nevertheless, I agree with Baumann and Mouawad that this widely shared paradigm of the weak state hides more complex formal and informal dynamics. Recent studies using mid-range theories have successfully demonstrated why and how the state plays a crucial role in the making of the Lebanese economy, society and politics.[57] In fact, its operation as a critical arena of competition and cooperation for hybrid state and non-state actors or, put differently, a neopatrimonial platform[58] for elite interest aggregation and rent-seeking with very little

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[53] Baumann, 2012b, p. 119
[54] Lebanon ranked 43rd country of the world to be a fragile state in the 2016 'Fragile States Index.'
[55] Baumann, H. M., & Mouawad, J. (2017). Wayn al-Dawla? Locating the Lebanese state in social theory. *Arab Studies Journal*, 25(1), p. 83
[56] Makdisi, 2004, p. 162. The literature, however, emphasizes a number of positive aspects such as the rebuilding of "fairly democratic institutions," the organization of elections, the unification of army and security forces (notwithstanding the preservation of Hezbollah's military branch), and the progressive restoration of state sovereignty over the national territory (Dibeh, 2005). (Dibeh, G. (2005). *The political economy of postwar reconstruction in Lebanon*. (Research Paper, UNU-WIDER, United Nations University (UNU), No. 2005/44). Retrieved from www.wider.unu.edu/publication/political-economy-postwar-reconstruction-lebanon)
[57] Baumann & Mouawad, *op. cit*., p. 68
[58] Derived from Max Weber's concept of patrimonialism, the concept of neopatrimonialism is a commonly used concept in political science and development studies. First introduced by Israeli sociologist Shmuel Noah Eisenstadt (1973), it refers to the combination of patrimonial and legal-rational bureaucratic logics, institutions and organizations in the executive and administrative state apparatus of many countries in the Global

distinction between public and private realms, has never been interrupted.[59] Generally, the difficulty with meeting the criteria of a rational-bureaucratic organization and concomitant elite capture are the outcomes of three major factors in the country's state-building process: the deadlock-prone political settlement constitutionalized by Taif Peace Accords, the predominance of rent-seeking practices, and the implementation of neoliberal reforms.

First, the post-war settlement constitutionalized in Taif explains a great deal of the current features of the national state. This is confirmed by Dutch political scientist Reinoud Leenders who generally portrays the Lebanese state as "[one] of *muhasasa*, or an allotment state."[60] In effect, the confessional distribution of constitutional powers and administrative positions, the principle of 'collegial government,' the recurrent use (or threat) of veto power, attempts to neutralize the influence of political rivals, and the prevalence of narrow constituency interests lead to the inability to pass substantive reforms, the absence of transparency and accountability, and the primacy of informal bargaining.[61] All of these features conserve existing elite interests. In the words of Lebanese scholar Sami Attalah, "when the political elite disagree, the system is paralyzed, and when they agree it leads to collusion."[62]

Second, the "confessional-rentier elite" uses the state apparatus and prerogatives to divide economic and political spoils amongst sectarian groups and leaders as a source of predatory self-enrichment and clientelist redistribution.[63] On the one hand, elites resort to rent mechanisms to generate direct profit through public over-borrowing, reconstruction projects, and the "spending

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South (Erdmann & Engel, 2007). Specifically, it describes the persistence of patrimonial traits such as rent-seeking, clientelism, patronage, the elite control of resources and policy instruments and, more generally, the blurred distinction between private and the public sectors and interests in state systems increasingly penetrated by modern legal-rational bureaucracy (Bach, 2011). As such, the essence of neopatrimonial scholarship is the study of the intertwinement of informality and formality in state functioning and decision-making (Erdmann & Engel, *op. cit.*). Equally importantly, it also examines the related "post-Weberian" structures and forms of power and domination that prevail in these hybrid political systems (*Ibid*). (Bach, D. (2011). Patrimonialism and neopatrimonialism: Comparative trajectories and readings. *Commonwealth & Comparative Politics, 49*(3), 275-294; Eisenstadt, S. N. (1973). *Traditional patrimonialism and modern neopatrimonialism*. London, UK: Sage Publications; Erdmann, G., & Engel, U. (2007). Neopatrimonialism reconsidered: Critical review and elaboration of an elusive concept. *Commonwealth & Comparative Politics, 45*(1), 95-119)

[59] Leenders, 2012; Verdeil, E. (2010). *Beyrouth et ses urbanistes. une ville en plans (1946-1975)*. Beirut, Lebanon: Presses de l'IFPO; Makdisi, 2004; Seurat, M., & Hannoyer, M. (1984). L'État et l'industrialisation dans l'Orient arabe. In A. Bourgey (Ed.), *Industrialisation et changements sociaux dans l'Orient arabe* (pp. 27-67), Beirut, Lebanon: CERMOC cited in Verdeil, 2010. Italian scholar Sara Fregonese (2012a, p. 655) underlines the salience of hybridity among state and non-state actors in Lebanon. She identifies a series of complex hybridisations, interconnections and cross-contaminations that contribute to the blurring of boundaries between the public and private realms. (Fregonese, S. (2012a). Beyond the weak state: hybrid sovereignties in Beirut. *Environment and Planning D, 30*(4), 655-674)

[60] Reinoud Leenders (2012, p. 232) portrays the Lebanese state as an "allotment state in which fierce struggles over the building of state institutions coexist with an utter disregard for the universal application of bureaucratic rules."

[61] Bahout, *op. cit.*; Hafez, *op. cit.*; Leenders, 2012; World Bank, 2015; Makdisi, 2007. Additionally, the direct tutelage of the Syrian regime over state affairs until 2005 and its absence as external arbiter in solving intra-elite conflicts ever since have helped to paralyze public decision-making in post-war Lebanon.

[62] Attalah, S. (2015, September 7). Garbage crisis exposes arrogance and conflict among the political elite of Lebanon. *Jadaliyya*. Retrieved from www.jadaliyya.com/pages/index/22583/garbage-crisis-exposes-arrogance-and-conflict-amon

[63] Chaaban & Gebara, 2007; Leenders, 2012

of service ministries and state-controlled enterprises."[64] They also make indirect profit by passing *ad hoc* legislation to maximize the profitability of their own stakes. On the other hand, elites rely upon state resources to extend and sustain patronage networks in order to strengthen their political power and clientele allegiance through the (re)distribution of civil service appointments, payrolls, and welfare spending.[65] In this way, public entities are also essential to the functioning of informal networks.[66]

Third, Prime Minister Rafiq Hariri pushed through successive waves of neoliberal reforms (1992-1998 and 2000-2004) and took the opportunity of the post-war transition to further limit state intervention in the economy.[67] Beyond a deep-seated belief in *laissez-faire* and the efficiency of the private sector, Hariri's primary objective in the dismantlement and privatization of public services and actors was to favour his own business interests and weaken his political rivals' networks of state-funded patronage.[68]

The Lebanese state, although in many respects debilitated and absent, therefore appears to be a pivotal arena where financial, economic, social and political decisions are made to direct the country's development.[69] As such, it is an "asset and a stake" for most elite factions and leaders to secure their own political and economic interests and to maintain the status quo in the distribution of power.[70] The state, in other words, is a complex locus of elite interaction, power and domination and, thus, a crucial object for (urban) research.[71]

1.1.1.4 Is everything about political sectarianism and sectarian strife in post-1990 Lebanon?

An inevitable question is raised at this point by any scholar conducting social science research in and about Lebanon: is everything about political sectarianism and sectarian strife? In spite of the dominant taste of analysts, local and foreign, for sectarian explanations, the answer is

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[64] Baumann, 2012b, p. 274
[65] Interestingly, Baumann (2012b, p. 275-276) suggests that, over the past 25 years, Hariri circles have taken over "the 'right hand' of the state," i.e., economic institutions such as the Ministry of Finance (e.g., former Ministers Fuad Siniora and Adnan Kassar are also famous bankers) and the Banque du Liban, while "welfare ministries [Ministry of Social Affairs, Ministry of the Displaced and the Central Fund for the Displaced] constituting the "left hand" of the state" have been controlled mostly by "former militia leaders and *zu'ama* allied to Syria."
[66] Baumann & Mouawad, *op. cit.,* p. 70
[67] Hourani, 2010
[68] Baumann, 2012b, p. 276
[69] This is the reason why, as I will detail in Chapter 3, it has played a critical role in bolstering Lebanon's rentier, financialized and service-based economy in the post-war era by managing and securing financial stability and undertaking important infrastructure works (e.g., modernization of the Beirut airport and port, road networks, etc.) to the principal benefit of the ruling class.
[70] Picard, 2000
[71] Baumann, 2012b; Leenders, 2012

certainly no, and a number of works have been influential in offering a more thorough understanding of social phenomena and power relations in the post-1990 country. In fact, debates between the proponents of culturalist and socio-economic explanations of the country's political economy are not new: they existed in the early 1970s prior to the civil war.[72] Yet, sociological perspectives were long neglected and elite theories have gained academic exposure only in the post-war period.[73] Far from denying the significance of sectarian structures or opting for radical analyses framing them as "nothing but a political programme of the ruling class," social scientists such as Fawwaz Traboulsi, Hannes Baumann, Sami Ofeish, Ussama Makdisi and Suad Joseph have been influential in conceptualizing the multidimensional and intertwined nature of power in the country's politics, economic system and social order.[74]

From this perspective, sectarianism is considered to be a political construct inherited from Ottoman and French colonial structures and supported by power-seeking local leaders.[75] It has over time become ingrained in the country's collective consciousness and political practices as much as it has become intertwined with other power dimensions such as international influences and political affiliations.[76] But its most important and most documented intersection is with elite forms of power. Lebanese-born anthropologist Suad Joseph was one of the first scholars to theorize the nature and degree of association between class and sect in Lebanon. Specifically, Joseph and others have revealed the way in which sectarianism has been perpetuated since the 19th century to uphold an exclusive distribution of political power, defend elite interests and enrichment, hide intra-sectarian disparities, prevent inter-sectarian class solidarity, and "obfuscate debates about the country's political economy."[77] In this way, sectarianism has been a sophisticated form of socio-political organization that has allowed the "elite-cartel" to reach and stay in power by making its "lower and middle class co-religionists" dependent upon client-

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[72] Dubar, C. (1974). Structure confessionnelle et classes sociales au Liban. *Revue française de sociologie, 15*(3), 301-328.
[73] Importantly, elite perspectives look into the ways in which class intersects with other power structures and identity categories in and outside the state. They generally allow "a richer account of individuals and groups beyond their economic position" (Baumann, 2012a, 129).
[74] Salameh, G. (1989). The Lebanese crisis: interpretations and solutions. In N. Shehadi, & B. Harney (Eds) (1989). *Politics and the economy in the Lebanon*. Oxford, UK: Centre for Lebanese Studies
[75] The principles of political sectarianism were initially introduced in the specific area of Mount Lebanon under Ottoman rule in the 19th century. They were then applied to other Lebanese regions under French rule and the establishment of Greater Lebanon in 1920 (Ofeish, 1999). (Ofeish, S. A. (1999). Lebanon's Second Republic: secular talk, sectarian application. *Arab Studies Quarterly, 21*(1), 97-116)
[76] Bahout, *op. cit.*; Salameh, *op. cit.*
[77] Joseph, S. (1983). Working-class women's networks in a sectarian state: a political paradox. *American Ethnologist*, *10*(1). 1-22 quoted in Salloukh, B., Barakat, R., Al-Habbal, J. S., Khattab, L. W., & Mikaelian, S. (Eds.). (2015). *Politics of sectarianism in postwar Lebanon*. London, UK: Pluto Press; Ofeish, *op. cit.*; Salloukh, B. (2016, September 27). How neoliberalism defeated itself in Lebanon. *The New Arab*. Retrieved from www.alaraby.co.uk/english/comment/2016/9/30/how-neoliberalism-defeated-itself-in-lebanon; Salloukh, B., Barakat, R., Al-Habbal, J. S., Khattab, L. W., & Mikaelian, S. (Eds.). (2015). *Politics of sectarianism in postwar Lebanon*. London, UK: Pluto Press

patron relationships to access resources.[78] As such, it seems fair to acknowledge that sect and class in post-war Lebanon have a "relationship of overlap and of mutual influence and effect."[79]

1.1.2 Beirut: A Divided City Early Opened to Globalization

In many ways, Beirut is a paradigmatic city whose fate has been intimately tied to the country's history of massive emigration, foreign occupations and civil conflict, as well as to the mutations of local capitalism. The Lebanese metropolis, whose geographical situation and port activity has made it a center of mercantile transaction in the Eastern Mediterranean for hundreds of years, has in recent decades experienced a massive transformation that has aroused substantial academic interest.

1.1.2.1 From late Ottoman rule to post-war reconstruction: a brief history of Beirut in the 20th and 21st centuries

For decades, Beirut remained a city of a secondary importance to the Ottoman Empire in comparison with major regional urban centers such as Damascus, Aleppo and Jerusalem. Limited in size, it adopted, however, a typical Ottoman organization with a commerce-oriented city center (*souks*) surrounded by residential neighbourhoods with strong communal identities.[80] The establishment of Greater Lebanon in 1920 boosted the city's development and local hegemony over its hinterland with the increased concentration of people, trade and financial activities tied to the growth of port activity.[81] At the same time, the French colonial administration also attempted to engage in large-scale transformations through a number of modern and hygienist plans.[82] Fast-paced urban growth continued after 1943 Independence, when a regional economic boom and political upheavals turned Beirut into one of the Middle East's prime financial, trade and intellectual hubs. Yet, polarization in its socio-economic and political cultures continued to grow. On the one hand, traditional urban bourgeoisies, mostly Sunni and Greek Orthodox, lived off trade and the influx of petrodollars in the opulent capital city, while on the other, Palestinian refugees and marginalized rural immigrants, mostly Shia, Druze and Maronite, continued to be

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[78] Baumann, H. (2016). Social protest and the political economy of sectarianism in Lebanon. *Global Discourse, 6*(4), 634-649, p. 635; Ofeish, *op. cit*., p. 99
[79] Traboulsi, 2014, p. 19
[80] Habib Debs, personal communication, April 14, 2014
[81] Chaaban and Gebara, *op. cit*.; Kassir, S. (2010). *Beirut*. Berkeley, CA: University of California Press
[82] Ghorayeb, M. (2014). *Beyrouth sous mandat français, construction d'une ville moderne*. Paris, France: Karthala

shunted into the informal settlements that constituted a twofold 'belt of misery' within and outside the boundaries of Municipal Beirut.

As the civil war broke out in 1975, Beirut became "the main centre of military action."[83] A line of demarcation known as the 'green line' rapidly divided the city into two parts: East Beirut, inhabited and controlled mostly by Christian populations and right-wing militias, and West Beirut, populated and controlled mostly by Muslim, leftist and pro-Palestinian communities and militias. This spatial polarization triggered significant flows of population from one part to the other. It also caused the relocation and the rapid expansion of new residential and commercial centers along sectarian lines at the city's periphery. About 16 percent of Municipal Beirut's built environment had suffered partial or total destruction by the time the war ended; although some areas were hit harder than others.[84] This was the case for the city center and the areas surrounding the demarcation line, also the front line, where about 80 percent of buildings were damaged.[85] As importantly, the war-induced reorientation of the city's social and sectarian patterns of space and movement would influence its development, and the perceptions of its urban dwellers, for decades to come.

Post-war Beirut has expanded rapidly while remaining smaller in size and population than other large metropolises in the Eastern Mediterranean such as Cairo and Istanbul. As was the case in pre-war years, people, wealth, economic growth and political power continued to concentrate disproportionally in the Greater Beirut area making the capital city a telling example of urban macrocephaly.[86] As of the 2010s, about 55 percent of Lebanon's population, i.e., about 2 million people including the quarter residing in Municipal Beirut, lived in Greater Beirut.[87] In the context of fast-paced urban growth, my investigation into the 'pegged urbanization' of this divided but financially resource rich metropolis will move between Greater Beirut and Municipal Beirut as scales of analysis (see Maps 1.1 and 1.2 below).

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[83] Makdisi, 2004, p. 45
[84] Nasr, J., & Verdeil, E. (2008). The reconstructions of Beirut. In S. K. Jayyusi, R. Holod, A. Petroccioli, & A. Raymond (Eds.), *The city in the Islamic world*. Leiden, Netherlands: Brill.
[85] *Ibid*
[86] Greater Beirut is not an official entity and its limits are subject to discussion. It roughly covers the capital's metropolitan area within which there exists contiguity of built-up area and close functional ties between the core city and its periphery in terms of employment, transportation, economic activities and urban services. In this research, I refer to Greater Beirut as Municipal Beirut and the Mount Lebanon Governorate. Mount Lebanon includes the following six districts (*cazas*): Metn, Kesrouan, Baabda, Chouf, Aley and Jbeil. This delimitation, also adopted by the 2005 country's masterplan, is probably excessive but was guided primarily by the statistical constraints of quantitative analysis: very few indicators are available at the sub-district level. (Dar Al Handasah, & IAURIF (2005). *National physical master plan of the Lebanese territory*. Beirut, Lebanon: Council for Development and Reconstruction – Directorate General of Urban Planning)
[87] Badre, L., & Yaacoub, N. (2012). *Population & housing in Lebanon* (Statistics in Focus. Issue No. 2). Beirut, Lebanon: Central Administration for Statistics

Map 1.1 – Map of Greater Beirut
(Source Aerial View: Google Earth, 2017 | Map: Author)

Map 1.2 – Map of Municipal Beirut
(Source Aerial View: Google Earth, 2017 | Map: Author)

1.1.2.2 The state of knowledge on urban production in post-war Beirut

In the past two decades, Beirut's urban life and development have been investigated in an increasingly abundant literature. The scholarship combines macro- and micro-level perspectives and subsumes various fields of study from political science, history, law, economics and anthropology to urban sociology, urban geography and urban design. Overall, it is possible to identify three major streams in contemporary Beirut-focused urban research. The first addresses post-war reconstruction and the implications of sectarianism and civil conflict for urban production. The second sheds light on the specific (re)development trajectory of the city's periphery, and the third examines recent property-led transformations from a political economy perspective. For the sake of concision, I review the first two streams briefly and provide a thorough discussion of the third, in which this doctoral dissertation is situated and to which it aims to contribute.

Post-war reconstruction and the implications of sectarianism and civil conflict for city-making

The first stream of Beirut literature, which was particularly prevalent in the 1990s and early 2000s, concentrates on the politics of post-war reconstruction and the lasting impact of sectarianism and civil conflict on urban production and organization. Contributions importantly explored recovery planning strategies and the socio-spatial dimensions of fast-paced urban expansion.[88] Unsurprisingly, Solidere, the private-led megaproject of downtown revitalization initiated in the mid-1990s, receives considerable attention with studies examining its political process and legal arrangements, planning details, the controversies it sparked, and the implications it holds for city-building at large.[89] Interestingly, a number of works broaden the scope by placing their questions on the physical and political dimensions of post-war reconstruction into the context of Beirut's planning and social history.[90] They show, for example, how post-war debates on recovery objectives and the policy choices guiding urban development resonate with discussions of the urban transformation and planning initiatives undertaken during Ottoman and French occupations and post-independence decades.

Just as importantly, this scholarship investigates how the fragmented social and political geographies inherited from the civil war continue to affect patterns of sectarian and social segregation, as well as the frontiers of conflict that shape both urbanization dynamics and

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[88] Huybrechts, E. (2002). Des micro-territoires de la guerre à la métropole du Proche-Orient arabe. *Cahiers de la Méditerranée,* 64; Huybrechts, E., & Verdeil, E. (2000). Beyrouth entre Reconstruction et Métropolisation. *Villes en Parallèle,* 32-33, 63-87; Khalaf, S., & Khoury, P. S. (Eds) (1993). *Recovering Beirut: Urban design and post-war reconstruction*. Leiden, Netherlands; New York, NY: Brill; Nasr, J. L. (1996). Beirut/Berlin: Choices in planning for the suture of two divided cities. *Journal of Planning Education and Research, 16*(1), 27-40; Nasr and Verdeil, *op. cit*.; Saliba, R. (2000). *Emergency trends in urbanism: The Beirut post-war experience*. Paper presented at the CSBE - Diwan al-Mimar. April 20; Schmid, H. (2006). Privatized urbanity or a politicized society? Reconstruction in Beirut after the civil war. *European Planning Studies, 14*(3), 365-381

[89] Baumann, 2012b; Becherer, R. (2005). A matter of life and debt: the untold costs of Rafiq Hariri's new Beirut. *The Journal of Architecture*, *10*(1), 1-42; Corm, G. (1993). La reconstruction du centre de Beyrouth: Un exemple de fièvre immobilière au Moyen-Orient. *Revue d'économie financière*. *3*(1), 323-335; Leenders, 2012; Makarem, H. (2014). *Actually existing neoliberalism: The reconstruction of Downtown Beirut in post-civil war Lebanon* (PhD Thesis). Retrieved from http://etheses.lse.ac.uk/3078/1/Makarem_Actually_Existing_Neoliberalism.pdf; Makdisi, S. (1997). Laying claim to Beirut: Urban narrative and spatial identity in the age of Solidere. *Critical inquiry, 23*(3), 661; Mango, T. (2014). The impact of real estate construction and holding companies: a case study of Beirut's Solidere and Amman's Abdali (Doctoral dissertation). Retrieved from https://ore.exeter.ac.uk/repository/handle/10871/15999; Nasr & Verdeil, 2008; Ragab, T. S. (2011). The crisis of cultural identity in rehabilitating historic Beirut-downtown. *Cities, 28*(1), 107-114; Schmid, H. (2002). The reconstruction of Downtown Beirut in the context of political geography. *The Arab World Geographer, 5*(4), 232-248; Schmid, 2006; Summer, D. (2006). The neoliberalization of urban space: Transnational investment networks and the circulation of urban images: Beirut and Amman. *Villes et Territoires du Moyen-Orient,* 2, 1-9.

[90] Davie, M. (2001). *Beyrouth 1825-1975: Un siècle et demi d'urbanisme*. Beirut, Lebanon: Order of Engineers and Architects; Eddé, C. (2009). *Beyrouth, naissance d'une capitale (1918-1924)*. Paris, France: Actes Sud; Kassir, *op. cit*.; Ghorayeb, *op. cit*.; Saliba, R. (2009). *Beyrouth architectures: Aux sources de la modernité*. Marseilles, France: Parenthèses ; Saliba, 2000; Sadik, R. (1996). *Nation building and housing policy: A comparative analysis of urban housing development in Kuwait, Jordan, and Lebanon* (Unpublished doctoral dissertation). Department of City and Regional Planning. University of California at Berkeley, Berkeley, CA; Verdeil, 2010; Yazigi, S. (2015). *Régénération urbaine des quartiers péricentraux de Beyrouth: le cas de Zokak el-Blat (1850-2013)* (Unpublished doctoral dissertation). Université Bordeaux III, Bordeaux, France

everyday life at the street, municipal and metropolitan levels.[91] For instance, contributions show how, in some areas, public space has remained or become a political frontier. They also point to the emergence of secondary commercial nodes in response to the reshuffling of war-inherited populations and of socially and confessionally homogeneous quasi-gated-communities in Greater Beirut. In the same vein, academic interest was also aroused by security arrangements (e.g., concrete blocks, barbed wire, military presence, etc.) and enclaves (e.g., closed off streets, security zones) and their implications for urban life and mobility, as well as by the city's social and political fragmentation.[92] Likewise, another group of scholars has investigated the spatial dimensions of religious ideology and identity, and the impacts of its practices on urban life and power, as well as the role of emerging cultural practices and nightlife in the transformation of urban space.[93] Others have inquired into the spatial component of memory and identity politics tied to violence, modernity and cosmopolitanism as well as the (non-) integration of memory in reconstruction projects.[94] This research fuelled discussion on the capacity of architecture and urban design to pacify inter-communal relations, stimulate interactions among divided communities, and deploy specific spatial arrangements to facilitate shared territorial identities.[95]

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[91] Alaily-Mattar, N. (2008). Beyond gated communities? Detachment and concentration in networked nodes of affluence in the city of Beirut. *Urban Design International, 13*(4), 263-271; Alaily-Mattar, N. (2010). *Segregation for aggregation? The pattern and logic of spatial segregation practices of young affluent heads of households in the post-war city of Beirut* (Doctoral dissertation). Retrieved from http://discovery.ucl.ac.uk/192818/1/192818.pdf; Balanche, F. (2008). *Beyrouth: Mondialisation et conflit urbain*. Paper presented at the 12th EADI General Conference Global Governance for Sustainable Development. Geneva, Switzerland. June 24-28; Beyhum, N. (1991). *Espaces éclatés, espaces dominés : Étude de la recomposition des espaces publics centraux de Beyrouth de 1975 à 1990*. Lille, France: A.N.R.T.; Bou Akar, H. (2012). Contesting Beirut's Frontiers. *City & Society, 24*(2), 150-172; Boudisseau, G. (2001). *Espaces commerciaux, centralités et logiques d'acteurs à Beyrouth: Les cas de Hamra et de Verdun* (Doctoral dissertation). Retrieved from https://tel.archives-ouvertes.fr/tel-00504007/; Davie, M. F. (1993). *A post-war geography of Beirut*. Paper presented at EURAMES Conference. Coventry, UK. July 8-11; Genberg, D. (2002). Borders and boundaries in post-war Beirut. In A. Erdentug, & F. Colombijn (Eds). *Urban ethnic encounters: The spatial consequences* (pp. 81-96). London, UK: Routledge; Glasze, G., & Abdallah, A. (2002). Gated housing estates in the Arab world: Case studies in Lebanon and Riyadh, Saudi Arabia. *Journal of Planning Literature*, *17*(2), 262-331; Huybrechts, 2002; Mermier, F. (2015). *Récits de villes: D'Aden à Beyrouth*. Paris, France: Actes Sud; Yahya, M. (1993). Reconstituting space: The aberration of the urban in Beirut. In P. S. Khoury, & S. Khalaf (Eds.). *Recovering Beirut: Urban design and post-war reconstruction*. Leiden, Netherlands; New York, NY: Brill.

[92] Fawaz, M., & Bou Akar, H. (2012). Practicing (in)security in the city. *City & Society, 24*(2), 105-109; Fawaz, M., Harb, M., & Gharbieh, A. (2012). Living Beirut's security zones: An investigation of the modalities and practice of urban security. *City and Society, 24*(2), 173-195; Monroe, K.V. (2011). Being mobile in Beirut. *City & Society, 23*(1), 91-111.

[93] Bonte M., (2016). 'Eat, drink and be merry for tomorrow we die.' Alcohol practices in Mar Mikhail, Beirut. In T. Thurnell-Read (Ed.), *Drinking dilemmas. Space, culture and identity*. New York, NY: Routledge; Deeb, L., & Harb, M. (2013). *Leisurely Islam: negotiating geography and morality in Shi'ite South Beirut*. Princeton, NJ: Princeton University Press; Harb, M., & Deeb, M. (2013). Contesting urban modernity: Moral leisure in south Beirut. *European Journal of Cultural Studies, 16*(6), 725-744; Harb, M. (2009). City Debates 2008: Spaces of faith and fun. *International Journal of Urban and Regional Research, 33*(4), 1073-1078; Harb, M. (2010). On religiosity and spatiality: Lessons from Hezbollah in Beirut. In N. Alsayyad, & M. Massoumi (Eds.). *The fundamentalist city*. London, UK: Routledge; Kastrissianakis, K. (2012). Transformations urbaines et affirmation de nouvelles souverainetés: Le cas de Beyrouth. *Rives Méditerranéennes*, 42, 75-95; Salamey, I., & Tabar, P. (2008). Consociational democracy and urban sustainability: Transforming the confessional divides in Beirut. *Ethnopolitics*. *7*(2-3), 239-263.

[94] Fregonese, S. (2012b). *Between a refuge and a battleground: Beirut's discrepant cosmopolitanisms. Geographical Review, 102*(3). 316-336; Khalaf, S. (2002). *Civil and uncivil violence in Lebanon a history of the internationalization of communal contact*. New York, NY: Columbia University Press; Nagel, C. (2002). Reconstructing space, re-creating memory: Sectarian politics and urban development in post-war Beirut. *Political Geography, 21*(5). 717-725; Sawalha, A. (2010). *Reconstructing Beirut: Memory and space in a post-war Arab city*. Austin, TX: University of Texas Press.

[95] Ethier, G. (2008). *Patrimoine et guerre: Reconstruire la place des Martyrs à Beyrouth*. Québec, QC: Éditions MultiMondes; Leclair-Paquet, B. (2013). *Beirut divided: The potential of urban design in reuniting a culturally divided city*. (The Bartlett Development Planning Unit. Working Paper No. 153). Retrieved from https://www.ucl.ac.uk/bartlett/development/case-studies/2013/jul/153-beirut-divided-potential-urban-design-reuniting-culturally-divided-city; Khalaf, S. (1993). Urban design and the recovery of Beirut. In S. Khalaf, & P. S. Khoury (Eds). *Recovering*

A final research cluster explores the war-inherited crisis in urban services and infrastructure networks from a policy and politics-based approach.[96] It addresses its root causes, the uneven socio-sectarian geography of public provision it has created, and the very profitable systems of private provision it helps to support. This cluster has also brought to light related processes of political mobilization and the crucial role played by urban services and infrastructure in local structures of clientelist relationships and elite domination.

Focus on the periphery: the growth of informal settlements and reconstruction efforts following the July 2006 war

The second research stream, which experienced rapid development in the 2000s, places emphasis on the specificity of urban production on the city's periphery, more particularly in the southern and south-eastern suburbs. By and large, this stream contains several clusters that respectively examine the history and politics of informal settlements as well as the local specificities of low-income housing production,[97] local politics and governance across peripheral municipalities,[98] and the specific role of Hezbollah in the organization and management of urban development in the *dahiyeh* (southern suburbs of Beirut).[99] Researchers showed special interest in the reconstruction of Haret Hreik following the July 2006 war. In particular, they teased out the process and modalities as well as the political dimensions and implications of this project, called Waad meaning means 'promise' in Arabic, and led by a non-state planning actor (Hezbollah).[100]

Beirut: Urban design and post-war reconstruction. Leiden, Netherlands; New York, NY: Brill; Rowe, P. G., & Sarkis, H. (1998). *Projecting Beirut: Episodes in the construction and reconstruction of a modern city*. Munich, Germany; New York, NY: Prestel; Sarkis, H. (1993). *Territorial claims: Architecture and post-war attitudes toward the built environment*. In S. Khalaf & P. S. Khoury (Eds). *Recovering Beirut: Urban design and post-war reconstruction*. Leiden, Netherlands; New York, NY: Brill

[96] Nucho, J. (2016). *Everyday sectarianism in urban Lebanon: Infrastructures, public services, and power*. Princeton, NJ: Princeton University Press; Verdeil, E. (2017). Beyrouth: Reconstructions, fragmentation et crises institutionnelles. In Lorrain, D. (Ed). *Métropoles en Méditerranée. Gouverner par les rentes*. Paris, France: Presses de Sciences Po; Verdeil, E. (2016). Beirut. The metropolis of darkness and the politics of urban electricity grid. In A. L., Ayala & J., Silver (Eds). *Energy, Power and Protest on the Urban Grid. Geographies of the Electric City* (pp. 155-175). London, UK: Routledge

[97] Bou Akar, H. (2000). *Displacement, politics, and governance: Access to low-income housing in a Beirut Suburb* (Master's thesis). Department of City Planning, MIT, Cambridge, MA; Bourgey A., & Phares, J. (1973). Les bidonvilles de l'agglomération de Beyrouth. *Revue de géographie de Lyon*, *48*(2), 107-139; Clerc-Huybrechts, V. (2008). *Les quartiers irréguliers de Beyrouth*. Beirut, Lebanon: Presses de l'Ifpo; Fawaz, M. (2009a). Contracts and retaliation: Securing housing exchanges in the interstice of the formal/informal Beirut (Lebanon) housing market. *Journal of Planning Education and Research*, *29*(1), 90-107; Fawaz, M. (2009b). Neoliberal urbanity and the right to the city: A view from Beirut's periphery. *Development and Change*, *40*(5), 827-852; Fawaz, M., & Peillen, I. (2002). *Urban slums reports: The case of Beirut, Lebanon. Understanding slums: case studies for the 2003 Global Report on Human Settlements*. London, UK: Eartscan; Harb M., (2001). Urban governance in post-war Beirut: Resources, negotiations, and contestations in the Elyssar project. In S., Shami (Ed.). *Capital Cities: Ethnographies of urban governance in the Middle East (*pp. 111-133). Toronto, ON: Toronto University Press

[98] Farah, J. (2011). *Différenciations sociospatiales et gouvernance municipale dans les banlieues de Beyrouth* (PhD Dissertation). Retrieved from https://orbi.ulg.ac.be/bitstream/2268/.../These%20jihad%20Farah%20-%20light.pdf

[99] Fawaz, M. (2009c). Hezbollah as urban planner? Questions to and from planning theory. *Planning Theory*, *8*(4), 323-334; Harb, M. (1996). *Politiques urbaines dans la banlieue sud de Beyrouth*. Beirut, Lebanon: Presses de l'Ifpo; Harb, M. (2007). Deconstructing Hizballah and its suburb. *Middle East Report*. 242, 12-17; Harb, 2010

[100] Al-Harithy, H. (Ed.) (2010). *Lessons in post-war reconstruction case studies from Lebanon in the aftermath of the 2006 War*. Hoboken, NJ: Taylor & Francis; Fawaz, M. (2007). Beirut: The city as a body politic. *ISIM Review*, 22-23; Fawaz, 2009b; Fawaz, 2009c; Fawaz, M. (2014). The politics of property in planning: Hezbollah's reconstruction of Haret Hreik (Beirut, Lebanon) as case study. *International Journal of Urban and*

A small number of comparative works also strove to identify procedural, planning and political commonalities and differences between Waad and Solidere.[101]

Investigating property-led urban change through political economy analysis

The third and final stream of Beirut literature looks into the specifics of contemporary property-led development. It brings together scholars who believe that war and sectarianism have not been the only drivers of urban production in the Lebanese metropolis since 1990. Early works emerged in the 2000s, following the first post-war property cycle that unfolded in the 1990s. These unravelled the structure and evolution of property and housing markets from an economic perspective. A number of works were published under the umbrella of the Urban Observatory of the French Centre d'Etudes et de Recherche sur le Moyen-Orient Contemporain (CERMOC), which in 2003 became the Institut Français du Proche Orient (IFPO). Research principally targeted the Lebanon-specific features of land and real estate markets on the demand and supply sides, including the role of state regulation and policy, and the deficiency of housing provision.[102]

In recent years, an increasing number of researchers, generally affiliated with the American University of Beirut (AUB), have devoted efforts to analyzing the restructuring process that has gained traction in Municipal Beirut since the early 2000s. Essentially, a common intention has been to situate local redevelopment dynamics into the wider context of the neoliberalization and financialization of urban production in the Global South. This nascent stream sees the urbanization process through an urban political economy lens that focuses on the examination of urban wealth, as a complement to the traditional study of poverty and inequality, and connects urban issues to elite politics and social movements. Contributions offer analyses at

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Regional Research, 38(3), 922-934; Hamieh, C. S., & Mac Ginty, R. (2010). A very political reconstruction: Governance and reconstruction in Lebanon after the 2006 War. *Disasters*, *34*(1), 103–123; Harb, M., & Fawaz, M. (2010). Influencing the politics of reconstruction in Haret-Hreik. In A. Al-Harithy (Ed.). *Lessons in post-war reconstruction case studies from Lebanon in the aftermath of the 2006 War*. Hoboken, NJ: Taylor & Francis; Roy, A. (2008). Civic governmentality: The politics of inclusion in Beirut and Mumbai. *Antipode, 41*(1), 159-179; Verdeil, E., & Rosencrantz, E. (trans.). (2011). Post-2006 reconstruction in Lebanon: A laboratory for new urban planning practices [Review of the book *Lessons in post-war reconstruction case studies from Lebanon in the aftermath of the 2006 War* by A. Al-Harithy (Ed.)]. *Metropolitiques*. Retrieved from www.metropolitiques.eu/Post-2006-reconstruction-in.html

[101] Verdeil, E. (2012). La reconstruction entre politiques et cultures urbanistiques. Réflexions à partir de l'exemple de Beyrouth. Proceedings from *Waad, une expérience unique?* pp. 175-189

[102] Aveline, N. (2000). *Marchés fonciers et immobiliers à Beyrouth*. Document No.6. Beirut, Lebanon: CERMOC- Observatoire de Recherches sur Beyrouth et la Reconstruction; Nahas, C. (2000a). *Économie foncière et immobilière au Liban*. (Lettre d'information, No. 12). Beirut, Lebanon: CERMOC - Observatoire de Recherches sur Beyrouth et la Reconstruction; Awada, F. (2006). *Relations du public et du privé dans la production et l'appropriation des espaces construits: Objectifs et modalités de la privatisation et de l'intégration des externalités, risques d'excès et modes de régulation*. Paper presented at the Quel programme socio-économique pour le Liban ?, Beirut, Lebanon. April 10; Clerc, V. (2013). *Revue des politiques de gestion foncière au Liban*. Marseilles, France: Caisse des Dépôts et Consignations –Banque mondiale, Centre de Marseille pour l'intégration en Méditerranée (CMI); Fawaz, M. (2003). *Access to housing by the poor: Comparative analysis of housing performance and policy in selected MNA region countries. Lebanon report assessment of housing sector*. Washington, DC: World Bank; Nahas, C. (2009). *Identification of factors behind real estate markets activity and exposure of the financial sector in Lebanon* (Unpublished report); Taffin et al., 2010

three different but interrelated scales. A first group explores the mechanisms of diverse residential, commercial and cultural gentrification-like dynamics at the neighbourhood level and unpacks their implications for the urban fabric and local communities (e.g., displacements, heritage destruction, anti-gentrification grassroots initiatives).[103] A second group inquires into the Beirut-based real estate industry with a focus on the role of social networks in the production of residential real estate and the transformation of professional practices.[104] A third group of works propose macro-level analyses of capital concentration, storage and circulation in Beirut's built environment from a production-side perspective.[105] Against the background of a relatively weak municipal government devoid of executive powers, in hand with a larger re-assessment of the 'weak state' discourse, these contributions question the role of public authorities in local city development.[106] This research cluster, in other words, engages the recurrent belief in the state's intentional recusal from the urban field and attempts to tease out its multiple motivations and modes of intervention in the social construction and organization of urban production. As an

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[103] Achkar, H. (2011). *The role of the state in initiating gentrification: The case of the neighbourhood of Achrafieh in Beirut* (Master's thesis). Retrieved from http://hishamashkar.org/node/57; Bekdache, N. (2015). Evicting sovereignty: Lebanon's housing tenants from citizens to obstacles. *Arab Studies Journal*, *23*(1), 320-51; Bekdache, N., & Saksouk-Sasso, A. (2009). *Retrieving Ein El-Mraise: Private struggles and public concerns*. Paper presented at 2009 ISA-RC21 Conference Inequality, Inclusion and the Sense of Belonging. Sao Paulo, Brazil. August 23-25; Catusse, M., & Boissinot, E. (2011). *Les marchés urbains de la 'dépossession:' Les chantiers de la reconstruction dans le 'triangle d'or' d'Achrafieh à Beyrouth*. Paper presented at Colloque 'Médiation publique dans les métropoles du Maghreb et du Moyen-Orient: Concurrences foncières et accès au logement.' Paris-Saint Denis, France. November, 18-19; Chedid, R. (2012). *Urban Observation – Zokak El-Blat, Beirut – Lebanon*. Majal Urban Observatory. Beirut, Lebanon: Académie Libanaise des Beaux Arts – Université de Balamand; Ghodbane, D. (2012). *Les acteurs du renouvellement urbain: Le cas du quartier Syriaque d'Achrafieh (*Unpublished Master's thesis). Ecole Nationale d'Architecture de Paris-La-Villette, Paris, France; Gerbal, L., Hrycaj, N., Lavoipierre, C., & Potasiak, M. (2016). *Linking economic change with social justice in Mar Mikhael*. Issam Fares Institute for Public Policy and International Affairs, American University of Beirut. Retrieved from www.aub.edu.lb/ifi/.../20160627_linking_MarMikhael.pdf; Krijnen, M. (2016a). *Creative economy, social justice and urban strategies: The case of Mar Mikhael*. Issam Fares Institute for Public Policy and International Affairs, American University of Beirut. Retrieved from www.aub.edu.lb/.../20160518_GAIA_conference_report.pdf; Krijnen, M., & De Beukelaer, C. (2015). Capital, state and conflict: The various drivers of diverse gentrification processes in Beirut, Lebanon. In L., Lees, H. N. Shin, & E. Lopez Morales (Eds.). *Global gentrification: Uneven development and displacement*. Bristol, UK: Policy Press; Marot, B., & Yazigi, S. (2012). La reconstruction de Beyrouth: Vers de nouveaux conflits? *Métropolitiques*. Retrieved from www.metropolitiques.eu/La-reconstruction-deBeyrouth-vers.html; Ross, R., & Jamil, L. (2011). Waiting for war (and other strategies to stop gentrification), the case of Ras Beirut. *Human Geography, 4*(3), 14-32

[104] Bacha, K. (2012). *La place des réseaux dans l'immobilier beyrouthin: Étude de cas à Ras Beyrouth et à Jnah* (Unpublished Masters' Thesis). Institut d'Urbanisme de l'ALBA. Université de Balamand, Beirut, Lebanon; Gharazeddine, J. (2013). *Social networking and the practice of city making in Beirut: a case study*. (Masters' Unpublished research Paper). Department of Urban Planning and Policy, American University of Beirut, Beirut, Lebanon; Fawaz, M. (2008). An unusual clique of city-makers: Social networks in the production of a neighborhood in Beirut (1950-75). *International Journal of Urban and Regional Research*, *32*(3), 565-585; Wierzbowski, D. (2010). *Understanding the property market in Lebanon: Social networks in the production of high-end residential space in Beirut*. (Unpublished Master's Thesis). Department of Urban Planning and Policy. American University of Beirut, Beirut, Lebanon

[105] Achkar, 2011; Krijnen, M. (2010). *Facilitating real estate development in Beirut: A peculiar case of neoliberal public policy* (Unpublished Master's Thesis). Department of Urban Planning and Policy, American University of Beirut, Beirut, Lebanon; Summer, D. (2005). *Neoliberalizing the city: The circulation of city builders and urban images in Beirut and Amman* (Unpublished Master's Thesis). Department of Urban Planning and Policy, American University of Beirut, Beirut, Lebanon

[106] Despite a limited level of state building, the power of national state institutions in the management of the local development process is not surprizing in a small, very centralized and post-colonial country where the capital city accounts for about 25 percent of the total population and accommodates the great majority of wealth accumulation and distribution. The primacy of national public authorities in shaping urbanization is also related to the reconstruction process, during which the state invested immense amounts of money to rebuild infrastructures (Verdeil & Huybrechts, *op. cit.*), and the prevalence of political sectarianism in which elites controlling the state apparatus have no interest in facilitating the emergence of powerful local political actors. This is one of the reasons why the Mayor of Beirut is historically deprived of any executive power, which is left instead in the hands of the representative of the deconcentrated state (*mohafez*) appointed by the Council of Minister. For the same reason, there is no formal government entity comprised of the elected officials of the various municipalities forming Greater Beirut (Balanche, 2008).

example, recent works have brilliantly underlined how elites use state prerogatives to facilitate property growth and secure their immediate business interests through the making and manipulation of legal frameworks in planning and construction.[107]

The ambition of this dissertation, concentrated on post-war Beirut, is to contribute to this urban political economy stream by filling some of its current gaps and investigating a number of unexamined dimensions of formal urban production. In particular, the existing literature fails to adequately connect the political economy of urbanization with the wider political economy of post-war Lebanon which, as I will show, is a linkage that very much explains why and how urban change has unfolded and city-making has been financialized over the past quarter century.

From an economic perspective, Beirut-focused urban scholars, with the exception of Lebanese economist Charbel Nahas whose seminal work has also inspired the recent PhD dissertations of my Dutch colleague Marieke Krijnen and US colleague Julia Sakr-Tierney, generally ignore the fundamental interconnectedness, extensively documented in the urban studies literature, between the financial and property sectors.[108] This reality is surprizing in a country such as Lebanon, where financial and monetary stability are a critical and permanent policy concern and the banking industry a prime economic actor. The existing scholarship, in other words, barely questions the pivotal connection between amplification of the rentier and financialized components of the Lebanese economy and the particular trajectory of Beirut redevelopment and expansion since the end of the civil war. To my knowledge, there are very few studies of the financial drivers and diverse financing channels of property activity in Lebanon, and their interrelationship with issues of capital availability, liquidity, risk and asset

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[107] El-Achkar, E. (2013 [1998]). *Réglementation et formes urbaines: Le cas de Beyrouth*. Beirut, Lebanon: Presses de l'Ifpo; Fawaz, M. (2017). Exceptions and the actually existing practice of planning: Beirut (Lebanon) as case study. *Urban Studies*. *54*(8). 1-18; Ghandour, M. (2001). *Building law: A critical reading of the Lebanese case*. Paper presented at the 89th ACSA Annual Meeting - Paradoxes of Progress- Architecture and Education in a Post-Utopian Era, Baltimore; Krijnen, M., & Fawaz, M., (2010). Exception as the rule: High-end developments in neoliberal Beirut. *Built environment*. *36*(2), 245-259; Lamy, S. (2010). *Le droit de l'urbanisme au Liban*. Beirut, Lebanon: University of Balamand – ALBA –GRIDAUH; Saksouk, A. (2015). *Where is Law? Investigations from Beirut* (Working Paper. Neighbourhood Initiative. American University of Beirut). Retrieved from www.aub.edu.lb/Neighborhood/Documents/Abir%20NI%20Report.pdf. Emphasis is primarily placed on exception and informality as a central development strategy and a planning practice (e.g., permitting process) involving state authorities and private agents.

[108] The seminal work of Lebanese economist Charbel Nahas, detailed in Chapter 4, is a noteworthy exception to the under-examination of the finance-property interplay. In many ways, my colleagues Marieke Krijnen (2016b) and Julia Sakr-Tierney (2017) have built upon his conceptualization of the role of property in Lebanon's post-war political economy. On the one hand, Tierney questions the link between real estate investment, sovereign debt and the country's transnational political economy through the lens of the resilience literature and a Foucauldian conceptual apparatus. On the other hand, Krijnen investigates the causes of urban change and financialization of property in Beirut through a predominantly neo-Marxian analysis. She explains that urban transformations in post-2000 Beirut have been a 'spatial fix' "where surplus capital was switched into the built environment to temporarily stave off a crisis of overaccumulation." All inspired by Nahas' initial contribution, our three doctoral dissertations, which started from analogous research questions and were conducted simultaneously, have taken different roads and opted for different analytical and conceptual lenses to explore, understand and conceptualize Lebanon's property-finance connection and its implications. In this way, they are complementary and probably share a series of findings. (Krijnen, M. (2016b). *The urban transformation of Beirut: An investigation into the movement of capital* (Unpublished doctoral dissertation). Department of Conflict and Development Studies, Ghent University, Ghent, Belgium; Tierney, J. (2017). *Constructing resilience: Real estate investment, sovereign debt and Lebanon's transnational political economy*. (Doctoral dissertation). Retrieved from https://escholarship.org/uc/item/0mm2c8d5)

prices in the domestic financial system. Similarly, I found no real critical investigation or conceptualization of the way in which the property market functions. There is clearly a need, then, for an in-depth analysis of the multiple economic and psychological mechanisms and feedback channels that determine the interactions between demand, price and supply of property, and their connections to the nature and intensity of money supply, in order to properly understand the cyclical evolutions of a particularly active land and real estate market. Research on micro-level property sector transactions also generally leaves unexplored the transformation of agent profiles, financial schemes and development practices and their epitomization of the ever-increasing interplay of finance and property in post-war Lebanon's political economy. In sum, the limited consideration given to finance and property economics in the Beirut literature has prevented a thorough examination of the political-economic drivers and factors that explain the centrality of property to the country's mode of development, and more concretely, the cycles of property growth and stagnation that have succeeded one another in the post-war period. This blind spot leads to the persistence of erroneous causal analyses and simplistic myths that have contributed to speculative dynamics and the vulnerability of the Lebanese property and financial sectors.[109] The limited attention to the finance-property link ultimately explains why an essential state agent, whose policy decisions critically shape the workings of the local real estate market, has fallen off the radar of urban research. That agent is the Central Bank of Lebanon.

Just as importantly, ignorance of the link between finance and property in the political economy of urban production has also adversely affected the ability of scholars to document, analyze and conceptualize elite involvement in property-led transformations and its implications for social relations. From a political and sociological perspective, a hard look at this link is a prerequisite to an investigation of the nature and structure of urban politics, and as we have been reviewing, the multidimensional exercise of urban power in post-1990 Lebanon, where sectarian and class dimensions are so closely intertwined. Specifically, unpacking of the finance-property interdependence is key to an explanation of the ways in which the state drives the social construction of the property market, and of the underlying dynamics of elite interest aggregation in urban policy-making, and more generally, of the politics of property. Yet, in contrast to the contributions of social scientists such as Fawwaz Traboulsi, Hans Baumann and Reinoud

[109] For example, some studies mistakenly consider the new 2004 Construction Law as a triggering factor of the 2000s property boom, and property analysts recurrently but incorrectly portray absolute land scarcity as the major reason for the high level of property prices.

Leenders who have researched elite circles and reported cases of corruption in the post-war era, scholars of urban production in Beirut have too rarely given systematic attention to the details of decision-making in state entities, the profiles of major city builders, or the diversity of political-economic connections in real estate deals. These elements are essential to an account of the reasons why the functioning of elites matters just as much as sectarian division in the operation of the city's urban production. Further, the contribution of post-war Beirut's urban production, through its action on wealth and income distribution, to the transformation of social structures and power relations remains generally under-researched.

The reasons for these gaps and limitations are probably manifold. I would like to emphasize one: the recurrent recourse to a critique of neoliberalism that universalizes its mode of operation as a primary conceptual framework for research. This recurrent theoretical and methodological choice tends to orient studies in normative directions that do not properly capture post-war Beirut's social construction of space. I do not mean that this critical stream is irrelevant or uninteresting: this dissertation shares some conceptual foundations with the scholarship critical of neoliberalism, a scholarship that does avoid the myopia of parochialism despite its intrinsic definitional, descriptive and analytical limitations underlined elsewhere in the city literature.[110] Moreover, neoliberalism-centered contributions provide useful tools for an understanding of the processual nature of city-building by emphasizing and unpacking the role of the state in the transformation of economic and social structures.[111] Nonetheless, neoliberalism is not enough to fully explain the intensity and features of urban production and the nature and structure of urban politics as well as the type of property-related state interventions in the Lebanese capital city. The structural lens of the critique of neoliberalism and its focus on the spread of market-led mechanisms and search for immediate profit neglects Lebanon-specific agential factors: those largely explaining the behaviours and interactions of public and private urban agents. Put simply, other political-economic dynamics come into play in the formation of the post-war institutional environment at the country and city levels that marginalize neoliberalization forces, without suppressing them. This is notably the case in Lebanese elite politics and the domestic model of finance-led capitalism whose perpetual risk of short-term collapse has largely shaped the ever-increasing connection between the financial and property sectors in the last quarter-century. This

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[110] Le Galès, P. (2016). Neoliberalism and urban change: Stretching a food idea too far? *Territory, Politics, Governance*, *4*(2). 1-19; Pinson, G., & Morel Journel, C. (2016). The neoliberal city: Theory, evidence, debates. *Territory, Politics, Governance, 4*(2), 137-153
[111] Pinson & Morel Journel, *op. cit.*

is why I have opted to use a political economy framework shaped by institutional analysis, one that adopts a middle-range position in the structure-agency debate, in order to capture the specific rules, resources, conventions and agents that have been operating in a post-1990 policy environment which organizes urban production and connects it to regime regulation (see Chapter 2).

1.2. Research Questions, Arguments and Contributions

The preceding navigation of the history and politics of contemporary Beirut and Lebanon, and presentation of the state of research on local urban production, serve as a background to the definition of the puzzle and research questions that have guided this doctoral dissertation on the political economy of urbanization in the Lebanese capital city since the early 1990s.

1.2.1 The Puzzle

In contrast to many metropolises of the Global South that face a "political economy of insufficient resources," Beirut is a financial hub where the (over)abundance of money has brought about the spectacular growth of construction and real estate activity in the post-war era.[112] Yet this frenzy hardly represents an uncomplicated and spontaneous manifestation of property supply and demand, regardless of the statements made by most property professionals and financiers who portray the vitality of the property market as a 'natural' feature of the Lebanese economy.[113] How natural could it be to invest such capital, most of it external, in the built environment of a divided city where urban infrastructure and services are unreliable and permanent congestion, pollution and poor urban planning deteriorate the quality of city life.[114] And this in a country where the state is generally dysfunctional, fragile economic and political prospects fuel widespread financial risk, and property investment faces a particular legal risk.[115] This doubly challenging context at both country and city levels should not, in theory, make

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[112] Mabin, A. (2014). Grounding southern theory in time and place. In S. Parnell, & S. Oldfield (Eds.). *The Routledge handbook on cities of the Global South* (pp. 21-36). Hoboken, NJ: Taylor and Francis, p. 23

[113] Here I paraphrase US urban scholar Susan Fainstein (2001) in her seminal exploration of post-1980 urban change in New York and London. (Fainstein, S. (2001). *The city builders: property development in New York and London, 1980-2000*. Lawrence, KS: University Press of Kansas, p. xii)

[114] Urban disamenities in Beirut include inconsistent electricity and water provision, traffic congestion, and air and water pollution. Together they create a difficult urban environment, lacking predictability and the amenities basic to urban well-being.

[115] In Lebanon, there is no legal protection for buyers and investors in case of developer default. Buyers generally sign a simple, non-legally binding private agreement and pay up to 90 percent of the total property price upfront. Moreover, there is no ten-year guarantee making builders responsible for construction quality. In other words, there is almost no legal recourse in cases where a development firm goes bankrupt or fails to respect its commitments.

property, i.e., a medium or long-term illiquid investment, an attractive stream for rent-maximizing and generally risk-averse capital holders. The property market has, however, surged in Greater Beirut over the past 25 years and morphed considerable amounts of capital into housing wealth. Herein lies the fundamental puzzle that this thesis seeks to investigate.

This puzzle, in turn, raises a series of analytical and theoretical research questions that have guided my investigation: why, and through what mechanisms, has so much private money found its way into property in such an uncertain political-economic atmosphere and unattractive urban environment? Who are the main players in the property game and what are their motivations? To what extent, and in what manner, are their actions shaped by post-war Lebanon's institutional environment? To what extent, and in what ways, did the Lebanese state contribute to this property-led development trajectory? Moreover, what are the concrete implications of the enormous funnelling of capital resources into real estate and construction for the local development process and its agents as well as for a system of housing provision that is structurally in crisis? What does the way in which these urban transformations unfold tell us about social relations and urban power in Beirut? To what extent do the consensus and cooperation rationales prevailing in Lebanese elite politics extend to urban affairs? And, ultimately, what risks does the ever-increasing concentration of financial resources in the built environment entail for the city and the country at large?

1.2.2 Main Argument and Conceptual Proposition

My overarching argument is that the property market is the peg that links city-making to capitalist reproduction in post-war Lebanon and that this intermediation role very much explains the intensity, scope, features and actors of urban production in post-war Beirut. In scholarly terms, the property market has become an intermediate-level *institution of regulation* in the country's rentier and finance-led mode of development. To conceptualize this argument, I formulate the middle-range notion of 'pegged urbanization' through which I unpack the specifics of what I call the regulation-urbanization nexus and its implications for urban development, housing provision and power dynamics.

1.2.2.1 'Pegged urbanization:' theorizing spatial production in financializing economies of the Global South

Urban production is part and parcel of state-sponsored strategies to stabilize and reproduce regimes of accumulation in many financializing economies across the globe where real estate and construction activity is a key vehicle for GDP growth. This is, for instance, the case in Japan, Hong Kong and the United Arab Emirates (see Chapter 2). Yet the motivations, modalities, actors and implications of property-based regulation strategies differ in space and time. They reflect variations in local financialization patterns and policy environments, especially between the Global North on which most of the financialization literature focuses, and the Global South where financialization dynamics frequently include the dependence on incoming money transfers to sustain value creation, maintain the financial system's stability and secure monetary stability through the peg of local exchange rates to another country's currency, most generally the US dollar.[116]

Inspired by the social science literature on regulation and financialization, I propose the mid-range notion of 'pegged urbanization' to theorize the entwinement of urban development and capitalist reproduction in the peculiar context of outward-oriented, financializing economies of the Global South. Specifically, I define 'pegged urbanization' as a model of financialized city development whose drivers, rules, conventions, resources, agents and outcomes are critically connected to the ruling elite's concern for economic growth and financial and monetary stability through the property market. The particular interrelations of the property peg are detailed below.

As such, 'pegged urbanization' is a form of urban political economy, a theoretical field that traditionally addresses the centrality of urban production to models and transformations of capitalist development.[117] My institutional approach to the financialization of city-building in Southern environments draws heavily on the work of Patsy Healey, whose relational approach to the structure-agency debate in her study of the property market's resources, rules and ideas I have found especially helpful.[118]

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[116] Bonizzi, B. (2013). Financialization in developing and emerging countries. *International Journal of Political Economy*, *42*(4), 83-107; Becker, J., Jäger, J., Leubolt, B., & Weissenbacher, R. (2010). Peripheral financialization and vulnerability to crisis: A regulationist perspective. *Competition & Change, 14*(3-4), 225-247

[117] Harvey, D. (1985). *The urbanization of capital: Studies in the history and theory of capitalist urbanization*. Baltimore, MD: Johns Hopkins University Press

[118] Healey, P. (1991). Models of the development process: A review. *Journal of Property Research*, *8*(3), 219-238; Healey, P., & Barrett, S. M. (1990). Structure and agency in land and property development processes: Some ideas for research. *Urban Studies*, *27*(1), 89-104

A two-step analysis

From a methodological perspective, the investigation of ‘pegged urbanization’ involves a two-step analysis: identification of the country-specific regulation-urbanization nexus; and study of the urban development, housing provision, social relations and power structures that it helps to produce.

First, I conceive of the regulation-urbanization nexus as the core relationship under investigation. It consists of the circle of mutual dependence and interactions of a financial, social, political, legal and cultural nature that connects the trajectory and stability of local capitalism, at the country level, to the capitalist process of urban development, at the city level. It is here where I use the metaphor of the property peg to explain the way in which the property market, through its financing mechanisms on both supply and demand sides, pins together urbanization and the imperative of regime regulation. I choose the word ‘peg’, in other words, to better visualize the mediating role of the property market, which I further conceptualize as a key meso-institution of regulation. On the one hand, the macro-institutions forging the nature and regulation of local capitalism orient the resources, rules and conventions of the property market and, thus, the profiles, behaviours and expectations of agents involved in urban production. On the other, by stimulating economic growth and securing financial and monetary stability, the same connections allow urbanization-related economic and socio-political mechanisms and behaviours to contribute to the stabilization and reproduction of local capitalism. In many ways, this cross-level feedback loop shapes and is shaped by state policy decisions. In line with the existing financialization literature, I stress the role of central banks in designing and directing this interplay through their widespread monetary and prudential powers. In unpacking the connection of urbanization to capitalist regulation, examining the regulation-urbanization nexus amounts to illuminating the further integration of the agencies and relationships that link the state, the financial industry and the property sector.[119]

Second, investigating ‘pegged urbanization’ also entails an exploration of the concrete implications and externalities of the nexus for the modalities, actors and trajectories of urban development and housing provision, as well as for the city’s social relations, power dynamics and governance patterns. Indeed, the regulation-urbanization nexus considerably transforms the

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[119] Healey, 1991, p. 232

interests, preferences, relations and behaviours of the public and private, individual and collective, actors who finance and undertake building projects, and, therefore, shape the production of urban space at large. Implications may vary according to the country-specific characteristics of the finance-property linkage. But the regulation-urbanization nexus generally affects the pace and features of the development process (e.g., price formation, the pace and features of real estate cycles), the agent profiles and professional practices in the development industry, and the structure of channels of housing provision (e.g., homeownership vs. rental). As importantly, this form of regulation by urbanization affects social relations (e.g., between owning and non-owning groups), alters the nature, structure and exercise of urban power (e.g., elite cooperation and consensus), and carries multiple limitations and risks (e.g., property-generated financial crisis).

1.2.2.2 'Pegged urbanization' in post-war Beirut

'Pegged urbanization' is the theoretical proposition for the multifaceted mechanism by which city-making in Greater Beirut both reflects and helps to stabilize and reproduce the rentier and finance-led growth regime at play in post-war Lebanon (see Figure 1.1 below). As a crucial meso-institution of regulation, the property market makes real estate and construction activity and housing prices both a *consequence of regulation* and an *instrument of regulation*. On the one hand, the macro-institutions characteristic of Lebanon's rentier and finance-led model of accumulation and regulation critically shape the resources, rules and conventions of the capital city's property market and guide, consequently, the perceptions, strategies and decisions of individuals and organizations involved in urban development. On the other hand, the actions of those individual and collective agents in the property market, in turn, contribute to the stabilization and reproduction of Lebanese capitalism in ways that I will detail in the first part of this dissertation. In many respects, the further entanglement of the property and financial sectors in post-war Lebanon has been the result of, and condition for, the operation of this critical feedback.

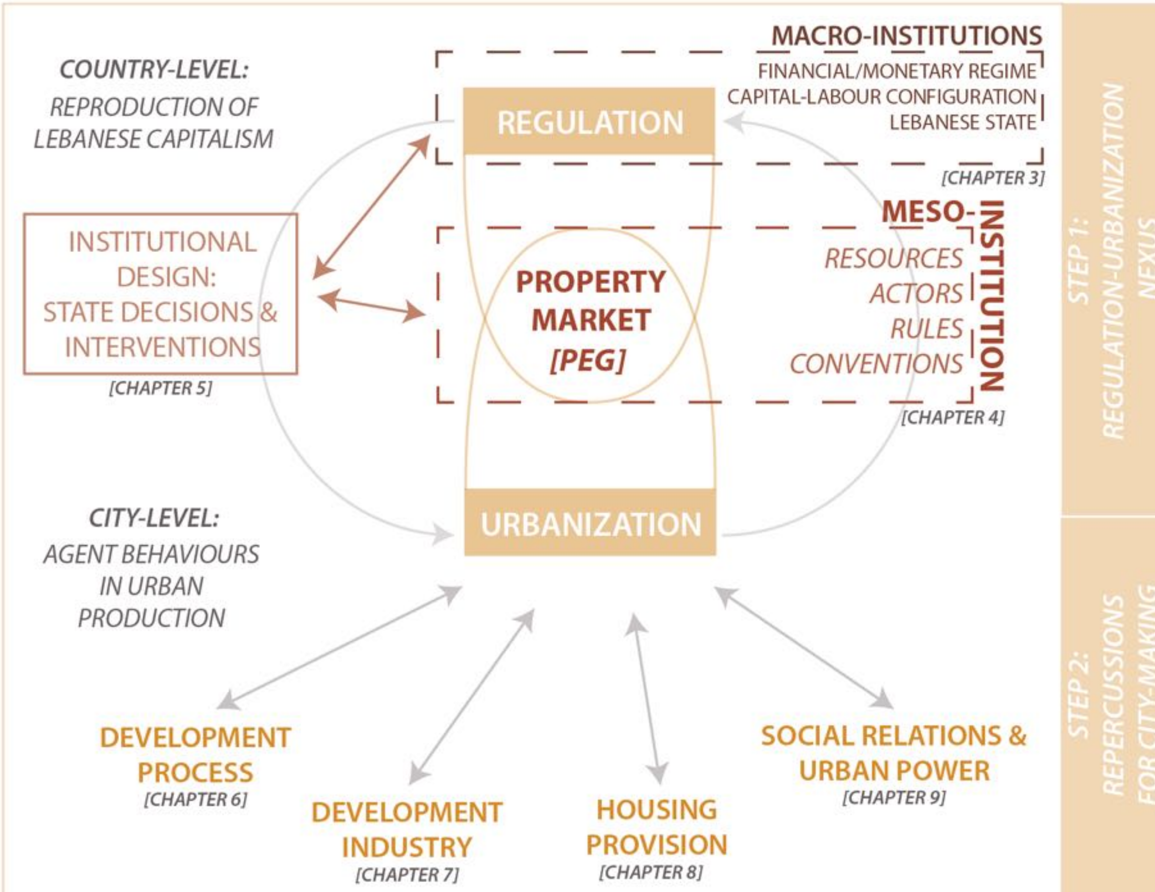

Figure 1.1 – The social construction of 'pegged urbanization' in post-war Beirut (Source: Author)

The corollary of this linkage between city-making and regime regulation is that the property attractiveness and vitality observed in post-1990 Beirut is first and foremost a social construction. I suggest, in other words, that demand, supply and price dynamics in the local property market are not unproblematic outcomes of an 'invisible hand' determining the rational economic decisions of buyers, financiers and city builders, as mainstream economics and most local real estate and banking professionals commonly assert. Instead, these features are produced by state policy decisions that themselves shape and are shaped by agent behaviours. These regulatory, organizational and financial policy decisions are primarily intended to bolster economic growth and secure short-term financial and monetary stability. What they also do, however, is organize the property market, even though they are not always purposively targeted at property development nor are they deprived of a rent-seeking dimension. As such, they have been instrumental in channelling massive private capital resources into land and real estate and in defining the actors and specificities of city development.

Equally importantly, what I aim to show here is that the centrality of property in post-war Lebanese capitalism has had tremendous and concrete effects on the actual functioning of the development process, the agent profiles and the professional practices of the development industry, and the (re)organization of the system of housing provision in Greater Beirut. In the context of post-Taif political-economic settlement, regulation-driven urban growth politics have adversely altered social relations, transforming power dynamics by consolidating the influence of elite consensus and cooperation. In effect, I show that the unbridled growth of real estate and construction and the inflation of property asset values have fuelled increasing inequality in income and wealth distribution. Likewise, social production[120] has become a form of power as critical as communal coercion and patronage and territorial control in the governance of post-war Beirut. Ultimately, however, the ever-increasing reliance on property in local systems of accumulation and regulation, and the related financialization of land and real estate assets, reinforces the vulnerability of the property market and, more generally, of Lebanese capitalism in the medium-to-long term.

1.2.3 Research Contributions

I expect this thesis to make at least three sets of contributions to policy-making and to scholarship in the urban and social sciences.

1.2.3.1 The political economy of city-building in post-1990 Beirut

The first set is primarily empirical and analytical with the exploration of Beirut's political economy of city-making in the post-war period. I hope that this inquiry improves our understanding of the counter-intuitive vitality of the city's property sector and, more generally, of the scope, intensity, agents and features of its urban production, through the thorough investigation of three of its defining features: the finance-property link, the key role of the state in urban affairs, and the salience of elite politics.

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[120] By social production, I mean the elite capacity to set policy agendas, build coalitions, develop schemes of cooperation, blend political and economic resources, and create institutional arrangements (Stone, 1993; 2005). (Stone, C. (1993). Urban regimes and the capacity to govern: A political economy approach. *Journal of Urban Affairs, 15*(1), 1-28; Stone, C. (2005). Looking back to look forward: Reflections on urban regime analysis. *Urban Affairs Review*. 40, 309-341)

The finance-property link

Throughout this work, I deconstruct the mutual interdependence of the property and financial sectors. I then broaden the focus to uncover the wider connection between amplification of the financialized nature of the domestic growth regime, on the one hand, and the trajectory of Beirut's urban development, on the other. With a focus on finance and property economics, I carefully document the diverse financial drivers and financing channels of local real estate and construction activity. I also connect the nature and intensity of property activity to issues of capital availability, liquidity, risk and remuneration in the domestic financial system. As importantly, I clarify the multiple economic and psychological mechanisms and feedback channels that direct the cyclical evolution of demand, price and supply in the local land and real estate markets. By doing so, I falsify the widespread myth of absolute land scarcity, stress the critical issue of asset price overvaluation, and underscore the probable emergence of bubble-like dynamics in recent years. With concrete illustrations, I also document, at the micro-level of development activity, the way in which the finance-property interplay has transformed agent profiles, financial schemes and business networks, among other elements of the real-estate industry. The rapid and probably excessive deployment of bank debt in real estate and construction activity is, for example, one of the most striking findings and has manifold policy implications. Additionally, I stress the multiple ways by which the ever-increasing finance-property link has substantially but negatively realigned formal housing production in Greater Beirut: priority is given to mortgage-based homeownership while the rental stock has continuously reduced and become inaccessible to a majority of city dwellers. In this regard, I identify a number of policy priorities (e.g., the revitalization of the rental market) to regenerate affordable housing provision and meet the challenges of a longstanding and multifaceted housing shortage.

The key role of the state in urban affairs

My institutional analysis of Beirut's 'pegged urbanization' attempts to demonstrate that property demand, supply and price dynamics are not the unproblematic outcomes of an 'invisible hand' determining the supposedly rational economic behaviours of buyers, financiers and city builders, as most local real estate and banking professionals assert. They are, instead, a social construct shaped largely by the decisions of government, Parliament and the central bank, i.e., Lebanon's three key state organizations. By showing how this is the case, I strive to detail and conceptualize the primary role of the national state in urban affairs. Even though public authorities do not have a formal housing policy and direct involvement in development activity, they are instrumental in organizing real estate and construction activity and the profiles and actions of their multiple stakeholders. I stress the role of the Banque du Liban whose influential action in city-building is generally under-estimated and/or not properly documented in the existing scholarship.

The salience of elite politics

The thesis underlines the significance of elite interests in urban production in the larger context of consociational Lebanese politics. Far from denying the importance of sectarianism in the way in which the city has grown, and the daily life of dwellers is organized, it points to the power of consensus-building and cooperation among pluriconfessional political and economic elites in the playing out of its urban politics. For this purpose, the research provides a number of detailed examples of decision-making within the state apparatus (e.g., property-related law-making in Parliament) as well as concrete illustrations of the strategy and practices of private development actors (e.g., creation of professional organizations, financial deals). In doing so, it documents a key aspect of local urban production, which is often argued but rarely exposed in a satisfying, systematic and problematized manner.

The analysis of Beirut's political economy of urbanization will be useful material for local and international public and private actors (e.g., public authorities, international organizations, development agencies, non-governmental organizations, research groups, private firms) intervening in the financial, real estate, housing, planning and governance sectors in Lebanon and abroad. On the one hand, this multidisciplinary research may help to redefine the terms of current public debates in the Lebanese capital where issues of urban liveability, sustainability and affordability occupy an increasingly central position. Likewise, it might contribute to the preparation of policy interventions ranging from emergency containment measures aimed at avoiding a property-generated financial crisis to the design of a comprehensive local or national housing strategy. On the other hand, these Beirut-focused lessons may stimulate discussions in government and international development organizations that design and finance urban interventions in other cities and countries faced with rapid financialization and/or situated in conflict-affected environments. This is notably the case with Syria, where reconstruction efforts will accelerate sooner or later. Lessons learned from Lebanon should then be carefully and critically considered, even though the two neighbours have profoundly different political economies. That attention should be paid to events in Beirut is all the more important as many of the Lebanese agents (e.g., financiers, city builders) who designed and deployed its controversial model of urban development are already becoming involved in the Syrian reconstruction process.

1.2.3.2 South-focused urban development and studies

The second set of contributions of my Lebanon-focused investigation is theoretical and methodological. It aims to add to the existing urban and social science literatures by exemplifying the heuristic power and traveling capacity of the Northern political economy scholarship in the explanation and conceptualization of increasingly financialized urbanization processes in the Global South.

Regulation theory and the study of institutions

I hope to illustrate the explanatory power of regulationist approaches and institutional analysis in urban research. Indeed, my investigation of Beirut's 'pegged urbanization' is expected to demonstrate the way the making of cities is part and parcel of social regulation strategies designed to stabilize finance-led regimes of accumulation in an increasing number of rapidly developing countries. Regulation theory, in other words, offers adequate theoretical concepts (regime of accumulation, mode of social regulation) and methological tools (institutions) to unpack the embeddedness of urban production in larger political-economic structures and dynamics at the country level. By the same token, this thesis aims to demonstrate the relevance of space-based approaches in regulation theory, usually guided by time-focused considerations (see Chapter 2). As importantly, while most regulationist research has been empirically elaborated in the context of Northern capitalist systems, my Lebanon-focused inquiry complements by providing a comprehensive regulationist account of a Southern growth regime whose political economy is shaped by a politically and financially fragile environment at the national and regional levels and exposed to multifaceted crises in the short term.

Growth politics from above

I also expect this thesis to document the reasons why 'growth politics from above' matter as much as the dynamics 'from below' in the production of space in metropolises of the Global South. In this regard, my study of the role of property activity in the reproduction of Lebanese capitalism shows that, in order to understand and explain urban transformations in Beirut and in many other globally-connected "cities beyond the West,"[121] key clusters in urban political economy research (e.g., elite politics, growth-oriented state policies and financialization of property) are as meaningful as the post-colonial lense that has dominated South-focused urban studies in the past 25 years (see Chapter 2). This dissertation, in other words, sets out to stress the complementarity of analyses of the urban rich, wealth accumulation in the built environment, the finance-property link and formal decision-making within the state, on one hand, and of the urban poor, everyday life and informality, on the other, in explanations of the growth and organization of cities.

The multiple roads to property-based regulation and financialization of property

Interestingly, the investigation of Beirut's urban growth politics questions and further expands a number of these political economy streams that are normally examined and discussed by the urban scholarship only in the context of the Global North (see Chapter 2). My research, in other words, attempts to fill this gap by singling out a number of Southern specificities in the recourse to property activity for capitalist regulation. In many respects, the structure and challenges of the Lebanese financial sector, overabundance of money aside, are akin to those of many globalized developing economies where banking intermediation prevails, financial markets are poorly developed, and the capture of external interest-bearing capital and the maintenance of currency pegs are pivotal to financial and monetary stability.[122] These shared political-economic traits crucially give explanatory power to my case study. Moreover, they are instrumental in underpinning the differentiated motivations, schemes, actors and implications of the financialization of land and real estate assets, i.e., the key prerequisite for, and the major consequence of, property-based regulation in Lebanon and more generally in the Global South.

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[121] Edensor, T., & Jayne, M. (2012). Introduction: Urban theory beyond the West. In T. Edensor, & M. Jayne (Eds). *Urban theory beyond the West: A world of cities* (pp. 1-28). London, UK; New York, NY: Routledge
[122] Becker et al., *op. cit*.

This is the reason why a number of lessons can be drawn from the Lebanese model of 'pegged urbanization.' First, it emphasizes that the recourse to property activity to stabilize and reproduce capitalism responds to country-specific financial and macro-economic factors rather than to the structural and exogenous forces embedded in financial globalization. The policy environments and agency of local actors in the Global South cannot be reduced to small matters of discretion in the deployment of property-based regulation initiatives and the related financialization of property. Second, the strategic liquefaction of land and real estate assets observed in Lebanon indicates that the channels and schemes deployed in Southern metropolises can differ from those highlighted in the Northern-centric literature. In particular, the securitization of real estate financing and home loan systems, which are key vehicles of liquefaction in most Northern economies, are respectively very limited and absent in Lebanon. The roads that lead to the financialization of property will vary with the country-specific characteristics of financial and economic systems. Still, variations in the motivations for, and mechanisms of, property-based regulation do not prevent agents such as central banks from playing critical roles in the design and orchestration of financialization processes in both the Global North and South. The example of the Central Bank of Lebanon is very telling. Third, my Beirut-based research shows that the multifaceted repercussions of property-based regulation on urban production are probably more disruptive in Southern environments than in those of the North. Because local land and real estate markets are generally less regulated and more opaque, liquefaction of property assets here brings about comparatively higher inflationary dynamics. Likewise, it also contributes to a transformation of the property apparatus by widening the gap between the resources, practices and power of large, transnationally connected and well-capitalized development companies and those of small-scale, family-owned firms. As importantly, the financialization of land and real estate, which entails price inflation and the priorization of bank-financed homeownership, probably has a more disruptive effect on access to housing in societies where financial inclusion[123] is limited and systems of public housing provision are less developed.

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[123] Financial inclusion refers to the degree of access to, and use of, formal financial services (e.g., transactions, payments, savings, credit and insurance) by low-income groups in any economy (BlomInvest Bank, 2015d). (BlomInvest Bank (2015d). *Financial inclusion: The case of Lebanon*. Beirut, Lebanon: BlomInvest Bank - Research Department. November 28. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2015/11/Financial-Inclusion-The-Case-of-Lebanon1.pdf. (p .1); "Financial Inclusion – Overview." In *Worldbank.org*. Retrieved from www.worldbank.org/en/topic/financialinclusion/overview)

Last but not least, my study suggests that the increased entwinement of financial and property sectors exposes local economies to the risk of financial crises sparked by bubble-like upswings in asset prices and the overleverage of development firms and home buyers. This risk is particularly worrisome in Southern countries such as Lebanon where financial stability is fragile and the state, which is generally under-resourced, lacks the capital base, capacity of financial resilience, and policy agency to limit the damages from financial crises. In this regard, the study of property-based regulation and the financialization of land and real estate assets in Beirut, apart from posing many challenges to urban theory, also raises a multitude of policy issues for public authorities and local and international development agents.

1.2.3.3 The plurality and complexity of urban production in conflict-shattered cities

The third set of contributions made here is theoretical with the highlighting of the multidimensional character of the production of space in politically, religiously and/or ethnically divided urban environments. By illuminating the salience of growth politics and the singular trajectories of property-based regulation and property financialization in Lebanon, this research widens the conventional scope of explanations of building processes within divided cities. The dynamics of territorial domination, control and expansion can be combined with my political-economic explanations to make sense of the (re)development and organization of polarized cities and hence the multiplicity of natures, structures and practices of power. Three findings of interest to scholars and practitioners alike are worth mentioning here.

The impact of macro-economic and financial recovery policies on urbanization patterns

First, in the short to medium term, the strategies of macro-economic recovery that allow countries to emerge from war or natural disaster immensely affect the political economy of urbanization. More than 25 years after the end of hostilities, the current development trajectory of Beirut is largely the result of political, financial and monetary decisions taken in the early 1990s. Post-war Lebanon illustrates how, beyond the reconstruction of infrastructure and damaged buildings, rebuilding of the fundamentals of domestic economies and financial systems, and the redefining of their governing arrangements significantly shape the drivers, rules, resources, agents and outcomes of urban production. The years following any man-made or natural disaster define and orient a number of fundamental political-economic parameters for urban transformation. This is why the experience of Beirut and Lebanon should be taken into consideration in the design of future reconstruction efforts in the Middle East and beyond.

The two faces of urban power

Second, the significance of growth politics in Beirut's urbanization trajectory reveals a face of power largely ignored by the literature on divided cities: the cooperation of rival elites in urban affairs even as they confront each other, sometimes violently, on other issues. As I will show throughout the thesis, this cooperation relies upon a widespread elite consensus on the need for further capital accumulation in property and on the use of urban production to reproduce local capitalism. Essentially, this consensus, and the loose coalitions in the shaping of a pro-growth policy agenda that it engenders, sheds light on the way that public and private elite circles assemble power and govern cities in conflict-ridden environments: through the social production of property-led development as much as through coercion, patronage and territorial control and competition.

The state as an arena of elite interest aggregation

Third, my findings on the pivotal role of the Lebanese state in the institutional design of urban production ultimately puts into question the way that much of the conflict cities scholarship portrays and analyzes the nature and aim of state action. National and local public authorities are generally depicted as rational agents that position urban policy on a conflict continuum: they pursue either equality and peace-building objectives or partisan and discriminatory strategies (see Chapter 2). My ambition is rather to demonstrate that the state, as is the case in many countries experiencing civil peace and political stability, can also be an arena for elite interest aggregation where property-related public decisions, regardless of strong opposition on other policy issues, can be consensually adopted to support economic growth and secure financial and monetary stability as much as to perpetuate rent-seeking mechanisms.

1.3 Research Design and Methods

The empirical, analytical and conceptual findings that I have introduced here and develop in this dissertation are the product of a comprehensive research strategy outlined below. In this section, I also underline the ways in which my position as a Western researcher has influenced the course of this work and led to some methodological limitations.

1.3.1 Data Collection

A first step in my research strategy consisted in creating a database, primarily through qualitative research techniques, on the specificity of capitalism in post-war Lebanon and the traits of urban production in Beirut.

Initially I gathered a rich documentary body of non-conversational data to build and reinforce my own knowledge of the Lebanese political economy and urban history, the major features of financial and property activities, and the public and private circles of elite power. For qualitative data, I used traditional sources (e.g., academic publications, conference proceedings, national and local newspapers articles, official planning and policy documents, banks' and developers' annual reports, etc.). In particular, I conducted an extensive and systematic review of the existing literature and of printed economic media outlets such as Le Commerce du Levant, Executive Magazine and Lebanon Opportunities. I also used non-traditional sources (e.g., blogs, Facebook, Instagram, Twitter, LinkedIn, etc.) to monitor major political and economic debates, collect information from civil-society initiatives (e.g., Save Beirut Heritage and Real Estate in Lebanon Facebook pages), and build a social profile of major policy makers, city builders and financiers. As for quantitative data, the major challenges when doing research in Lebanon are scarcity and lack of reliability, particularly when it comes to property issues. The elements of quantitative analysis presented in this research, including for instance, the main macro-economic, financial and property indicators, are based on estimates provided by official national and international bodies (e.g., World Bank, Banque du Liban, Land Registry, Central Administration for Statistics) and private companies (e.g., InfoPro); they should therefore be considered with the appropriate critical detachment. Additionally, a major pitfall in examining the specifics of urban production was the near absence of any spatialized and detailed data series on construction activity. This is why I joined efforts with researchers and professors from the American

University of Beirut (AUB) to set up the Beirut Building Database (BBD). Official records of building permits issued during the 2000-2013 period in Municipal Beirut were obtained from the Order of Engineers and Architects, digitized and imported in a Geographical Information System in order to document the spatial dynamics of the development process as well as the particularity of real estate production and agents.

Second, I conducted about 100 semi-structured interviews in English or in French with elite respondents of two different categories: insiders and outsiders of the 'pegged urbanization' model I attempt to analyze. On the one hand, I sat with local business and political agents (e.g., bankers and central bankers, developers, lawyers, architects, Members of Parliament, senior civil servants, staff members from International Financial Institutions) who are among the key actors of the country's growth regime and of city restructuring. The objective was to discuss their views on current financial, political and urban issues (e.g., financial stability, property price formation, role of the state) as well as the specifics of their work and strategies (e.g., business practices of developments firms, elaboration and vote of a specific property-related bill in Parliament). It is worth noting that this first group of interviewees included quite a significant number of returnees, working mostly in the private sector, and consisted almost exclusively of men.[124] On the other hand, I met with local analysts (e.g., economists, university professors, journalists, activists, etc.), among whom I counted a more significant number of women, to critically debate the questions and assumptions guiding my investigation, discuss intermediate findings and obtain background information. A constant concern was also to crosscheck collected empirical data through "contextually informed triangulation."[125] In both cases, informants for this ethnographic work were initially selected by a reputational method based on my personal social and professional networks and on contacts provided by colleagues and faculty from AUB and the Institut Français du Proche Orient. I subsequently employed snowball and purposive recruitment strategies. A small number of key respondents, mostly outsiders, were interviewed several times. Most interviews were conducted during my main fieldwork (March 2014 – May 2015) and a follow-up session (November 2015). All interviewees were offered various degrees of anonymity, as indicated, alongside other ethical considerations, in the research proposal approved by McGill University's Ethics Review Board. Moreover, information was added to my database from a

[124] A very small number of women hold high-profile operational positions in the business sector and the state apparatus.
[125] Roth, W. D., & Mehta, J. D. (2002). The Rashomon effect: Combining positivist and interpretivist approaches in the analysis of contested events. *Sociological Methods & Research*. 31, 131-173

small number of on-the-record interviews conducted for press articles I wrote while doing my fieldwork. A list of interviewees is available at the end of this dissertation as part of the reference section.

1.3.2 Data Analysis and Theory Building

In line with grounded theory models, a second step in my research strategy, initiated when I was in the field, was to follow an inductive approach to data analysis and theory building. Its aim was to move from my research questions and corpus of conversational and non-conversational data to the generation of tentative interpretations as well as to the conception of analytical and conceptual propositions.[126] In many ways, the theoretical and methodological frameworks of urban political economy and the institutional model of development I detail in Chapter 2 provided the guidance for transcription of this data to software. This involved identification of the research tracks necessary to sort, categorize and analyze the primary and secondary data. I coded the data with MAXQDA, a qualitative data management and analysis system.

Explication of the detailed interweaving of financial and urban issues that I uncovered also necessitated the development of a more refined legal and financial literacy. Generally, I worked back and forth between empirical data collection and elaboration of intermediate interpretations, which I wrote down in field notes and intermediate online publications.[127] I opened this material up to scrutiny by presenting preliminary findings in a series of seminars and conferences in Lebanon and abroad. These efforts were instrumental in turning collected data and early assumptions into solid analytical arguments and persuasive concepts. This is particularly how I built my central proposition of 'pegged urbanization' and uncovered its institutional structures and agents as well as the resources, rules and relationships.

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[126] Charmaz, K. (2002). Qualitative interviewing and grounded theory analysis. In J. Gubrium & J. Holstein (Eds). *Handbook of interview research: Context and method* (pp. 675-694). Thousand Oaks, CA: Sage; Creswell, J. (2007). *Qualitative inquiry & research design: Choosing among five approaches*. Thousand Oaks, CA: Sage

[127] Gebara, H., Khechen, M., & Marot, B. (2016b). Mapping new constructions in Beirut (2000-2013). *Jadaliyya*. Retrieved from www.jadaliyya.com/Details/33751/Mapping-New-Constructions-in-Beirut-2000-2013; Marot, B. (2014). The end of rent control in Lebanon: Another boost to the 'Growth Machine?' *Jadaliyya*. Retrieved from www.jadaliyya.com/pages/index/18093/the-end-of-rent-control-in-lebanon_another-boost-t; Marot, B. (2015). Crise du logement et fin du contrôle des loyers à Beyrouth: La poursuite d'une production urbaine exclusive. *Confluences Méditerranée*, *92*(1), 101

1.3.3 Positionality and Limitations

I could not conclude this methodological description without mentioning the persistent challenge I faced conducting research in Beirut: dealing with my own cultural and intellectual situatedness, i.e., my subjectivity and positionality, as a Western researcher.[128] Indeed, my education and personal convictions as a white, French, secular, leftist and young male scholar who barely speaks Arabic considerably affected the practical details of my work as well as the direction and the substance of my analyses, particularly on issues such as local politics, conflict, business practices and inequality. In short, as I researched urban growth politics in Lebanon, a partially francophone country colonized by France until a couple of decades ago, I came to see my position as, at the same time, an asset, a challenge and a limitation.

First, my position as a Westerner, including my affiliations with renowned academic institutions, was an asset and facilitated my work by ensuring so-called 'credibility' and 'legitimacy' and allowing me to rapidly build contacts and gain entry to business and political circles. This network, associated with my identity as an outsider disconnected from local politics, opened many doors in private firms and state organizations and allowed me to meet with high-profile respondents and obtain access to precious information. Only a small number of my interview and information requests were turned down. Second, overcoming the bounded nature of my positionality was a challenge given that some of my knowledge about, and analyses of, Lebanese political and economic issues were shaped by, and situated in, unconsciously Orientalist assumptions, e.g., my original belief that sectarianism is the primary factor in local urban production. As for the specific case of Beirut, I also needed to get some distance from my past work experience in Lebanon to refresh my analysis and open new avenues of research. This is one of the reasons why I constantly strove to collaborate with Lebanese colleagues and research groups: to expand my exposure to novel views and locally generated knowledge as well as to discuss my research questions, assumptions and findings. Third, two major, unavoidable methodological limitations biased my analysis. On the one hand, my relatively limited access to non-Anglophone and Francophone informants and sources of information (e.g., press articles, opinions, some governmental documents, etc.) prevented me from gaining a full overview of opinions and stakeholders. As an example, I had limited access to a number of influential and

[128] Edensor, T., & Jayne, M. (2012). Introduction: Urban theory beyond the West. In T. Edensor & M. Jayne (Eds). *Urban theory beyond the West: A world of cities*. London, UK; New York, NY: Routledge

well-informed Arabophone newspapers (i.e., Al-Akhbar, An-Nahar, As-Safir), which, at least for some, undertake serious investigative work and develop critical views on the country's political economy. Those sources would probably have facilitated my investigation of elite groups and of the apparent political bargain embedded in the property-related policy decisions I analyze in this thesis.[129] On the other hand, even though this was not the core of my research, I was not able to discuss the work outside educated and internationally connected individuals to get a sample of popular, non-expert perceptions of ongoing urban transformations and elite politics in Beirut. This gap may represent an avenue for future research.

1.4 Overview of the Dissertation

This dissertation is divided into three parts. The first is dedicated to the presentation of my conceptual framework (Chapter 2) while the second and third parts reflect the two-step analysis I introduced earlier for the investigation of 'pegged urbanization.' In this way, part two (Chapters 3 to 5) analyzes the regulation-urbanization nexus at play in post-1990 Lebanon and part three (Chapters 6 to 9) inquires into the related implications of the nexus for urban development and housing provision in Beirut.

1.4.1 Part One – Conceptual framework

In Chapter 2, I situate this work on the political economy of 'pegged urbanization' in post-war Beirut within the field of urban studies and, more generally, a network of related fields within the social sciences. I introduce a multilevel, multidisciplinary theoretical framework to demonstrate precisely how and why city-building in Beirut is embedded in the wider transformation and reproduction of Lebanese capitalism. Specifically, I review the major theoretical and methodological contributions that guide and support my examination of the mutations of Lebanon's post-war capitalism, urban production in Beirut and its connection to regime regulation, and the formal role of the central state in this process.

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[129] For example, the role of certain reputably powerful lobbies in the elaboration of public decisions remains obscure. This is the case with the Economic Committees, whose existence and role is rarely addressed in the Anglophone and Francophone mainstream media, itself close to business interests (The Daily Star, L'Orient Le Jour, Executive Magazine). In contrast, Al-Akhbar, an influential leftist newspaper in the Arabic language close to the March 8th block, frequently and critically investigates political-economic issues. It notably compares the Economic Committees to a "network of interests" or an "octopus" whose tentacles penetrate multiple political, sectarian and business groups and are very influential in the state apparatus (Zbeeb, 2013c). Al-Akhbar used to publish English versions online, but this service was shut down in 2015 and, accordingly, deprived non-Arabophones from first-hand information and a critical stance on the Lebanese economy and local politics. (Zbeeb, M. (2013c, February 18). Lebanon: The rentier lobby is not a fantasy. *Al-Akhbar English*. Retrieved from http://english.al-akhbar.com/print/15008)

1.4.2 Part Two - The regulation-urbanization nexus

In Chapter 3, I give an institutionally grounded account of the transformations of post-war Lebanese capitalism by teasing out the major features of its system of wealth accumulation and distribution as well as of its mode of social regulation. I describe the intensification of a rentier and finance-led growth regime whose economic growth and financial and monetary stability are structurally contingent on preserving a positive balance of payments. Indeed, a key characteristic of Lebanese capitalism is the significance and strategic character of its external money supply, which greatly affects domestic patterns of wealth accumulation and distribution. This externally dependent, vulnerable and highly unequal capital-intensive regime is unsustainable in the medium to long term and permanently on the brink of collapse in the short term. Consequently, the post-1990 Lebanese mode of development requires tight social regulation to ensure its short-term reproduction. I identify three major macro-institutions (i.e., the nature of the monetary and financial regime; the capital-labour configuration; and the organization of the Lebanese state), three key regulation challenges (i.e., the maintenance of high money supply, the recycling of surplus liquidity and the mitigation of financial risks) and a mastermind of regulation efforts, the Central Bank of Lebanon.

In Chapter 4, I analyze the centrality of property to Lebanese capitalism. By unpacking the contribution of real estate and construction activity to wealth accumulation and financial and monetary stability, I highlight the mechanisms by which the property market is the peg that connects the making of the city to the reproduction of the local growth regime. To clarify the entwinement of the circular, cross-level and multidimensional relationships at play in this regulation-urbanization nexus, I conceptualize the property market as an intermediate-level *institution of regulation* that makes real estate and construction activity and house prices both a *consequence of regulation* and an *instrument of regulation*. In doing so, I suggest that the property market is a social construct whose vitality reflects the dynamism of the following feedback loop. On the one hand, the macro-institutions of Lebanese capitalism critically shape the resources, rules and conventions of the property market and guide the actions of individuals and organizations involved in urban development. On the other hand, the behaviours of agents in the property market, in turn, contribute to regime regulation by supporting financial surplus, recycling excess liquidity, sustaining GDP growth and mitigating financial risks. Finally, I argue that making the property market a meso-institution of regulation has involved the financialization of land and real estate assets.

In Chapter 5, I investigate the critical role of the Lebanese state in the social construction of 'pegged urbanization' by documenting formation of the regulation-urbanization nexus by the government, Parliament and the central bank through their institutional design of the property market. Together, they have created a specific set of conditions for urban production and have oriented private development through at least three policy instruments: the making of legal, regulatory and tax frameworks; the rearrangement of public organizations involved in housing provision; and central bank interventions. In this way, I show that the nexus is, first and foremost, the result of regulation-driven and rent-seeking policy initiatives that shape the rules, resources and conventions of the property market and thereby affect the action of private agents involved in the financial and property sectors. Just as importantly, I also emphasize the responsibility of the national state in the financialization of urban production. A close examination of the decision-making processes leading to these pro-growth policies also reveals the dominance of consensus and cooperation dynamics in elite circles, which generally govern *through* the state to reproduce local capitalism and secure collective and individual interests.

1.4.3 Part Three – The implications of the nexus for urban development and housing provision

In Chapter 6, I shed light on how the regulation-urbanization nexus orients and transforms the development *process* in Greater Beirut. I tease out the primary and secondary factors driving the formation of property asset values, counter the myth of absolute land scarcity, and discuss the potential existence of a property price bubble in Lebanon. As importantly, I show how the institutional environment of property activity helps to account for the two demand-driven property cycles in the post-war period (1992-2002 and 2003-2016). Finally, I unpack the main features of the property-led development process that has radically transformed the city's built environment and social space. I stress the spatial dynamics of construction activity, the progressive replacement of the existing urban fabric, and the massive construction of condominium towers.

In Chapter 7, I explore the nexus-induced mutations of development *agents* by bringing to light the gradual professionalization and financialization of the Beirut-based property industry.

On the impetus of a new urban entrepreneurial class consisting mostly of returnee builders and financiers, a small number of large development companies have critically helped to reorganize the micro-level structures of the real estate apparatus by deploying sophisticated corporate organizations, redesigning financial engineering schemes, and introducing new development practices that meet international standards. In doing so, this new generation of developers has accelerated the readjustment of elite and sectarian dimensions of social relations in the local politics of property. I show specifically why the building of social and business connections beyond sectarian affiliations have come to be instrumental to the ability of development professionals to expand development activity citywide, influence state policy-making, and access new financial resources.

In Chapter 8, I tease out why the regulation-urbanization nexus has brought about the reconfiguration of housing provision, both functioning and financing, and how it has amplified a housing crisis troubling Lebanon since the 1970s. I explain how the exclusive restructuring of the housing market has resided primarily in the deployment of bancarized homeownership, essentially by way of mortgage-based programs made possible by the increased availability of housing finance. At the same time, the rental sector has gradually been on the decline with the termination of rent control and a very limited rental supply. In a society where the financial inclusion of households is limited, the restructuring of the housing market has therefore intensified a multidimensional housing crisis: a crisis of affordability, a crisis of availability, and a crisis of political recognition. I suggest that impeded access to affordable housing in the formal sector, by way of a domino effect, ultimately increases the considerable pressure on the informal sector to accommodate the urban poor.

In addition to reiterating the major findings, contributions and limitations of the work here, I address in Chapter 9 the multiple ways in which multiple forms of power lie at the heart of the study of 'pegged urbanization.' I discuss the transformation, by the regulation-urbanization nexus, of social structures and relations which is as significant as its reliance on a consensus- and cooperation-based elite governance system; a system that resonates with the prevailing nature, structure and exercise of power in post-Taif Lebanese politics. In conclusion, I lay out what I see as the grim future of 'pegged urbanization.' I explain why and how Beirut's unconventional model of city development may efficiently ensure regime reproduction in the short run, but may sow the seeds of longer-term financial, economic and political instability. It may do this not only by fuelling claims of an emerging urban social movement but also by reinforcing the risk of a property-driven financial crisis.

PART ONE ❖ CONCEPTUAL FRAMEWORK

Chapter 2 – ‘Pegged Urbanization’ in Post-War Lebanese Capitalism: A Framework for Institutional Analysis

"The debate can no longer be one about a theory missing out institutions. Theories of how to look at institutions should rather be the focus.”[130]

The wink to David Harvey’s seminal essay on the centrality of urbanization to capitalism in this chapter’s title epitomizes this thesis’ intellectual project: repositioning Beirut urban production in general and the buoyancy of its property market in particular as socially constructed phenomena connected primarily to the mutations and short-term reproduction of Lebanon’s post-war rentier and finance-led growth regime.[131] To clarify the theoretical and methodological filiations and foundations of this project, this chapter identifies, and critically discusses, the contributions on which I build the conceptual scaffolding of ‘pegged urbanization’ and its application to my case study of Beirut. This thesis sits within the general field of social sciences and adopts a political economy approach. Its conceptual framework thus breaches the traditional boundaries of urban theory: it draws on various, sometimes overlapping, intellectual traditions (e.g., institutionalist, regulationist, neo-Marxian, rational choice) at the juncture of several bodies of literature (e.g., urban studies, conflict studies, globalization studies) from a range of academic disciplines (e.g., economics, finance, sociology, political science, geography, urban planning). As such, it forms a multidisciplinary apparatus that is set to connect relevant theoretical references, analytical tools and the methodological guidance necessary to link country and city levels of investigation and explore the intertwining of capital, space and power in the (re)making of the Lebanese capital.

Conducting research in Lebanon inevitably leads me to take a stance within the growing, sometimes harsh, epistemological, conceptual and methodological debate that has fragmented urban studies over the past 15 years: the capacity or incapacity of Northern theories to explain urbanization in the Global South. In this discussion, I follow urban scholars such as Patsy Healey, Alan Mabin, Michael Storper, Allen J. Scott, Thomas Maloutas and Neil Brenner in arguing that the social science scholarship embedded in and developed from the Euro-American experience can travel, or be exported, to Southern metropolises and used to conduct policy-sensitive research

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[130] Ball, M. (1998). Institutions in British property research: A review. *Urban Studies*, *35*(9), 1501-1517, p. 1515

[131] Harvey, D. (1978). The urban process under capitalism: A framework for analysis. *International Journal of Urban and Regional Research*, *2*(1-3), 101-131

and theory-building on capitalist urban production.[132] These theorists do not deny cultural, social, political and economic differences, as many exist across countries and societies of the Global North, nor the positionality of Northern assumptions. Yet, they stress the "theoretically generalizable features of urbanization" under 21st century global capitalism and suggest, without universalizing or normative ambition, that the conceptual and methodological tools constructed to study European and North American cities hold the heuristic power to help explain urban trajectories and perform comparative research and theoretical experimentation worldwide.[133] This group of scholars notably highlights the methodological importance of process-based and multiscalar approaches that give prominence to institutions. Commonly recognized in many fields of social theory, this "travelling capacity," to cite Healey, of theoretical and methodological constructs originated in the Global North is contested by postcolonial urban scholars.[134] They generally question the "ubiquitous remit" of any single urban theory and contend that major conceptual streams such as urban political economy and neoliberal critique are not appropriate to a full examination and theorization of urban patterns, transformations and interventions in the Global South.[135] Accordingly they call, in urban studies, for more particularism, comparison, polycentrism and attention to everyday life.[136] I certainly recognize the critical input of postcolonial perspectives to the understanding of urban processes, but I simply make the case that Northern and Southern traditions, with their variant ideological trajectories and respective analytical interests for 'dynamics from above' and 'dynamics from

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[132] Brenner, N., & Schmid, C. (2015). Towards a new epistemology of the urban? *City, 19*(2-3), 151-182; Healey, P. (2012). The universal and the contingent: Some reflections on the transnational flow of planning ideas and practices. *Planning Theory, 11*(2), 188-207; Mabin, A. (2014). Grounding southern theory in time and place. In S. Parnell, & S. Oldfield (Eds.). *The Routledge handbook on cities of the Global South* (pp. 21-36). Hoboken, NJ: Taylor and Francis; Maloutas, T. (2017). Travelling concepts and universal particularisms: A reappraisal of gentrifications global reach. *European Urban and Regional Studies*. 1-16; Storper, S., & Scott, A. J. (2016). Current debates in urban theory: A critical assessment. *Urban Studies, 53*(6), 1114-1136

[133] Brenner & Schmid, *op. cit*.; Storper & Scott, *op. cit.,* p. 1122. Michael Storper and Alan J. Scott (*op. cit.,* p. 1121) rightly indicate that this body of Northern scholarship should remain "fully open to new conceptual insights generated out of the experiences of the cities of the Global South." This is precisely the approach I strive to adopt in this research.

[134] Healey, 2012. Major contributions in postcolonial urban studies include: Amin, A., & Graham, S. (1997). The ordinary city. *Transactions of the Institute of British Geographers, 22*(4), 411-429; Connell, R. (2007). *Southern theory: The global dynamics of knowledge in social science*. Cambridge; Malden, MA: Polity; Edensor, T., & Jayne, M. (Eds). *Urban theory beyond the West: A world of cities* (pp. 1-28). London, UK; New York, NY: Routledge; Leitner, H., & Sheppard, E. (2016). Provincializing critical urban theory: Extending the ecosystem of possibilities. *International Journal of Urban and Regional Research, 40*(1), 228-235; McFarlane, C. (2008). Urban shadows: Materiality, the Southern city and urban theory. *Geography Compass*, *2*(2), 340-358; Robinson, J. (2004). In the tracks of comparative urbanism: Difference, urban modernity and the primitive. *Urban Geography*, *25*(8), 709; Robinson, J. (2006). *Ordinary cities: Between modernity and development*. London, UK; New York, NY: Routledge; Roy, A. (2005). Urban informality: Toward an epistemology of planning. *Journal of the American Planning Association, 71*(2), 147-158; Roy, A. (2009a). The 21st-century metropolis: New geographies of theory. *Regional Studies*, *43*(6), 819-830; Roy, A., & Ong, A. (2011). *Worlding cities Asian experiments and the art of being global*. Chichester, UK; Malden, MA: Wiley-Blackwell; Parnell, S., & Robinson, J. (2012). (Re)theorizing cities from the Global South: Looking beyond neoliberalism. *Urban Geography*, *33*(4), 593-617; Sheppard, E., Leitner, H., & Maringanti, A. (2013). Provincializing global urbanism: A manifesto. *Urban Geography, 34*(7), 893-900; Simone, A. (2010). *City life from Jakarta to Dakar. Movements at the crossroads*. London, UK; New York, NY: Routledge; Watson, V. (2012). Planning and the 'stubborn realities' of Global South-East cities: Some emerging ideas. *Planning Theory, 12*(1), 81-100; Yiftachel, O. (2006). Re-engaging planning theory? Towards 'South-Eastern' perspectives. *Planning Theory*, *5*(3), 211-222

[135] Leitner & Sheppard, *op. cit*.

[136] Peck, J. (2015). Cities beyond compare? *Regional Studies, 49*(1), 160-182

below,' effectively complement each other in the investigation of city-building. In my inquiry and conceptualization of 'pegged urbanization' in post-war Beirut, the Euro-American scholarship proposes a robust and persuasive theoretical and methodological toolkit for analysis of the political-economic complexity, agencies and contingencies of a process of urban development tied largely to growth and elite politics, financialization dynamics and formal state action.

This chapter is divided into four sections which connect to the analytical framework of 'pegged urbanization' introduced in Chapter 1 (see Figure 2.1 below). Section one reviews the crosscutting theoretical and methodological foundations of the entire analysis: the social construction of capitalist economies through the lens of their institutions. Three complementary theoretical blocks structure my conceptual approach by articulating three levels of analysis.[137] Section two introduces block one which frames my research at the country level by laying out the conceptual tools of primary and secondary theoretical significance that I have used to examine post-war Lebanese capitalism and identify its regulation challenges. Section three outlines the second block of theoretical constructs of primary and secondary importance, used at the city level to analyze the urban process in Beirut and its multiple links to regulation objectives. Section four presents block three, dedicated to an assessment of the role of the state in organizing the interplay between city-building and the reproduction of local capitalism.

[137] The contributions addressing the social construction of capitalist economies and cities presented in this chapter fall on a multidimensional and multilevel continuum in the social sciences. This is why the division into conceptual blocks is understood to be an artificial distinction intended to facilitate their presentation and stress their connection to the various sections of the analytical framework of 'pegged urbanization' presented throughout the dissertation.

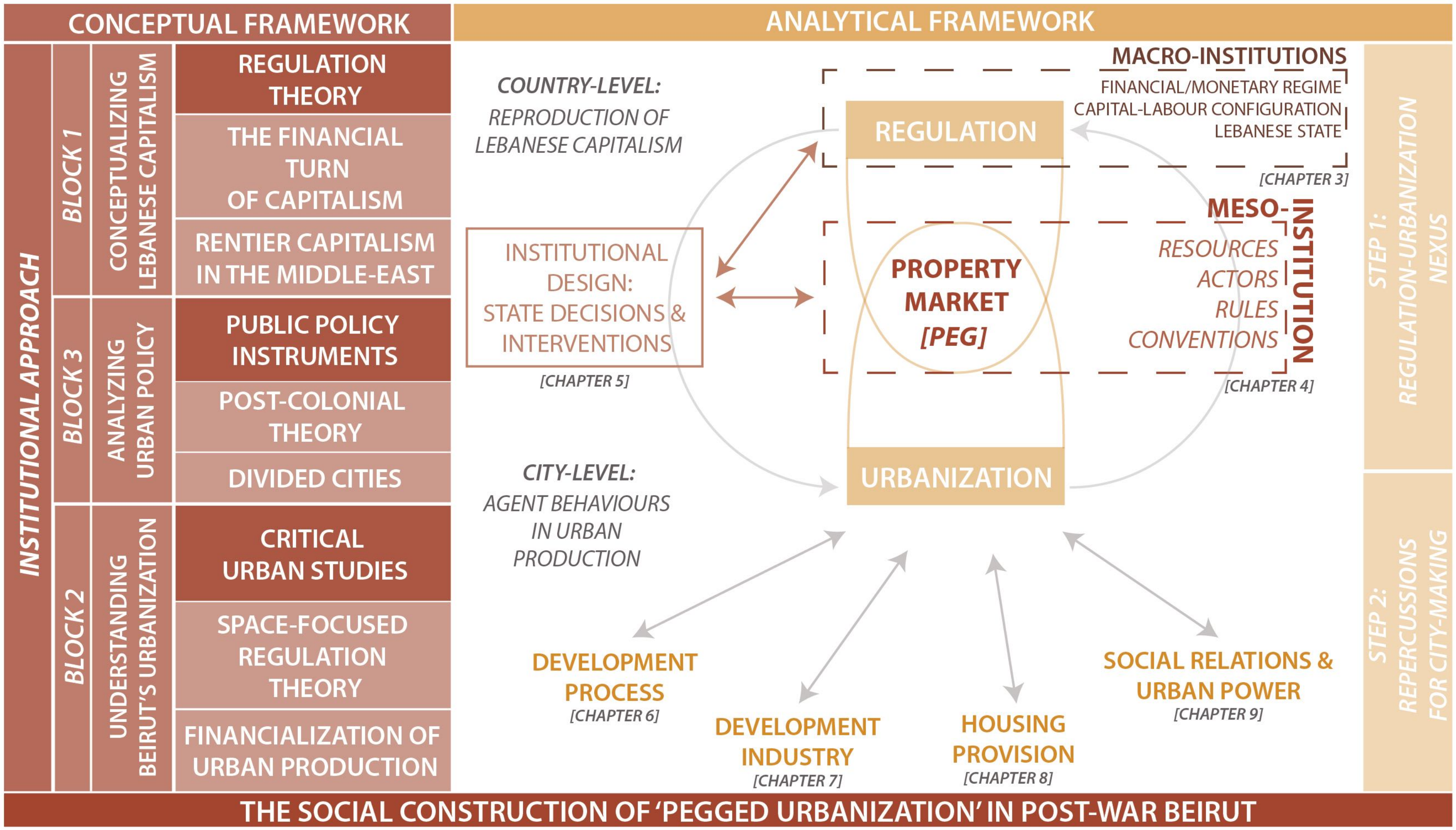

Figure 2.1 – The conceptual and analytical frameworks of 'pegged urbanization' in post-war Beirut
(Source: Author)

2.1 The Social Construction of the Economy: A Political Economy Approach Turned Toward the Role of Institutions

The blocks of my conceptual framework are connected to and by a broader body of theory in the social sciences: the social construction of capitalist economies and societies. This common foundation fully situates the theoretical apparatus of 'pegged urbanization' within the political economy perspective, i.e. a family of approaches for which "economics and politics cannot be thought of in isolation" over space and time.[138] Generally, political economy investigations position capital as a central research interest in order to explore the origins, mechanisms and agents of the wealth of nations, state-market relations, power structures and patterns of inequality. The concept of capital thus relates at the same time to a process of circulation, a system of social relations and an ideology, all of which shape and reinforce one another.[139] By engaging the concept of social construction, this section introduces a particular interpretation of institution and explains why and how the investigation of its nature and role is a methodological prerequisite to political-economy research in general and to theorization of urban development in post-war Beirut, in particular.

2.1.1 Theorizing Markets as Social Phenomena: The Seminal Contributions of Max Weber and Karl Polanyi

The social construction of the economy is a robust and leading conceptual stream in social science research that finds its origin in the criticism of classical and neoclassical economic theory. Since the fundamental works of Adam Smith, Thomas Malthus and David Ricardo, mainstream economics has uncritically and relentlessly conceptualized the prevalence of self-regulated, spontaneous market forces and the purely rational behaviours of well-informed individual agents to explain the way in which economies function.[140] However, this position is widely criticized in social theory. A number of heterodox approaches in economics and a majority of the scholarship in sociology and political science postulate that "markets in capitalist

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[138] Harding, A., & Blokland, T. (2014). *Urban theory: A critical introduction to power, cities, and urbanism in the 21st century*. London, UK: Sage, p. 90; Weingast, B. R., & Wittman, D. A. (2008). The reach of political economy. In B. R. Weingast & D. A. Wittman (Eds.). *The Oxford handbook of political economy*. Oxford, UK; New York, NY: Oxford University Press.

[139] Aalbers, M. B., & Christophers, B. (2014). Centring housing in political economy. *Housing Theory and Society, 31*(4), 373-394, p. 373

[140] Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, *91*(3), 481-510, p. 481. It is worth noting that neoclassical economic analysis is not homogenous, however, and has opened out to a higher degree of complexity over the past 25 years (Adams & Tiesdell, 2010). (Adams, D., & Tiesdell, S. (2010). Planners as market actors: Rethinking state-market relations in land and property. *Planning Theory & Practice*, *11*(2), 187-207, p. 190)

societies do not work as they are 'supposed' to."[141] Critical scholars generally agree that markets are not "mere meetings between producers and consumers, whose relations are ordered by the impersonal 'laws' of supply and demand."[142]

The works of German sociologist Max Weber and of Austro-Hungarian economist Karl Polanyi, among other major scholars such as Karl Marx, laid the foundations of the critical stream within which this work is situated. As they questioned the bases of (neo)classical economic analysis, they theorized the market as a social rather than a "natural" phenomenon.[143] Max Weber demonstrated the way in which norms, customs and conventions, as well as social, religious and legal beliefs, underpinned economic behaviours and agents' rationality in space and time.[144] Likewise, Karl Polanyi's historical anthropology deconstructed the myth of self-regulating markets, exposing just "how and by whom markets are made."[145] He specifically conceptualized the market, and the economy at large, as an "instituted process embedded […] in a complex array of social relations, extra-economic as well as economic institutions, and in specific social configurations."[146] In doing so, Polanyi was able to show that country-specific social, cultural, moral, legal, religious and political regulations, norms and principles in fact shape processes of capital accumulation and circulation.[147] The market is not, in other words, a spontaneous product of individual self-interested acts but a socially organized body related to, and produced by, the prevailing political, economic and social orders that regulate the behaviours of, and the interactions between, agents. It is this concept of embeddedness for which the Austro-Hungarian scholar, who later immigrated to the US and Canada, is primarily known, whereby he attempted to show the malleability of economies as first and foremost articulations of complementary institutional structures, including government actions, that reflect dominant

[141] Logan, J. R., & Molotch, H. L. (1987). *Urban fortunes: The political economy of place*. Berkeley, CA: University of California Press, p. 292
[142] Logan & Molotch, *op. cit*., p. 1
[143] Block, F. (2008). Polanyi's double movement and the reconstruction of Critical Theory. *Interventions Économiques - Papers in Political Economy*, 38
[144] Dobbin, F. (2011). Comparative and historical approaches to economic sociology. In N. J. Smelser, & R. Swedberg (Eds.). *The handbook of economic sociology* (pp. 26-48). Princeton, NJ; New York, NY: Princeton University Press; Russell Sage Foundation, p. 33; Weber, M. (1978) [1922]. *Economy and Society*. Berkeley, Los Angeles, CA: University of California Press; Weber, M. (2002) [1905]. *The protestant ethic and the spirit of capitalism*. Los Angeles, CA: Roxbury
[145] Adams & Tiesdell, *op. cit*.; Block, *op. cit*. In addition to his acclaimed book *The Great Transformation* (2001 [1944]), Polanyi developed his line of argument in a seminal paper entitled *The Economy as an Instituted Process* (1992 [1957]). (Polanyi, K. (1992) [1957]. The economy as an instituted process. In M. S. Granovetter & R. Swedberg (Eds.). *The sociology of economic life*. Boulder, CO: Westview Press; Polanyi, K. (2001 [1944]). *The great transformation: The political and economic origins of our time*. Boston, MA: Beacon Press)
[146] Jessop, B. (1997). Survey article: The regulation approach. *Journal of Political Philosophy*, *5*(3), 287-326
[147] Laville, J. L. (2008). Encastrement et nouvelle sociologie économique: De Granovetter à Polanyi et Mauss. *Interventions Économiques -Papers in Political Economy*, 38; Polanyi, 1992 [1957]

powers and interests.[148] Polanyi's approach shows the impossibility of establishing a "dichotomy between the purely economic, on the one hand, and the social, on the other hand," in investigations of economic activity.[149] And it importantly underlines "how different localities may experience different forms of market construction."[150] As such, unlike Marxian critical approaches to political economy, it foregrounds the role of agency in the building of local forms of capitalism and of economic, social and political power and change.[151] In sum, the contributions of Max Weber and of Karl Polanyi are crucial to the conceptual foundations of the progressive heterodox scholarship, including the institutional analysis, upon which this work is based.[152]

2.1.2 Institutional Analysis as a Methodological Framework

The contributions of Weber and Polanyi to the political economy scholarship have helped to shift the study of institutions to a central position in many of the social science disciplines that unpack the functioning of capitalist economies and examine cross-country and temporal variations in patterns of growth and development.[153]

2.1.2.1 Institutions defined

Attempts to define institutions have been subject to longstanding, and often technical, debates in social theory. In this study, I refer to institutions as the humanly devised normative, regulative and cognitive rules of the game that structure, organise and legitimate economic, social and political action and interactions.[154] Of different natures (e.g., economic, social, political) and operating at different scales (e.g., macro, meso, micro), they are self-reinforcing and self-perpetuating structures of incentives and disincentives that enable and constrain human decisions in "complex economic and social operating systems."[155] Institutional arrangements, in other words, are "strong mechanisms of conformism and normative agreement" that create stable

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[148] Adams & Tiesdell, *op. cit.,* p. 193; Maucourant, J., & Plociniczak, S. (2011). Penser l'institution et le marché avec Karl Polanyi. *Revue de la régulation*. 10, 2
[149] Jessop, 1997, p. 296
[150] Adams & Tiesdell, *op. cit.*, p. 193
[151] Swanstrom, T. (1993). Beyond economism: Urban political economy and the postmodern challenge. *Journal of Urban Affairs, 15*(1), 55-78; Weingast & Wittman, *op. cit*.
[152] Adams & Tiesdell, *op. cit*.
[153] North, D. C. (1991). Institutions. *Journal of Economic Perspectives*, *5*(1), 97-112, p. 98
[154] Hodgson, G.M. (1988) *Economics and institutions*. Cambridge, MA: Polity Press; Hodgson, G. M. (2006). What are institutions? *Journal of Economic Issues*, *40*(1), 1-25; North, D. C. (1991). Institutions. *Journal of Economic Perspectives, 5*(1), 97-112; Scott, W. R. (2014). *Institutions and organizations: Ideas, interests, and identities* (4th ed.). Los Angeles, CA: Sage
[155] Hodgson, 2006; Seabrooke, W., & How, H. (2004). Real estate transactions: An institutional perspective. In W. Seabrooke, P. S. Kent, S. Paul, & H. How (Eds.). (2004). *International real estate: An institutional approach* (pp. 3-34*)*. Oxford, UK; Malden, MA: Blackwell Pub (p. 8)

meanings and expectations of the capacities and behaviours of agents.[156] Generally, any institutional matrix is place- and time-specific and schematically comprises interdependent formal and informal components.[157] Formal structures refer to legal and regulatory norms and contractual and organizational arrangements, while informal structures "include conventions, habits and informal social norms […] that are not legally enforceable, but nevertheless influence our actions."[158] Because institutional design and sustenance are to a large extent the responsibility of the state, institutions generally reflect the interests of elite social groups and play a major role in organizing power relations and social order.[159]

For the sake of clarity, the institutionalist scholarship makes a distinction between *institutions*, which consist of the mix of formal and informal arrangements, and *organizations*, which refer to the players who "act within institutions."[160] According to US economist Douglas C. North, 1993 Nobel co-Laureate in Economic Sciences, it is "the interaction between institutions and organizations that shapes the institutional evolution of an economy."[161] Organizations in fact have a dual meaning: they refer to collective agents, such as state entities and firms, who may be, at the same time, institutions consisting of multiple individual actors with potentially conflicting agendas.[162] This thesis explores both aspects: for example, it analyzes the role of the Lebanese state as a unitary player "in the process of overall societal, political-economic change" as much as the detail of its internal rules, practices, agents and decision-making processes as an institution.[163]

The interconnectedness of institutions and organizations occurs at and between multiple levels from the global economy to local community and forms a continuum of social phenomena. A number of institutionalist authors have particularly underscored the strategic role of meso-institutions (e.g., financial markets) in making sense of the feedback loop between macro-level structures (e.g., the monetary and financial system) and micro-level agents and organizations in

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[156] Hodgson, 2006, p. 2, 7; Scott, *op. cit*.
[157] A number of institutionalist scholars such as Geoffrey M. Hodgson (2006) question this schematic division in which formality is synonymous with legal rules and norms. They prefer, instead, the distinction between explicit and tacit rules.
[158] Buitelaar, E. (2007). *The cost of land use decisions: Applying transaction cost economics to planning & development*. Oxford, UK; Malden, MA: Blackwell Pub (p. 17)
[159] Keogh, G., & D'Arcy, E. (1999). Property market efficiency: An institutional economics perspective. *Urban Studies, 36*(13), 2401-2414 (p. 2407)
[160] Ball, M. (1998). Institutions in British property research: A review. *Urban Studies, 35*(9), 1501-1517 (p. 1502); Buitelaar, *op. cit*., p. 35
[161] North, D. C. (1994). Economic performance through time. *American Economic Review*, *84*(3), 359-67 cited in Hodgson, 2006, p. 9.
[162] Hodgson, 2006
[163] In the words of US economist Douglas C. North, extracted from a correspondence with Geoffrey M. Hodgson (2006, p. 19).

capitalist economies (e.g., bank and non-bank financial firms, individual investors).[164] Meso-institutions are believed to reflect and diffuse macro-level institutional arrangements and shape agent behaviours and organizations at the micro-level, whose actions and decisions, in turn, affect upper levels and contribute to the perpetuation of, *in fine*, the macro-level institutional environment. By recognizing the complexity, plurality and multi-directional character of factors shaping social phenomena in capitalist societies, institutional analysis takes a middle position in a fundamental social theory debate: that on the respective roles of structure and agency in the explanation of human action.[165] Just as Weber and Polanyi, institutionalist scholars distance themselves from both the agency-centered approach of mainstream economics and the structural determinism of Marxian economics to theorize "a relational approach between structure and agency."[166]

2.1.2.2 From old to new institutionalism: the contributions of major streams

A comprehensive account of the institutional scholarship is beyond the scope of this research; but, I will take a brief tour through its major contributions to help me describe and conceptualize the political economy of urban production, particularly the nature and role of the property market, in post-war Beirut. First, a distinction is generally made in social science scholarship between old and new institutionalism. Old institutionalism dates from the early 20th century. It focuses primarily on the aspects of institutions generally formalized by the actions of national and local governments (e.g., legal systems, banking systems, administrative procedures, tax incentive structures), and on their roles in constraining and enabling agent behaviours, structuring markets and orienting economies.[167] New institutionalist thinking emerged in Northern political science, economics and sociology in the mid-1980s as the cross-disciplinary

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[164] Buitelaar, *op. cit.;* De Castro, J. O., Khavul, S., & Bruton, G. D. (2014). Shades of grey: How do informal firms navigate between macro and meso institutional environments? *Strategic Entrepreneurship Journal, 8*(1), 75-94; Ménard, C. (2014). Embedding organizational arrangements: Towards a general model. *Journal of Institutional Economics, 10*(4), 567-589

[165] The structure vs. agency debate concerns the question whether "the structure of a given system or organization [e.g., a growth regime] determines all of the significant behaviours exhibited by its component parts [i.e., individual and collective agents and their strategies, choices and relationships]," or, inversely, whether "the component parts create the structure." Rather than analyzing "a deterministic relation between context and agency," the institutional approach underlines the feedback loops that shape their interrelation: structure moulds human behaviours as much as it is shaped by the way agents operate (Harding & Blokland, *op. cit*., p. 47-48; Healey & Barrett, 1990, p. 90). (Healey, P., & Barrett, S. M. (1990). Structure and agency in land and property development processes: Some ideas for research. *Urban Studies*, *27*(1), 89-104)

[166] *Ibid*

[167] Davies, J., & Trounstine, J. (2012) Urban politics and the new institutionalism. In S. Clarke, P. John & K. Mossberger (Eds). *The Oxford handbook of urban politics* (pp. 51–70). Oxford, UK: Oxford University Press; Needham, B., Segeren, A., & Buitelaar, E. (2011). Institutions in theories of land markets: Illustrated by the Dutch market for agricultural land. *Urban Studies*, *48*(1), 161-176, p. 168

concept of governance gradually gained ground.[168] Without ignoring the role of formal arrangements, neo-institutionalist authors investigate how institutions are also made of informal components (e.g., norms, networks, conventions, cultural beliefs).[169] By the same token, they concern themselves with the nature of interactions between formal and informal arrangements as well as the factors and actors that initially generate and subsequently affect these relations.[170] For get a better understanding of the theoretical significance of the institutional literature, three schools merit particular attention: economic institutionalism, sociological institutionalism and historical institutionalism. All streams share the conviction that institutions matter but they diverge on research interests and theoretical and methodological issues.[171]

Economic institutionalism: a bridge between macro- and microeconomics

(Neo-)institutional economists help to bridge macro- and microeconomics by inquiring into market function at its different levels: they are concerned with the trajectory of national economies as much as with the workings of specific economic sectors. Interestingly, they do not completely reject the neoclassical paradigm since they recognize the utility-maximizing dimension of agent behaviours. Yet, their core objective is to address the way in which multiple institutions shape the (dis)incentive structures organizing economic life and, consequently, influencing market performance, price mechanisms, resource allocation, and agent preferences and interactions.[172] This stream, in other words, investigates the ways in which "markets both reflect and help to operationalize the institutional structure of society."[173] Its analysts consider markets as institutions in which "a significant number of commodities of a particular, reasonably well-defined type are regularly exchanged."[174]

Within this literature, a distinction is usually made between old and new institutional economics. On the one hand, old institutional economists such as Geoffrey Hodgson investigate the effect of formal and informal institutional structures, beyond purely economic arrangements,

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[168] Davies & Trounstine, *op. cit*.; Gibb, K. (2012). Institutional economics. In D. F., Clapham, W. Clark, & Gibb, K. (Eds.). *The Sage handbook of housing studies* (pp.131-145). Thousand Oaks, CA: Sage
[169] Davies & Trounstine, *op. cit*.
[170] *Ibid*
[171] Ball, *op. cit*.
[172] Gibb, *op. cit.;* Nee, V. (2011). The new institutionalisms in economics and sociology. In N. J. Smelser & R. Swedberg (Eds.). *The handbook of economic sociology* (pp. 49-74). Princeton, NJ; New York, NY: Princeton University Press; Russell Sage Foundation; Salet, W. (2002). Evolving institutions: An international exploration into planning and law. *Journal of Planning Education and Research*, *22*(1), 26-35
[173] Gibb, *op. cit*., p. 132
[174] Hodgson, G. M. (2002) The legal nature of the firm and the myth of the firm-market hybrid. *International Journal of the Economics of Business, 9*(1), 37–60 cited in Buitelaar, *op. cit*.

on the actions of, and transactions between, individual and collective market agents.[175] New institutional economists such as Ronald Coase, Douglas North and Oliver Williamson, on the other hand, center their contributions more specifically on the issues of transaction costs and bounded rationality.[176] Transaction costs are those of "negotiating, securing, and completing transactions in a market economy."[177] Economists claim that institutional arrangements (e.g., contracts, property rights, planning regulations) play a major role in increasing and/or reducing those costs since they define the degree of friction in the market and of (un)certainty in agent behaviours.[178] Indeed, the calculation of transaction costs associated with production and exchange is instrumental to determining "the profitability and feasibility of engaging in economic activity."[179] Logically, new institutional economists conclude that, while economic behaviours are in theory rational, actual and/or perceived transaction costs orient agent decisions in the end.[180] This insight adapts American economist and sociologist Herbert Simon's concept of bounded rationality, which in this context encapsulated the imposition of pre-determined limits on the choices of rational actors by the (dis)incentive structures within institutions.[181]

Sociological institutionalism: the power of social space in institutional development

The stream of sociological institutionalism is created by social theorists giving institutional economists grief for their excessively atomistic and 'under-socialized' analysis of the making of market structures and economic life.[182] This is the case for Mark Granovetter and Pierre Bourdieu, two figures of the 'new economic sociology,' who emphasize the fact that the relational and structural components of social environments orient institutional development and evolution as strongly as do the actual behaviours of individuals and organizations.[183] Granovetter elaborates on Polanyi's work to analyze the embeddedness of economic action in networks of personal relations and organizations, composed of strong or weak ties, through which agents

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[175] Buitelaar, *op. cit.* p. 35; Ménard, 2014
[176] Ball, *op. cit.,* p. 1503; Coase, R. H. (1960). The problem of social cost. *The Journal of Law & Economics, 3*, 1-44; Needham, Segeren, & Buitelaar, *op. cit.,* p. 167; Williamson, O. E. (1981). The economics of organization: The transaction cost approach. *American Journal of Sociology, 87*(3), 548-577
[177] Nee, *op. cit.*, p. 50
[178] Builtelaar, *op. cit.*; Keogh & D'Arcy, *op. cit.,* p. 2407); Needham, Segeren, & Buitelaar, *op. cit.*, p. 167
[179] North, 1991, p. 97
[180] Nee, *op. cit.*, p. 50
[181] Davies & Trounstine, *op. cit.*
[182] As Builtelaar (*op. cit.*, p. 29, 35) underlines, new economic sociology and old institutional economics share many similarities.
[183] Granovetter, *op. cit.*, p. 482; Granovetter, M., & Swedberg, R. (2001) *The sociology of economic life*. Boulder, CO: Westview Press

articulate interest, build cooperation and mobilize resources.[184] Importantly, the proponents of this relational analysis of social space also stipulate that "networks are the conduits through which new economic customs diffuse, and through which power is exercised."[185] One of its major limitations, however, is the limited attention it gives to structural cultural and political forces not always reflected by networks.[186] This is Bourdieu's primary criticism, viz., that institutional arrangements and economic behaviours derive rather from the overall organization of social space, i.e. from multiple geographically, politically and historically situated social structures and power relations that exist beyond personal networks.[187] The French sociologist thus based his critical analysis of economic sociology on the concepts deployed in his general sociology: specifically, that the position and behaviours of individual and collective agents in any *field*[188] (i.e., any economy or economic sector) are constrained by their *habitus*[189] and the multiple forms of *capital*[190] that they accrue.[191]

Historical institutionalism: the variant trajectories of institutional change

Historical institutionalism, empirically based within the fields of history and political science, also explores the reasons for which, and the processes by which, institutional arrangements emerge, evolve and at times disappear.[192] Institutions are understood in this approach as the "legacy of concrete historical processes."[193] Institutional formation and transformation, in other words, are believed to embody inherited "patterns of socioeconomic and political development" a connection that explains why formal and informal arrangements

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[184] Granovetter, *op. cit.*; Davies & Trounstine, *op. cit.*
[185] Dobbin, *op. cit.,* p 45
[186] Laville, *op. cit.,*
[187] Bourdieu, P. (1994). *Raisons pratiques: Sur la théorie de l'action*. Paris, France: Éditions du Seuil; Bourdieu, P. (2000). *Les structures sociales de l'économie*. Paris, France: Seuil; Jessop, 1997, p. 296
[188] A field in Bourdieu's thought is a "structure of actual and potential relations" that "position individuals and groups vis-à-vis each other in a given sphere" where they engage "in a well-defined set of practices" (Fawaz, 2008, p. 570; Smelser & Swedberg, 2011, p. 18). (Smelser, N. J., & Swedberg, R. (2011) Introducing economic sociology. In N. J. Smelser & R. Swedberg, R. (Eds.). (2011). *The handbook of economic sociology* (pp. 3-25). Princeton, NJ; New York, NY: Princeton University Press; Russell Sage Foundation).
[189] Habitus refers to a series of economic, social and cultural predispositions that relate the future actions of agents to their past experiences (Smelser & Swedberg, *op. cit*., p. 18). Such predispositions arise from "particular social positions, including those of class, gender, nationality, and ethnicity" (Reed-Danahay, 2005, p. 2). (Reed-Danahay, D. (2005). *Locating Bourdieu*. Bloomington, IN: Indiana University Press)
[190] Pierre Bourdieu (1994) identifies various types of capital in addition to financial capital: cultural, symbolic and social. They all significantly shape the hierarchical position, agency and representations of actors and, thus, their ability to participate in any field. More specifically, social capital refers to "one's connections of relevance to economic affairs," symbolic capital to "various items with a cognitive basis" such as titles and accreditations, and cultural capital to "one's education and family background" (Smelser & Swedberg, *op. cit*., p. 18).
[191] Smelser & Swedberg, *op. cit*., p. 18
[192] Alexander, E. R. (2005) Institutional transformation and planning: From institutionalization theory to institutional design. *Planning Theory, 4*(3), 209–223, p. 212; Mahoney, J. (2000). Path dependence in historical sociology. *Theory and Society: Renewal and Critique in Social Theory, 29*(4), 507-548, p. 512
[193] Steinmo, S., Thelen, K., & Longstreth, F. (1992). *Structuring politics: Historical institutionalism in comparative analysis*. Cambridge, UK: Cambridge University Press quoted in Davies & Trounstine, *op. cit.*

generally reflect prevailing power structures and relations.[194] Without going into too much detail, two concepts central to this historicist perspective are of specific interest to my Lebanon-focused study: path dependence and critical junctures.

Path dependence relates to the relatively deterministic reproduction of institutional arrangements during specific historical sequences.[195] Leaving aside the processes that initially led to the formation of the institution, this concept concentrates on the constrained or adaptive causal factors that facilitate the durability of existing arrangements.[196] The literature specifically identifies two opposite trajectories that together make institutions path-dependent. First, some scholars suggest that the "cost of exit from a course of action once it is embarked on tends to rise with every step along that path."[197] In simple terms, the rising cost of exit makes the radical transformation or termination of any institution increasingly harder to bring about over time. Second, other authors such as the US sociologist James Mahoney emphasize that the self-reinforcement of an institution may not come from the cost of exit but from the increased benefits accrued through its continued adoption.[198] As a result, path-dependent processes account for the persistence of a number of institutional structures and, thus, the reproduction of social phenomena. In a similar vein, the literature shows the way in which existing institutions also influence the formation of new institutions given that the former "provide models of how the world should be organized and resources for organizing new fields of activity."[199]

Critical junctures refer to decisive periods of institutional development, i.e., moments of institutional genesis and/or evolution that may include path dependence processes.[200] These specific periods are believed to illustrate the agency of ruling actors who select strategic orientations and make institutional decisions whose implications for the political-economic system and the society at large will be tremendously important in the medium and long term.[201] Importantly, political scientists Giovanni Capoccia and Daniel Kelemen underline that at "critical junctures change is substantially less constrained than it is during the phases of path dependence

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[194] Davies & Trounstine, *op. cit.*
[195] Mahoney, *op. cit.*, p. 510
[196] Mahoney, *op. cit.,* p. 516
[197] Pierson, P. (2000). Increasing returns, path dependency and the study of politics. *American Political Science Review, 94*(2), 251-267 quoted in Davies & Trounstine, *op. cit.*
[198] Mahoney, *op. cit.,* p. 508
[199] Dobbin, *op. cit.*, p. 45
[200] Capoccia, G., & Kelemen, R. D. (2007). The study of critical junctures: Theory, narrative, and counterfactuals in historical institutionalism. *World Politics*, *59*(3), 341-369, p. 348; Mahoney, *op. cit.*, p. 513
[201] Capoccia & Kelemen, *op. cit.*, p. 347

that precede and follow them."[202] As a result, the institutional change or adaptation that unfolds during critical junctures is likely to be much more significant.

In short, section one has explored the meaning of the social construction of the economy and its development as a fundamental stream of social theory. It has placed particular emphasis on the emergence over time of the study of institutions as a key heuristic tool for the examination of social and economic phenomena, such as the market, human action and interaction in capitalist economies and societies. This political economy approach provides the conceptual and methodological framework that connects the multi-level and multi-disciplinary theoretical blocks introduced in this chapter and to which I will refer throughout this thesis as I investigate the puzzle of 'pegged urbanization' in post-1990 Beirut.

2.2 Conceptualizing Lebanese Capitalism in the 21st Century: The Inputs of Critical Social Theory

Explaining the interconnectedness of urban development and capitalist reproduction in post-war Lebanon requires a detailed empirical account but also an in-depth theorization of local capitalism. This is why block one of this study's theoretical framework is aimed at identifying the conceptual tools in the political economy literature relevant to an analysis of the general structure and functioning of capitalist systems and institutional change at the country level. It notably concentrates on three streams of primary (regulation theory) and secondary (financialization and rentierism theories) conceptual significance. These complementary theoretical lenses share the contention that capitalism is a social phenomenon embedded in social, economic, political and cultural place- and time-specific institutions. I review their major contributions and limitations, and the way in which they help me define, analyze and conceptualize the nature, organization and challenges of post-war Lebanese capitalism.

2.2.1 Regulation Theory: An Institutional Account of Capitalist Systems

Regulation theory is the cornerstone of my first theoretical block and the backbone of my conceptualization of Lebanon's political economy. It is a leading approach in critical social science relying primarily on a medium-to-long term, instituted and systemic theorization of

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[202] Capoccia & Kelemen, *op. cit.*, p. 368

capitalist systems, which resonates with the three major schools of institutionalism examined earlier.

2.2.1.1 The origins and objectives of regulation theory

Regulation theory emerged from the two-pronged critique of neoclassical economics and structural Marxian economics in the 1970-90s, as Northern economies experienced the profound restructuring of their models of capital accumulation. It was born, in other words, from a concern to understand and conceptualize the end of Fordism and the transition to post-Fordist, neoliberal forms of capitalism.[203] This heterodox account of capitalist growth and crisis, which treats capital primarily as a social relation, is the leading stream in what is known as the 'new political economy.'[204] Its intellectual influences range from Gramscian theories to Lucien Febvre, Marc Bloch and Fernand Braudel's École des Annales, among others.[205] A small group of French economists, namely Michel Aglietta, Robert Boyer and Alain Lipietz who established the famous Paris-based École de la Régulation, has pioneered regulation research and immensely contributed to its success and diffusion through many disciplines of the social sciences.[206] In essence, regulationist scholars seek to comprehend why capitalist systems and trajectories of economic restructuring vary in space and time and how capitalism continues to expand despite manifold vulnerabilities, contradictions and crises. To do so, they investigate the interpenetration of economic and non-economic phenomena from an institutionalist perspective.[207]

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[203] Boyer, R. (2003). Les institutions dans la théorie de la régulation. *Cahiers d'économie politique: Histoire de la pensée et théories, 44*(1), 79-101, p. 80

[204] Jessop, B. (2001). Capitalism, the regulation approach, and critical realism. In A. Brown, S. Fleetwood, & J. Roberts (Eds). *Critical realism and Marxism* (pp. 88–115). London, UK: Routledge, p. 109

[205] Jessop, 1997, p. 287; Lovering, J. (2007). The relationship between urban regeneration and neoliberalism: Two presumptuous theories and a research agenda. *International Planning Studies, 12*(4), 343-366, p. 355

[206] According to British political economist Bob Jessop (1997, p. 289), other streams in the regulationist scholarship come from the Netherlands, West Germany, North America and Nordic countries.

[207] Boyer, R. (1990). *The Regulation School: A critical introduction*. New York, NY: Columbia University Press, p. 29; Boyer, R. (2000a). The political in the era of globalization and finance: Focus on some Régulation School research. *International Journal of Urban and Regional Research*, *24*(2), 274-322, p. 309; Jessop, 1997, p. 289; Lauria, M. (Ed.) (1997). *Reconstructing urban regime theory: Regulating urban politics in a global economy*. Thousand Oaks, CA: Sage, p. 6; Peck, J., & Tickell, A. (1995). The social regulation of uneven development: Regulatory deficit, England's South East, and the collapse of Thatcherism. *Environment and Planning A: Economy and Space, 27*(1), 15-40, p. 18; Tickell, A., & Peck, J. A. (1995). Social regulation after Fordism: Regulation Theory, neo-liberalism and the global-local nexus. *Economy and Society*, *24(*3), 357-386

2.2.1.2 The major contribution and limitations of regulation theory

Overall, one major contribution and two main limitations need to be highlighted in order to measure the conceptual and methodological contribution of regulation theory to our understanding of capitalist economies and societies.

A central dyad: regimes of accumulation and social modes of regulation

The major contribution of the regulationists is the conceptualization of two interacting structures that underlie and organize capitalist modes of development — also called growth regimes: a *regime of accumulation* and a *mode of social regulation*.

Regulation scholars refer to a *regime of accumulation* as the balancing "[of] production, consumption and investment, and [of] the demand and supply of labour and capital" that allows economic growth to be sustained in a relatively stable institutional environment and over a relatively long period of time.[208] This concept refers to the fundamental traits of any given national or transnational system of wealth accumulation, such as the source and structure of the financing of the economy, the sectorial organization of value creation, the structure of social relations and the dynamics of wealth and income distribution.[209] A textbook case in the recent history of capitalism is the Fordist-Keynesian regime of accumulation that ensured a sustained wealth increase in the Global North between the 1930s and 1970s. The regulation approach, however, suggests that all regimes are prone to systemic risks of crises engendered by their intrinsic economic and non-economic vulnerabilities, contradictions and distortions.[210]

This is why regulation theorists emphasize the *mode of social regulation* designed into capitalist systems to prevent and manage potential crises.[211] According to Robert Boyer, regulation is brought about through a series of country-specific, individual and collective procedures and behaviours that shape the trajectory of accumulation regimes and enable the

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[208] Clévenot, M. (2006). *Financiarisation, régime d'accumulation et mode de régulation. Peut-on appliquer le "modèle" américain à l'économie française?* (Unpublished doctoral dissertation). Retrieved from https://tel.archives-ouvertes.fr/tel-00120886/document (p. 4); Painter, J. (2001). Regulation, regime and practice in urban politics. In B. Jessop (Ed.). *Regulation theory and the crisis of capitalism: 5 developments and extensions* (pp. 63-86). Cheltenham, UK: Edward Elgar, p. 278

[209] Paulani, L. M. (2010). Brazil in the crisis of the finance-led regime of accumulation. *Review of Radical Political Economics, 42*(3), 363-372, p. 364; Peck & Tickell, 1995, p. 18

[210] Smart, A, & Lee, J. (2003a). Housing and regulation theory: domestic demand and global financialization. In R. Forrest & J. Lee (Eds.), *Housing and social change: East-west perspectives* (pp. 87-107). London, UK; New York, NY: Routledge, p. 88. Regulation scholars pinpoint three types of crisis, namely: micro-crises, conjectural crises and structural crises.

[211] The accumulation-regulation nexus, however, is not new according to US urban scholars John Logan and Harvey Molotch (*op. cit.,* p. 28): "The mixing of markets and regulation can be traced at least as far back as the English enclosure laws, which ushered in the industrial revolution, the modern State, and the property commodity."

reproduction of fundamental social relations.[212] His colleague Michel Aglietta concurs and adds that regulation is intended to keep the distortions and contradictions "created by the accumulation of capital […] within limits which are compatible with social cohesion within each nation."[213] In concrete terms, any growth regime requires a variety of market and non-market, formal and informal institutional arrangements to orchestrate and stabilize its system of wealth creation in the short term and, more generally, to adjust its development outcomes in the medium and long terms.[214]

Regulation theorists have invested much effort in conceptualizing the role of institutions. Each growth regime is believed to have its own hierarchy of formal and informal institutional arrangements embedded in a place- and time-specific structure of social relations.[215] In particular, the École de la Régulation identifies five key macro-level institutions that structure regimes of accumulation and orient modes of regulation: the relations of work, the enterprise form, the nature of the monetary and financial regime, the organization of the state, and the international regime.[216] Equally importantly, Paris-based regulation scholars have a concern for the making of institutions and identify "the national state as the primary political instance involved in regulation" through its role in institutional design and change.[217] Nevertheless, regulation scholars note that regulation institutions, instruments and corrective mechanisms should not be assumed to be stable and effective since they "build up their own pressures which lead to new crises."[218] British scholar David Harvey concurs and posits that social regulation does not completely neutralize the crisis-prone aspect of capitalist regimes: it only postpones the occurrence of crises, which critical scholars see as inescapable.[219]

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[212] Boyer, 2003, p. 82
[213] Aglietta, M. (1998). Capitalism at the turn of the century: Regulation theory and the challenge of social change. *New Left Review*. 232, 41–90, p. 44
[214] Boyer, 2003, p. 79; Smart & Lee, 2003a, p. 93
[215] Clévenot, *op. cit.,* p. 14
[216] More precisely, Bob Jessop (1997, p. 291) and Leda Maria Paulani (*op. cit*., p. 364) specify the meaning of these five types of macro-level institutional arrangements: the *relations of work* refers to how labour markets and wage-effort bargaining are organized; the *enterprise form* to prevailing internal organization and source of profits in firms, as well as to relationships to other companies; the *nature of monetary and financial regime* to patterns of money management and of banking and credit system; the *organization of the State* to prevalent balance of power and forms of state interventions; and the *international regime* to the trade, investment and monetary arrangements that shape the connections between domestic economies.
[217] Jessop, 1997, p. 298
[218] Smart, A. (2002). The Hong Kong/Pearl River Delta urban region: An emerging transnational mode of regulation or just muddling through? In J. Logan (Ed.). *The new Chinese city: Globalization and reform* (pp. 92-106). Oxford, UK: Blackwell. p. 93
[219] Harvey, D. (1989a). *The condition of post-modernity: An enquiry into the origins of cultural change*. Oxford, UK: Basil Blackwell, cited in Tickell & Peck, *op. cit.,* p. 360; Tickell & Peck, 1995, p. 360

A conceptual effort centered on Northern economies

The regulation approach has received two important types of criticisms. First, a number of social theorists judge its conceptual effort to be too vague and limited at the level of the nation-state.[220] Regulationist research, for instance, is accused of being "a loose package of cognitive and normative presumptions," which lacks conceptual clarity and explanatory empirical-historical detail.[221] Second, other scholars object to its Northern-centric character since capitalist systems of the Global South have frequently remained out of the scope of regulationist works. As such, my purpose is not, of course, to literally transfer this historically and geographically situated conceptual apparatus to Southern economies, which have witnessed the neoliberalization and financialization of their modes of development without experiencing the restructuring process observed in Europe and North America. I simply contend that, despite limitations, regulation theory holds substantial heuristic power and offers adequate methodological tools to conceptualize the structure and dynamics of contemporary Lebanese capitalism by uncovering the traits of its regime of accumulation and its associated mode of social regulation.

2.2.2 The Financial Turn of Capitalism in the Late 20th Century

The second component of my first theoretical block addresses more specifically the study of the financialization of capitalism. In the 1980s, the rise of neoliberalism, the revolution of information and communication technologies, and the globalization of markets pushed capitalism into a new stage.[222] Concretely speaking, the spread of market-based rationales, financial deregulation and liberalization, transnational economic networks and actors, and the hypermobility of people and capital have increasingly decoupled national economies and nation-states and reimagined the nature and mechanisms of value creation.[223] This series of

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[220] Peck & Tickell, 1995, p. 19

[221] Lovering, *op. cit.*, p. 355

[222] Castells, M. (1999). *Information technology, globalization and social development*. (UNRISD Discussion Paper No. 114). Retrieved from www.unrisd.org/unrisd/website/document.nsf/(httpPublications)/F270E0C066F3DE7780256B67005B728C; Weber, R. (2010). Selling city futures: The financialization of urban redevelopment policy. *Economic Geography, 86*(3), 251-274, p. 252. For US scholar Susan Fainstein (2010, p. 8), neoliberalism refers to "the doctrine that market processes result in the efficient allocation of resources and provide incentives that stimulate innovation and economic growth." Likewise, neoliberal thought suggests that "for the market to work, state action that distorts prices and interferes with rewards to investors must be minimized." (Fainstein, S. (2010). *The just city*. Ithaca, NY: Cornell University Press)

[223] Smart, *op. cit*., p. 94; Fernandez, R., & Aalbers, M. B. (2016). Financialization and housing: Between globalization and varieties of capitalism. *Competition and Change*. 20(2), 71-88

transformations positioned finance[224] at the center of the economy and reshaped most Northern and Southern economic systems and political and social structures. It also motivated the emergence of a new stream of critique in the social sciences that theorized its primary quantitative and qualitative rationales, structures and agents.

But what does financialization precisely mean? For heterodox social theorists, it refers most broadly to "the increasing role of financial motives, financial markets, financial actors and financial institutions [as well as of financial measurements and narratives according to Dutch geographer Manuel Aalbers[225]] in the operation of the domestic and international economies."[226] Financialization is first and foremost an eminently time- and place-specific process of institutional change that moulds economic action and behaviours. Scholars indeed identify a "fundamentally fragmented, path-dependent and variegated" social phenomenon in which a number of renewed finance-related institutions shape and are shaped by the political and individual decisions made by states, firms and individuals.[227] The organization of the financialization literature reflects this multi-scalar perspective and analyzes this instituted process at three different levels: the national economy, the firm, and the household. In this study, I am concerned primarily with the macro level of investigation and, therefore, review the main contributions exploring the increasingly finance-led features of growth regimes. But I also cover, more briefly, the spread of 'shareholder value' to non-financial firms and households at the meso and micro levels. Just as importantly, the scholarship makes a pivotal distinction between financialization processes restructuring Northern economies, where direct finance systems (i.e., financial markets) predominate, and those unfolding in Southern economies where indirect finance systems (i.e., banks and other financial intermediaries) for the most part prevail.[228] This contrast between market-based and bank-based economies, which indicates the primacy of

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[224] Finance refers to the "management of funds one owns outright, raised funds (e.g. through shares) and borrowed funds (e.g. loans) for personal, corporate or public goals" (Aalbers, 2016, p. 1). (Aalbers, M. (2016). Introduction: Financialization and housing studies. In Aalbers, M. (Ed). *The financialization of housing: A political economy approach* (pp. 1-14). New York: Routledge)

[225] Aalbers, M.B. (2015a) Corporate financialization. In Castree, N. et al. (Eds). *The international encyclopedia of geography: People, the earth, environment, and technology*. Oxford, UK: Wiley

[226] Epstein, G.A. (2005) Introduction: Financialization and the world economy. In G.A. Epstein (Ed.). *Financialization and the world economy* (pp. 3–16). Cheltenham, UK; Northampton, MA: Edward Elgar

[227] Aalbers, M.B. (2017) The variegated financialization of housing. *International Journal of Urban and Regional Research*, 41 (4)

[228] Becker, J., Jäger, J., Leubolt, B., & Weissenbacher, R. (2010). Peripheral financialization and vulnerability to crisis: A regulationist perspective. *Competition & Change, 14*(3-4), 225-247. The difference between bank- and market-based economies pertains to the major transformations observed in the financing of economic activity over the past 30 years. Direct finance systems have gradually prevailed over indirect systems in the Global North. Indirect finance is historically the rule with the intermediary role of banks between suppliers and users of capital: they collect deposits and supply funds to economic agents through credit activity. Yet, the rise of financial markets, also called securities markets, has progressively and partially transformed the role of banking organizations by putting capital holders and *corporate* agents directly in contact. This mutation from a bank-based to a market-based finance of corporate economic activity is what is known as disintermediation. (Vernimmen, P., Quiry, P., Dallocchio, M., Le Fur, Y., & Salvi, A. (2014). *Corporate finance: Theory and practice*. Chichester, West Sussex, UK; Hoboken, NJ: John Wiley and Sons, p. 249, 799)

disintermediation or intermediation activities in local financial systems, generally implies differentiated trajectories of financialization.[229] Nevertheless, it does not preclude a number of commonalities in the rationales, mechanisms and agents that reinforce the power of finance in both the Global North and the Global South.

2.2.2.1 Finance-led capitalism: the restructuration of accumulation regimes and modes of social regulation

The first stream of financialization studies situates its analytic and conceptualizing work at the level of the national economy and, on many occasions, merges with the works of regulation theory. It investigates, in particular, why and how the post-Fordist economic restructuring has led to finance-oriented modes of capitalist development, i.e., renewed regimes of accumulation and modes of social regulation where financial activities are of primary importance.

The centrality of financial activities in regimes of accumulation

Regulation economists Michel Aglietta and Robert Boyer refer to finance-led growth regimes as economies where "accumulation occurs more often through financial channels than through commodity production and trade."[230] What the two scholars, and more generally financialization theorists, intend to uncover is how, in many Northern economies, finance-based value creation, mostly driven by booming transnational flows of short-term investment and placement in financial markets,[231] has progressively gained momentum to the detriment of non-financial wealth creation.[232] They specifically explain that this new centrality of financial activities has occurred through a number of channels and involved the in-depth mutation of

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[229] In an economy where financial intermediation prevails, firms, whatever their size, cover their financing needs through personal equity and bank debt (Vernimmen et al., *op. cit.*). The size of capital markets is thus limited. In contrast, in an economy where financial disintermediation predominates, large-sized companies raise funds on financial markets by issuing securities (e.g., bonds, shares, commercial papers) through public offerings listed on the stock exchange, or through non-listed private offerings (i.e., private equity schemes), to increase their equity (*Ibid*). On this basis, economic agents with capital surpluses (e.g., individuals, sovereign funds, pension funds, etc.) interact directly with capital users (i.e., firms) outside the intermediation of other banking and non-banking agents, who, however, preserve a brokerage role as wealth managers and underwriters (e.g., mostly private and investment banks). In the end, banking organizations do not abandon their intermediary role since they continue to provide credit to large firms, albeit to a lesser extent, as well as to small- and medium-sized firms and households (Corbridge & Thrift, 1994; Hudson, *op. cit.*, p. 318). (Corbridge, S., & Thrift, N. (1994). Introduction and overview. In S. Corbridge, R. Martin, & N. Thrift (Eds.) (1994). *Money, power and space* (pp. 1-25). Oxford, UK; Cambridge, US: Blackwell)

[230] Aglietta, 1998; Boyer, R. (2000b). Is a finance-led growth regime a viable alternative to Fordism? A preliminary analysis. *Economy and Society, 29*(1), 111-145; Weber R., 2010, p. 252. Financial activity refers to "the provision (or transfer) of liquid capital in expectation of future interest, dividends, or capital gains" (Krippner, 2005, p. 173). (Krippner, G. R. (2005). The financialization of the American economy. *Socio-Economic Review, 3*(2), 173-208)

[231] Financial markets have two major components: the money market for short-term finance and the capital market for longer-term finance. Additionally, financial markets also include the derivatives market and the foreign exchange market.

[232] Boyer, 2000b, p. 112. At the global level, Paulini (*op. cit.*, p. 367) indicates that financial wealth grew by 1525 percent (16.2 times) between 1980 and 2007, while GDP appreciated only by 364 percent (4.6 times).

domestic financial sectors. Bank and non-bank financial firms, for example, have recorded substantial growth by brokering transactions on financial markets, which have rapidly expanded in size and value.[233] In sum, a crucial finding of financialization studies is that domestic financial sectors have increasingly neglected their mission to finance the real economy to focus instead on speculative finance-driven accumulation through circuits of 'fictitious capital.'[234] The financial industry in many countries, in other words, has shifted "'from a facilitator of other firms' economic growth to a growth industry in its own right."[235]

The transformation of the way in which economies create value has had manifold repercussions for national and worldwide patterns of wealth and income distribution. The significance of financial activities, together with the inflated value of financial assets, has brought about a gradual change in the structure of factor incomes. Capital income streams, unlike labour streams such as wages, have acquired a prevalent role and, consequently, worsened inequality in situations where equity return grows faster than GDP growth.[236] This is the famous 'R>G' theory[237] presented by economist Thomas Piketty in his breakthrough book *Capital in the Twenty-First Century*. Picketty examined the transformation since the Industrial Revolution of wealth and income distribution patterns, as well as their political-economic drivers and outcomes, in Northern capitalist systems. Unsurprisingly, the fast-paced expansion of inter- and intra-country socio-economic disparities in most financializing economies has affected the nature, structure and exercise of power as well as the relations of power and domination between "between those who control capital and those who work for wages."[238] Equally importantly, the unbalanced form of capital accumulation and distribution, full of economic and non-economic vulnerabilities, contradictions and tensions, has increased the exposure of finance-led economies to multiple risks

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[233] Bonizzi, B. (2013). Financialization in developing and emerging countries. *International Journal of Political Economy*, *42*(4), 83-107, p. 90, 92; Lapavitsas, C. (2009). *Financialization embroils developing countries* (Discussion Paper 14, SOAS, London). Retrieved from https://revistas.ucm.es/index.php/PADE/article/download/.../21280 (p. 109)

[234] The notion of 'fictitious capital,' in opposition to real capital accumulated in non-financial sectors, relates to "securities in their different varieties and includes capitalized land rent" (Becker et al., *op. cit*., p. 228).

[235] Aalbers, M. B. (2008). The financialization of home and the mortgage market crisis. *Competition & Change, 12*(2), 148-166. p. 148; Aalbers, 2015a, p. 9; Engelen, E. (2003). The logic of funding European pension restructuring and the dangers of financialisation. *Environment and Planning A: Economy and Space, 35*(8), 1357–1372, p. 1367 quoted in Aalbers, 2008, p. 148

[236] Clévenot, *op. cit*., p. 172; Piketty, T. (2014). *Capital in the twenty-first century*. Cambridge, MA: The Belknap Press of Harvard University Press

[237] According to Thomas Piketty (*ibid*), wealth inequality and concentration worsen when the net-of-tax return on capital (R), i.e., savings rate and return on investment, "exceeds the growth of output and income" (G). Both 'R' and 'G' are considered to be social constructions shaped by country-specific struggles and institutions.

[238] Smart & Lee, 2003b, p. 155

and crises.[239] It is with these in mind, regulation and financialization scholars suggest, that new forms of regulation have emerged to secure regime stability.

The social regulation of finance-led capitalism: challenges and actors

The financialization literature identifies a set of challenges to, and requirements of, the social regulation of finance-driven growth regimes. Two of them are of special value to better situate my Lebanon-focused analysis: the management of capital over-availability in the financial sector, and the development of equity-owning groups.

International competition to attract the hypermobile, short-term liquidity propelling finance-driven accumulation has been the cornerstone of the financialization of capitalist systems. However, this outward-oriented growth strategy results in the structural over-availability of financial resources in the financial sector, which forces financial agents to perpetually find new diversified vehicles of capitalization in order to remunerate rent-maximizing capital holders, create value and secure financial stability.[240] In some cases, this 'pool of excess liquidity,' which exists at both domestic and global levels, is locally reinforced by a number of factors ranging from trade surpluses in export-oriented regimes to the rise of loose monetary policies and the "accumulated profits of transnational corporations in tax havens."[241] Simply put, managing what financialization theorists call this "wall of money" in the financial sector, primarily through the channelling of money into new short-term, liquid placement and investment streams, also called "financial fixes," has been a major factor guiding social regulation in finance-led economies.[242]

In parallel, the constitution of "a sufficiently large property-owning population" has been a second key regulation challenge in financed-led regimes.[243] Equity-owning individuals, whose wealth and income depend significantly on asset value variations and capital revenues (i.e., revenue made from bonds, shares and property assets), are expected to have economic, social and political behaviours more likely to ensure the sustainability of a virtuous growth trajectory.[244] In effect, the prevalence of property-owning groups from the ruling elite to the lower-middle class is believed to favour the progressive diffusion of equity-earning, rather than wage-earning, social relations, which are a prerequisite to facilitation of the regulation-driven transformation of

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239 Paulani, *op. cit.*, p. 369
240 Aalbers, 2017, p. 6; Fernandez & Aalbers, 2016, p. 2, 6, 16
241 Aalbers, 2017, p. 6; Fernandez & Aalbers, 2016, p. 5-6
242 Fernandez & Aalbers, 2016, p. 16
243 Smart & Lee, 2003b, p. 156
244 Boyer, 2000b; Clévenot, *op. cit.*, p. 172

prevailing institutional arrangements (e.g., rent-maximization as a widespread norm, tax minimization).[245] According to a number of financialization scholars such as Robert Boyer, only the US, Canada and the UK have, in theory, a sufficiently developed equity-owning population to secure the stability of a finance-driven growth regime.[246] This is primarily the result of the tremendous weight of financial markets in the financing of their local economies, the prevalence of private pension systems based on individual capitalization, and the significance of mortgage-based homeownership, to name a few. Inversely, Boyer postulates that the deployment of finance-led capitalism is potentially a source of financial, socio-economic and political instability in most bank-based economies where equity-owning groups are less significant and wage-earning social relations and modes of consumption, therefore, prevail and limit adequate regulation-driven institutional change.[247] This is why regulation interventions in many financializing countries are regularly aimed at growing the share of the equity-owning population, notably through mortgage-based homeownership programs (see next section). Yet, in most cases, this trend has had multiple macro-to-micro repercussions that range from the spread of increased rates of profit in all forms of economy activity to inflated property prices and credit-based consumption models, which have all led to the fast-paced growth of wealth and income inequality between equity-owning and non equity-owning groups.[248]

The financialization literature suggests that one specific category of state actors has become instrumental in meeting the manifold regulation challenges of financial capitalism: central banks. Since the early 1980s, the critical stream in contemporary social science has revealed how the rise of neoliberalism has increasingly circumscribed the role of traditional public agents (e.g., governments, Parliaments) to the mere stimulation of innovation, productivity and growth at the local and national levels.[249] As a complement, a major contribution from the financialization scholarship has been to demonstrate that the expansion of finance-led regimes of accumulation has allowed financial authorities and more generally, financial elites, to gain tremendous political and economic power.[250] Thanks to their multiple interventionist and prudential policy tools, central banks closely manage financial and monetary systems and

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[245] Boyer, 2000b
[246] Boyer, 2000b, p. 135. Financial crises, nonetheless, did not spare Anglo-American economies as illustrated by the US-originated global financial crisis in the late 2000s (Aglietta, 2011, p. 193). (Aglietta, M. (2011). Risque systémique et politique macroprudentielle: Une nouvelle responsabilité des banques centrales. *Revue d'éonomie financière, 101*(1), 193-203)
[247] Boyer, 2000b, p. 135; Smart & Lee, 2003b, p.157
[248] Boyer, 2000a, p. 302
[249] Boyer, 2000a, p. 308; Peck, J., & Tickell, A. (2002). Neoliberalizing space. *Antipode*, *34*(3), 380-404
[250] Epstein, *op. cit.*

supervise financial sectors. In most cases, they have exceeded their traditional prerogative of "ensuring the best 'policy mix' between growth and inflation" to become the masterminds of the regulation of financial capitalism.[251] Concretely speaking, financial authorities, through formal and informal forms of institutional design, organize the expansion of the financial markets and manage the quantity of money financing domestic economies, as much as they limit the formation of financial bubbles and control credit systems to avoid financial crises.[252] In this regard, it is undeniable that, over the past three decades, central banks and, more generally, all public and private financial actors, have increasingly influenced the trajectory of financial capitalism, the general features of international political economy, and the nature of local political-economic environments.[253]

2.2.2.2 The spread of 'shareholder value' to non-financial firms and households

The second stream of the financialization literature looks into the mechanisms and implications of the deployment of finance-led regimes for the functioning of non-financial firms. This approach is usually associated with the culturally inflected works of Julie Froud, Karel Williams and other researchers from the University of Manchester who form the Critical Social Accountancy school.[254] This meso-level perspective explores the ways in which the financial sector and activities in the economy at large have shaped the strategies and decisions contained within the norms, practices and organizations of business entities outside the financial sphere (e.g., the car industry, the property sector).[255] It places specific emphasis on the way the maximization of 'shareholder value' has become a core institutional structure in corporate management and strategies.[256] As a matter of fact, firms in most economic sectors no longer aim to reap benefits to further develop their productive activity; instead, they face growing pressure from shareholders to reach double-digit, short-term yields equivalent to those speculatively obtained on international financial markets. Consequently, the increased reallocation of revenues

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[251] Boyer, 2000a, p. 308; Boyer, 2000b, p. 112; French, Leyshon, & Wainwright, *op. cit.*, p. 801
[252] Boyer, 2000b, p. 314
[253] Krippner, *op. cit.*, p. 181
[254] Froud, J., Haslam C., Johal S., & Williams K. (2000). Shareholder value and financialization: Consultancy promises and management moves. *Economy & Society*, *29*(1). 80-110; Froud, J., Haslam, C., Johal, S., & and Williams, K. (2002). Cars after financialization: A case study in financial underperformance, constraints and consequences. *Competition and Change, 7*(1), 13-41; Froud, J., Leaver A., & Williams K. (2007). New actors in a financialised economy and the remaking of capitalism. *New Political Economy*, *12*(3). 339-347; Lazonick, W., & O'Sullivan, M. (2000). Maximizing shareholder value: A new ideology for corporate governance. *Economy and Society, 29*(1), 13-35; Williams, K. (2000). From shareholder value to present-day capitalism. *Economy and Society, 29*(1), 1-12
[255] Krippner, *op. cit.*, p. 182
[256] Rutland, T. (2010). The financialization of urban redevelopment. *Geography Compass, 4*(8), 1167-1178, p. 1169; Lazonick & O'Sullivan, *op. cit*.

to capital holders, financialization researchers explain, generates corporate reorganizations, transforms financing patterns and, accordingly, re-establishes power structures and relations in companies.[257] Historical sociologist Greta Krippner also underlines the "dependence of non-financial corporations on financial sources of revenue," made through the acquisition of short-term financial assets, as another manifestation of financialization.[258]

Finally, the third financialization stream investigates the financialization of everyday life, i.e., the micro level.[259] From a quantitative perspective, social scientists stress the increased reliance of individuals on financial assets and services with the democratization of consumer credit, the direct holding of financial products on financial markets, and the recourse to private pension funds to accrue wealth and fund lifestyles.[260] From a more qualitative perspective, they underscore the broad diffusion of shareholder value and finance culture, and, more generally, the culture of rent, that have increasingly transformed household decisions and priorities and, over the past generation or so, pushed them towards more risk-taking practices in wealth and income management.[261] This spread of financial activities and finance-led mentalities is particularly pronounced in Anglo-Saxon economies and, of course, helps them to meet the regulation challenges mentioned earlier.

2.2.2.3 Emerging geographies and trajectories of financialization in the Global South

The political economy scholarship, which concentrated initially on the rise of financial capitalism in the Global North, has progressively expanded its scope to address the specificity and diversity of finance-led growth regimes in the Global South. Emphasized particularly are the common motivations, mechanisms, agents and outcomes underlying the locally specific forms of financialization in Southern economies and societies as well as the multiple connections that exist with those factors driving and resulting from financialization in the North.[262]

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[257] Krippner, *op. cit.*, p. 173; Smart & Lee, 2003b, p. 156; Williams, *op. cit.*
[258] Demir, F. (2009). Financial liberalization, private investment and portfolio choice: Financialization of real sectors in emerging markets. *Journal of Development Economics, 88*(2), 314-324; Krippner, *op. cit.*, p. 192
[259] Fligstein, N., & Goldstein, A. (2015). The emergence of a finance culture in American households, 1989-2007. *Socio-Economic Review, 13*(3), 575-601; Kus, B. (2013). Credit, consumption, and debt: Comparative perspectives. *International Journal of Comparative Sociology*, *54*, 183–186; Langley, P. (2008) *The everyday life of global finance: Saving and borrowing in Anglo-America*. New York, NY: Oxford University Press; Martin, R. (2002). *The financialization of daily life*. Philadelphia, PA: Temple University Press
[260] Fligstein & Goldstein, *op. cit.,* p. 575, 577; Kus, *op. cit.*; Martin, *op. cit.*
[261] Fligstein & Goldstein, *op. cit.,* p. 575; Langley, *op. cit.*; Martin, *op. cit.*
[262] Becker et al., *op. cit.*; Bonizzi, *op. cit.*; Lapavitsas, *op. cit.*

The multifaceted dependence on external interest-bearing capital

Financialization in emerging countries is primarily "a phenomenon of international transactions."[263] It began as early as the late 1970s and accelerated in the 1980s and 1990s with pressure from the World Bank and the International Monetary Fund (IMF) to enforce the structural adjustment programs prescribed by the Washington Consensus.[264] A major policy orientation imposed by International Financial Institutions (IFIs) was financial liberalization,[265] which sought to encourage Southern economies to capture cross-border financial resources to fund local growth and development.[266] A number of middle-income countries (e.g., Brazil, Mexico, Malaysia, South Africa) consequently began to build up a high degree of extraversion, i.e., a reliance on volatile, short-term and interest-bearing private capital inflows.[267] The bank-based mechanism of capital attraction is a distinguishing feature of the opening of Southern economies to financialization. Unlike Northern economies where financialization has unfolded primarily through the attraction of fictitious capital in financial markets, most emerging economies have lured non-resident holders of capital principally through highly remunerated deposit opportunities in local banks.[268] Unsurprisingly, this financial turn has reshaped and reoriented local regimes of accumulation in many ways.

First, financial liberalization has affected the organization and stability of domestic financial systems, which frequently share the following characteristics: volatile exchange rates (in the absence of a currency peg), considerable foreign exchange reserves, an acute sensitivity to commodity prices, massive public debt, and the persistence of high deposit and lending interest rates and of a high level of dollarization/euroization in the banking sector.[269] Second, financial liberalization has reorganized the financing of domestic economies and their structures of wealth accumulation. Foreign capital resources fund large segments of local economies, and value creation is significantly brought about through financial activities, particularly bank

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[263] Lapavitsas, *op. cit.*, p. 127
[264] The 1989 Washington Consensus refers to a pro-market development strategy elaborated by US economist John Williamson. The list of 10 policy orientations included: fiscal discipline, the reordering of public expenditures priorities, tax reforms, interest rate liberalization, lower trade barriers, inflation control, and privatization and deregulation programs. In many ways, this IFI-backed strategy sought to sustain financial liberalization by reinforcing the attractiveness of Southern economies in the competition for international capital resources (Lapavitsas, *op. cit.*; Nissanke & Stein, 2003, p. 304; Williamson, 2003). (Nissanke, M., & Stein, H. (2003). Financial globalization and economic development: Toward an institutional foundation. *Eastern Economic Journal, 29*(2), 287-308; Williamson, J. (2003). From reform agenda to damaged brand name: A short history of the Washington Consensus. *Finance & development*, 40, 10-13)
[265] Financial liberalization refers to the opening of domestic economies to international capital markets.
[266] Lapavitsas, *op. cit.*, p. 116
[267] Becker et al., *op. cit.*, p. 231; Lapavitsas, *op. cit*, p. 127
[268] Becker et al., *op. cit.*, p. 228
[269] Becker et al., *op. cit.*, p. 225-226, 230; Lapavitsas, *op. cit.*

intermediation. On this basis, GDP growth is very much contingent on the volume of capital inflow. The importance of finance-based accumulation has also stimulated mutations in local financial sectors with the deployment of specialized banking services (e.g., investment banking) and local capital markets as well as with the increased weight of foreign banks.[270] Financial liberalization has, further, led to unbalanced GDP structures, reducing the contribution of industrial sectors and, more generally, of productive investment to wealth creation, as a result of the magnet effect of the financial industry on capital resources and the appreciation of exchange rates that facilitate imports.[271] As mentioned, the literature also underlines the spread of 'shareholder value' to non-financial companies, which increasingly engage in short-term speculative financial, rather than long-term productive, investment.[272] Equally important for Southern economies has been the impact of financialization on commodity markets: financial investors who incorporate raw materials in their asset portfolios contribute to price volatility.[273] Third, as in the North, financial liberalization has come with high social and economic costs.[274] The stagnation of job-intensive productive sectors and the ever-increasing weight of capital in the income relation have sharpened disparities in wealth and income distribution.[275] In parallel, an increased portion of wage-dependent households has lived off revenues drawn from the informal economy.

Finance-led growth regimes in the Global South are structurally crisis-prone and their multiple disequilibria, contradictions and distortions (e.g., the maturity mismatch of assets and liabilities in banking sectors, unsustainable exchange rates, widening current-account deficits) have increasingly mirrored their dependence on volatile foreign financial resources.[276] A primary source of vulnerability is their considerable exposure to boom-bust cycles in the global economy.[277] Capital surges, on the one hand, frequently generate excessive currency appreciation and bubbles in domestic credit, commodity and property markets."[278] Any sharp contraction or

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[270] Becker et al., *op. cit.*, p. 226; Bonizzi, *op. cit.* p. 90-91; Lapavitsas, *op. cit.* p. 108
[271] Araujo, E., Bruno, M., & Pimentel, D. (2012). Financialization against industrialization: A regulationnist approach of the Brazilian paradox. *Revue de la Régulation*. Retrieved from http://journals.openedition.org/regulation/9604?gathStatIcon=true&lang=en; Becker et al., *op. cit.*; Nissanke & Stein, *op. cit.*
[272] Bonizzi, *op. cit.* p. 89; Demir, F. (2007). The rise of rentier capitalism and the financialization of real sectors in developing countries. *Review of Radical Political Economics, 39*(3), 351-359
[273] Akyüz, Y. 2012. "The boom in capital flows to developing countries : Will it go bust again?" *Ekonomi-tek International Economics Journal, 1*(1). 63–96; Bonizzi, *op. cit.*
[274] Nissanke & Stein, *op. cit.*, p. 304
[275] Araujo et al., *op. cit.*; Bonizzi, *op. cit.*
[276] Akyüz, *op. cit.*
[277] Nissanke & Stein, *op. cit.*
[278] Akyüz, *op. cit.*

reversal in incoming money transfers, on the other hand, is capable of destabilizing financial and monetary systems and plunging local economies into crisis. As importantly, the fragility of Southern financializing economies is also linked to the potential occurrence of domestic economic and political shocks (e.g., failure of a financial organization, sovereign default, sudden termination of a currency peg, political trouble) that may engender capital flight.[279] Over the past 25 years or so, a number of East Asian countries (e.g., Malaysia, Thailand, South Korea) as well as major middle-income economies such as Argentina, Mexico, Russia and Turkey, for example, have gone through a series of severe financialization-related crises. Moreover, the 2008 international financial crisis, initiated in the North, significantly and negatively affected a number of emerging economies by reducing their capital inflows and worsening their current accounts.[280] Upcoming chapters will show why and how Lebanon, a country where financial liberalization occurred as early as the 1950s, has, interestingly, proven to be an exception among middle-income economies and benefited considerably from the crisis.

Specific challenges and actors of social regulation

Social regulation initiatives in the Global South have frequently and ironically privileged further banking and financial liberalization to reproduce resource-dependent and finance-driven growth regimes. Two policy priorities, which reflect a form of path dependence, generally predominate: the perpetuation of capital inflows, and the management of structural imbalances and distortions generated by the very influx of yield-seeking non-resident money. On the one hand, maintaining a sustained level of incoming financial flows to secure financial and monetary stability and support GDP growth has required the preservation of high deposit remuneration and proactive risk management, including first and foremost the increased accumulation of foreign reserves stocked by central banks.[281] On the other hand, managing the short-to-medium term vulnerabilities and tensions within local financial systems and economies has proven critical to the avoidance of, and/or recovering from, crises. To accomplish this, regulation strategies have included, for example, government intervention in currency markets, capital control and the partial redirection of available financial resources toward productive investment streams.[282] As

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[279] Bonizzi, *op. cit.*; Boyer, 2000b, p. 308
[280] Lapavitsas, *op. cit.*, p. 108
[281] Becker et al., *op. cit.*, p. 229; Bonizzi, *op. cit*, p. 85. The increased accumulation of foreign reserves by central banks crucially helps to secure an overvalued exchange rate or a currency peg.
[282] Akyüz, *op. cit.*, p. 87-88; Demir, *op. cit*.

with policies implemented in Northern economies, regulation agents have also commonly used mass-based financialization tools such as the privatization of pension and insurance plans and the deployment of microfinance (e.g., microfinance investment funds) for adjustment and stimulation of the financial sector.[283] More generally, propulsion of household debt, first and foremost through consumer and mortgage credit, has been a frequent means of recycling surplus liquidity, diversifying banks' portfolios, leveraging domestic consumption and expanding equity-owning groups (e.g., Malaysia, South Africa, South Korea).[284] The Work Bank and the IMF, which were the initiators of financial liberalization in the first place, are, on many occasions, the masterminds of social regulation strategies in Southern economies.[285] They actively help to design pro-market institutions and policy interventions, using the conditionalty-based financial assistance they provide to national governments. IFIs and state agents, most frequently governments and central banks, generally legitimize and justify these finance-oriented policy reforms by citing risks of galloping inflation and/or capital flight.[286]

I have attempted throughout this overview to demonstrate that the financialization scholarship provides adequate theoretical, analytical and methodological tools for analysis of the financial turn of a great number of contemporary economies and societies in the Global North and South. Lebanon is certainly no exception; however, financial capitalism has propagated in this small economy for reasons and through mechanisms that cannot be grasped without considering the political-economic specificity of the Middle East and North Africa (MENA) region: the dependence on oil-derived rents.

2.2.3 Contemporary Capitalism in the Middle East: The Dependence on Oil-Derived Rents

Oil-derived rentierism is the third and last component of the first theoretical block designed to unpack and conceptualize the transformations of post-war Lebanon's capitalism. The political economy of MENA countries has been thoroughly reorganized over the past half century. Economic and financial liberalization has indisputably played a role: it unfolded in consecutive phases from the *intifah* period in the 1970s to IFI-sponsored structural adjustment

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[283] Bonizzi, *op. cit.,* p. 94; Lapavitsas, *op. cit.*
[284] Bonizzi, *op. cit.,* p. 92-93; Lapavitsas, *op. cit.,* p.109, 128
[285] Bonizzi, *op. cit.*
[286] Becker et al., *op. cit.*, p. 229; Carroll, T, & Jarvis, D. (2014). Introduction: Financialisation and development in Asia under late capitalism. *Asian Studies Review, 38*(4), 533-543; Rethel, L. (2010). Financialization and the Malaysian political economy. *Globalizations. 7*(4), 489–506.

programs in the 1980s and 1990s.[287] At the same time, a veritable game changer propelled the opening up of Arab economies: the advent of the oil era and the successive commodity booms that have made oil-producing countries "assumed strategic value [on] the world chessboard."[288] Oil production has profoundly reshuffled the political economy of Arab oil-rich countries, which live off primary rents made from the extraction and trade of their natural resources. Likewise, it has also enormously transformed the growth and development patterns of the oil-poor neighbouring countries that capture multiple sources of oil-derived secondary rent.[289] Lebanon is in many ways a paradigmatic illustration of the multiple ways in which oil revenues in the Middle East have brought about institutional change and the massive availability of financial resources. Oil-generated rent has reshaped economic, social and political structures and agent behaviours and, more generally, exposed the growth regimes of oil and non-oil producing countries to new forms of dependency and vulnerability.

2.2.3.1 From rent to rentierism: the key input of Middle-Eastern studies to political economy research

Since the concept was introduced by David Ricardo and developed by Marx, rent has aroused considerable interest in both classical and critical schools of political economy. It generally refers to an income derived from the exploitation of a factor of production whose supply is not producible or renewable and whose profitable remuneration is not commensurate with any particular effort.[290] Rent, in other words, does not "originate from investment or labour in the capitalistic sense of the word" but is "generated as the result of natural advantages and organisational skills."[291] Moreover, the scholarship generally draws a distinction between internal and external forms of rent in national income. Internal rent refers to unproductive wealth creation and payment transfer within an economy (e.g., interest income and capital gains earned by firms

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[287] As observed in many other countries in the Global South, economic and financial liberalization has entailed the opening of domestic financial systems to international markets, lower trade barriers, the modernization of the public sector and the multiplication of privatization programs in various segments of domestic economies (Brynen et al., 2012). (Brynen, R., Moore, P. W., Salloukh, B., & Zahar, M. J. (2012) *Beyond the Arab Spring: Authoritarianism and democratization in the Arab world*. Boulder, CO: Lynne Rienner)
[288] Beblawi H. (1987). The rentier state in the Arab world. In H. Beblawi & G. Luciani (Eds.). *The rentier state: Nation, state and integration in the Arab world* (pp. 49-62). London, UK: Croom Helm, p. 59
[289] Beblawi, *op. cit.*, p. 62
[290] Gaspard, T. K. (2004). *A political economy of Lebanon, 1948-2002 the limits of laissez faire*. Leiden, Netherlands; Boston, MA: Brill, p. 137; Hafez, Z. (2009). The culture of rent, factionalism, and corruption: A political economy of rent in the Arab World. *Contemporary Arab Affairs*, *2*(3), 458-480, p. 459-460
[291] Richter, T., & Steiner, C. (2008). Politics, economics and tourism development in Egypt: Insights into the sectoral transformations of a neo-patrimonial rentier state. *Third World Quarterly, 29*(5), 939-959, p. 942

and individuals from financial and property assets).[292] External rent relates to unproductively earned payments and transactions received from abroad.

The concept of rentierism, or rentier economy, refers to the critical role of external rent in local growth regimes. Originally coined by Iranian economist Hossein Mahdavy and Egyptian and Italian scholars Hazem Beblawi and Giacomo Luciani, it is a prime contribution of Middle-Eastern studies to the social sciences in general and the understanding of rent-dependent capitalist systems in particular.[293] Rentierism is a regime of accumulation that earns "a significant share of its revenues from rents extracted from international transactions."[294] Measurements vary but Jenkins et al., for example, suggest that an economy falls under the rentier category when a third or more of its income stream is externally derived.[295] This is the case for 18 out of 22 countries of the MENA region.[296] Rentier revenues include transactions with national (e.g., expatriates) and foreign (e.g., individuals, governments) individual and collective agents.[297]

Important to the concept is the distinction between direct and indirect rents, which generally relates to 'old' and 'newer' forms of rentierism.[298] Direct rents consist mostly of oil, gas and mineral exports.[299] Countries drawing upon direct rents are, for instance, Algeria and Gulf Cooperation Council (GCC) countries.[300] In contrast, indirect rents comprise foreign military and economic aid, humanitarian aid assistance, location rents (e.g., major transportation facilities such as the Suez Canal), worker remittances, international tourism revenues and rent-seeking liquidity.[301] Countries such as Egypt, Yemen, Tunisia, Morocco and Lebanon, described also as "semi-rentiers without oil," are the main beneficiaries of indirect rents in the MENA region.[302] This second category of rent, which symbolizes the "diversification of external rent revenues," has gained critically in importance and volume over the past 25 years.[303]

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[292] Epstein, G. A., & Jayadev, A. (2005). The rise of rentier incomes in OECD countries: Financialization, central bank policy and labor solidarity. In Epstein, G. A. (Ed.). *Financialization and the world economy*. Cheltenham, UK; Northampton, MA: Edward Elgar

[293] Anderson, L. (1987). The state in the Middle East and North Africa. *Comparative Politics*. *20*(9). 1-18; Beblawi, H., & Luciani, G. (1987) *The rentier state: Nation, state and integration in the Arab world*. London, UK: Croom Helm; Richter & Steiner, *op. cit*., p. 942; Mahdavy, H. (1970). The pattern and problems of economic development in rentier states: The case of Iran. In Cook, M. (Ed.) (1970). *Studies in the economic history of the Middle East*. London, UK; New York, NY: Oxford University Press

[294] Jenkins, J. C., Meyer, K., Costello, M., & Aly, H. (2011). International rentierism in the Middle East and North Africa, 1971-2008. *International Area Studies Review, 14*(3), 3-32, p. 3

[295] Jenkins et al., *op. cit*., p. 3

[296] Jenkins et al., *op. cit*., p. 3

[297] Beblawi H. (1987). The rentier state in the Arab world. In H. Beblawi & G. Luciani (Eds.). *The rentier state: Nation, state and integration in the Arab world* (pp. 49-62). London, UK: Croom Helm, p. 51

[298] Jenkins et al., *op. cit*., p. 4

[299] Jenkins et al., *op. cit*., p. 7-8

[300] GCC member states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[301] Jenkins et al., *op. cit*., p. 4, 6

[302] Beblawi, *op. cit*., p. 59

[303] Richter & Steiner, *op. cit*., p. 939

2.2.3.2 Rentier economies and external dependency

The primacy of external payments to national income influences the structure and functioning of domestic economies and their prevailing institutions in many respects.[304] Rentier-type regimes of accumulation are often dual and uneven: rent-driven economic sectors are vibrant and well developed while other sectors are depressed and lagging.[305] The dominance of non-productive forms of wealth generation and the abundance of capital resources, more precisely, produce a rapid growth of service activities (particularly in the financial sector), a decline in productive activities such as industry and agriculture, a dependence on large amounts of imports, and an expansion of ostentatious consumption patterns.[306] The expansion of rentier culture is more generally believed to break work-reward causation and affect the economic behaviours of firms and individuals by privileging short-term speculation over long-term investment.[307] Also, the rent-shaped mentality is accused of fuelling greater use of debt at the governmental and individual levels to cover "levels of consumption not commensurate with incomes."[308]

Just as importantly, rentierism brings about heightened levels of wealth and income concentration: MENA countries are today more unequal than fast-growing middle-income economies such as Brazil and South Africa.[309] Both direct and indirect forms of rent generate a rentier class that receives by far the largest share of benefits from rent-derived revenues, but direct rents are usually accompanied by more centralized control by local elites.[310] Through the concept of rentier state,[311] the literature has underlined the role of state apparatuses in the generation, collection and distribution of direct rent and underscored the multiple ways by which unproductively earned payments considerably shape political regimes, government action and state-society relations.[312] In economies which are simply rent-prone, where indirect rentier revenues prevail, the state generally lacks direct control over rent channels that, albeit more

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[304] Cardin, P. (1993). *Rentierism and the rentier state: A comparative examination* (Master's Thesis). Retrieved from digitool.library.mcgill.ca/thesisfile69550.pdf

[305] Talha, L. (2003). *Le régime rentier et son mode de régulation. Essai de problématique*. Paper presented at Forum de la Régulation, Paris, France, October 9-10, p. 6

[306] Cardin, *op. cit*., p. 6; Chaaban, J., & Gebara, K. (2007) *Development in a polarized society: Looking at economic and social development in Lebanon through a different lens*. Abaad. 11, Lebanese Center for Policy Studies (in Arabic), p. 7

[307] Beblawi, *op. cit*., p. 52. Ziad Hafez (*op. cit*., p. 467) affirms, for instance, that the culture of rent is "an antithesis to income accrued through effort and risk-taking" and promotes "easy life, consumerism, and therefore self-centredness."

[308] Beblawi, *op. cit*.; Hafez, *op. cit*., p. 468

[309] Alvaredo, F., Assouad, L., & Piketty, T. (2017). *Measuring inequality in the Middle East 1990-2016: The world's most unequal region*? (WID. Word Working Paper Series. No. 15). Retrieved from http://wid.world/document/alvaredoassouadpiketty-middleeast-widworldwp201715/

[310] Beblawi, *op. cit*.; Jenkins et al., *op. cit*., p. 7

[311] The concepts of rentier economy and rentier state should not be conflated: all rentier states have rentier economies but all rentier economies do not involve rentier states. Lebanon is, for example, a rentier economy but not a rentier state.

[312] Beblawi & Luciani, *op. cit*.; Hafez, *op. cit*.; Jenkins et al., *op. cit*.; Mahdavy, *op. cit.;* Richter & Steiner, *op. cit*.

diffuse, remain in the hands of a ruling elite comprised of both private and public agents.[313] In all rentier economies, social regulation initiatives, which include state-led institutional design, are designed to create the conditions for the persistence of massive rentier revenues and the financial, economic and social stability of the related growth regime at large.

The corollary of rentierism for most economies of the Middle East and North Africa region is dependency on external revenues and vulnerability to volatile prices in international commodity markets. The scholarship distinguishes primary from secondary dependency. Primary dependency applies to oil-producing countries (e.g., GCC countries, Algeria) whose economic expansion and financial stability is highly contingent on variations in oil prices and volume of oil exports, which partly reflect "economic conditions and policies in industrial countries."[314] Economies living off indirect rent (e.g., Lebanon, Egypt, Jordan) face secondary dependency, also called derivative dependency: their economic expansion and financial stability are contingent on the pace of oil exports and economic conditions in the oil-exporting countries from which they capture a variety of rentier revenues (e.g., remittances, tourism, financial aid, liquidity inflows) with dramatic results.[315] In concrete terms, any boom or decline in oil prices and consumption has substantial implications for oil and non-oil exporting economies in the MENA region, including Lebanon. Oil-derived rentierism is therefore a specific feature of contemporary capitalism in the Middle East. Along with IFI-sponsored financial liberalization programs, it has driven significant institutional change, and the nature, structure and actors of local growth regimes,

To recap, section two has introduced block one of my conceptual framework exploring the key country-level streams of the political economy scholarship. Regulation theory, as a primary contribution, and theories of financialization and rentierism, as secondary contributions, will be of great methodological and theoretical value throughout the dissertation, as I analyze and conceptualize the recent mutations of Lebanese capitalism and its entwinement with urban development in Beirut. Let us now review the connections between the social science literature on the recent transformations of capitalism and that on urban studies.

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[313] Beblawi & Luciani, *op. cit*.; Jenkins et al., *op. cit*., p. 7
[314] Abu-Laban, B., & McIrvin Abu-Laban, S. (1986). *The Arab world: Dynamics of development*. Leiden, Netherlands: Brill, p. 30
[315] Abu-Laban & McIrvin Abu-Laban, *op. cit*.; Alnasrawi, A. (1991). *Arab nationalism, oil, and the political economy of dependency*. New York, NY: Greenwood Press

2.3 Understanding Beirut's Urbanization: The Contributions of Critical Urban Theory

Urban social theory has long sought to explain the death and life of cities, to paraphrase American-Canadian scholar Jane Jacobs, whose research stimulated the widely documented urban decline and renewal of North American metropolises in the second half of the 20th century.[316] Urban scholarship has, overall, brought to light the interconnectedness of capitalism and the city and, for this purpose, conceptualized urbanization as first and foremost a capitalist process propelled by capital accumulation in the built environment. Generations of urban theorists have inquired into the driving forces, rules, resources and agents that have allowed money to find its way into land and real estate in a multitude of political-economic environments in the Global North and the Global South. My conceptualization of 'pegged urbanization' in post-war Beirut certainly follows this intellectual tradition.

To better situate my analysis and particular theoretical contribution, block two of my conceptual framework reviews the major strands of urban theory concerned with the production of the built environment and its role in the sustainability of crisis-prone capitalism. In line with my previous discussion of the regulation approach, I begin with the work of regulationist scholars whose increased interest in the spatial dimension of economic restructuring has enhanced the study of interconnections between capitalist and urban transformations. I then outline key contributions of the acclaimed critical urban theorists who initially established the role of property activity in capitalist accumulation and regulation. Finally, I review the more recent body of literature on the financialization of property. Its contribution has been especially influential in theorization of the multifaceted change brought about by the advent of financial capitalism in the nature, organization and agents of property activity and, more generally, in the role of urban production in contemporary economies and societies.

2.3.1 The Regulation Approach: Space without Property

The pioneers of the regulation perspective portrayed time and space as the two analytical lenses necessary to an investigation of the economic and social change forced by the mutations of capitalism. Time dominated space, particularly in first-generation research, however, as theorists

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[316] Jacobs, J. (1961). *The death and life of great American cities*. New York, NY: Random House; Jacobs, J. (1969). *The economy of cities*. New York, NY: Random House

used economic history and theory to describe medium-to-long term capitalist evolutions (*longue durée*) (e.g., Aglietta, Boyer, Lipietz).[317] Most works detailing variations in accumulation and regulation patterns, further, were carried out at the national level: specific attention given to macro-institutional arrangements and national state interventions left issues of uneven subnational development and the spatial reconfiguration unleashed by economic restructuring largely unexamined.[318] The work of second-generation regulationists followed the same trajectory, focusing on international regulation and "the relationship between the nation-state and the global economy."[319]

Third-generation contributions, finally, have initiated the spatialization of the regulation perspective through the study of the repercussions of national economic restructuring on the socio-economic and spatial fabrics at various scales, including the local. The diversity of political factors and regulation agents has also been addressed to account for subnational variations.[320] Regulation theorists, partly under the impetus of the British School of Regulation, have progressively shown that any new or renewed mode of development entails the reorganization of spatial patterns of economic production and social organization.[321] They have further argued that the transformations of "accumulatory and regulatory activities" generally contribute to the emergence of new forms of spatial crisis and new "ways of dealing with urban and regional problems."[322] In investigating the impact of global capitalism and neoliberalism on Northern urban and regional development patterns, social scientists Frank Moulaert and Erik Swyngedouw have recognized that spatial expansion has become "a necessary prerequisite to overcome the contradictions" tied to overaccumulation and consumption dynamics.[323]

In sum, regulation-inspired research has underscored the primacy of cities as the scale where post-Fordist restructuring has shown "its most significant economic social and political

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[317] Boyer, 1990 cited in Peck & Tickell, 1995, p. 21; Jones, M. R. (1997). Spatial selectivity of the state? The regulationist enigma and local struggles over economic governance. *Environment and Planning A: Economy and Space*, *29*(5), 831-864, p. 831; Peck & Tickell, 1995, p. 21

[318] Brenner, N., & Theodore, N. (2002). Cities and the geographies of 'actually existing neoliberalism?' *Antipode, 34*(2), 349-379; Collinge, C. (1999). Self-organisation of society by scale: A spatial reworking of regulation theory. *Environment and Planning D*, *17*(5), 557-574; Peck & Tickell, 1995, p. 21

[319] Jones (*op. cit.*) specifically cites the contributions of Boyer (1988), Jessop et al. (1993) and Sum (1994). (Boyer, R. (1988). Technical change and the theory of regulation. In G. Dosi, C. Freeman, R. Nelson, S., Silverberg, & L. Soete (Eds). *Technical Change and Economic Theory* (pp. 67 – 94). London, UK: Frances Pinter; Jessop, B., Nielsen, K., & Pedersen, O. K. (1993). Structural competitiveness and strategic capacities: Rethinking the state and international capital. In S. E. Sjostrand (Ed). *Institutional change: Theory and empirical findings* (pp. 227-262). London, UK: Sharpe; Jones, *op. cit.* p. 832, 837; Sum, N. L. (1994). *Reflections on accumulation, regulation, the state, and societalization: A stylized model of East Asian capitalism and an integral analysis of Hong Kong*. Unpublished PhD Thesis, University of Lancaster, Lancaster)

[320] Jones, *op. cit.* p. 832, 842; Goodwin, M., Duncan, S., & Halford, S. (1993). Regulation Theory, the local state, and the transition of urban politics. *Environment and Planning D*, *11*(1), 67-88

[321] Moulaert, F., & Swyngedouw, E. A. (1989). Survey 15. A regulation approach to the geography of flexible production systems. *Environment and Planning D, 7*(3), 327-345, p. 330-331

[322] Collinge, *op. cit.*, p. 557, 564; Moulaert & Swyngedouw, *op. cit.*, p. 330-331

[323] Moulaert & Swyngedouw, *op. cit.*, p. 332

impacts on everyday life."[324] Cities have been identified as a "core space in global capitalism," and "spaces of neoliberalization," where uneven development and class conflict occur with particular intensity.[325] Regulation theorists have also brought to light the power of state-led accumulation and regulation strategies (e.g., monetary policy, economic policy, labour-market policy) to orient spatial production and privilege certain places.[326] The regulation approach has therefore been influential in positioning urban environments as central objects of research, tied to capitalist economic restructuring. Yet, it can be argued that, in line with the Marxian filiation of regulationist thought, a majority of scholars have continued to view cities simply as the socio-spatial container of capitalist relations and transformations and have ignored the property dimension of accumulation and regulation issues.[327]

2.3.2 Critical Urban Studies: Urban Production as a Capitalist Process

Much of the investigation and theorization of the interconnectedness of capitalism and the city have come from critical streams in urban theory, which see in the production of the built environment a capitalist process.[328] More widely, they connect property activity and urbanization to the broader accumulation and regulation dynamics of the nation-state and investigate the drivers, mechanisms and actors that constitute this linkage. In hand with wider debates in the social sciences, critical urban studies have moved beyond criticism of neoclassical economists' rational choice theory, which continues to dominate a stream of the scholarship and belief in policy and business circles, and of the determinism of Marxian-inspired thought. Particular emphasis here will be placed on works within the fields of urban political economy and the institutional model of development which have combined neo-classical and neo-Marxian views on the urban process to conceptualize urbanization as a social phenomenon mediated through institutions.

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[324] Jessop, B. (2002) Liberalism neoliberalism and urban governance: A state-theoretical perspective, *Antipode, 34*(3). 452–472, p. 470
[325] Brenner & Theodore, *op. cit.*, p. 367
[326] Jones, *op. cit.*, p. 832; Peck & Tickell, 1995
[327] Collinge, *op. cit.*, p. 561, Smart & Lee, 2003a, p. 90. For example, Canadian and British scholars Alan Smart and James Lee (2003b, p. 157) criticize Robert Boyer for neglecting the role of property assets and their financing schemes as essential components of accumulation and regulation systems in finance-led growth regimes.
[328] Critical streams in urban theory resonate with, sometimes overlap and generally complement regulationist contributions.

2.3.2.1 Neoclassical economics: the dominance of agency and price-based mechanisms

In analyses of urban development, neoclassical economists typically privilege place- and agency-oriented accounts.[329] In their view, property activity essentially relies upon rational choice, i.e., on the profit-seeking investment decisions of individuals and firms within a market understood as free.[330] In line with the classical economic assumptions of Adam Smith and David Ricardo, in other words, the neoclassical approach stresses the self-adjusting tendencies of property markets that use pricing mechanisms to reach supply-demand equilibria. As such, it considers the "conversion of economic and social processes into land use change and built form as essentially unproblematic."[331] Understanding transactions in the property market simply as expressions of the natural dynamics of supply and demand clearly has implications for the neoclassical perspective on city development. The intensity of real estate and construction activity and the level of property prices are seen as essential criteria in national and international competitions for capital and (wealthy) people hosted by cities under global capitalism.[332] City attractiveness is a major concern for orthodox scholars who call for more *laissez-faire* and less state intervention and regulation to maximize the intensity and profitability of property activity. Neoclassical scholars justify this pro-growth view through reference to trickle-down economics, and the ideology of value-free development, and suggest that the externalities of property growth are ultimately good for all.[333]

This view of urbanization, based on the rational and self-interested behaviours of economic actors, is highly controversial for many social science scholars who believe that property activity does not unfold in a political-economic, social and cultural vacuum. Criticism of the neoclassical paradigm has thus rapidly fuelled further conceptual development in urban studies with heterodox schools of thought seeking to demonstrate how and why "the relationship

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[329] Theories in urban studies generally take a stance on two fundamental debates in order to clarify the form of causal relations used for analysis: structure vs. agency (see earlier in this chapter) and place vs. process. The place vs. process debate relates to the extent to which the urban production dynamics of a particular city are shaped by the intrinsic nature of the place, as versus by the processes, not always of socio-spatial character, that "operate at much larger scale" (Harding & Blokland, *op. cit.*, p. 47-48).
[330] Parker, S. (2004). *Urban theory and the urban experience: Encountering the city*. London, UK; New York, NY: Routledge, p. 128
[331] Healey & Barrett, *op. cit.*, p. 94
[332] Brenner & Theodore, *op. cit.*, p. 350; Knox, P. L. (1994). *Urbanization: An introduction to urban geography*. Englewood Cliffs, NJ: Prentice-Hall, p. 89; Fainstein, S. (2001). *The city builders: Property development in New York and London, 1980-2000*. Lawrence, KS: University Press of Kansas, p. 10
[333] Fainstein, 2001, p. 10; Healey, P. (1992). An institutional model of the development process. *Journal of Property Research, 9*(1), 33-44, p. 34

between demand and supply in the various processes which constitute the production of the built environment is problematic in many ways."[334]

2.3.2.2 Neo-Marxian sociology and geography: the connection of urban development to broader economic restructuring and social relations

Counter to neoclassical economists, neo-Marxian sociologists and geographers provide a process and structure-based account of urban development, which they portray as "a multiscalar process of sociospatial transformation."[335] In their eyes, the action and expectations of individual and collective agents in the property market are largely determined by the broader economic, social and political structures institutionalized at the national and international levels.[336]

Urbanization, superstructures and class struggle

Influenced by structuralist theories and Marxian metanarratives, neo-Marxian urban thinkers point to the supply function of the urban development process.[337] They argue that cities are not entities independent from processes initiated by the rise of neoliberalism, the revolution of information and communication technologies, and the globalization of markets; that the restructuring of social relations and processes of wealth accumulation (e.g., labour market, deindustrialization and digitalization, wealth and income inequality, corporate system) have been critical both to international capitalism and to local urban development.[338] In this sense, neo-Marxian scholars are similar to third-generation regulationists in stressing the "significance of urbanization to capitalism's evolution" and contending that "global processes dictate much of what occurs at the local level" from the city's morphology and socio-spatial configuration to its political-legal framework and governance.[339]

The focus on the interdependence of cities and global capitalist superstructures inescapably connects urban development to the prevailing organization of social and power

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[334] *Ibid*
[335] Brenner & Schmid, *op. cit.*, p. 165
[336] Madden, D., & Marcuse, P. (2016). The permanent crisis of housing. *Jacobin Magazine*. Retrieved from https://www.jacobinmag.com/2016/10/housing-crisis-rent-landlords-homeless-affordability
[337] Charney, I. (2001). Three dimensions of capital switching within the real estate sector: A Canadian case study. *International Journal of Urban and Regional Research, 25*(4), 740-758, p. 741; Fainstein, 2001, p. 11; Goodwin, Duncan, & Halford, *op. cit.*, p. 73
[338] Mollenkopf, J. (1992). How to study urban political power. In R. LeGates & F. Stout (Eds). *The city reader* (pp. 235-243). London, UK; New York, NY: Routledge
[339] Blake, M. (1999). Reconstructing urban regime theory: Regulating urban politics in a global economy [Review of the book *Reconstructing urban regime theory: regulating urban politics in a global economy* by Lauria, M. (1997)]. *Economic Geography*, *75*(4), 419-420; Harvey, D. (1989b). *The urban experience*. Oxford, UK: Blackwell, p. 198; Knox, *op. cit.*, p. 105

relations. Neo-Marxian thinkers see the city is "a theater of class struggle, centered on land markets as machines for distributing wealth upward and on associated political claims from below about citizenship rights to urban space and resources."[340] Put another way, the way city development is "embedded within the structures of class society" and within the related "struggles between groups for control of the surplus generated in production."[341] The struggle is presented as particularly visible in the conflict opposing "housing as lived, social space and housing as an instrument for profit-making."[342] On this basis, neo-Marxian urban sociologists and geographers have importantly helped to launch research streams that investigate who controls city-making as well as who this capitalist process has empowered and oppressed.[343]

The seminal contributions of Henri Lefebvre and David Harvey

The initial and landmark contribution of neo-Marxian urban analysis, as well as a crucial reformulation of Marxian thinking is the work of Henri Lefebvre. Unlike the purely regulationist theorists, Lefebvre examines the role of space rather than time in economic restructuring.[344] Of particular importance is the French sociologist's conceptualization of the extent to which urban space is not a mere container for the reconfigured capitalist economic system and its social relations. It is, rather, the product of a social process in which property, as a separate circuit of capital accumulation, plays a crucial role.[345] On this basis, the "production of space," which relies on three distinctive but interlinked dimensions (namely, perceived space, conceived space, and lived space), is critical to the social organization, power relations and reproduction of capitalism.[346] Lefebvre has also theorized that planning and all the other forms of state intervention in the development process generally reflect the interests of the ruling class, i.e., the persistence of prevailing social relations and economic organizations.[347]

Henri Lefebvre was very influential in the work of other leading neo-Marxian urban theorists such as David Harvey.[348] The British geographer has greatly helped to conceptualize the

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[340] Scott, A. J., & Storper, M. (2015). The nature of cities: The scope and limits of urban theory. *International Journal of Urban and Regional Research*, *39*(1), 1-15, p. 2
[341] Healey, 1992, p. 34; Madden & Marcuse, *op. cit*.
[342] *Ibid*
[343] *Ibid*
[344] Knox, *op. cit*., p. 193
[345] Gottdiener, M., & Hutchison, R. (Eds) (2011). *The new urban sociology*. Boulder, CO: Westview Press, p. 80-81; Lefebvre, H. (1991 [1974]). *The production of space*. Oxford, UK: Basil Blackwell
[346] Lefebvre, *op. cit*.
[347] Molotch, H. (1993a). The space of Lefebvre. *Theory and Society*. *22*(6), 887-895
[348] Harvey, 1985

connection of investment in the built environment, which absorbs excess liquidity and creates value, to the wider rent-seeking strategies of wealth accumulation, circulation and speculation as well as to the stability and reproduction of the capitalist system. Harvey posits that cities are built for and through the circulation of interest-bearing capital and sees urbanization as a "spatial fix," maintaining the growth and stability of economies that face dynamics of over-accumulation.[349] Specifically, building on Karl Marx's theorization of capital circuits, the neo-Marxian thinker analyses the capital accumulation in property resulting from capital switching dynamics: when over-accumulation crises in the primary circuit (i.e., industry and other forms of productive activities) result in lower levels of profit, capital holders switch their investments to alternative sectors such as the secondary circuit (i.e., land and real estate assets) where yields are thought to be higher.[350] The hypermobility of capital and its perpetual search for higher return, which motivates capital switching, is thus assumed to be key to the workings of contemporary economies and the bust-and-boom cycles of property investment and disinvestment that underlie urban growth and transformation.[351] As such, urban restructuring is part of a "creative destruction" process that reshapes the built environment with the only concern of creating and storing surplus value.[352]

Among the influential contributions of neo-Marxian scholars to urban studies, a special place is also held by theories connecting the concept of rent to property activity. They have greatly helped to illuminate on the workings of property investment and the rent-maximizing behaviours of agents.[353] One of the most useful contributions is Neil Smith's rent gap theory in which the decision to pull capital into realty is seen as contingent on the disparity between capitalized land rent, i.e., the profit made under present land use, and potential land rent, i.e., the profit expected at the highest and best use of the same asset.[354] Rent theory thus shows that successive flows of money in and out of land and real estate depend on the absolute financial performance of property investment tied to the possible intensification of land use, as much as on

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[349] As clarified by John Lovering (*op. cit.*, p. 355), the concept of 'fix' involves "both the idea of a solution to capitalisms problems, and temporary relief for an addict's craving."
[350] David Harvey also identifies a tertiary circuit of capital made of investments in human capital as well as in science and technology (Harding & Blokland, *op. cit.*, 40).
[351] Healey, 1991, p. 234
[352] Zukin, S. (2006). David Harvey on cities. In N. Castree, & D. Gregory (Eds). *A critical reader: David Harvey* (pp. 102-120). Hoboken, NJ: Blackwell Publishing, p. 105-107
[353] Haila, A. (2016). *Urban land rent: Singapore as a property state*. Chichester, West Sussex, UK: John Wiley & Sons, p. 58
[354] Smith, N. (1979). Toward a theory of gentrification: A back to the city movement by capital, not people. *Journal of the American Planning Association, 45*(4), 538-548, p. 545; Lees, L., Slater, T., & Wyly, E. K. (2010). *The gentrification reader*. London, UK; New York, NY: Routledge, p. 82

its relative financial performance in comparison with investment opportunities in other sectors, as theorized by David Harvey.[355]

In sum, the contributions of Henri Lefebvre, David Harvey and other neo-Marxian scholars have been of great significance to the connection of urban development to broader economic, social and political forces and an explanation of why and how capital finds its way to property. They do have critics, however. Their process-based and structure-oriented analysis of urbanization is frequently accused of developing explanations that are too deterministic and economistic; of ignoring the influence of "more parochial and irrational sentiments and forces."[356] They do indeed give parsimonious credit to agency and place-specific factors: but with the exception of the works of David Harvey and Neil Brenner, most neo-Marxian accounts underestimate interpretations that integrate the "critical role [played by agents] in constructing the conditions under which capital could be channelled into […] real estate."[357] In most cases, this stream of critical urban studies sees in the agency of actors simply a variable dependent upon "the dynamics of the modes of production and regulation."[358] Likewise, critics of neo-Marxian theorists have commonly pointed to the lack of empirical foundation for the claim that property investment is simply the "safety valve" of larger over-accumulation dynamics inherent to capitalism.[359]

2.3.2.3 Urban political economy and the institutional model of development: the social construction of city-making

In the face of the shortfalls of neoclassical and neo-Marxian scholarship, a number of critical urban scholars have deployed a third-way framework that aims to uncover the social construction of urban production through the study of time- and space-specific capitalist institutions. Their objective has been to combine neoclassical and neo-Marxian explanations to achieve a more sophisticated understanding of urban growth politics under global capitalism. Their framework retains the respective contributions of each major stream on agent behaviours,

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[355] King, R. J. (1989a). Capital switching and the role of ground rent: 1 Theoretical problems. *Environment and Planning A: Economy and Space, 21*(4), 445-462, p. 445
[356] Haila, A. (1991). Four types of investment in land and property. *International Journal of Urban and Regional Research, 15*(3), 343-365, p. 360; Logan, J. (1991). Gambling on real estate: Limited rationality in the global economy. *Sociological Perspectives, 34*(4), 391-401, p. 401
[357] Brenner & Theodore, *op. cit.*; Christophers, B. (2011). Revisiting the urbanization of capital. *Annals of the Association of American Geographers, 101*(6), 1347-1364, p. 1349; Harvey, 1985; Harvey, D. (1989c). From managerialism to entrepreneurialism: The transformation in urban governance in late capitalism. *Geografiska Annaler. Series B, Human Geography, 71*(1), 3-17; Weber R., *op. cit.*, p. 270
[358] Healey, 1991, p. 235
[359] Beauregard, *op. cit.*, p. 715, 729; Christophers, 2011, p. 1350

price formation and connections to broader socio-economic structures and attempts to fill their gaps.[360] I review below the two complementary approaches that have created this 'institutional turn' in urban theory: urban political economy (UPE) and the institutional model of development (IDM). The two schools of thought understand urbanization as social production; however, they take slightly different routes to an explanation of how and why this is the case.

Urbanization: a capitalist process mediated through institutions

Institutional analysis in urban theory relies upon a key conceptual gesture: the reconciliation of structure vs. agency models and of place vs. process approaches. First, institutional urban theorists adopt a perspective focusing on "the relation between structure, in terms of what drives the development process and produces distinctive patterns in particular periods, and agency, in terms of the way individual agents develop and pursue their strategies."[361] In so doing, they move away from the structuralist dogmatism and radical conflictive explanations of neo-Marxian scholarship to incorporate human agency, rational choice and non-economic political and ideological forces in their interpretation of property activity and urban transformations. This allows them the freedom to consider, for example, pluralist, identity and cultural dimensions.[362] Second, institutional urban scholars combine place- and process-based perspectives by showing how the behaviours of economic agents (i.e., investors, buyers, tenants, bankers, developers, landowners, national and local state), portrayed as economically rational and utility-maximizing by orthodox economists, are in fact embedded in country-specific political, economic, social and cultural institutions.[363] In sum, urbanization is analyzed as an instituted capitalist process but its examination, suggest Patsy Healey and Susan Barrett, must focus on the ways in which macro- and meso-institutional environments are "reflected in and affected by the way individual agents determine their strategies and conduct their relationships as they deal with specific projects and issues, and as they consider their future stream of activities."[364] Making sense of the place- and time-specific interrelation of economic restructuring dynamics, on the one hand, and agent behaviours and strategies, on the other, has thus been a key conceptual challenge for any institutionally-grounded examination of urban production.

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360 Healey, 1992, p. 34
361 Healey & Barrett, *op. cit.*, p. 90
362 Altshuler, A., & Luberoff, D. (2003). *Mega-projects the changing politics of urban public investment*. Washington, DC: Brookings Institution Press, p. 64; Fainstein, S. (2000). New directions in planning theory. *Urban Affairs Review*, *35*(4), 451-478; Logan, 1991
363 Healey, 1992
364 Healey & Barrett, *op. cit.*, p. 90

Urban political economy

UPE scholars have widely popularized the concept of social production in urban studies as a component of their investigation of the politics of real estate development.[365] They analyze the massive concentration of capital resources in the built environment neither as the spontaneous match between property producers and consumers nor as the sole result of over-accumulation structural dynamics. Instead, they inquire into property investment and disinvestment as a process contingent on the combination of the agency of economic actors and the broader structural constraints of a country's political economy.[366] From this perspective, land and real estate markets are social constructs shaped largely by the institutions and power relations (e.g., based on class, ethnicity, religion, gender) prevailing in the social space of urban production.[367] The contributions of UPE scholars reside particularly in the recognition of the 'intrinsic dynamic' of property and the theorization of growth coalitions.

First, sociologists and geographers such as Susan Fainstein, Robert Beauregard, Ross King, Anne Haila and Igal Charney have identified the "intrinsic dynamic" of property, and its critical role in luring capital into the building process.[368] Urban political economists give credit to the neo-Marxian interpretation of the role of property in stabilizing and reproducing capitalist development in the face of over-accumulation dynamics; yet, they also posit that economic and non-economic factors intrinsic to the real estate sector (e.g., tax benefits, diversification opportunities for asset portfolios, protection against inflation) crucially help to stream money into land and real estate assets.[369] Second, in resonance with work of the elite social theorists who investigated the 'who governs the city' question, UPE sociologists address the 'how' and 'for what' questions in the context of "liberal, democratic, capitalist systems."[370] They reveal that the intensification of property activity most frequently generates consensus among local public and private elites who, regardless of the disagreements they may have on many other issues, tend to form growth coalitions.[371] The design of entrepreneurial policy agendas to boost urban (re)development at the local level is thus portrayed as a symbol of the transition from government

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[365] Peck & Tickell, 2002
[366] Bourdieu, 2000, p. 145; Haila, 1991; Knox, *op. cit.,* p. 116; Le Galès, P. (1995). Du gouvernement des villes à la gouvernance urbaine. *Revue française de science politique*, *45*(1), 57-95, p. 79; Logan & Molotch, *op. cit*., p. 1
[367] Logan & Molotch, *op. cit*.
[368] Beauregard, *op. cit*.; Charney, *op. cit*.; Fainstein, 2001, p. 201; Haila, 1991, p. 347; King, 1989a
[369] Haila, 1991, p. 348
[370] Harding & Blokland, *op. cit*., p. 109; Logan & Molotch, *op. cit*., p. 50
[371] Logan & Molotch, *op. cit*., p. 50

to governance, which has resulted in an increasingly porous frontier between the (generally local) state and property business circles.[372] With meso-level concepts such as network governance theory in the UK[373] and regime analysis in the US, UPE scholars have notably documented and theorized the trajectories of growth coalitions (i.e., conditions for emergence and sustainability, internal dynamics, etc.) and the way in which they blend resources, make deals and design institutions to accelerate urban (re)development.[374]

Influenced concomitantly by regulation theory and the pluralist approach,[375] regime analysis brings together John Logan and Harvey Molotch's growth machine and Clarence Stone's urban regime theories.[376] In essence, the growth machine thesis, whose line of inquiry normally begins with the needs of business groups, refers to an "urban structure" embedded in formal and informal institutions whereby "nested interest groups with common stakes in development" seek to "intensify land use and make money." [377] Rent-seeking elite agents (e.g., financial organizations, developers, property owners, public agencies etc.) form hegemonic coalitions and networks to "ensure that the institutional structures for public policy-making, along with the policy choices that flow from them, serve their overall interests." [378] From a slightly different perspective, the urban regime argument, whose analysis starts inversely with the needs of politicians and bureaucrats,[379] relates to the loose and informal arrangements by which "public bodies purposively cooperate with private interests to make and carry out governing decisions."[380] In doing so, regime theorists seek to explain how policy-making preferences are formed and links are developed with business groups by way of the distribution of "selective incentives" to regime partners.[381]

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[372] Harvey, 1989c; Le Galès, P. (1995). Du gouvernement des villes à la gouvernance urbaine. *Revue française de science politique*, *45*(1), 57-95

[373] Rhodes, R. A. W. (1997). *Understanding governance: Policy networks, governance, reflexivity and accountability*. Philadelphia, PA: Open University Press

[374] Davies & Trounstine, 2012; Lauria, *op. cit*., p. 2l; Le Galès, 1995

[375] Urban regime theory, on the one hand, is "an extension of the pluralist approach," despite its minimization of the role of elections (Fainstein 2001, p. 14; Harding & Blokland, *op. cit*., p. 92). On the other hand, it connects regulation theory, which historically concentrates on the level of nation-state, to the local level by focusing on the nature and composition of, and the decision-making processes within, governing coalitions to understand the workings of systems of accumulation and modes of regulation (Lauria, *op. cit*., p. 8; Stone, 1993).

[376] Logan & Molotch, *op. cit*.; Molotch, H. (1993b). The political economy of growth machines. *Journal of Urban Affairs, 15*(1), 29-53; Stone, C. (1989). *Regime politics*. Lawrence, KS: University Press of Kansas; Stone, 2005

[377] Harding & Blokland, *op. cit*., p. 101; Molotch, 1993b, p.31, 47

[378] Harding & Blokland, *op. cit*., p. 96; Logan & Molotch, *op. cit*; Molotch, 1993b

[379] Politicians and bureaucrats, i.e., public agents, are believed to build alliances with the business community for several reasons, which include the preservation of their own "positions of responsibility and power" (Harding & Blokland, *op. cit*., p. 101).

[380] Stone, 1989, p. 6; 2005

[381] Altshuler & Luberoff, *op. cit*.; Fainstein, 2001, p. 14; Harding & Blokland, *op. cit*., p. 101

The institutional model of development

Developed primarily by British urban theorist Patsy Healey, the institutional model of development is a theoretical stream that concentrates on the market actors of urban production and the institutions that shape and are shaped by their behaviours and decision-making as they use capital resources.[382] Healey's target is the network of structural social relations "expressed in the prevailing mode of production, mode of regulation and ideology of the society" and the ways in which these are implicitly and explicitly reflected in and affected by the strategies, interests, and decisions of, as well as by the relationships between, urban agents involved in specific property projects and the development process at large.[383] Healey, in other words, argues that the production of space is not autonomous; it belongs, rather, to a larger puzzle of socio-economic structures and power relations with which it interrelates. The objective of her approach is also to "assess[…] whether particular 'driving dynamics' produce distinctive patterns of agency relations and whether these have particular effects, on what is built, how and for whom."[384]

Healey examines the relationship between structure and agency by paying special attention to the resources, the politico-juridical rules and the ideas and values that come into play in the development process.[385] She looks first into the way in which the nature and amount of material resources available for property activity (e.g., capital, land rights, labour, expertise, etc.) reflect wider economic and social structures of wealth accumulation and distribution.[386] Of notable interest is "the relation between the financial system as a whole and investment in land and development processes."[387] Second, she argues that formal and informal rules and conventions (e.g., laws, administrative procedures, customs, professional practices), which also mirror macro-institutional environments, "govern the way material resources are used" by agents involved in property business.[388] Third, she suggests that ideas and ideology are crucial to the deployment of resources and rules given that they both do this. Ideologies often supply the ideas

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[382] Healey, 1992; Healey, P. (1998). Regulating property development and the capacity of the development industry. *Journal of Property Research*, *15*(3), 211-227; Healey & Barrett, *op. cit*.
[383] Healey, 1991; Healey, 1992, p. 37; Healey & Barrett, *op. cit*., p. 90
[384] Healey, 1992, p. 35
[385] The theoretical argument of the institutional model of development, which focuses on how "resources and rules are the critical link between structure and agency," resonates with the work of Antony Giddens. In his 'Structuration Theory,' the British social theorist suggests that "systems (structures) are reproduced through the *rules* and *resources* which individuals draw upon in the production and reproduction of social life" (Healey & Barrett, *op. cit*., p. 93). Likewise, institutionalist urban scholars concur with regulation theorists in underscoring the "dynamic tension in social organization between modes of accumulation and modes of regulation" (Healey, 1992, p. 35).
[386] Material resources refer to "the primary ingredients of the production process of a development" (Healey, 1992, p. 35; Healey & Barrett, *op. cit*., p. 93, 98).
[387] Healey & Barrett, *op. cit*., p. 98
[388] Healey, 1992, p. 35

"inform the interests and strategies of actors as they define projects, consider relationships, and develop and interpret rules."[389] In this regard, variations in the access to and the nature of material resources and in prevailing rules and conventions shape expectations, behaviours and interactions in the financial and real estate sectors and, consequently, result in variegated trajectories of city development. Moreover, Healey is also interested in exploring how the state contributes to "the constitution of rules and resources" and analyzing "the outcomes of these processes."[390]

Conceptualizations of institutions have long been criticized for their failure to bring property into the picture, and to stimulate substantive empirical research into the subject.[391] But things have changed and a number of institutional studies have finally documented urbanization processes in China, the Netherlands and the UK, to name a few.[392] Of particular interest to this thesis are those which have conceptualized the property market as a meso-institution that mediates the two-way relationship between the macro-level formal and informal institutional arrangements organizing the economy and the society, on the one hand, and the perceptions, expectations, decisions and interactions of individuals and organizations involved in spatial production, on the other.[393] For this purpose, Greek researcher Paschalis A. Arvanitidis conceives of the property market as a "network of […] rules, rights, norms, practices and conventions, plus their associated organizations, through which property is defined, generated, used and exchanged."[394] The market, in other words, is described as an evolving meso-level human construct whose (in)formal arrangements (e.g., building and rental laws, credit regulations, financial incentives), which are embedded in macro-institutional constraining and enabling structures and power relations, "specify property values, define property rights, generate information, stimulate development, [and] allocate uses."[395] Equally importantly, institutional urban theorists have also specified the ways in which the property market, through its own

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389 The significance of ideas and ideology in "structuring the consciousness of actors" is one of Patsy Healey's personal contributions (1992, p. 35). The British urban scholar explains that assumptions "about the nature of cities, about economic futures and social organization, about environmental values, about appropriate relations between public and private realms" all importantly shape the way agents "perceive their interests and devise their strategies (*ibid*).

390 Healey & Barrett, *op. cit*., p. 98

391 Guy, S., & Henneberry, J. (2000). Understanding urban development processes: Integrating the economic and the social in property research. *Urban Studies, 37*(13), 2399-2416, p. 2402

392 Alexander, *op. cit*.; Guy & Henneberry, *op. cit*.; Han, S. S., & Wang, Y. (2003). The institutional structure of a property market in inland China: Chongqing. *Urban Studies*, *40*(1), 91-112; Van Der Krabben, E. (1996). *Urban dynamics: A real estate perspective*. Tilburg, Netherlands: University Press

393 Arvanitidis, P. A. (2014). *The economics of urban property markets: An institutional economics analysis*. London, UK; New York, NY: Routledge; Buitelaar, E. (2007). *The cost of land use decisions: Applying transaction cost economics to planning & development*. Oxford, UK; Malden, MA: Blackwell Pub; D'Arcy & Keogh, *op. cit*.

394 Arvanitidis (*op. cit*., p. 118) also adds that "the property market is not a single or cohesive entity, but a collection of diverse yet interrelated submarkets, distinguished according to use type (e.g., residential, commercial), ownership type (freehold, leasehold), development level (undeveloped land, buildings), location […] and quality."

395 Arvanitidis, *op. cit*., p. 119; Buitelaar, *op. cit*., p. 37

institutional arrangements shaping agent behaviours and development outcomes, contributes to the reproduction of the prevailing macro-institutional environment through cross-level positive feedback.[396]

In sum, critical urban studies, which, as a field, has developed to counter the mainstream neoclassical paradigm, has acquired a central role in recent decades in conceptualizing the drivers, mechanisms and actors of urban transformation. By theorizing urbanization as a capitalist process, they have made sense of the multifaceted and multilevel dynamics that underlie capital accumulation in the built environment. Neo-Marxian and institutional contributions have also been essential in defining urbanization, more largely, as a social phenomenon shaping and being shaped by the place- and time-specific economic, social and political arrangements of global capitalism. The insight of the property market as a key interface between spatial production at the city level, and broader accumulation and regulation dynamics at the nation-state level, will be of particular significance to this thesis as I conceptualize post-war Beirut's political economy of 'pegged urbanization.'

2.3.3 The Urbanization of Capital in Financial Capitalism

As a contributor to the rise of critical urban studies, analysis of the mutations of the city-making process and its role in the financial turn of capitalism has gained traction over the past 20 years. This stream has filled an important gap in the social sciences: cities, too frequently seen as the spatial container of accumulation structures and socio-economic relations, have long remained under-researched and under-theorized in the study of financialization.[397] A growing body of scholarship now seeks to analyze and theorize the role of land and real estate and, more generally, of urbanization in finance-led systems of accumulation and modes of regulation. Its concern has essentially been the way in which the significance of property in financial capitalism has led to the restructuring of the nature of property assets, agents and institutional arrangements and of power relations in cities. This new stream of urban studies, in other words, provides the key conceptual tools for a re-examination of the urbanization of capital in the face of the further financialization of global economies. Yet, most contributions have so far concentrated on the role of finance capital in the reorganization of cities and urban production in the Global North.

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[396] Arvanitidis, *op. cit.,* p. 119
[397] Fernandez & Aalbers, 2016, p. 2; Fernandez, R., & Aalbers, M. B. (2017). Housing and capital in the 21st century: Realigning housing studies and political economy. *Housing, Theory, and Society. 34*(3), 151-158, p. 3; French et al., 2011, p. 812

2.3.3.1 The financialization of property assets: motivations, mechanisms, actors and implications

Heterodox urban theorists began to show a strong interest in the financialization of property as early as the 1980s; efforts to study its actual implications for urban development, however, gained significance only after the 2008 international financial crisis. This first stream of financialization studies particularly conceptualized the transformation, by the proliferation of finance-driven growth regimes, of the nature of landed property, the organization of property markets and the urban development process at large.[398] In doing so, it brought to light the drivers, mechanisms, agents and implications of the financialization of property financing, ownership and management in contemporary systems of accumulation.[399]

Initial research on the financialization of property

Early contributions by Henri Lefebvre, David Harvey, Anthony Downs, Anne Haila, Jerry Coakley and Simon Clarke and Norman Ginsburg, among others, were instrumental in exploring the spread of the financial rationale to the property sector in capitalist economies, with land and real estate becoming quasi or purely financial assets, as well as key commodities exchanged.[400] David Harvey and Anne Haila, specifically, expanded the focus on the channelling of rent-maximizing, nomadic capital resources into the production of the built environment to explain why and how property has become a major liquid and high-yielding asset class comparable to currency, stocks and bonds in medium-to-high risk finance.[401] In so doing, they first identified the increased intertwining of real estate markets and rapidly expanding global finance, and the role of the property sector as "an arterial route in the circulation of finance."[402] Likewise, urban scholars have theorized the transition from the commodification of land and real estate markets, as landed property began to be treated as a commodity, to the capitalization of land markets, in which

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[398] Smart & Lee, 2003b, p. 156

[399] Guironnet A., & Halbert, L. (2014). *The financialization of urban development projects: Concepts, processes, and implications*. (LATTS Working Papers, No. 4). Retrieved from https://hal-enpc.archives-ouvertes.fr/hal-01097192/document

[400] Harvey, D. (1982). *The limits to capital*. Oxford, UK: Basil Blackwell; Coakley, J. (1994). The integration of property and financial markets. *Environment and Planning A: Economy and Space*, *26*(5), 697-713, p. 698; Downs, A. (1985). *The revolution in real estate finance*. Washington, DC: The Brookings Institution, p. 3; Schwartz, H., & Seabrooke, L. (2009a). Varieties of residential capitalism in the international political economy: Old welfare states and the new politics of housing. In H. M. Schwartz & L. Seabrooke (Eds). (2009). *The politics of housing booms and busts* (pp. 1-27). Basingstoke, UK; New York, NY: Palgrave Macmillan, p. 26

[401] Harvey, 1982; Haila, A. (1988). Land as a financial asset: The theory of urban rent as a mirror of economic transformation. *Antipode, 20*(2), 79-101; 1991, p. 348, 351, 361

[402] Harvey, 1982; O'Neill, P. M. (2013). The financialisation of infrastructure: the role of categorisation and property relations. *Cambridge Journal of Regions, Economy and Society, 6*(3), 441-454, p. 451

tangible and illiquid assets[403] such as land lots and buildings become liquid securities publicly and privately traded on financial markets.[404]

The two-track financialization of residential property

While early contributions revealed the new nature of property assets, more recent works have expanded knowledge on the mechanisms, actors and concrete outcomes of the financialization of property. The 2008 global financial crisis, initiated by the mortgage market crisis in the United States, was a milestone in its positioning of the interdependence of finance and property at the center of the urban research agenda.[405] This disastrous episode led leading financialization theorist Manuel Aalbers, for example, to elaborate on David Harvey's seminal work on the drivers of property investment and suggest that financialized urbanization materializes "a new stage in the process of capital switching."[406] The Dutch scholar theorizes that the urban development process has increasingly been the result of liquidity shifts to the quaternary circuit of capital, which funnels money into the supply and demand side of real estate and construction activity through property-backed securities. As a result, Aalbers broadly postulates that "the fate of the secondary circuit [i.e., land and real estate] is increasingly tied to what happens in the quaternary circuit [i.e., boom, stagnation, crisis in the financial system]."[407]

Looking more closely into the actual transmission mechanisms and actors of the liquefaction of the built environment, Aalbers and geographers Rodrigo Fernandez and Annelore Hofman have singled out what they call elite-based and mass-based forms of financialization.[408] Elite-based financialization refers to the use, since the early 2000s, of upmarket residential real estate assets primarily as financial vehicles. On the demand side, luxury property has become a "safety deposit box" or "store of value", used to diversify asset portfolios, absorb surplus capital and preserve and fructify wealth.[409] A large portion of the transnational financial elite in search of secured investment vehicles now acquires prime real estate in financial centers and global cities

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[403] Assets are liquid when they can be easily liquidated, i.e. easily resold to other investors, with little impact on their value (Fernandez, Hofman, & Aalbers, *op. cit.*; Nickolas, 2016). Intangible assets such as cash, shares of stock, bonds and money market funds are usually considered to be liquid while property is not. (Nickolas, S. (2016). What items are considered liquid assets? In *Investopedia*. Retrieved from http://www.investopedia.com/ask/answers/032715/what-items-are-considered-liquid-assets.asp)
[404] Haila, 1991, p. 359
[405] Aalbers, 2016: Routledge; Guironnet, A., Attuyer, K., & Halbert, L. (2016). Building cities on financial assets: The financialisation of property markets and its implications for city governments in the Paris city-region. *Urban Studies*, *53*(7), 1442-1464, p. 1442
[406] Aalbers, 2008, p. 149-150
[407] Aalbers, 2008, p. 151
[408] Fernandez, Hofman, & Aalbers, *op. cit.*
[409] *Ibid*; Moreno, L. (2014). The urban process under financialised capitalism. *City, 18*(3), 244-268

such as New York, Vancouver, London, Paris and Dubai.[410] On the supply side, the financing of upmarket real estate developments also attracts the fortune of large wealth holders who, frequently assisted by intermediaries such as private and investment banks, pension funds and private equity firms, invest in development firms and projects through public and/or private offering schemes. In this context, the financialization-focused urban literature has underscored the increasing role of builders as "crucial agents in intermediating between financial and real estate markets."[411] The scholarship also documents the variety of financial engineering strategies used to connect finance capital to property and places special emphasis on securitization schemes (see Box 2.1 below). As importantly, urban theorists have documented the ways in which finance capital has transformed the actors, governance and form of urban development in general and the nature, location and materiality of property activity in particular.[412]

Mass-based financialization, also called popular financialization, refers to the connection of housing finance to national and international capital markets through securitization schemes, and is used in a number of finance-led economies where debt-based consumption and accumulation assume a particularly significant role.[413] This movement involves the creation and expansion of secondary mortgage markets where yield-seeking individual or institutional investors acquire standardized mortgage portfolios traded by credit organizations.[414] In this sense, mortgage markets, which were originally designed simply as "credit markets aiming to facilitate homeownership," have increasingly morphed into "markets in their own right" offering financial vehicles that compete with other products found in the quaternary circuit.[415] In parallel, another stream of research has recently underlined the opening of rental housing to financial actors, notably private equity funds, in the case of New York and Berlin.[416]

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[410] *Ibid*; Wyly, E. (2016). *Mapping the hedge city: Vancouver and global capital*. Proposal for the First Annual Larry Bell Urban Forum Connecting Urban Theory and Public Policy. Vancouver, Canada, September 2016. Retrieved from http://ibis.geog.ubc.ca/~ewyly/research/hedge_city_v6.pdf

[411] Rouanet, H., & Halbert, L. (2016). Leveraging finance capital: Urban change and self-empowerment of real estate developers in India. *Urban Studies, 53*(7), 1401-1423, p. 1404

[412] Lorrain, D. (2011). La main discrète: La finance globale dans la ville. *Revue française de science politique, 61*(6), 1097-1122; Rouanet & Halbert, *op. cit*.; Sanfelici, D., & Halbert, L. (2016). Financial markets, developers and the geographies of housing in Brazil: A supply-side account. *Urban Studies, 53*(7), 1465-1485, p. 1465

[413] Becker et al., *op. cit*., p. 231

[414] Aalbers, M. B. (2009). The sociology and geography of mortgage markets: Reflections on the financial crisis. *International Journal of Urban and Regional Research, 33*(2), 281-290, p. 285

[415] Aalbers, 2008, p. 150

[416] Fields, D., & Uffer, S. (2016). The financialisation of rental housing: A comparative analysis of New York City and Berlin. *Urban Studies, 53*(7), 1486-1502

Box 2.1 – The securitization of real estate finance and housing finance

Securitization is a central instrument in the liquefaction process of the built environment.[417] It consists of dividing property assets or mortgages into shares to form structured portfolios traded on financial markets and purchased by individual or institutional investors.[418] The securitization of real estate finance, on the one hand, relies generally on Real Estate Investment Trusts (REITs).[419] These structures acquire and manage property assets of different types (e.g., office and residential buildings, hotels, commercial facilities, hospitals) in order to design and trade diversified property-backed financial portfolios.[420] REITs, however, present a significant level of risk tied the volatility of financial markets.[421] The securitization of housing finance, on the other hand, involves financial entities that trade mortgage-backed securities in secondary mortgage markets.[422] This type of finance activity today plays a major role in the international economy: the total value of mortgage-backed securities amounted to USD 8.9 trillion worldwide in 2013.[423] Liquefaction-through-securitization is portrayed as a key instrument facilitating the intermingling of property and financial markets: by transforming land and real estate into property-backed securities, it allows landed property assets to better compete with other financial asset classes (e.g., private bonds, government bonds, stock) in order to capture interest-bearing financial resources domestically and internationally.[424]

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[417] Aveline, N. (2005). *Les marchés fonciers à l'épreuve de la mondialisation: Nouveaux enjeux pour la théorie économique et pour les politiques publiques* (Habilitation Thesis). Retrieved from https://tel.archives-ouvertes.fr/tel-00394000/en/ (p. 63, 64)

[418] Institutional investors refer to financial entities such as banks, insurance companies, private equity firms, pension funds, hedge funds, REITs and real estate mortgage investment corporations.

[419] REITs initially emerged in the 1960s for institutional investors in the US and the Netherlands; they were rapidly deployed throughout the 1990s and 2000s in other advanced economies (e.g., Australia, Canada, France, Japan) and emerging economies (e.g., Thailand, Turkey, Mexico, China, South Hong Kong) to accommodate the financial resources of individual investors (Aveline, 2005, p. 63, 64; Thomas & Romanet-Perroux, 2012, p. 97-99). (Thomas, P., & Romanet-Perroux, P. (2012). Real estate: Finance de l'immobilier. Paris, France: Revue Banque)

[420] Aveline, 2005, p. 63

[421] Thomas & Romanet-Perroux, *op. cit.*, p. 98

[422] Credit organizations generally sell mortgage-backed securities in financial markets in order to shift risk onto third parties, raise short-term finance, originate more loans and avoid the maturity mismatch between short-term deposits and long-term, illiquid mortgage contracts (Coackley, *op. cit.*, p. 708; Schwartz & Seabrooke, 2009a, p. 15). In concrete terms, lenders pool debt securities of different risk values into a financial instrument divided into tranches (or portions) of different risk-remuneration profiles (Pacewicz, 2012, p. 416; Thomas & Romanet-Perroux, *op. cit.*, p. 66). These structured financial assets emerged in the 1970-80s in advanced economies, especially those with large private pension systems (e.g., US, UK), prior to expanding, more recently, into some financial systems of the Global South (Coackley, *op. cit.*; Glickman, 2013; Schwartz & Seabrooke, 2009a). (Glickman, E. (2013). *An introduction to real estate finance*. Amsterdam, Netherlands: Academic Press; Pacewicz, J. (2012). Tax increment financing, economic development professionals and the financialization of urban politics. *Socio-Economic Review*, *11*(3), 413-440)

[423] Glickman, 2013, p. 15

[424] Aveline, 2005, p. 58; Coakley, 1994

Financialization in Southern metropolises and disaster-affected urban environments: a recent field of research

While the increased use of finance capital to fund residential real estate supply and demand primarily affects Europe and North America, the phenomenon has also gained significance in the Global South over the past 15 years. Yet, only a small number of empirical studies have explored and conceptualized the workings of the financialization of urban production in Southern metropolises. Existing research examines, for example, the mechanisms through which rent-maximizing international financial agents invest in the built environment of rapidly growing cities in Brazil, India and Mexico.[425] It also explores the pivotal role of "transnationally connected but locally embedded" property development firms in channelling financial resources, as well as the socio-legal strategies deployed by domestic governments and sponsored by International Financial Institutions to facilitate such city-making practices.[426] French researchers Hortense Rouanet and Ludovic Halbert observe that scholarly contributions on Southern cities too often portray "the financialization of urban production as an exogenous and overarching process" blind to the agency of local builders and to local variations in the motivations for and mechanisms through which property becomes a financial asset.[427] Indeed, it could be argued that the existing scholarship does not seek to identify the specificity of financialized urbanization patterns in Southern cities and their potential resonance with the particular political-economic environments of Southern growth regimes analyzed earlier in this chapter (e.g., high degree of extraversion, unstable exchange rates, massive public debt, fragmented states).

In parallel, the scholarship on the financialization of property in post-disaster urban spaces is in its early stages. The rebuilding of New Orleans after hurricane Katrina, which devastated the city in 2005, recently opened new avenues of research. A number of studies have shown why and how finance capital has been at the core of the recovery process. US urban scholar Kevin F. Gotham has explained, for instance, that this specific source of financing has very much shaped the pace and trajectory of reconstruction, restructured socio-spatial structures, and transformed

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[425] David, L., & Halbert, L. (2014). Finance capital, actor-network theory and the struggle over calculative agencies in the business property markets of Mexico City Metropolitan Region. *Regional Studies, 48*(3), 516-529; Rouanet & Halbert, *op. cit.;* Searle, L. G. (2014) Conflict and commensuration: Contested market making in India's private real estate development sector. *International Journal of Urban and Regional Research, 38*(1), 60–78; Sanfelici, D., & Halbert, L. (2016). Financial markets, developers and the geographies of housing in Brazil: A supply-side account. *Urban Studies, 53*(7), 1465-1485

[426] Rouanet & Halbert, *op. cit.*

[427] Rouanet & Halbert, *op. cit.,* p. 1402

the local politics of property.[428] Even though this research track has so far been based on Northern case studies, it establishes a particularly significant dialogue with my Beirut-focused research.

The implications and risks of the increased liquefaction of property assets

Theorists within the first financialization stream in urban studies have, finally, analyzed the multiple organizational and distributional implications of, and the new forms of risk entailed by, the ever-growing financialization of urban processes in Northern and Southern cities. They show that land and real estate markets, historically dependent on local stakeholders, first become increasingly organized, unified and managed by transnational financial agents who delink investment from place.[429] In a second stage, the entwinement of the financial and property spheres then leads to the increased simultaneity of real estate cycles across the globe and to the reactivity of property activity to financial deregulation decisions and/or the drop in value of sovereign securities and stock markets.[430] Third, the liquefaction of property assets contributes to a further decoupling of exchange and use values: exchange values are increasingly volatile and contingent on the artificial booms and busts of speculative, crisis-prone financial markets.[431] Property assets become increasingly disconnected from their use value, in other words, and episodes of strong appreciation disconnected from local housing market realities begin to reinforce housing unaffordability and crisis. Last but not least, the centrality of realty to financial capitalism begins to shape the already uneven distribution of national and transnational wealth and income, and to make its disparities more acute. It also increasingly influences "political behaviour, social stability, the structure of welfare states, and macroeconomic outcomes."[432]

2.3.3.2 Real estate and construction activity: a key policy lever to regulate financial capitalism

The second financialization stream I examine does more to unpack the urbanization of finance capital in systems of accumulation. Leading scholars such as Manuel Aalbers and Rodrigo Fernandez, Natacha Aveline, Len Seabrooke and Herman Schwartz, as well as Alan Smart and James Lee have pushed the analysis further to conceptualized the use of property in

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[428] Gotham, K. F. (2016). Re-anchoring capital in disaster-devastated spaces: Financialisation and the Gulf Opportunity (GO) Zone programme. *Urban Studies, 53*(7), 1362-1383
[429] Aveline, 2005, p. 56; Logan, *op. cit.*, p. 392; Renard, V. (2008). La ville saisie par la finance. *Le Débat, 148*(1), 106-177, p. 108
[430] Aveline, 2005, p. 53-55
[431] Aveline, 2005, p. 66; Coakley, *op. cit.*, p. 709
[432] Fernandez & Aalbers, 2016, p. 3; Piketty, *op. cit.*; Schwartz & Seabrooke, 2009a, p. 1, 6

social regulation strategies under financial capitalism.[433] Real estate and construction activity, primarily through their financing and property asset prices, have become pivotal boosters of macroeconomic performance and protectors of financial and monetary stability in finance-led growth regimes.[434] Transmission mechanisms are complex and multiple between property transactions, land and real estate asset prices, collateral values, private credit, economic growth and financial stability.[435]

In scholarly terms, real estate and construction have increasingly, and sometimes abusively, been used as 'spatio-temporal fixes' by governments and financial authorities to reinvigorate GDP growth and secure financial and monetary stability, particularly in times of economic and financial stress.[436] Property-based regulation strategies generally rely on the massive deployment of subsidized housing finance, eased access to property ownership for foreigners, and tax incentives for construction and property development, ownership and transactions. Unsurprisingly, this regulation-led use of property activity has led to "the increasing dominance of the credit system and finance capital in structuring the interests and strategies of actors in property development markets."[437]

The emphasis on agency to unravel variations in property-based regulation

In line with the institutional perspectives just discussed, urban scholars have adopted a balanced position on the structure-agency debate as they investigate patterns and identify variations in the scope and features of property-based regulation across space and time.[438] They

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[433] Aveline, A. (2004a). Introduction - The overall context of the Asian financial crisis and its interaction with domestic property markets. In N. Aveline & L. Ling-Hin (Eds.). *Property markets and land policies in Northeast Asia - The case of five cities: Tokyo, Seoul, Shanghai, Taipei and Hong Kong* (pp. 8-37). Maison Franco-Japonaise / Center for Real Estate and Urban Economics, Hong Kong University. Retrieved from https://halshs.archives-ouvertes.fr/halshs-00394362/document; Aveline, N. (2004b). Property markets in Tokyo and the management of the last boom-bust cycle (1985-2002). In N. Aveline & L. Ling-Hin (Eds.). *Property markets and land policies in Northeast Asia - The case of five cities: Tokyo, Seoul, Shanghai, Taipei and Hong Kong* (pp. 38-88). Maison Franco-Japonaise / Center for Real Estate and Urban Economics, Hong Kong University. Retrieved from https://halshs.archives-ouvertes.fr/halshs-00394362/document; Aveline, N., & Li, L.-H. (2004). Reconsidering land policies in Asia. In N. Aveline & L. Ling-Hin (Eds.). *Property markets and land policies in Northeast Asia - The case of five cities: Tokyo, Seoul, Shanghai, Taipei and Hong Kong* (pp. 298-314). Maison Franco-Japonaise / Center for Real Estate and Urban Economics, Hong Kong University. Retrieved from https://halshs.archives-ouvertes.fr/halshs-00394362/document; Aveline, 2005; Fernandez & Aalbers, 2017; Smart & Lee, 2003a

[434] Boyer, 2000a; Crowe, C., Dell'Ariccia, G., Igan, D., & Rabanal, P. (2011). *How to deal with real estate booms: Lessons from country experience* (International Monetary Fund, Working Paper, No. 11/91. Retrieved from https://econpapers.repec.org/article/eeefinsta/v_3a9_3ay_3a2013_3ai_3a3_3ap_3a300-319.htm; Fernandez & Aalbers, 2017; Smart & Lee, 2003b, p. 157; Zhu, H (2003). *The importance of property markets for monetary policy and financial stability*. Paper presented at the IMF/BIS Conference on Real Estate Indicators and Financial Stability. Washington DC. October 27–28

[435] Crowe et al., *op. cit*., p. 4; Kiyotaki, N., Moore, J. (1997). Credit cycles. *Journal of Political Economy*. *105*(2), 211-248 cited in Detken C. & Smets, F. (2004). *Asset prices booms and monetary policy* (ECB Working Paper, No. 364). Retrieved from www.ecb.europa.eu/pub/pdf/scpwps/ecbwp364.pdf?650a83b37988883461dceb8f47178e79 (p. 21)

[436] Aalbers, M.B. (2017) The variegated financialization of housing. *International Journal of Urban and Regional Research*, *41*(4), 542-554, p. 6; Lovering, *op. cit*.; Smart & Lee, 2003a, p. 89

[437] Healey, 1992, p. 34. Subsidies to housing finance are often aimed at reducing the cost of financing for homebuyers while maintaining attractive profit and reducing risk for credit organizations.

[438] Fernandez & Aalbers, 2016, p. 6; Fernandez & Aalbers, 2017, p. 3; Smart & Lee, 2003a, p. 89

suggest that regulation trajectories are shaped by country-specific historical, political, cultural and social features; the degrees of financialization of the domestic economy and the property sector; and policy initiatives initiated by local actors.[439] As such, theorists agree that the financialization of property is structurally linked to the advent of financial capitalism. Cross-country variations in property-based regulation, however, illustrate the role of agency and institutions in the use of real estate and construction activity to sustain finance-driven growth regimes. Moreover, in line with the work of Bob Jessop who examines, in general, the intentionality of modes of social regulation, the financialization scholarship suggests that regulation interventions involving property are frequently "'discovered' rather than planned" since they "emerge in a contingent, non-intentional manner […] from the clash of multiple strategies."[440] Property-based modes of regulation, in other words, are generally not the outcome of grand strategies: they reflect, rather, muddling-through approaches embedded in locally specific political-economic environments and structure of opportunities.

The turning point of the 2008 financial crisis

The 2008 international financial crisis, apart from consecrating the property-finance linkage, was also a turning point in the study of the role of urbanization in the ups and downs of financial capitalism. The collapse of the US subprime mortgage market initiated a negative shockwave that devastated the financial systems and property markets of many economies across the globe. This event, unprecedented since the 1930s Great Depression, has made property-based regulation an increasingly stimulating field of research in urban studies, generally through the entry point of housing finance.[441] The mass-based financialization of property is indeed of primary significance in finance-led growth regimes where debt-led accumulation prevails. A number of scholars even suggest that housing finance is now "the key object of financialization" in contemporary economies since it connects "people to global capital flows and interest rates in a more direct way than tax systems, public debt, or employment."[442] The importance of housing finance in regime regulation varies between economies according to the national specificities of the financial industry and the housing market. The strategic nature of its role appears to be

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[439] Fernandez & Aalbers, 2016; Schwartz & Seabrooke, 2009b; Smart & Lee, 2003a, p. 89
[440] Jessop, 2001, p. 106
[441] Schwartz, H., & Seabrooke, L. (2009b). Conclusion: Residential capitalism and the international political economy. In H. M. Schwartz & L. Seabrooke (Eds). (2009). *The politics of housing booms and busts*. Basingstoke, UK; New York, NY: Palgrave Macmillan, p. 210
[442] Aalbers, 2017, p. 5; Schwartz & Seabrooke, 2009a, p. 1, 7

particularly significant, however, in light of the two key regulation challenges faced by financial capitalism identified earlier: the recycling of yield-seeking surplus capital in the financial sector, and the reinforcement of equity-earning social relations.

In finance-led growth regimes, liquidity accumulating in the quaternary circuit needs to circulate and find diversified investment and placement vehicles.[443] In this regard, property activity, and more particularly the rapid development of mortgage debt, has proven to be a key instrument in absorbing this "wall of money."[444] Moreover, property performs a credit multiplier role: it acts as a high quality collateral to secure private debt growth, which is itself conducive to further capital accumulation and surplus absorption.[445] Land collateralization, economist Natacha Aveline explains, is employed particularly in economies characterized by immature financial markets, inflated land prices and limited access to credit risk assessment, as well as in a number of Asian countries where "land prices inflated faster than financial interests and share dividends under the economic boom."[446] Aalbers adds that apart from securing the kind of fixed value offered by gold, diamonds and other forms of safe investment, land and real estate assets "offer the advantages of scale, standardization, well-established calculative systems, fixed income […] and a highly standardized institutional framework."[447]

In addition to partially solving capital absorption problems, property-based regulation helps to reinforce equity-based social relations in finance-led growth regimes. As touched upon earlier, regulation theorists such as Robert Boyer suggest that the progressive diffusion of equity-earning social relations and modes of consumption is critical to ensuring the stability and reproduction of financial capitalism: it does so by augmenting the number of stock and property-owning households among the middle class. The heightened dependence on debt and reliance on capital income of newly property-owning individuals is expected to shape conservative economic, social and political behaviours, which secure the prevailing political-economic environment's stability and the political-financial interests of the ruling elite.[448]

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[443] Fernandez & Aalbers, 2016, p. 16
[444] Aalbers, 2017; Fernandez & Aalbers, 2016
[445] Aalbers, 2017, p. 6
[446] Aveline, 2004a, p. 23
[447] Aalbers, 2017, p. 5
[448] Boyer, 2000a; Coakley, *op. cit.*, p. 697; Schwartz & Seabrooke, 2009b, p. 210; Smart & Lee, 2003a, p. 92

The adverse repercussions and risks of property-based regulation

Fernandez and Aalbers point out that the regulation dimension of urbanization is, however, economically controversial: while it serves the reproduction of financial capitalism, it also creates a "weak link."[449] The use of property activity for regulation purposes, through its connection to financial and credit markets, may unleash multifaceted tensions and contradictions as a result of the speculative trend and volatile environment the strategy creates in the property sector and the economy at large (e.g., boom and bust cycles). Property-based regulation also frequently generates a number of negative financial, economic, social and political externalities for host communities and fuels wealth and income inequality. This is especially the case in finance-led regimes where a limited proportion of middle-class groups can afford the cost of mortgage-based homeownership. The immoderate recourse to property-related instruments of regulation, which often accompanies the liberalization and financialization of rental markets and the withdrawal of state support for and/or provision of affordable housing, in other words, carries a major negative social repercussion and a major risk: uncertain access to affordable housing, and the proliferation of crisis-prone bubble phenomena in real estate markets.[450]

First, property-based regulation is likely to deteriorate access to housing and worsen the gap between property-owning populations and non property-owning groups.[451] Using land and real estate as a "new spatial fix" orients housing production systems in a way that is structurally out of line with the features of the bulk of local demand in terms of standards, tenure status and price.[452] In concrete terms, the construction of upmarket housing, the priority given to mortgage-based homeownership, and the constant stimulation of property asset prices work directly against any inclusive housing policy orientation.

Second, property-based regulation increases the vulnerability of finance-driven growth regimes whose stability relies increasingly upon sustained real estate prices, which are themselves dependent on the volatility of finance capital.[453] In times of financial boom, in other words, the property-finance linkage automatically fuels bubble-like phenomena in the real estate market. And the overheating of the property market after years of fast-paced price increases

[449] Fernandez & Aalbers, 2017, p. 6
[450] Fernandez & Aalbers, 2017, p. 3
[451] Aveline, 2005, p. 174; Smart & Lee, 2003a, p. 103
[452] Fernandez & Aalbers, 2017
[453] Boyer, 2000a; Fernandez & Aalbers, 2017, p. 5; Schwartz & Seabrooke, 2009b, p. 210

regularly ends in a crash that triggers a multifaceted financial and economic crisis. Any sharp drop in property asset values is indeed likely to jeopardize the soundness and stability of the financial sector because of the significance of its impacts, including the proliferation of non-performing loans, and the devaluation of property collaterals and of a wide range of property-backed securities. Recent economic history has shown that this scenario goes beyond theory: property bubbles fuelled by property-based regulation were among the primary causes of the financial crises that swept Japan, Thailand, Hong Kong and Indonesia in the 1990s.[454]

2.3.3.3 Japan and Gulf Cooperation Council countries: two illustrations of property-based regulation

To illustrate the ways in which urbanization has become crucial to contemporary systems of accumulation and modes of social regulation, I briefly review the trajectory of two finance-led growth regimes: Japan and the GCC countries. Lessons from these two case studies will be of interest to discussions of the workings and prospects of property-based regulation in post-1990 Lebanon throughout the dissertation.

The role of the finance-property linkage in Japanese capitalism

Since World War II, Japan's property sector has played a leading role in the expansion and reproduction of local capitalism.[455] But its footprint was even more obvious in the restructuring of the country's growth regime in the second half of the 1980s. In the aftermath of the 1985 Plaza agreement[456] signed with other G5 countries (i.e., Germany, the UK, France and the US), Japan moved from an export-led economy to a domestic consumption-oriented and debt-based model in which property activity acquired an even greater position in accumulation and regulation. The Plaza agreement led to a loosening of the Bank of Japan's domestic monetary policy (i.e., sharp drop in lending interest rates, limited control on credit) essentially to raise the

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[454] Aveline, 2004a, p. 9

[455] Stone, D., & Ziemba, W. T. (1993). Land and stock prices in Japan. *Journal of Economic Perspectives*, *7*(3), p. 149

[456] In the decades that followed the end of World War II, the undervalued domestic currency (Japanese yen) largely facilitated the building of an export-based economy that generated much financial surplus. Yet, this growth pattern worsened the current account deficit of Japan's key economic and political partners, including, first and foremost, the US, which sought to rectify the situation. The G5 countries thus met in New York to sign the 1985 Plaza Agreement to restore balance in transnational trade. The aim was to raise the value of the undervalued Japanese currency and initiate the "managed decline" of the US dollar (Kerr, 2002, p. 356). The financial and macro-economic objectives of this yen-dollar realignment were the following: control the surplus of the Japanese balance of payments, reduce the US trade and commercial deficit towards Japan, and restore confidence on financial markets (Aveline, 2004b, p. 63; Kerr, *op. cit.*). The financial and monetary reshuffling at the international level consequently initiated the transformation of the Japanese economy into a domestic consumption-based model. (Kerr, D. (2002). The place of land in Japan's postwar development, and the dynamic of the 1980s real-estate bubble and 1990s banking crisis. *Environment and Planning D, 20*(3), 345-374)

value of the national currency. This decision initiated an unprecedented land and real estate boom in most Japanese cities. Urban development began more generally to contribute to the stability of the reshuffled growth regime in two important ways. First, property activity, which hinged largely on credit on both the demand and supply sides, helped to absorb surplus capital by providing new vehicles of capitalization. Second, the inflation of land and real estate asset prices bolstered the value of property-based collaterals and therefore sustained the pace of credit growth and private investment in the economy at large.[457] In the same vein, aware of the role of the production of space in regime stability, Japanese authorities launched large-scale urban redevelopment interventions in various megalopolises including Tokyo to stimulate GDP growth and develop a new source of business for local banks.[458] In sum, property growth, also sustained by the deregulation of urban planning, tax incentives and a concomitant boom in the stock markets, was an essential feature of the transition from an export-led to a consumption-oriented and credit-based economy.[459]

The post-1985 Japanese mode of development, however, rapidly resulted in an uncontrolled and crisis-prone property bubble.[460] Local financial authorities consequently tightened monetary policy in 1990-1991 to reduce speculation and protect the banking system.[461] This decision, which also reduced real estate demand, led to a sharp decline in property prices and brought about negative pressures on the local economy. It is worth noting that, because of the strong interests of Japanese banks in a number of Southern Eastern Asian economies, variations in the Japanese property and stock markets were also partly responsible for the 1990s property and financial booms and busts in Hong Kong, Singapore and Thailand.[462]

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[457] Long-term (e.g., 50 years), cheap and easily available credit was instrumental in expanding domestic accumulation and supporting the investment capacity of Japanese firms abroad (i.e., acquisition of equity and real estate in South East Asia) in response to the currency-induced loss of competitiveness in international trade (Aveline, 2004a, p. 28; Aveline, 2004b, p. 63, 64; Aveline, 2005, p. 59, 62).
[458] Aveline, 2004b, p. 77, 82; Kerr, *op. cit.,* p. 354-355
[459] Aveline, 2004b, p. 64, 80; Kerr, *op. cit.,* p. 357; Cutts, R. L. (1990). Power from the ground up: Japan's land bubble. *Harvard Business Review*. May-June, 164-172 quoted in Kerr, *op. cit.,* p. 357
[460] Kerr, *op. cit.*, p. 351, 369; Stone & Ziemba, *op. cit.,* p. 149
[461] Aveline, 2004b, p. 82; Stone & Ziemba, *op. cit.,* p. 149. The Bank of Japan raised interest rates substantially which dried up the source of speculative investment and, subsequently, precipitated the simultaneous, massive downward adjustment of stock and property markets (Aveline, 2004a, p. 29; Aveline, 2005, p. 61-62; Kerr, *op. cit.*, p. 365). Consequently, the land-based credit system, which was under substantial financial pressure, recorded a significant number of non-performing loans (Kerr, *op. cit.*, p. 367; Stone & Ziemba, *op. cit.*).
[462] Japanese banks, which faced an overavailability of liquidity, poured local banks with cheap money in these countries (Aveline, 2004a, p. 27-30).

'Diversification by urbanization' in Gulf Cooperation Council countries

Closer to Lebanon, the urban scholarship has recently delved into the role of urbanization in finance-led growth regimes in the Middle East, namely United Arab Emirates and Saudi Arabia, where oil-derived rent and interest-bearing financial inflows drive the economy and lead to capital overavailability in the financial sector. On this basis, Canadian geographer Michelle Buckley and British political scientist Adam Hanieh have linked the immense property growth and asset value boom experienced in recent decades in cities such as Dubai, Doha, Abu Dhabi and Riyadh to the way in which land and real estate have been used to secure the short-term sustainability of very liquid growth regimes.[463] More specifically, state authorities are believed to have used the building process to stimulate growth and "to internationalize and diversify the […] 'quaternary' circuit of capital."[464] Public actors have turned the production of the built environment, in other words, into a spatial fix for "surpluses drawn from the national, regional and international scales."[465] Buckley and Hanieh posit that "the liberalization of mortgage financing, the internationalization of property ownership and the privatization of the development process" were particularly instrumental in providing the "institutional basis" for this form of property-based regulation.[466] In sum, Saudi Arabia and the UAE, as other MENA rentier and semi-rentier economies such as Lebanon, have increasingly used intensive and speculative urbanization to stabilize their rent-based and finance-oriented mode of development, making them very vulnerable to price volatility in international commodity markets.[467] Yet, this strategy of expanding the property-finance linkage, apart from destabilizing local housing markets, has precipitated the crash of local property markets and the destabilization of the financial sector: the Gulf Cooperation Council countries were particularly hit by the 2008 international financial crisis.

In section three, I have introduced block two of my conceptual framework, dedicated to the analysis of the interconnectedness of capitalism and the city. This linkage is clearest when urbanization is seen, first and foremost, as a process driven by capital accumulation in the built

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[463] Buckley, M., & Hanieh, A. (2014). Diversification by urbanization: Tracing the property-finance nexus in Dubai and the Gulf. *International Journal of Urban and Regional Research*, *38*(1), 155-175
[464] Buckley & Hanieh, *op. cit.,* p. 156
[465] Buckley & Hanieh, *op. cit.,* p. 157, 158, 162, 168
[466] Buckley & Hanieh, *op. cit.*, p. 156
[467] Buckley & Hanieh, *op. cit.,* p. 158. Interestingly, Buckley and Hanieh's findings go against the idea that financial resources are generally less available for real estate investment in MENA economies than in other countries of comparable or lower income levels (Hassler, 2011). (Hassler, O., (2011). *Housing and real estate finance in Middle East and North Africa Countries. Financial Flagship*. Washington, DC: World Bank)

environment. Throughout the section, I have shown how various schools of thought and generations of urban theorists have sought to make sense of the driving forces, rules, resources and agents that have allowed money to find its way into land and real estate. I have placed special emphasis on the contributions of critical urban studies, particularly those in the institutional stream, to conceptualization of urban development as a social construction shaped by larger political-economic structures as much as by the agency of local actors. Moreover, I have shown that the advent of financial capitalism in recent decades has tremendously affected the nature of property and the role of urbanization in systems of accumulation and modes of social regulation in the Global North and the Global South. As will become clear, the city scholarship introduced here has provided significant theoretical and methodological guidance to efforts made throughout the thesis to analyze and conceptualize the financialization of city-making in post-war Beirut and to clarify its role in the stabilization and reproduction of the Lebanese model of rentier and finance-led capitalism.

2.4 Unpacking Urban Policy in Lebanon: The Power of Institutional Design

The third and last block of my conceptual framework examines positions taken within urban scholarship on the role of the state in urbanization dynamics. It specifically concerns those that explain the ways in which the state at the national and local levels drives the social construction of the property market through design of its institutions[468] and the reasons why it is, therefore, a primary agent of the particular interweavedness of urban production and capitalist transformation. Placing the state at the centre of my analysis and looking into its formal organizing role in urban growth politics is essential to the bridging of country and city level phenomena in my conceptualization of 'pegged urbanization.' A state-centred approach, interestingly, is at odds with many studies of the Lebanese political economy in which it is broadly portrayed as absent and/or dysfunctional. It is also at odds with a portion of the urban scholarship on, and from, the Global South that works around the formal dimension and the political-economic objectives of state policy-making in its examination of the urban development process. This work aims to fill those gaps.

[468] Institutional design refers to "the devising and realization of rules, procedures, and organizational structures that will enable and constrain behaviour and action so as to accord with held values, achieve desired objectives, or execute given tasks" (Alexander, *op. cit.*, p. 213).

2.4.1 From the North: The Centrality of Formal State Action and Political-Economic Dimensions

Social theory conceives of the state as both a critical institution and an object of study. It is understood to consist of a sophisticated web of public actors at a number of levels, which may include the national, state/provincial, regional and local; and which elaborates, implements and guarantees a country's key formal institutional arrangements (e.g., legal system, banking system, tax structure, property rights).[469] At every level, the collection of state entities (e.g., courts, banks, government departments and agencies, Parliaments,) forms a state organization; however, each entity on it own, is legally granted the agency and power to initiate policies reflecting a range of rationalities and interests.[470] In Europe and North America, an examination of the state from all angles has been central to political economy research on capitalism, which historically has been structured by intellectual debates between neoclassical, liberal and (neo-)Marxian scholars.[471] In recent decades, state analysis has become increasingly complex with the development and diversification of public interventions and the proliferation of state actors occupied with the threefold dynamics of decentralization, deconcentration and financialization (concerning, e.g., the role of central banks, new forms of local government).[472] In the meantime, research on urban policy-making has rapidly gained traction in explanations of the diversity of state actors and initiatives involved in the organization of contemporary urbanization. Overall, state-focused investigations have particularly sought to link decision-making processes (e.g., agenda-setting, policy design) and agent interactions (e.g., conflict or cooperation in relations between public and private actors, dynamics of interest aggregation) to the outcomes of urban policy.[473]

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[469] Gotham, K. F. (2006). The secondary circuit of capital reconsidered: Globalization and the US real estate sector. *American Journal of Sociology, 112*(1), 231-275, p. 232, 237). It seems fair to argue that state action is multifaceted: its modalities consist of a continuum of policy initiatives rather than those which can be defined cleanly as formal and informal. Traditionally, Northern scholarship emphasizes formal elements while the Southern literature complementarily brings to the fore informal elements.

[470] Watson, 2012, p. 96

[471] Controversies are historically sharp between neo-classical, liberal and Marxian-influenced positions. Neo-classical and liberal thinkers, on the one hand, claim that state institutions and actors, whose role should be minimized so as not to interfere with the market, are in theory neutral and open to all interest groups (Amenta, 2005). Scholars of Marxian inspiration, on the other hand, work on the assumption that the ruling class dominates state structures and policy initiatives in order to serve "the function of reproducing and legitimating capitalism" (Amenta, *op. cit*.). (Amenta, E. (2005). State centered and political institutional theory: Retrospect and prospect. In Janoski, T. (Ed.). (2005). *The handbook of political sociology: states, civil societies, and globalization*. New York, NY: Cambridge University Press)

[472] *Ibid*

[473] Lascoumes, P., & Le Galès, P. (2007). Introduction: Understanding public policy through its instruments: From the nature of instruments to the sociology of public policy instrumentation. *Governance*, *20*(1), 1-21, p. 8

2.4.1.1 The state, a primary agent in the social construction of urbanization

Dominating Northern urban scholarship are Neo-Marxian and institutional explanations of the state's organization of the economy and the city. As underlined earlier, a widely shared starting point is an understanding of urban development as a "spatially grounded social process," a position that, in hand with neoclassical and community-centred streams, structures much of the scholarship's theorization.[474] State shaping of distributional outcomes through manipulation of institutions such as the property market is central to current urban thought.[475] Concretely speaking, state entities are believed to intervene through a mix of incentives and disincentives intended to regulate the economic behaviours of and the interactions between actors such as individual homebuyers, landholders, property development firms, banks and government agencies.[476]

State participation in the social construction of urbanization is normally justified economically and socially. Economically, real estate and construction activity is rightly said to represent a key engine of economic growth and financial stability.[477] Socially the state aims to reduce inequality among social groups and ensure social stability through the provision of affordable housing, public infrastructure and services.[478] (Neo-)Marxian and institutional scholars link this two-track involvement in the organization of urban development to the interests of a multiplicity of elite actors, state and non-state, in the reproduction of local capitalism and the preservation of unequal social relations. Many studies have shown how rent-seeking social elites impose their collective and individual views and interests through national and local urban policy.[479]

From government to governance: the prevalence of the subnational state and non-state actors in institutional design

The scale at which state agents operate to direct urban production and their increasingly governance with other non-state actors have become central matters of investigation in Northern

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[474] Harvey, 1989c, p. 5
[475] Healey & Barrett, *op. cit.*, p. 98
[476] In particular, the seminal work of Pierre Bourdieu (2000) on the double social construction of the property market should be mentioned. For the French sociologist, national and local public authorities directly and indirectly shape both property supply and demand.
[477] Harvey, 1985; Logan & Molotch, *op. cit.*
[478] Castells, M. (1977). *The urban question: a Marxist approach*. Cambridge, MA: MIT Press
[479] Interestingly, Anna Haila (2016) draws a distinction between 'rent-seeking' and 'rent-maximizing' behaviours. She argues that "rent-seeking means manipulation of the law or government in order to obtain profit" while "rent-maximising […] describes the behaviour that uses land to produce the highest rent."

urban studies. During the Fordist era following World War II, state-centric urban analysis principally addressed the role of the national (welfare) state in driving the development process. But the rise of neoliberalism, the revolution of information and communication technologies and the globalization of markets in the 1980s have modified the forces at play by diluting the role of the national state, on the one hand, and promoting the decentralization of government and the privatization of public resources, on the other. In parallel, cities and their built environment have begun to assume a greater role in an emerging political, economic and social order tied to financial capitalism.[480] As a consequence, neoliberal restructuring has, in many ways, helped to rescale and transform the social process of city governance, and urban scholars are exploring how this has affected the positions occupied, the modes of intervention and the institutional arrangements developed by state agents. Research streams such as 'global city', and network governance theory and regime analysis have revealed that supranational and subnational state entities and non-state agents now assume a greater and more entrepreneurial role in spatial production and regulation.[481] This reorganization of urban power and politics has materialized in the scholarship through the conceptual transition from the study of urban government to the study of urban governance in order to better capture the plurality of scales and agents at work.[482] As such, post-1980 urban theory from the Global North has sought to explain that, while the state remains an essential agent in designing the institutions that shape urban production, it does so increasingly at the local state level and in collaboration with non-state actors.

The persistence of the nation-state in urban analysis: the role of financialization

The study of the national state, despite the success of works conceptualizing its decline, has not dropped off the radar of urban studies, however. In resonance with regulation researchers, a number of influential thinkers such as David Harvey, Jamie Peck and Alan Tickell, and Alan Harding and Talja Blokland claim that nation-state entities and interventions continue to exert

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[480] Harding & Blokland, *op. cit.*; Harvey, 1989c; Tickell & Peck, 1995, p. 359

[481] Friedmann, J. (1986). The world city hypothesis. *Development and Change*. *17*(1), 69-83; Harvey, 1989c; Sassen, S. (2005). The Global City: Introducing a concept. *Brown Journal of World Affairs,* 11, 27-44

[482] As explained by British theorist Gerry Stoker (1998), the notion of 'government' concerns "the formal and institutional processes" operated by state agents, possibly through a coercive way, to "maintain public order and facilitate collective action." In contrast, the notion of 'governance' stresses a difference in the process of governing "in which boundaries between and within public and private sectors have become blurred" (*ibid*). Governance, in other words, is the collective process of "blending and coordinating public and private interests" in which elected officials are no longer the only governing actors of urban production (Pierre, 1999, p. 376). The scope and features of this reorganization in policy-making may differ according to local and national settings. (Pierre, J. (1999). Models of urban governance: The institutional dimension of urban politics. *Urban Affairs Review, 34*(3), 372-396; Stoker, G. (1998). Governance as theory: Five propositions. *International Social Science Journal, 50*(1), 17-28)

considerable clout in mediating the dynamics of capital accumulation in general, and of property-based accumulation in particular.[483] Their common argument is that the persistent role of the national state in shaping urbanization is not antithetical to the new responsibilities taken on by local government and non-state actors.

The emergence of the financialization stream in urban studies has contributed to this approach by examining the key role of state policy-making in the financialization of property.[484] Scholars such as Manuel Aalbers, Kevin Gotham and Ludovic Halbert have brilliantly unpacked the ways in which national public authorities consciously or insconsciously create the conditions for liquefaction of local land and real estate assets and their integration into the circuits of global finance.[485] Aalbers in fact argues that "the state filters financialization processes while financialization at the same time furthers the transformation of the state itself."[486] In the same vein, Gotham underlines that financialization increases "the dependency of political institutions on financial markets for securing investment capital."[487] In particular, research shows that monetary policies, fiscal and legal frameworks for property investment and the development of mortgage public organizations have built the "socio-legal regulatory infrastructure" and shaped "the financial conditions of investments" necessary to transform property into a financial commodity.[488] These policy initiatives, aimed at sustaining flows of private investment into the built environment, also involve state retrenchment through the deregulation of existing arrangements and/or the reduction of public spending for infrastructure and housing production.[489] In parallel, the role of local and regional governments in the connection of property to finance capital has also received increased attention in the city scholarship, which now provides a full and multilevel analysis of formal state action in the financialization of urban production.[490]

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[483] Harvey, 1985, 1989c; Harding & Blokland, *op. cit*., p. 58; Tickell, A., & Peck, J. (1992). Accumulation, regulation and the geographies of post-Fordism: missing links in regulationist research. *Progress in Human Geography, 16*(2), 190-218

[484] Gotham, 2006; Harvey, 1985; Weber R., *op. cit*., p. 270

[485] Aalbers, 2017, p. 8; Gotham, 2006, p. 232; Gotham, 2016; Halbert, L., & Attuyer, K. (2016). Introduction: The financialisation of urban production: Conditions, mediations and transformations. *Urban Studies, 53*(7), 1347-1361; Rolnik, R. (2013). Late neoliberalism: The financialization of homeownership and housing rights. *International Journal of Urban and Regional Research*, *37*(3), 1058-1066. Likewise, Aalbers (in Aalbers & Haila, 2018, p. 12), through the notion of "regulated deregulation," explains how "the state is not withdrawing [from urban production] but is rather being restructured in a way that favours the interest of some – often large, financialised corporations – at the expense of others."

[486] Aalbers, 2017, p. 10.

[487] Gotham, 2016, p. 1380

[488] Halbert & Attuyer, *op. cit*., p. 1351

[489] Halbert & Attuyer, *op. cit*., p. 1351

[490] Guironnet, Attuyer, & Halbert, *op. cit*.; Engelen, E., Konings, M., & Fernandez, R. (2010). Geographies of financialization in disarray: The Dutch case in comparative perspective. *Economic Geography*, *86*(1): 53–73; Weber R., *op. cit*.

2.4.1.2 The role of policy instruments in institutional design

In addition to documenting the multiple scales and objectives of public intervention in the production of space, the urban literature has also shown interest in understanding more precisely the ways in which state entities govern cities and for whose benefit. This concern has pushed an increased number of urban theorists to understand and conceptualize the making of the multilevel institutional environment within which the urban development process is embedded. In this research, I have drawn upon work on public policy instruments to identify the formal modalities whereby the state designs institutions. Rooted in political sociology research conducted in the US, Canada and the UK by scholars such as Christopher Hood as well as Lester Salamon and Odus Elliott, the policy instrument stream has been significantly reinvigorated over the past 15 years by francophone theorists Pierre Lascoumes, Patrick Le Galès and Louis Simard. Lascoumes and Le Galès, who define a policy instrument as follows:[491]

> A device that is both technical and social, that organizes specific social relations between the state and those it is addressed to, according to the representations and meanings it carries. It is a particular type of institution, a technical device with the generic purpose of carrying a concrete concept of the politics/society relationship and sustained by a concept of regulation.

Political sociologists contend that policy instruments, which can be of various kinds (e.g., legal, financial, organizational, etc.), are the formal tools of public intervention by which the state produces the formal and informal institutional arrangements used to orient the behaviours and interaction of economic agents.[492] In contrast to the functionalist tradition,[493] the policy instrument approach importantly repoliticizes the way in which the state involves itself in urban production through the reconciliation of policy and politics-centered dimensions. Instruments are indeed portrayed as critical mediums of power beyond their apparent neutrality and technical nature.[494] To prove their case, adherents of this perspective clarify the reasons for which "instruments are

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[491] Hood, C. (1983). *The tools of government*. London, UK: Macmillan; Lascoumes & Le Galès, 2007, p. 4; Salamon, L. M., & Elliott, O. V. (2002). *The tools of government: A guide to the new governance*. Oxford, UK; New York, NY: Oxford University Press

[492] Lascoumes & Le Galès, 2007, p. 8

[493] The functionalist tradition portrays policy-making mechanisms as fundamentally pragmatic, technical and natural (Lascoumes & Le Galès, 2007, 3). It assumed, in other words, the exertion of power to be transparent.

[494] Kassim, H., & Le Galès, P. (2010). Exploring governance in a multi-level polity: A policy instruments approach. *West European Politics*, *33*(1). 1-21; Lascoumes, P., & Le Galès, P. (2005). Introduction: L'action publique saisie par les instruments. In P. Lascoumes & P. Le Galès (Eds.). *Gouverner par les instruments* (pp. 11-44). Paris, France: Presses de Sciences Po, p. 12

selected and operationalized" and the ways by which state and non-state actors aggregate interests in the policy-making process.[495] They also analyze the social, economic and political outcomes of policy decisions, and document the differentiated forms of social control, and the interests behind them, exerted by those who govern upon the governed.[496] This approach, in sum, surfaces power dimensions by connecting the policy objectives and the collective and individual interests underlying the choice of instruments, on the one hand, to the "effects produced by these choices" on cities and societies, on the other.[497] Lascoumes and Simard further argue that changes in the ways in which instruments are produced and used are generally representative of broader institutional change and state transformations.[498]

Overall, the Northern urban scholarship over the past two decades has taken a decisive step forward in understanding and theorizing the multiple scales at which, and the multiple ways by which, the state formally governs the urban development process under financial capitalism. Against the flow of globalization studies, it has demonstrated that financialization dynamics in the economy in general and the property sector in particular have helped to preserve the role of national state entities (e.g., Parliament, government, Central Bank, specialized agencies) in the organization of the property market and the orientation of urbanization.[499] In the same way, the urban literature has critically expanded knowledge on city governance at the national and local state levels, and the benefitting sectors, by conceptualizing the role of policy instruments in the design of institutions. It is within precisely this national state-centred and instrument-focused perspective that I position this research on the political economy of urbanization in post-war Beirut. Again, Lebanon's political-economic environment is indisputably different from those of North America and Western Europe on which the critical urban scholarship has primarily based its investigation of urban growth politics under financial capitalism. But as will be shown throughout this dissertation, the methodological and analytical tools detailed here proved to be exactly those needed to uncover and conceptualize the formal role of the Lebanese state in directing urbanization in Beirut and connecting the property market to the regulation of local capitalism.

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[495] Kassim & Le Galès, *op. cit.*
[496] *Ibid*
[497] Lascoumes & Le Galès, 2007
[498] Lascoumes, P., & Simard, L. (2011). L'action publique au prisme de ses instruments - Introduction. *Revue française de science politique*, *61*(1), 5-22, p. 2
[499] Epstein, G. (1992). Political economy and comparative central banking. *Review of Radical Political Economics*, *24(*1), 1-30; Sklair, L. (2007). A transnational framework for theory and research in the study of globalization. In I. Rossi (Ed.), *Frontiers of globalization research: Theoretical and methodological approaches* (pp. 94-108). New York, NY: Springer Science, p. 105

2.4.2 From the South: The Centrality of Informal State Action and Conflict Dimensions

Use of the conceptual tools of critical urban studies to unpack the formal role and political-economic objectives of the national state in Beirut's urban production has produced a model of state action that diverges in degree, objectives and modalities, from the bulk of the existing scholarship on metropolises of the Global South. To show how this is the case, I briefly review the political-economic environment and development features common to many Southern cities, and explain why urban social scientists conducting research in and from the South have analyzed the role of the state primarily through the lenses of informality and inter-communal conflict.

2.4.2.1 The common features of urbanization in the Global South

Because a comprehensive review of the literature analyzing urbanization in and from the Global South is clearly beyond the scope of this chapter, the following is a discussion of a sample of works that question the significance, form and agenda of public action in its urban development. It first requires consideration of the features common to many Southern cities, without falling into the developmentalist,[500] deterministic and essentialist assumptions — and the alarming *clichés* of chaos, lawlessness and non-modernity — that have long dominated the generally slum-focused views of Northern scholars.[501] Similar to Europe and North America, the drivers, mechanisms, institutions and actors of city-making processes in Asian, African and Southern American cities are plural and fundamentally country-specific. Simply said, urban development and the socio-economic, political and cultural structures in which it takes place show considerable variation.

A number of cities and metropolises in the Global South, however, have commonalities in their development trajectories and socio-spatial outcomes. Shared features include fast-paced and barely controlled urbanization driven by the informal housing sector; an advanced spatial duality between, and intertwinement of, rich and poor areas; the prevalence of informal urban

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[500] For post-colonial urban scholar Jennifer Robinson (2002), the developmentalist approach on cities refers to "a generalizing vision of all poor cities as infrastructurally poor and economically stagnant yet expanding in size." (Robinson, J. (2002). Global and world cities: A view from off the map. *International Journal of Urban and Regional Research, 26*(3), 531-554)

[501] Robinson, J., & Parnell, S. (2011). Traveling theory: Embracing post-neoliberalism through Southern cities. In Bridge, G., & Watson, S. (Eds.). *The new Blackwell companion to the city* (pp. 521-532). Malden, MA: Wiley-Blackwell

economies; a weak civil society; and uneven access to often limited urban resources and infrastructure (e.g., land, housing, jobs, transportation, education, etc.).[502] Likewise, ethno-religious identities frequently play a structuring role in the organization of daily life and sometimes entail inter-group tensions over the control of land and territory.[503] Moreover, the macro-institutional environment in which city-building unfolds is generally shaped by decades of colonial history; an advanced degree of poverty and wealth inequality; the fragility of liberalism and democracy; the recurrent fractured, under-resourced and corrupt character of state entities; the spread of powerful entrepreneurial networks; and a history of neoliberalization and financialization tied not to post-Fordist/Keynesian deindustrialization but to successive waves of externally imposed structural adjustments.[504]

2.4.2.2 The state in the literature examining spatial production in Southern cities

In this context, research on metropolises of the Global South has generally shown less interest in unpacking the formal dimension and the political-economic motivations of national and local government policy. This does not mean, however, that state analysis is absent from the existing South-focused scholarship. It remains an important field of investigation in at least two streams: post-colonial urban theory, and the contested city literature.[505]

A generally less state-centric approach of the development process

Two major factors are believed to account for the relatively limited number of state-centered analyses on Southern cities: the low level of state-building and state capacity, and the contextual boundaries of prevailing research streams in urban theory.

First, urban production is portrayed as unfolding with limited or no state formal intervention, with the notable exception of Mexico, Brazil and a number of Asian countries (e.g., South Korea, Singapore, Thailand) where strong developmental states have played noteworthy

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[502] De Satgé, R., & Watson, V. (2018). *Urban planning in the global south: Conflicting rationalities in contested urban space*. New York: Palgrave Macmillan, p. 2

[503] Bollens, S. (2012). *City and soul in divided societies*. London, UK; New York, NY: Routledge; Yiftachel, 2006. p. 213; Mabin, *op. cit*., Watson, 2012, p. 82

[504] Bornstein, L., & Munro, W., (2003). Agency, space and power: The geometries of post-conflict development. In M. S. Smith (Ed.). *Globalizing Africa* (pp. 236-237). Trenton, NJ: Africa World Press; Watson, V. (2009). Seeing from the South: Refocusing urban planning on the globe's central urban issues. *Urban Studies, 46*(11), 2259-2275, p.2; Yiftachel, 2006, p. 213

[505] Roy, A. (2009b). Why India cannot plan its cities: Informality, insurgence and the idiom of urbanization. *Planning Theory, 8*(1): 76–87, p. 81, 84

formal roles in the dynamics of capital accumulation in the built environment.[506] National and sub-national state entities generally appear to be disempowered in "weakly institutionalized political systems" where the coercive and financial powers of local and international non-state agents (e.g., IFIs, mafias, religious chiefs, etc.) mould the local organization of power.[507] The capacity and efficiency of planning initiatives, for example, are frequently seen as very much constrained by corruption, the lack of institutional capacity, and sectarian and ideological tensions.[508] This is why analyses addressing dynamics from below (e.g., grassroots movements, self-built housing, etc.) have, overall, prevailed over inquiries into dynamics from above to explain why and how cities expand, function and are governed.

Second, the relative disinterest of the urban scholarship in state-focused research on Southern cities is also due to the fact that, as mentioned earlier, the bulk of Euro-American urban theory, which still significantly orients scholarly discussions, concentrates on how local forms of governance and government (e.g., growth machine and urban regime theories) facilitate and drive urban growth politics.[509] These historically and geographically situated conceptual, analytical and methodological frameworks are not systematically relevant to investigations of the institutional structures and political economy environments of a number of Southern countries.[510] This is the argument of post-colonial scholars such as Susan Parnell and Jennifer Robinson, who explain that urban political economy and critiques of urban neoliberalism are: [511]

> ill-equipped for the task of illuminating the conditions of poorer cities, especially those that have weak (local) states or those where the link between urban political elites and capitalist elites are not formalized in the conventional (democratic) electoral and quasi-corporatist politics of the local state.

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[506] Bae, Y., & Sellers, J. M. (2007). Globalization, the developmental state and the politics of urban growth in Korea: A multilevel analysis. *International Journal of Urban and Regional Research, 31*(3), 543-560; Parnell & Robinson, 2012, p. 597, 603
[507] Lake, D. A. (2008). International political economy: A maturing interdiscipline. In D. A. Wittman & B. R. Weingast (Eds.). *The Oxford handbook of political economy*. Oxford, UK; New York, NY: Oxford University Press; Watson, 2009, p. 2264
[508] Fawaz, 2016, p. 5
[509] Bae & Sellers, 2007
[510] Edensor, T., & Jayne, M. (2012). Introduction: Urban theory beyond the West. In T. Edensor & M. Jayne (Eds). *Urban theory beyond the West: A world of cities* (pp. 1-28). London, UK; New York, NY: Routledge; Connell, *op. cit*.; Robinson, 2004; Roy, 2009a; Parnell, 2012; Yiftachel, 2006
[511] Parnell & Robinson, 2012, p. 600

A recent focus on 'informality from above' in post-colonial urban theory

Nonetheless, as part of the efforts to 'de-Westernize' and 'provincialize' urban studies, a new stream of research has emerged in recent years to bring the state and class dimensions back into the analysis of Southern metropolises. This important conceptual project, propelled by post-colonial thinkers, interrogates the notion of informality, which is usually viewed in social theory as "a sphere of unregulated, even illegal, activity, outside the scope of the state, a domain of survival by the poor and marginalized."[512] Theorists such as California-based scholar Ananya Roy make the case that informality, through a set of policy instruments and institutions, is in fact at the core of capitalist practices and elite behaviours and "lies within the scope of the state rather than outside it."[513] On this basis, post-colonial scholars, while inquiring into political-economic issues, distance themselves from the Northern-centric focus on the role of *formal* aspect of policy-making in urban production and discuss, alternatively, the influence of state entities through their *informal* mode of action.

In the context of India, Roy affirms that the state is an "informalized entity" that operates in informalized ways "through various forms of extra-legal, social, and discursive regulation" intended to facilitate property-led development and secure the ruling elite's political and financial interests.[514] In this way, "informality from above" is assumed to become "an instrument of both accumulation and authority," as a complement to "formal systems of regulation" in post-colonial urbanism.[515] The creation of 'gray spaces from above,' i.e., for wealthy urbanites, unfolds, for instance, through the circumvention of urban plans and approval processes, as well as through more conventional formal tools such as land use change, land acquisition, the use of eminent domain, and the development of property projects.[516] In parallel, non-elite communities live mostly in 'gray spaces from below,' tolerated "'in the shadow' of the formal, planned city, polity, and economy," or in "blackened" spaces where they often experience the violence of state-led demolition and eviction.[517] Informality in state action is then a "mode of spatial production" and "a practice of planning" used to formalize an unequal socio-spatial, sometimes ethno-spatial,

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[512] Roy, 2009a, p. 826
[513] *Ibid*
[514] *Ibid*
[515] Roy, 2009b, p. 81, 84
[516] Yiftachel, O. (2009b). Theoretical notes on 'gray cities:' The coming of urban apartheid? *Planning Theory*, *8*(1), 88-100
[517] Roy, A., & Alsayyad, N. (Eds) (2003) *Urban informality: Transnational perspectives from the Middle East, Latin America, and South Asia*. Lanham, MD: Lexington Books; Watson, 2012; Yiftachel, 2009b, p. 89

order.[518] Post-colonial scholars, in other words, argue that informality is a state instrument of socio-spatial transformation and control, which makes state agents key actors of the social construction of urbanization. In this dissertation, I have decided to limit my investigation to the formal dimension of state policy-making as it shapes the urban development process in post-war Beirut; yet, the features of informal state action certainly merit attention and represent relevant avenues for future research in the Lebanese context.

The conflict-focused approach of state intervention in urban production

In contrast, it is worth noting that the formal role of the state in the workings of the development process has received proper attention in one specific context: divided cities. Not all conflict-ridden urban spaces are in the Global South, but a majority of them are on the southern side of the North-South continuum (e.g., Baghdad, Mogadishu, Mostar, Tripoli). Contested cities refer to urban environments where inter-communal rivalries based mostly on ethno-nationalist, cultural and/or religious concerns significantly shape the organization and production of space.[519] Within the conflict literature, this marks a major difference from cities in liberal democracies where urban production normally follows a logic of accumulation and inter-communal rivalries surface along socio-economic tensions and divides. As mentioned, this research seeks to question this dichotomy: in a paradigmatic conflict-shattered city such as Beirut, I will demonstrate that dimensions of accumulation and regulation do become intertwined with political-sectarian divisions in the mechanisms by which the built environment is produced. One of my most important findings is that formal interventions by the Lebanese state have been instrumental in making the political-economic dimension a significant one.

State analysis in the existing conflict literature is indeed primarily focused on the question whether urban policy contributes to peace and stability or, conversely, seeks to reinforce separation and domination.[520] State action, or non-action, has been a crucial influence on the control of land, the distribution of economic benefits and costs, and access to urban services,

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[518] Roy, 2009b; Roy, A. (2012). Urban informality: The production of space and practice of planning. In R. Crane, & R. Weber (Eds). The Oxford handbook of urban planning. New York: Oxford University Press

[519] Bollens, S. (1998a). Urban policy in ethnically polarized societies. *International Political Science Review / Revue internationale de science politique, 19*(2), 187-215; Bollens, S. (2002). Urban planning and intergroup conflict: Confronting a fractured public interest. *Journal of the American Planning Association, 68*(1), 22-42, p. 22

[520] Bollens, 1998a

infrastructure and the city polity.[521] Government policy is also critical to expression of inclusive or exclusive collective identities and extension of existing power relations through the moulding of the built environment.[522] Schematically, the conflict city scholarship places specific emphasis on the way in which planning practices formalize socio-spatial configurations and, accordingly, engage the state in perpetuating or reducing inter-group rivalries.[523] Urban policy, on the one hand, is judged to be "capable of making distinct contributions to national peace-building and can supplement and catalyze transitional paths toward democracy."[524] On the other hand, it may also be "derivative of fundamental and often divisive ideologies" that reinforce political control and ethno-nationalist separation and/or domination.[525] The work of Oren Yiftachel has notably documented this second scenario. Through his conceptualization of the "dark side of planning," the Israeli scholar has shown that the national and/or subnational state, generally in the hands of the dominant group, can use the cultural, procedural, territorial and socio-economic dimensions of planning to "enhance ethno-national collective identities," make the territorial domination of the most powerful group more irreversible, and "deny particular [weaker] groups access to rights and services."[526] Urban policy was for instance used for discriminatory purposes in Algeria and Morocco under French colonial rule, in South Africa during the apartheid era, as well as, more recently, in a number of cities in Israel and the Occupied Palestinian Territories, and in the city of Mostar in Bosnia and Herzegovina. In sum, while traditional critical urban scholars have drawn attention to the ways in which "the modern state often advances the interests of social elites and dominant groups" in Northern urban environments, Yiftachel and other divided city theorists analyze how ethno-cultural and/or religious motivations can prevail in the way in which the state shapes and directs the organization and production of space.[527]

Section four has explored block three of my conceptual framework: urban policy analysis. It has specifically sought to identify the theoretical and methodological tools necessary for

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[521] Bollens, 1998a, p. 193; Bollens, S. (1998b). Ethnic stability and urban reconstruction: Policy dilemmas in polarized cities. *Comparative Political Studies, 31*(6), 683-713, p. 686

[522] Yiftachel, O. (2009a). Critical theory and gray space: Mobilization of the colonized. *City*, *13*(2), 246-263

[523] Gaffikin, F., & Morrissey, M., (2011). *Planning in divided cities collaborative shaping of contested space*. Hoboken, NJ: Wiley-Blackwell Publishers; Roy, A. (2011). Slumdog cities: Rethinking subaltern urbanism. *International Journal of Urban and Regional Research, 35*(2), 223-238; Schneider, J., & Susser, I. (2003). *Wounded cities destruction and reconstruction in a globalized world*. Oxford, UK: Berg Publishers; Watson, 2012, p. 95; Yiftachel, O. (1998). Planning and social control: Exploring the dark side. *Journal of Planning Literature*. *12*(4), 395-406

[524] Bollens, S. (2008). Urbanism, political uncertainty and democratisation. *Urban Studies, 45*(5-6), 1255-1289, p. 1255.

[525] Bollens, 1998b, p. 685; Bollens, 2002, p. 22; Gaffikin and Morrissey, *op. cit*., p. 4

[526] Yiftachel, 1998; 2006, p. 217; Yiftachel, 2009a; Yiftachel, O., & Yakobi, H. (2003). Control, resistance and informality: Urban ethnocracy in Beer-Sheva, Israel. In N. Al-Sayyad & A. Roy (Eds). *Urban informality: Transnational perspectives from the Middle East, Latin America and South Asia* (pp. 111–133). Boulder, CO: Lexington Books

[527] Yiftachel, 1998, p. 403

analysis of the role of the state in organizing urban production and in connecting the property market to the reproduction of capitalism. On the one hand, I have defended my choice to situate my research within the body of Northern critical urban studies, which assesses state action primarily through its formal action in the institutional design of urban production. On the other hand, I have position this approach *vis-à-vis* the existing scholarship on state action in the building processes of metropolises of the Global South. I closed by reviewing the divided city scholarship and recent works on 'informality from above' in post-colonial urban theory.

Conclusion

This conceptual chapter attempted to situate research on the political economy of 'pegged urbanization' in post-war Beirut within the field of urban studies and, more generally, of the social sciences. It introduced the multilevel and multidisciplinary theoretical framework on which I base my institutional approach to demonstrate why and how urban production in Beirut is embedded in the wider transformations and reproduction of Lebanese capitalism. First, the chapter identified the social production of capitalist economies as this thesis' key intellectual foundation. Second, it critically reviewed the three complementary conceptual blocks in which I ground the concept of 'pegged urbanization' and to which I will refer in the multiple analyses I conduct as the dissertation moves ahead. The theoretical contributions identified in each block will help me, respectively, to examine the mutations of Lebanon's post-war capitalism, analyze urban production in Beirut and its connection to regime regulation, and unravel the formal role of the central state in this process. As explained in the introduction, anchoring this thesis in a conceptual and methodological apparatus originating primarily in Euro-American social theory has been a deliberate choice based on the significance of the elite dimension, growth politics and financialization dynamics to the restructuring of Beirut over the past quarter century. In this way, I follow the school of thought in urban studies that recognizes the "travelling capacity" of Northern theories to explain and conceptualize some of the political-economic dimensions of urbanization in Southern cities and metropolises opened to globalized and financialized capitalism.[528]

[528] Healey, 2012

PART TWO ❖ THE REGULATION-URBANIZATION NEXUS

Part Two seeks to illuminate the concrete mechanics of the regulation-urbanization nexus. Its institutional account of the interdependence of city-level property-led development and country-level regime regulation is divided into three chapters. Chapter 3 examines the mutations of Lebanese capitalism since the early 1990s. It shows the regulation challenges faced by the state in its attempts to secure monetary and financial stability and economic growth in the short term, and just why its rentier and increasingly financialized mode of development is unsustainable in the medium-to-long term. Chapter 4 uncovers the actual nexus by teasing out the elements of regime regulation which are critical to the shaping of urban production, and the ways in which, urban production is, in turn, instrumental to regime stability. In this way, it brings to light the cross-level feedback loop in which the property market is the peg or, more precisely, the key meso-institution attaching urbanization to regulation. Finally, Chapter 5 demonstrates the state's orchestration of the regulation-urbanization nexus through its design of the property market's institutional structure. This was achieved with at least three policy instruments: the making of legal, regulatory, and tax frameworks; the rearrangement of housing-related public entities; and decisions of the Central Bank. The Lebanese state is thus portrayed as the primary agent in the social construction of 'pegged urbanization' in post-1990 Beirut.

Chapter 3 – From the 'Merchant Republic' to the 'Banker Republic:' The Mutations of Post-War Lebanese Capitalism

As discussed, Beirut's gateway position between the Mediterranean Basin and Western Asia and its history of emigration and foreign occupation has long put Lebanon on the map of transnational networks in the Middle East and beyond. This openness to the world, both literally and figuratively, has largely contributed to the wealth and success, but also to the dependency and vulnerability of this small country's economy. In the second half of the 20th century, well before neoliberal globalization triggered fierce competition for private investment, an entrepreneurial and moneyed diaspora and local bourgeoisie, the rise of the regional oil industry, the persistence of neighbouring autocratic regimes and regional wars, and the building of solid financial and trade sectors had resulted in significant financial inflows to the newly independent 'Merchant Republic.' By the time Lebanon emerged from war in the early 1990s, its ability to lure external financial resources had unsurprisingly established itself as the pivot of an elite redevelopment strategy: one that by the turn of the 21st century had turned a land of merchants and entrepreneurs into a 'Banker Republic.'

A high level of integration with the world economy and relatively easy access to capital are regularly portrayed as the main comparative advantages of Lebanese capitalism; nevertheless, the investigation of the country's political economy carried out in this chapter shows that they are also a curse, with manifold adverse implications for the country's economy and society. To explain why and how this is the case, this study unpacks its system of accumulation and mode of social regulation and reveals the post-war amplification of its rentier and finance-led traits. This intensification seems to be a direct outcome of the 1990s reconstruction strategy, the aim of which was to restore the country's financial attractiveness. In the past quarter century, then, Lebanon's monetary and financial stability, and economic growth, have become increasingly contingent on the capacity of its economy to secure a positive balance of payment (BOP) through the channelling of external financial resources. The resultant high level of money supply in the financial system has, in many ways, brought about the further financialization of domestic wealth, both creation and distribution. I argue that this finance-oriented system of accumulation, relying as it does on both external and domestic rents, remains fundamentally unsustainable in the medium-to-long term and that it requires a great deal of social regulation to secure its reproduction and avoid crisis in the short term. In doing so, I identify the features, agents and challenges of post-war Lebanese capitalism which link urban production so crucially to regime regulation.

Section one below briefly reviews the main characteristics of Lebanon's growth regime in the periods before and during the war. Section two comprehensively analyzes the country's post-war system of accumulation. Section three, finally, delves into the process of social regulation that has allowed the ruling elite, over the past two decades, to secure short-term monetary and financial stability and sustain economic growth.

3.1 The 'Merchant Republic:' The Prevalence of Transnational Trade and Finance in the Pre-War and War Periods

The foundations of Lebanon's contemporary regime of accumulation were laid down in the follow-up to 1943 independence and remained in place during the civil war. In this first section, I briefly examine the combination of political and economic factors that, prior to the 1990s, led to the formation of a rentier and finance-led economy.

3.1.1 Political and Economic Liberalism: A Prerequisite to Attracting Capital and Capital Holders

The area of what is now Lebanon has a tradition of trade, entrepreneurialism and cosmopolitanism dating back to the Phoenicians. Its maritime façade and port facilities on the edge of the Western Mediterranean and the Arab hinterland historically contributed to the rise of cities such as Beirut, Saida, Byblos, Tripoli and Tyre, all hotspots of commercial exchange. In the wake of 1943 independence and on to the 1990s the strengths of this historical and geographical legacy were exploited, as the country's political and economic system was liberalized. The result was Lebanon's present role as one of MENA's leading economic and financial hubs and pioneers of globalization. The fathers of the First Lebanese Republic, some of the most important of which were Michel Chiha, Bechara El-Khoury and Riad El-Solh, swiftly laid the foundations of a *laissez-faire* economy: as early as 1948 they had liberalized the circulation of commodity, currency and capital markets. At the same time, they established a consociational political regime (see Chapter 1) held together by the most important liberal institutions: a legal system respectful of individual rights and a pro-business environment supportive of the private sector.[529]

In the 1950s to 70s, the coupling of political and economic liberalism allowed the young Lebanese Republic, historian Albert Hourani's "Merchant Republic," to attract the wealth, know-how and culture of a number of Levantine capitalists, intellectuals and political activists. Many had fled Syria, Iraq and Egypt where revolutions and coups d'états had established the popular but autocratic Ba'athist and Nasserist regimes. The latter controlled local economies and followed socialist precepts frequently not shared by the local bourgeoisie. Many economic elites emigrated to more liberal regimes, including Lebanon. In parallel, successive waves of Palestinian refugees, expelled from the former Mandatory Palestine by consecutive Arab-Israeli wars (1948, 1967, 1973), brought to Beirut a number of rich businessmen who contributed significantly to the local economy. The prevalence of state dirigisme, economic planning, authoritarian regimes and conflict in the Middle East, in other words, contributed significantly to Lebanon's liberal image and benefited its economic apparatus.[530]

3.1.2 The Rise of Financial Intermediation in Pre-War Years

Pre-war Lebanon's growth regime can generally be characterized by trade activity and the emergence of financial intermediation. Between 1950 and the early 1970s, due mostly to increased money inflows, the national per capita income increased steadily and its annual rate of GDP growth averaged six to seven percent.[531] Its structure of economic growth was thus already trade-, service- and bank-oriented, albeit to a lesser extent than it is today: trade contributed the largest share to value creation, accounting for 30 percent of GDP in 1970. Interestingly, industrial contribution had risen by this time to 17 percent, agriculture to nine.[532] Another sector

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[529] Makdisi, S. (2004). *The lessons of Lebanon: The economics of war and development*. London, UK; New York, NY: I.B. Tauris, p. 13; Makdisi, S. (2007). Rebuilding without resolution: The Lebanese economy and state in the post-civil war period. In L. Binder (Ed.), *Rebuilding devastated economies in the Middle East*. New York, NY: Palgrave Macmillan, p. 99

[530] Makdisi, 2004, p. 4; Nasr, S. (1978). Backdrop to civil war: The crisis of Lebanese capitalism. *MERIP Reports*, 73, 3-13, p. 3; Nadim Shehadi, personal communication, June 13, 2014

[531] Economic experts have diverse opinions on Lebanon's GDP performance in the pre-war period. On the one hand, Toufic Gaspard (2004, p. 222) finds it not particularly good in either absolute or relative terms. It could have performed better, he explains, in view of the country's previously mentioned advantageous conditions. Similar, and sometimes higher, growth rates were recorded in non-oil neighbouring countries (e.g., Syria, Egypt). On the other hand, Samir Makdisi (2004, p. 14; 2007, p. 100) saw in this GDP growth a robust performance in the context of emerging domestic and regional political tensions and, more generally, in view of the galloping inflation and exchange restrictions that constrained economic growth in many developing economies. (Gaspard, T. K. (2004). *A political economy of Lebanon, 1948-2002: The limits of laissez faire*. Leiden, Netherlands; Boston, MA: Brill)

[532] Makdisi, 2004, p. 15

increasingly key to wealth creation was services, including financial intermediation, which totalled 22 percent.[533]

From the 1950s onwards, the primacy of political and economic liberalism allowed newly independent Lebanon to position itself as an indispensable financial intermediary. Beirut became a prime financial hub and information center for commercial intelligence in the Eastern Mediterranean and beyond.[534] In the aftermath of the 1956 Bank Secrecy Law, significant capital inflows found their way to a sophisticated banking system whose rapid expansion contributed to the country's *cliché* reputation as the 'Switzerland of the Middle East.'[535] The local financial intermediation industry performed two major activities for both Lebanese and foreign banking organizations.[536] On the one hand, banks collected the wealth of oil-enriched Gulf and Levantine elites, and of the Lebanese diaspora doing business in North and South America and Africa. On the other hand, according to US scholar Clement H. Moore, banks facilitated the region- and worldwide trade activities of local merchants by offering a range of financial services (e.g., provision of letters of credit, short-term loans).[537] Domestic financial markets remained dysfunctional, however, and the financial industry in general was not well regulated and already opaque: many banks were under-capitalized and offered low-quality investment portfolios.[538] Recurrent mismanagement in the banking sector, which culminated with the locally famous 1966 bankruptcy of the Palestinian-owned Intra Bank, increasingly pushed the Banque du Liban (BdL) to deploy a regulatory framework of prudential and monetary instruments.[539] Overall, the massive channelling of non-resident capital allowed Lebanon to secure an "almost continuous balance of payments surpluses" that contributed to sustained GDP growth and apparent financial and monetary stability.[540] Inflation was under control and confidence in the Lebanese pound (LBP), supported by foreign reserves, stabilized the exchange rate.[541]

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[533] *Ibid*. The services sector includes financial and non-financial services, such as transportation and communication.
[534] Moore, C. H. (1987). Prisoners' financial dilemmas: A consociational future for Lebanon? *The American Political Science Review*, *81*(1), 201-218, p. 204; Traboulsi, F. (2014). *Social classes and political power in Lebanon*. Beirut, Lebanon: Heinrich Böll Foundation, p. 25
[535] The bank deposits-to-GDP ratio already reached 122 per cent in 1974 (Nasr S., 1978, p. 4)
[536] Traboulsi, 2014, p. 80
[537] Moore, 1987, p. 204
[538] *Ibid*
[539] According to Clement Henry Moore (1987, p. 205), Intra Bank was mismanaged and exposed to a recurrent risk experienced in the Lebanese banking sector: an asset-liability mismatch. The bank "engaged in too much long-term lending of short-term deposits", in other words, and faced a liquidity problem as a run on its deposits prevented it from meeting its payments *(ibid)*.
[540] Makdisi, 2004, p. 16, 20; Nasr, S. (1989). The political economy of the Lebanese conflict. In N. Shehadi & B. Harney (Eds). *Politics and the economy in the Lebanon* (43-50). Oxford, UK: Centre for Lebanese Studies, p. 44
[541] Gaspard, 2004, p. 137; Makdisi, 2004, p. 15, 16, 20

The pre-war financial and cultural golden age, idealized visions of which still feed the nostalgic imaginary of generations of Lebanese, did not materialize in broad-based socio-economic development, however. The primacy of accumulation in Beirut-based trade and finance sectors meant for poorly generated wealth redistribution. Income and wealth disparities across social groups and regions surged and, as underlined in Chapter 1, the vertical and horizontal inequality[542] led, among other factors, the country to war in 1975.[543]

3.1.3 The Resilience of the Banking Industry During War Years

Despite a long series of political and military upheavals that provoked important demographic and socio-economic transformations, the 1975-1990 civil war did not shake the pillars of the post-independence *laissez-faire* economy. A predation-based, transectarian "militia economy," nevertheless, soon devoured it. Militia interests infiltrated its primary economic structures and organizations, and their control importantly contributing to the persistence of warfare for 15 long years.[544] The trajectory of the war economy can best be understood in two phases. Between 1975 and 1982, it remained open, with the private sector showing impressive resilience. Stimulated primarily by remittances, land transactions and drug and oil trafficking, the regular and black economy concomitantly thrived.[545] The economy entered a period of recession in the mid-1980s, yet, as the destruction of productive capacities, inflationary pressures, currency depreciation, and the reduction in capital inflows took their toll, plunging the balance of payments into deficit.[546]

The fate of the financial industry merits specific attention. Until the early 1980s, it saw a surge of unexpectedly rapid growth, the establishment of new banks, and continued funding of

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[542] According to British development scholar Frances Stewart (2002, p. 1-3; 2010, p. 2), horizontal inequalities refer to disparities among *groups* bound by ethnicity, religion or region. Moreover, this approach s not restricted to income: horizontal inequalities are viewed as multidimensional and their analyses take into consideration the uneven access to a series of political, economic, cultural and social resources. (Stewart, F. (2002). *Horizontal inequalities: A neglected dimension of development*. (Center for Research on Inequality, Human Security, and Ethnicity, CRISE, Queen Elizabeth House, University of Oxford. Working Paper No. 81). Retrieved from www3.qeh.ox.ac.uk/pdf/qehwp/qehwps81.pdf; Stewart, F. (2010). *Horizontal inequalities as a cause of conflict: A review of CRISE findings*. (Background Paper for the World Bank's World Development Report 2011). Retrieved from http://siteresources.worldbank.org/EXTWDR2011/Resources/6406082-1283882418764/WDR_Background_Paper_Stewart.pdf)

[543] Makdisi, 2004, p. 23; Nasr S., 1989, p. 44. According to Gaspard (2004, p. 175), the importance of capital income, which totalled about 55 percent of GDP against 37.5 percent for labour earnings, fuelled wealth disparities in the pre-war era.

[544] Gaspard, 2004, p. 210; Hourani, N. (2010). Transnational pathways and politico-economic power: Globalisation and the Lebanese Civil War. *Geopolitics, 15*(2) 290-311; Makdisi, 2004, p. 43; Picard, E. (2000). The political economy of Civil War in Lebanon. In S. Heydeman (Ed.). *War, institutions, and social change in the Middle East* (pp. 292-324). Berkeley, CA: University of Southern California Press

[545] Picard, E. (2005). Trafficking, rents, and diaspora in the Lebanese War. In C. J. Arnson, & I. Wi. Zartman (Eds.). *Rethinking the economics of war: The intersection of need, creed, and greed* (pp. 27-67). Washington, DC: Woodrow Wilson Center Press; Nasr S., 1989, p. 48

[546] Makdisi, 2004, p. 45, 60

the real economy through provision of medium and long-term loans.[547] Banking organizations simply relocated outside Beirut, where most of the fighting was concentrated.[548] At the same time, to diversify activity and secure business, a majority of Lebanese banks also opened branches abroad (e.g. Cyprus, France, UK, Switzerland).[549] Between 1975 and 1984, no bank failed. Clement H. Moore has identified a number of financial factors that explain this uncommon resilience, including the significance of interbank cooperation (e.g., mutual financial protection, information exchange), the steady flow of deposits (e.g., remittances, salaries from militias, hashish sales), the BdL-sponsored persistence of monetary stability, and sustained economic activity (e.g., increased industrial exports to Iraq and Saudi Arabia).[550] He also points to political factors, stressing the way in which financial cooperation within the transectarian elite and the mediatory role of bankers between political factions preserved the entire banking apparatus. Economist Ghassan Dibeh also points out the astonishing resistance of the banking sector to the violent monetary crisis that hit the Lebanese economy in the second half of the 1980s when just a few banks actually failed.[551]

This resilience, particularly within the banking sector, did not prevent a further increase in wealth and income inequality, however.[552] Apart from a number of warlords and entrepreneurs who became immensely rich through the 'militia economy,' socio-economic disparities dramatically worsened. A minority of well-off Lebanese who retained capital assets abroad, received remittances in US dollars (USD) and could frequently commute to other countries were increasingly separated from the majority who were severely tested by war-induced economic hardship and ruined by the 1980s currency collapse.

3.2 'The Banker Republic:' A Rentier and Finance-Based Regime of Accumulation in the Post-War Period

In any country emerging from the painful experience of war, the first years of peace, or at least of relative stability, are frequently instrumental in reorganizing political institutions, and the

[547] Makdisi, 2004, p. 60; Moore, 1987, p. 206
[548] Makdisi, 2004, p. 60
[549] Nahas, C. (2000). *Économie foncière et immobilière au Liban*. (Lettre d'information, No. 12). Beirut, Lebanon: CERMOC - Observatoire de Recherches sur Beyrouth et la Reconstruction, p. 2; Charbel Nahas, multiple personal communications, 2014-2016
[550] Moore, 1987, p. 206
[551] Dibeh, G. (2005). *The political economy of postwar reconstruction in Lebanon*. (Research Paper, UNU-WIDER, United Nations University (UNU), No. 2005/44). Retrieved from www.wider.unu.edu/publication/political-economy-postwar-reconstruction-lebanon (p. 14); Moore, 1987, p. 206
[552] According to Gaspard (2004, p. 175), the share of capital income reached 77 percent of GDP in 1987, compared to just 25 percent for private and public wages.

economic and financial apparatuses necessary to both the short-term needs of reconstruction and the long-term challenges of development. In Lebanon, key economic, financial and monetary decisions were made in the early 1990s to get the country back on track. All shared a common purpose: amplification of the extraverted regime of accumulation initiated post-independence. The endeavour to further financialize the domestic growth regime was pushed forward regardless of the profound transformations that had taken place since the mid-1970s in both regional and international political economies. With the dissolution of the Soviet Union and the 1980-90s neoliberal turn of the global economy, Lebanon's major attractive features (i.e., political and economic liberalism) had become part of the region's "actual mainstream."[553] Free market, financial intermediation and transnational exchanges were increasingly commonplace for MENA economies. In particular, new regional financial hubs such as Qatar and the United Arab Emirates had emerged, superseding Lebanon in the attraction and management of oil-related, interest-bearing capital. This series of political-economic upheavals did not discourage Beirut's ruling class from forging ahead to restore Lebanon's primacy as financial *entrepôt*. A large portion of the local elite saw the war as merely "an interruption of an otherwise strong process of growth and development."[554] Perhaps more than any other man, the late Prime Minister (PM) Rafiq Hariri embodied this vision and illusion. His ambition was clear: make Lebanon "the 'Singapore of the Middle East'" and turn Beirut into a first-order financial center equipped with "a sophisticated capital market channelling funds into the Middle East."[555] In the next section, I will explain just how, since the early 1990s, the objective of rebuilding the country's financial attractiveness at any cost has shaped financing of the local economy as well as its models of wealth creation and distribution.

3.2.1 Rebuilding Attractiveness: A Two-Pronged Financial Engineering Strategy

In order to put Lebanon back on the map, the post-war recovery plan deployed under the auspices of the newly elected PM Rafiq Hariri, and under the supervision of both the Syrian and

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[553] Gaspard, 2004, p. 210
[554] Gaspard, 2004, p. 212
[555] According to Sam Hakim and Saad Andary (1997, p. 232), Rafiq Hariri, for instance, confirmed this objective while addressing the World Affairs Council in Los Angeles, CA on December 20, 1996. (Hakim, S., & Andary, S. (1997). The Lebanese central bank and the treasury bills market. *Middle East Journal*, *51*(2), 230-241; Leenders, R. (2004). Nobody having too much to answer for laissez-faire, networks, and post-war reconstruction in Lebanon. In S. E. Heydemann (Ed.), *Networks of privilege in the Middle East: The politics of economic reform revisited*. (pp. 169-200). Basingstoke, UK; Hampshire, NH: Palgrave Macmillan, p. 170; Corm, G. (2007). Overcoming the debt trap in Lebanon: From a rent based economy to a productive economy. *Executive Magazine*. August. Retrieved from www.executive-magazine.com/business-finance/society/overcoming-the-debt-trap-in-lebanon-from-a-rent-based-to-a-productive-economy)

Saudi regimes, had two major components: infrastructure reconstruction and reinforcement of the country's financial attractiveness.[556]

On the reconstruction front, the Council for Development and Reconstruction (CDR), Hariri's planning arm, elaborated 'Horizon 2000:' a 10-year and USD 14.3 billion plan the initial ambition of which was eventually "a modest program of infrastructure upgrading that mostly centered around the capital."[557] A quarter century later, the public provision of electricity, water, sanitation and waste collection remain largely insufficient and/or problematic. To many observers, post-war infrastructure reconstruction generally focused on essential networks "for the private sector to regain its vigour and drive," ignoring basic development objectives.[558] In effect, actual achievements consisted of the rehabilitation of infrastructure critical to the national economy such as Beirut's international port and airport, major roads and basic telecommunication networks. The exclusive and controversial rebuilding of the Beirut Central District (BCD) by the private land company Solidere, initiated in parallel to 'Horizon 2000,' adopted a similar rationale and objectives (see Chapter 4).

On the financial and monetary front, policy efforts have followed a two-pronged recovery strategy: securing monetary stability through pegging of the national currency to the US dollar, and using bank financing of the public budget to enhance the financial sector's international competitiveness. It is this second, financial and monetary, component of the post-war recovery plan that merits further investigation here given its fundamental role in shaping the Lebanese regime of accumulation over the last 25 years.

3.2.1.1 The currency peg: an efficient but costly solution to secure monetary stability

In Lebanon, monetary instability, a legacy of the war, culminated in the 1992 speculative attack on the Lebanese pound, an attack that created further economic hardship and a political crisis ending in the fall of the first post-war government.[559] A stable nominal exchange rate being

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[556] Dibeh, G. (2002). The political economy of inflation and currency depreciation in Lebanon, 1984-92. *Middle Eastern Studies, 38*(1), 33-52, p. 2

[557] Gaspard, 2004, p. 211

[558] Gaspard, 2004, p. 212

[559] The Lebanese pound progressively collapsed throughout the 1980s as a result of capital flight and the increased demand for US dollars. Just after the war ended, in 1992, Lebanon faced a currency attack: in a few months, the Lebanese pound experienced 65 percent depreciation against the US dollar (Dibeh, 2002, p. 47; Gaspard, 2004, p. 193). Some knowledgeable observers confirm that this was a concerted attack on the national currency or "financially-driven coup:" the crisis-induced panic and rage in the population forced Omar Karameh, the first Prime Minister of the post-war era, to resign (Traboulsi, 2014). The general election that followed crowned Rafiq Hariri. Two decades later, this episode of sharp

the indispensable condition of monetary stability and thus financial attractiveness, the first priority of the post-war financial recovery strategy was to stabilize the national currency. The central bank and Rafiq Hariri's newly formed government did so by pegging the Lebanese pound to the US dollar, regardless of reservations expressed by the International Monetary Fund.[560] This critical policy choice had two major objectives.[561] From an economic perspective, Lebanese authorities sought to moderate inflation and sustain GDP growth. From a financial perspective, they set out to ease re-integration of the domestic financial sector into the international trade and financial systems, reassure non-resident depositors and investors, and secure domestic banks financing the public debt.[562] Given that the US dollar is generally the link to economies providing rent, the currency anchor was indeed a critical precondition of an extraverted financial system, one seeking the capture of financial resources.[563] As importantly, it reinforced the dollarization of that system, i.e. the possibility to deposit US dollars into Lebanese banks.

Essentially, the currency peg has forced the Banque du Liban to build up large foreign reserves in order to "signal stability to international capital."[564] The formation of a foreign liquidity cushion, which is common practice in Southern economies, is fundamental to prevention of currency attacks. It also acts as a guarantee against potential bank bankruptcies and offsets potential capital outflows.[565] The capture of foreign deposits by local banks through attractive

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devaluation, apart from enriching Lebanese and Arab speculators, is still viewed as a powerful political precedent: the ruling elite is highly aware of the tremendous financial, socio-economic and political damages that could be inflicted by another crisis in exchange rate (Charbel Nahas, multiple personal communications, 2014-2016).

[560] This key monetary decision was made by Michel El-Khoury (Governor of the central bank), Rafiq Hariri (Prime Minister), and Fuad Siniora (Minister of Finance) (Baumann, 2012b, p. 275). A fixed rate of 1507.5 LBP for one US dollar was finally set in 1998. (Baumann, H. (2012b) *Citizen Hariri and neoliberal politics in postwar Lebanon*. (Doctoral dissertation). SOAS, University of London. Retrieved from: http://eprints.soas.ac.uk/14240/1/Baumann_3400.pdf)

[561] Makdisi (2004, p. 100) pinpoints four indicators of dollarization: "(i) the ratio of deposits denominated in foreign exchange (primarily the US dollar) to total deposits; (ii) the ratio of credit extended in foreign exchange (again primarily in US dollar) to total credit; (iii) the ration of dollar denominated to total cheques cleared at the central bank; and (iv) the actual use of the dollar as a currency in circulation." However, dollarization was not new in Lebanon: the proportion of deposits in USD hovered around 30 to 40 percent in the pre-war era and progressed during the war as confidence in the Lebanese pound plummeted (Rashleigh, 2004, p. 36). (Rashleigh, B. (2004, January). Keeping the balance: The rate of dollarization is dropping, but is it still too high? *Lebanon Opportunities*. 35-37)

[562] Abdallah Attieh, personal communication, April 27, 2015; Baumann & Mouawad, *op. cit*., p. 76; Dibeh, 2005, p. 1; Taffin, C., Roy, F., Gonnet, L., & Nahas, C. (2010). *Real estate market activity and exposure of the financial sector in Lebanon*. Washington, DC: World Bank, Social and Economic Development Group, Middle East and North Africa Region, p. 4. As explained by Synaps researcher Rosalie Berthier (2017a), the peg allows a Lebanese bank to "exchange dollars to buy LBP denominated sovereign bonds, and convert its investment back into dollars at any given time, at an unchanged rate." (Berthier, R. (2017a). Abracada... broke Lebanon's banking on magic. In *Synaps Network*. Retrieved from www.synaps.network/abracada-broke)

[563] Faudot, A. (2014). Le régime rentier d'accumulation en Arabie Saoudite et son mode de régulation. *Revue de la régulation*. Retrieved from https://regulation.revues.org/11033. A large number of oil-producing economies such as Gulf countries anchor their currency to the US dollar to gain credibility, secure rent value and ease transactions (*ibid*).

[564] Baumann, H. M., & Mouawad, J. (2017). Wayn al-Dawla? Locating the Lebanese state in social theory. *Arab Studies Journal*, *25*(1), p. 75; Lapavitsas, C. (2009). *Financialization embroils developing countries* (Discussion Paper 14, SOAS, London). Retrieved from https://revistas.ucm.es/index.php/PADE/article/download/.../21280

[565] Berthélemy, J.-C., Dessus, S., & Nahas, S. (2007). *Exploring Lebanon's growth prospects* (World Bank. Policy Research Working Paper, No. 4332). Retrieved from https://openknowledge.worldbank.org/handle/10986/7316?locale-attribute=en (p. 8); Gaspard, T. (2017). *Financial crisis in Lebanon*. (Konrad Adenauer Stiftung – Maison du Futur. Policy Paper No. 12). Retrieved from www.kas.de/wf/en/33.49929 (p. 5); Jaffe, J. (2008b, June). No place to go but up. *Lebanon Opportunities*. 26-27

dollar spreads, the high rate of reserve requirements[566] imposed upon local banks, and the supply of generously remunerated USD-denominated Certificates of Deposits and Eurobonds all contributed to the central bank's ability to expand its foreign liquid assets.[567] By the end of 2015, BdL-held foreign reserves reached about USD 34.5 billion.[568] Apart from its role in securing monetary stability, this reserve is a crucial element to keep in mind since, on several occasions, it has allowed the central bank to intervene in the financing of the property market (see Chapters 5 and 8).

Overall, monetary stability, key to confidence in the Lebanese financial system both domestically and internationally, is viewed as a "major political and economic achievement" of the post-war recovery strategy.[569] Yet, as mentioned, it has turned out to be immensely costly. In particular, it has increased Lebanon's dependence on capital imports, impeded the financing of the real economy, and forced the Central Bank of Lebanon to finance the considerable amount of foreign liquidity the scheme requires.[570]

3.2.1.2 The debt-financing of state budget: a controversial strategy to finance reconstruction and attract capital resources

The second dimension of the Lebanese early 1990s financial recovery strategy was the financing of large budgetary deficits through increasing recourse to bank debt. The country emerged from war with a debt that was limited in absolute terms (i.e., to USD 3 billion) but significant in relative terms (i.e., about 50 percent of GDP).[571] State authorities quickly faced pressure to undertake reconstruction and state-building efforts as well as to finance the "massive

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[566] Reserve requirements are a central bank-controlled instrument of monetary policy. According the US Federal Reserve (2016), they refer to "the amount of funds that a depository institution must hold in reserve against specified deposit liabilities." These funds do not earn interest. The central banks of countries such as Canada and the UK impose no reserve requirement while those in the US fluctuate between 0 and 10 percent of bank liabilities. In Lebanon, reserve requirements amount to 15 percent in USD deposits and 25 percent in LBP deposits. (US Federal Reserve (2016). Reserve Requirement. In *US Federal Reserve Policy Tools*. Retrieved from www.federalreserve.gov/monetarypolicy/reservereq.htm)
[567] World Bank, 2015, p. 19
[568] World Bank, 2015. The 2008-2010 period was key to reconstituting nation's massive foreign currency reserves. As the head of the Association of Lebanese Banks Makram Sader (2010a, p. 73) indicates, the BdL especially intervened in the foreign exchange market to purchase surplus liquidity in USD. (Sader, M. (2010a, April). Banking on sound monetary and fiscal policies. *Lebanon Opportunities*. 70-75)
[569] Nahas, C. (2000b). The Lebanese financial sector: its economic function, its risks and its potential. In *Charbel Nahas' personal website*. Retrieved from www.charbelnahas.org/textes/Ecrits_sur_l%27economie/Economic_function_of_the_Lebanese_banking_sector.pdf (p. 5) The proportion of USD deposits fluctuated between 70 and 80 percent throughout the 1990s and 2000s prior to declining to 65 percent by August 2015 (World Bank, 2015, p. 19). Interestingly, the economist Nisreen Salti (2012, p. 10-11) found that periods of political turmoil, such as the 2005 assassination of former PM Hariri and the 2006 war with Israel, caused a transfer of deposits in LBP to deposits in USD. (Salti, N. (2012). *The economic cost of political instability*. Beirut: The Lebanese Center for Policy Studies. Policy Paper. Retrieved from https://www.lcps-lebanon.org/publications/1368539116-the_economic_cost.pdf)
[570] Equally importantly, the anchoring of the local currency to the US dollar has generally prevented Lebanon from having an independent monetary policy and the central bank from being a 'lender of last resort' (Bolbol, 1999, p. 1867). This is why the BdL has actively supported a gradual contraction of the dollarization rate in the past 15 years as a path to re-establishment of monetary leeway. (Bolbol, A. (1999). Seigniorage, dollarization and public debt: The Lebanese civil war and recovery experience. *World Development, 27*(10). 1861-73)
[571] Roger Melki, multiple personal communication, 2014-2016; Corm, 2007

distributive and rent-seeking predatory activities" bound up with post-Taif sectarian politics.[572] Two options were on the table: either enlarge a narrow tax base and supplement this with some form of foreign assistance, or finance public spending predominantly through the external capital available to Lebanese banks. In 1993, the government passed a tax reform lowering domestic fiscal revenues. This policy choice *de facto* validated the principle of covering state deficit through debt instruments, for which "Rafiq Hariri's reputation" had to serve "as personal collateral."[573] In concrete terms, the decision was made to finance "post-war reconstruction and fiscal expenditures through debt rather than through taxes on the wealthy."[574] A generation later, this strategy has resulted in a "perennial fiscal crisis:" Lebanon has become one of the most heavily indebted countries in the world with a debt totalling USD 70 billion in 2015, i.e., 144.5 percent of GDP and about USD 18,000 per inhabitant.[575] The debt is primarily short-term with three-year maturity bonds representing 88.7 percent of subscriptions. It is issued mostly in local currency: 62 percent of the stock is denominated in LBP through Treasury bills and Certificates of Deposits and 38 percent in foreign currency, mostly USD, through Eurobonds.[576] Unsurprisingly, debt service has become the government's single largest expense.[577]

Local ownership and elevated remuneration

The Lebanese public debt has two major characteristics: its local ownership and its elevated remuneration.[578] First, the Lebanese banking industry, particularly the seven largest banks, indirectly control more than 80 percent of the sovereign debt when reserve requirements

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[572] Dibeh, 2005, p. 11. In the 1990s, public spending notably included the rebuilding of infrastructure, the dismantling of militias and reformation of the army, the compensation of displaced communities, pay hikes for the public sector, etc.

[573] Leenders, R. (2012). *Spoils of truce corruption and state-building in postwar Lebanon*. Ithaca, NY: Cornell University Press, p. 229; Sader, 2010a, p. 70. The 1993 tax reform, which reduced income taxes for individuals and companies alike, crucially contributed to a lowering of fiscal revenues (Dibeh, 2005, p. 3).

[574] Dibeh, G. (2014, September). Wealth in Lebanon for whom, for what? *Executive Magazine*. Retrieved from www.executive-magazine.com/opinion/comment/wealth-lebanon

[575] Harvie, C., & Saleh, A. S. (2008). Lebanon's economic reconstruction after the war: A bridge too far? *Journal of Policy Modeling, 30*(5), 857-872, p. 858; World Bank, 2015, p. 16. The Lebanese government has never defaulted, even in periods of political turmoil.

[576] Byblos Bank (2015). *Lebanon This Week - Issue 393 (March 2-7)*. Beirut, Lebanon: Byblos Bank – Economic Research. Retrieved from www.byblosbank.com/about/economic-research. (p. 2); World Bank, 2015, p. 16. Ghassan Dibeh (2005, p. 15) indicates that local banks began to pressure the Lebanese government to issue Eurobonds in 1998. Their objective was to protect their balance sheets from the risk of currency depreciation, as an increased share of assets was invested in government securities and the economic environment gradually deteriorated.

[577] Standing annually at USD 4 billion, interest payments absorb two thirds of budgetary resources (Zbeeb, 2013b; Bathiche, 2006b). (Zbeeb, M. (2013b, February 11). For Lebanese Banks, State is Genie in a Bottle. *Al-Akhbar English*. Retrieved from http://english.al-akhbar.com/node/14932; Bathiche, H. (2006b, December). Donors reaffirm their commitment but... *Lebanon Opportunities*. 78-81)

[578] The ownership of sovereign debt by domestic banks is believed to limit the risk of external disinvestment and failure, as experienced in Argentina in 2001 and in Greece in 2012. It is also believed to reduce the influence of International Financial Institutions in domestic affairs. Nevertheless, Najib Hourani (2010, p. 291-292) stipulates that this Lebanese specificity did not prevent the IMF and the World Bank from exerting pressure on the government in the 1990s to deploy structural adjustment and privatization programs.

and the BdL's Certificates of Deposits invested in government bonds are included.[579] Concretely this means that "most of the government borrowing is financed through non-resident deposits [in Lebanese banks] sourced from the Lebanese diaspora and GCC countries."[580] This debt ownership structure is not random but the result of state decisions: up to 1997, the central bank forced Lebanese banks to invest 40 percent of their LBP-denominated deposits in government securities.[581] Second, the Lebanese public debt is very costly. The interest rates of sovereign bonds were, in particular, abnormally high between 1992 and 1998: they fluctuated between 18 and 42 percent.[582] Rates fell below 10 percent only after the 2002 Paris II international donor conference for Lebanon (detailed in the following section). As of January 2015, sovereign interest rates stabilized around 6.9 percent for Treasury-bills (T-bills) and around 6.41 percent for Eurobonds.[583] As explained in Chapter 4, this unconventional trajectory of public debt repayment has, over the past 25 years, significantly influenced the fluctuations in local property investment, especially in Beirut.

A contested instrument of financial attractiveness and rent creation

State budget dependency on local borrowing has proven to be key to securing the attractiveness of the Lebanese financial sector. In effect, the short-term maturity and elevated remuneration of sovereign securities have allowed Beirut-based banks to offer short-term, well-paying deposits, which themselves have been instrumental in luring flows of interest-bearing capital. The Hariri government's first public debt scheme has stabilized, in other words, the country's short-term financial management by ensuring the banking sector's liquidity and profitability.[584] Its unusual and costly 'overborrowing' strategy has, at the same time however, arguably served the private interests of a "restricted circle of cronies and key political figures"

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[579] Corm, G. (2005). L'économie libanaise, risques et perspectives. *Accomex*. Bi-monthly magazine of the Chambre de Commerce et d'Industrie de Paris, 63. Retrieved from www.georgescorm.com/personal/download.php?file=905.pdf. As of January 2015, Lebanese banks (50.4 percent) mainly detained government bonds, followed by the BdL (32.7 percent) and the public (16.9 percent) (Crédit Libanais (2015). *Weekly Market Watch – Issue No. 464*. Beirut, Lebanon: Crédit Libanais – Economic Research Unit. Retrieved from www.creditlibanais.com.lb/Content/Uploads/LastEconomicAndCapitalResearch/150704082333137.pdf (p. 5))
[580] Taffin et al., *op. cit.*, p. 4
[581] This requirement reached 70 percent during the war years (Bolbol, 1999, p. 1864).
[582] Corm, 2005, 2007
[583] Byblos Bank, 2015, p. 2. There is, nevertheless, a fundamental discrepancy in the perception of the actual cost of the public debt among stakeholders. Bankers and central bankers, on the one hand, focus on its *real* value, and consider it to be affordable with respect to Lebanon's country risk and inflation, especially in light of similarly rated emerging countries such as Egypt and Turkey (Berthélemy, Dessus, & Nahas, 2007, p. 8). Many economists, on the other hand, focus on its *nominal* value, i.e., the actual cost paid by the state, which is significant.
[584] Makdisi, 2007, p. 113

who control both the banking sector and state decision-making.[585] By resorting to local banks to finance the public budget, the ruling elite, whose members count among their major shareholders and large depositors, has been accused of producing a 'rent-creation mechanism' from which it has enormously profited.[586] A number of experts have pointed to the considerable cost of local bond-financing as "a systematic diversion of public wealth."[587] Previous research has shown that Lebanese authorities could have accessed cheaper financing on the international financial markets.[588]

3.2.2 The Dependence on External Money to Finance and Stabilize the Economy

The strategy adopted to rebuild post-war Lebanon's financial attractiveness has proven to be relatively successful. The country's financial apparatus has progressively regained its place in the region's transnational financial networks by channelling a portion of the "oil revenues surpluses accrued in Arab oil-producing countries."[589] In the process, its economy has regained its outward-oriented aspect: those unproductively earned, externally sourced payments have become critical to the domestic system of accumulation. The indirect and privately-controlled character of money inflows makes Lebanon one of the 18 rentier economies in the MENA region (but not a rentier state) whose comparative advantages, according to economist Toufic Gaspard, are its diaspora, privileged geographical location and pro-growth institutional structures.[590] To better understand the dynamics underlying Lebanon's reliance on external financial resources, the following section analyzes the pace and determinants of its money flows and the multiple push and pull factors that together create its financial attractiveness. It concludes with a typology of the financial streams feeding the Lebanese economy.

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[585] Baumann, 2012b, p. 275; Hafez, Z. (2009). The culture of rent, factionalism, and corruption: A political economy of rent in the Arab World. *Contemporary Arab Affairs*, *2*(3), 458-480, p. 478

[586] Hariri's Bank Med Holding, for example, is believed to have "received approximately one billion dollars in interest on these [Treasury] bills between 1994 and 2000 alone" (Baumann, 2012b, p. 275; Baumann & Mouawad, *op. cit*., p. 75).

[587] Hafez, *op. cit*., p. 478. Economist Toufic Gaspard (2004, p. 218) estimated the overcharge of interest on public debt at USD 16 billion in 2004 when extra interest paid by the Treasury and the central bank (through Certificates of Deposits), swap transactions and corruption were included.

[588] Hakim and Andary (*op. cit*., p. 234) argue that Lebanese authorities issued Eurobonds at lower rates and received enthusiastic welcome on the international capital markets.

[589] Hafez, *op. cit*., p. 477

[590] Gaspard, 2004, p. 180; Jenkins, J. C., Meyer, K., Costello, M., & Aly, H. (2011). International rentierism in the Middle East and North Africa, 1971-2008. *International Area Studies Review, 14*(3), 3-32, p. 24

3.2.2.1 A balance of payments sensitive to oil prices, monetary policy and political-economic events

An economy's balance of payments is the indicator normally used to monitor all incoming and outgoing money flows from the economic and financial transactions of agents, resident and non-resident (e.g., firms, households, public administrations). In post-war Lebanon, the BOP generally showed surplus until 2010 (see Chart 3.1 below). The balance of trade, however, a key component of the BOP, has been in structural deficit. This mismatch is characteristic shared by a small number of countries living off indirect rent: even while imports of goods and services exceed exports, their balance of payments remains positive. As such, incoming financial transfers, investments and placements are key to the ability of the local growth model to compensate trade deficits, but also to secure financial and monetary stability and to finance accumulation through consumption and service activity. This external form of rentierism, however, entails 'secondary dependency:' it renders the stability and expansion of local capitalism highly vulnerable to variations in money inflows.[591]

Three factors generally determine the trajectory of the Lebanese BOP and, thus of the economy as a whole: the evolution of oil prices on international commodity markets (see Chart 3.2); the Banque du Liban's monetary policy; and domestic, regional, and global political and economic shocks and developments.[592] Chart 3.1 shows that since the early 1990s, the trajectory of Lebanon's BOP seems to be divisible into four phases.

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[591] Chaaban, J., & Gebara, K. (2007) *Development in a polarized society: Looking at economic and social development in Lebanon through a different lens*. (Abaad. 11, Lebanese Center for Policy Studies (in Arabic)). Retrieved from http://jadchaaban.com/wp-content/uploads/2015/06/Development-in-a-Polarized-Society.pdf (p. 3, 8)

[592] International Monetary Fund (2012). *Lebanon: Selected issues*. Washington, DC: IMF Country Report No. 12/40. Retrieved from www.imf.org/external/pubs/ft/scr/2012/cr1240.pdf (p. 20)

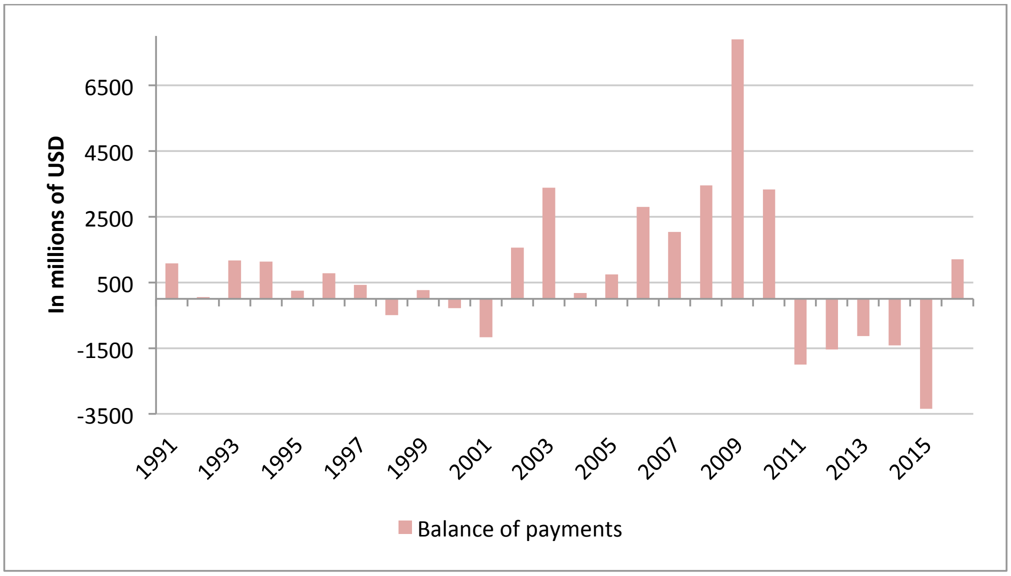

Chart 3.1 – Lebanon's balance of payments (1991-2016)
(In millions of US dollar) (Source: Daou, 2016[593] | Chart: Author)

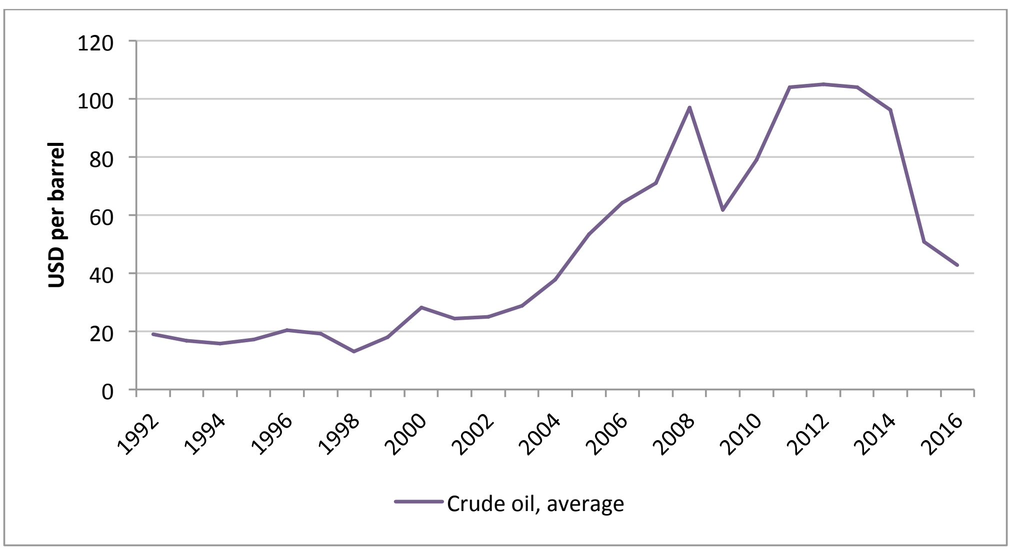

Chart 3.2 – Crude oil price (1992-2016)
(Source: World Bank, 2017[594] | Chart: Author)

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[593] Daou, R. (2016a). Lebanon's balance of payments deficit in 2015: The highest in more than two decades. In *BlomInvest Bank*. *The Research Blog*. February 10. Retrieved from http://blog.blominvestbank.com/lebanons-balance-of-payments-deficit-in-2015-the-highest-in-more-than-two-decades/)

[594] World Bank (2017). *Commodity markets* [Data file]. Retrieved from www.worldbank.org/en/research/commodity-markets

The first phase was characterized by modest surpluses. In the early 1990s, the combination of high interest rates, a relatively stable exchange rate (after the 1992 crisis) and the prospect of a post-war economic boom fuelled the confidence of non-resident capital holders (i.e., diaspora members and foreigners) and allowed a back-to-the-country movement of capital. Financial inflows totalled more than USD 25 billion between 1993 and 1997, despite the relative stagnation of crude oil prices at about USD 20 per barrel.[595]

This was followed by a second phase of moderate BOP deficits, between 1997 and 2001. Throughout the 2000s, phase three saw a rise in the proportion of incoming financial flows for two major reasons. The first was the salvage of Lebanon's financial system by the Paris II international donor conference, which renewed the confidence of non-resident depositors and investors. The second was the boom of the world economy, which included a surge in commodity markets (i.e., oil, metal, food), tremendously boosting the circulation of liquidity in the region and beyond.[596] Money inflows reached their peak in the late 2000s when the US-originated financial crisis devastated most regional and global financial hubs and stock markets. Lebanon, whose banks had limited exposure to international financial markets due to their massive placements in sovereign securities, was then one of the few financial centers that managed to attract capital by maintaining relatively attractive deposit remuneration. The country's BOP consequently recorded a massive influx of cash at that point and concluded, in 2009, with a historic surplus of USD 7.9 billion.[597] Interestingly, the limited capital outflows in the wake of the 2005 Hariri assassination and the 2006 July War did not affect the upward BOP trajectory.[598]

The final phase was triggered by a brief but sharp fall of oil prices in 2009-2010, when rent revenues began to dwindle. The contraction of financial inflows created a BOP deficit in 2011, despite the rapid upward readjustment of oil prices. The decoupling of Lebanon's BOP and the price of oil may have been brought about by the breakout of the war in Syria, which destabilized Lebanon's political and business environment. Indeed, conflict-induced uncertainty and the domestic political deadlock have drastically increased the perception of country risk. In spite of the relatively high remuneration of Beirut-based banks, the continuing political upheaval

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[595] Bolbol, 1999, p. 1862; Nahas, 2000b, p. 3

[596] Crude oil prices, for example, skyrocketed to more than USD 100+ a barrel.

[597] Al-Attar, S. (2016, January). Riad Salamé estime la croissance à moins de 1 pourcent en 2015. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/node/25728?utm_source=twitterfeed&utm_medium=twitter

[598] The country faced, for instance, a USD 2.2 billion outflow in deposits in the aftermath of Rafiq Hariri's assassination (Executive Magazine Staff, 2008). (Executive Magazine Staff (2008, June). Dr. Freddie Baz: A look at the Lebanese banking sector with a top industry strategist. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/society/dr-freddie-baz)

has certainly repelled a number of diaspora and foreign capital holders who have redirected their placements and investments to other financial centers where the perception of risk is lower. The BOP totalled an USD 3.4 billion deficit in 2015 but recovered and posted a USD 1.2 billion cumulative surplus in 2016.[599]

3.2.2.2 The pull and push factors of Lebanon's financial attractiveness

Since 1990, Lebanon has managed to sustain its balance of payments through the massive financial transfers, placements and investments of diaspora members and foreign capitalists. This can be attributed to its restored monetary stability, well-remunerated public debt, and a series of domestic pull and external push factors that are discussed in more detail below.

Domestic pull factors: an efficient structure of financial incentives

Over the years, Lebanese public authorities and the banking sector have created an entrepreneurial environment and financial safe haven through laws allowing for bank secrecy and tax incentives, smart financial management, high remuneration and steadily increasing property values. First, from 1956 to 2016, total bank secrecy ensured an anonymous and legally secured system that successfully attracted significant external liquidity, particularly in the past 10-15 years when traditional havens such as Switzerland and Luxembourg have faced international pressure for more transparency.[600] An extensive network of Lebanese banks in 30+ countries has played a key role in collecting and transferring money back to Beirut.[601] Second, Lebanese authorities have proposed attractive tax incentives to facilitate inflows. This is especially true for bank deposits for which just a five percent tax is applied to interest.[602] Third, the Lebanese banking sector is perceived as "well-regulated, strictly supervised, and very conservative."[603] The central bank, indeed, attracts confidence in, and brings financial attractiveness to, the domestic

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[599] Byblos Bank (2017a). *Lebanon This Week – Issue 506 (September 11-16)*. Beirut, Lebanon: Byblos Bank – Economic Research. Retrieved from https://applications.byblosbank.com/library/assets/Gallery/Publications/LebanonThisWeek/Lebanon%20This%20Week%20506.pdf; Byblos Bank (2017b). *The Lebanese economy in 2016*. Beirut, Lebanon: Byblos Bank – Economic Research. Retrieved from www.byblosbank.com/Library/Assets//Gallery/Publications/TheLebaneseEconomy/Overview%20and%20Performance%20of%20The%20Lebanese%20Economy%20in2016.pdf

[600] The 1956 Bank Secrecy Law prevents all Lebanese bank and non-bank financial organizations, as well as the local branches of foreign banks, from revealing information about "their clients' names, assets, or holdings to any other party" (Makary, 2005). The Lebanese Parliament partially lifted bank secrecy in 2016 in response to international pressure to fight tax evasion and terrorism financing. (Makary, A. (2005, November). Shhhhhh…! Just how secret is banking really? *Lebanon Opportunities*. 58-61)

[601] International Monetary Fund (2015), *Background notes for the 2015 Article IV Consultation*. Washington, DC: IMF Country Report No. 15/190. Retrieved from www.imf.org/external/pubs/ft/scr/2015/cr15190.pdf (p. 52)

[602] Alain Bifani is quoted in The Daily Star (2017). (Daily Star Staff (2017, May 24). Bifani projects pre-crisis capital inflows. *The Daily Star*. Retrieved from www.dailystar.com.lb/ArticlePrint.aspx?id=407055&m)

[603] Marwan Barakat, personal communication, April 22nd, 2015.

financial system. It does this by securing enticing remuneration and accruing considerable foreign reserves.[604] It is also BdL policy not to transmit the cost of bank failures to depositors.[605]

Outside the banking sector, the fourth contributor to Lebanon's financial attractiveness is the perception of ever-increasing property values. Land and real assets, which benefit from lax legal and tax environments, are seen as lucrative placement and investment vehicles (see Chapter 4). Finally, even though their importance should not be overestimated, cultural and historical factors have contributed to the velocity of capital repatriation over the past two decades. The nostalgia-tinged attachment of Lebanese expatriates, Beirut-based financiers suggest, has been a motivation for incoming money transfers, placements and investments — a trend underlined by the literature on diaspora networks and capital flows.[606] Likewise, the 'cultural affinity' and 'economic familiarity' of Arab individuals and firms, as well as the economic information provided by Lebanese expats in their resident countries, have probably amplified money flows to Lebanon.[607]

External push factors: from investment restrictions to political instability

A number of economic and political push factors also draw capital to Lebanon. In particular, the country has been a prime destination for the revenues of diaspora members who cannot reinvest in their countries of residence. This is the case of Lebanese nationals living and doing business in Gulf countries, such as Saudi Arabia and Qatar, where foreigners face restrictions on purchase of local property and investment in local firms. Many transfer money back to Beirut. Equally importantly are the investment needs of foreign capital holders confronted with the lack of opportunities in their own countries. This is the case of Gulf nationals who, since most GCC economies offer limited opportunities to absorb oil-induced capital surpluses, frequently search for profitable vehicles in other MENA countries. The low interest-rate policy applied by major slow-growing Northern economies and world banking hubs over the past 15 years has, further, facilitated the repatriation of Lebanese and Arab financial assets to

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[604] Charbel Nahas, multiple personal communications, 2014-2016. This subtle management, according to most bankers met for this study, also explains why the 2008 financial crisis did not sweep the Lebanese financial system. While the quality of financial engineering in the Lebanese financial sector is generally a valid argument, the actual reason for which Beirut was spared, rather, lay in the banking sector's asset structure. Indeed, Lebanese banks primarily invest their resources in well-remunerated domestic public and private debt: accordingly, they were minimally exposed to junk derivatives and structured products traded on international financial markets when the crisis broke out.

[605] Berthélemy, Dessus, & Nahas, *op. cit*., p. 8

[606] Gillespie, K., Riddle, L., Sayre, E., & Sturges, D. (1999). Diaspora interest in homeland investment. *Journal of International Business Studies, 30*(3), 623-634; Leblang, D. (2010). Familiarity breeds investment: Diaspora networks and international investment. *American Political Science Review, 104*(3), 584-600.

[607] Gaspard, 2004, p. 146; Leblang, *op. cit*., p. 586

Beirut. This was especially true in the aftermath of the 2008 world financial crisis, which turned out to be an unexpected opportunity for the Lebanese economy: considerable flows of interest-bearing liquidity left international placements listed in New York, London and Geneva to find refuge in Lebanese banks. Moreover, increased control of capital circulation by the United States and the European Union to fight terrorism financing, illegal transactions and tax avoidance is also believed to have reinforced the position of Lebanon as a destination for suspicious funds seeking discrete asset management. This was despite increasing pressure placed upon the Beirut-based financial sector to do the same.

Also making Lebanon a prime financial destination over the past quarter century are regional and world political events. Recurring political instability in a number of African and South American countries with large Lebanese populations, such as Sierra Leone, Ivory Coast, Nigeria, Liberia and Venezuela, has regularly encouraged expatriates to transfer a sizeable portion of their assets back to Beirut.[608] World political events such as 9/11 have also presumably pushed a number of Arab nationals to repatriate money from the US to MENA destinations such as Lebanon in fear of worsening US-Arab relations. Likewise, threats of US sanctions on the Lebanese expat community in Africa over its suspected financing of Hezbollah in the wake of the July 2006 war may have encouraged a back-to-the-country movement of financial assets.[609]

3.2.2.2 The uneasy classification of financial inflows

Just as the reasons for the money inflow are various, so are its sources. Identifying, classifying and quantifying the financial streams is not an easy task, carried out as it is in the context of data paucity and financial opacity of Lebanese bank secrecy.[610] Yet, this study identifies three major sources that have sustained BOP surpluses and, more generally, shaped Lebanon's post-war regime of accumulation: short-term liquidity inflows, inbound remittances, and foreign direct investments.[611] Figure 3.1 ranks these in order of importance.

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[608] Nadim Shehadi, personal communication, June 13, 2014

[609] The US Treasury threatened to freeze the assets of a number of Africa-based Lebanese businessmen, predominantly Shia Muslims, suspected of laundering money for Hezbollah through illegal activities such as drug-smuggling and diamond-trafficking.

[610] Recurrent debates also oppose Lebanese economists and the Central Administration of Statistics (CAS) regarding the definition and the classification of external payments.

[611] The balance of payments has two major components: a capital account and a current account. Short-term capital inflows and foreign direct investments are kept in the capital account while remittances are recorded in the current account.

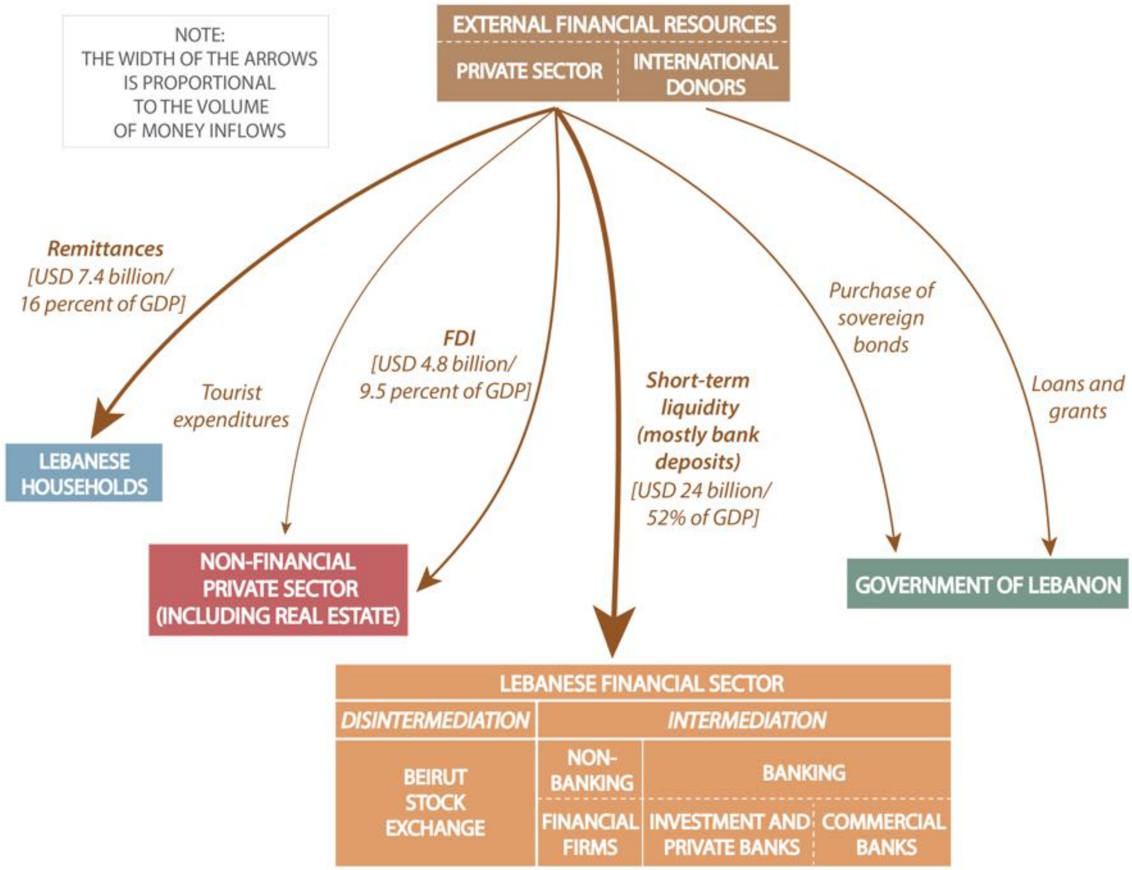

Figure 3.1 – The simplified structure of money inflows to the Lebanese economy
(Source: Author)

Liquidity inflows

Capital inflows include non-recurring capital placements by non-residents who seek to secure meaningful returns and diversify portfolios with Lebanon-based liquid assets. These exclude factor payments for capital (interest) and labour (wages) made abroad. In addition to variations in oil prices, the spread between local deposit rates and those offered internationally, and the level of foreign reserves stocked by the Banque du Liban, are key to calculations of the amount of money channelled through this stream.[612] In 2014 alone, it totalled USD 24 billion, the equivalent of 52 percent of GDP. The vast majority of transfers consisted of short-term deposits to commercial banks, which, in 2010, attracted the largest share of deposits in the Middle East.[613] Large providers of liquidity, in addition to major Lebanese businessmen, politicians and

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[612] Charbel Nahas, multiple personal communications, 2014-2016
[613] Jaffe, J. (2011b, March). The economy has no more underutilized capacity. *Lebanon Opportunities*. 22-26, p. 22

entrepreneurs, have been wealthy Lebanese expatriates, foreign banking organizations and fiduciary agents.[614] Depositors are usually familiar with the Beirut-based banking system: expatriates and businessmen as well as international finance professionals "know the country, […] how the [financial and monetary] system works, and who is behind it," explains an acute observer of the local financial system. This 'hot money' has critically contributed to domestic wealth creation by feeding the financial industry and, indirectly, the real estate and construction sectors, two major components of the country's GDP structure.[615]

Inbound remittances

Like countries such as Tajikistan, Lesotho, Mauritius and others in the MENA region that export labour, Lebanon finds in inbound remittances its second largest, and most regular, source of financial inflow.[616] As Chapter 1 lays out, waves of emigration have occurred since the second half of the 19th century, rapidly accelerating during and after the civil war. A study by the Université Saint-Joseph's Observatoire Universitaire de la Réalité Socio-économique (OURS) indicates that 1.4 million Lebanese expatriates, of the 10 to 12 million living worldwide, have been financially connected to the Lebanese economy in recent years.[617] The annual volume of remittances was USD 1.5 billion in 1990, the equivalent of 55 percent of the country's GDP. By 2014, it had reached USD 7.4 billion (i.e., about USD 1,700 per capita) but its percent of GDP fell to 16.2 (see Chart 3.3 below).[618] Personal communication with several experts indicates that this data does not include unofficial cash transfers, which are suspected of representing an additional 15 percent.

[614] The Hariri family, Mohammed Safadi, Najib Mikati, Issam Farès and Robert Mouawad, to name a few, are major depositors in the Lebanese banking system. A fiduciary agent is, for example, a Swiss bank depositing a portion of a client's savings at his/her own risk in a Lebanese commercial or private bank.

[615] The GDP structure or composition refers to the percentage breakdown of its contributing sectors.

[616] Remittances are financial and in-kind transfers sent by diaspora communities to their home country. According to the World Bank (quoted in Hudson, 2008), remittance flows are "more than twice as large as total development aid and represent the largest source of foreign exchange for numerous countries." These transfers are known for being less sensitive to regional and domestic political upheavals (Bathiche, 2011, p. 59). (Bathiche, H. (2011, February). Rates on deposits: Levelled off, but still interesting. *Lebanon Opportunities*. 55-59; Hudson, D. (2008). Developing geographies of financialisation: Banking the poor and remittance securitisation. *Contemporary Politics, 14*(3), 315-333)

[617] The study is cited in El-Khoury (2015a). 466.000 Lebanese nationals, including 77 percent in the age range of 18-35, are believed to have left the country between 1992 and 2007 (*ibid*). (El-Khoury, B. (2015a, June 11). Les transferts de la diaspora: Un atout en danger? *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/929151/les-transferts-de-la-diaspora-un-atout-en-danger-.html)

[618] UNCTAD statistics on annual migrants remittances quoted in Alieh (2013c). World Bank Database retrieved from: http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT/countries. (Alieh, Y. (2013c, August). Remittances foster the local economy. *Lebanon Opportunities*. 64-65, p. 64; El-Khoury, 2015)

As for the origin of the funds, 43 percent of total remittances registered in Lebanon have come from GCC countries, followed by North America, Western Europe and Africa.[619] Highly skilled young professionals form the group sending the largest amounts of cash, amounting to an average yearly level of USD 5,720.[620] These money transfers generally represent a substantial contribution to household consumption, savings and debt relief. Moreover, they are an essential "safety valve" in times of social crisis for a large number of Lebanese families, as was the case throughout the 2010s. For the banking sector, remittances are an important source of liquidity.[621]

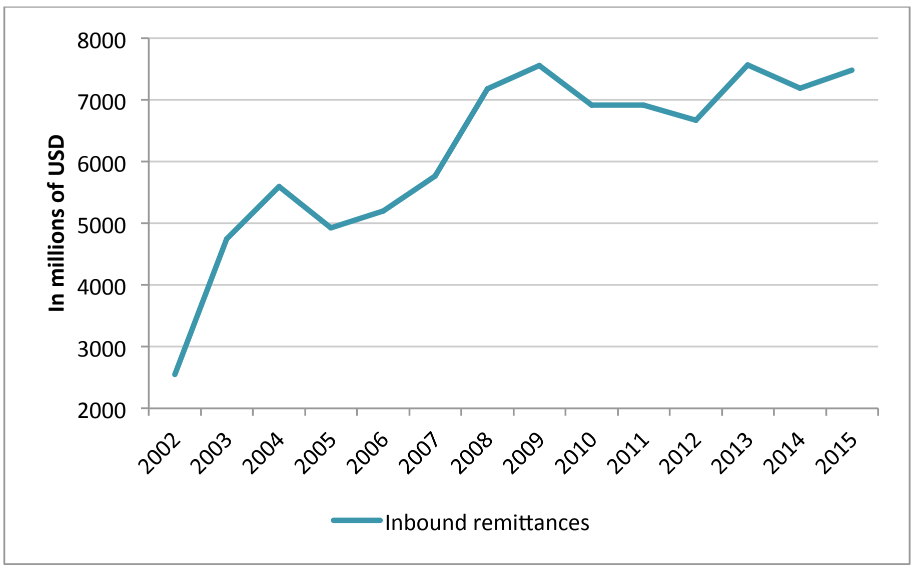

Chart 3.3 – Inbound remittances in Lebanon (2002-2015)
(Source: World Bank | Chart: Author)[622]

Foreign direct investments

Foreign direct investments are the third crucial rentier stream. Back in 2012, Lebanon was the "fourth largest FDI recipient from among 13 economies in West Asia, just behind Saudi Arabia, Turkey and the United Arab Emirates." More sensitive to political tensions and uncertainty than remittances and liquidity inflows, the volume of annual FDI totalled USD two

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[619] Rahbani, L. (2014a, November). Financial support from expats: Annual remittances exceed $7 billion. *Lebanon Opportunities*. 66-69, p. 66; Hage Boutros, P. (2015c, December 16). Les expatriés libanais attendent toujours une amélioration du climat des affaires. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/960464/les-expatries-attendent-toujours-une-amelioration-du-climat-des-affaires.html

[620] About 75 percent of Lebanese emigrants have "more than a graduate diploma (a university and a graduate diploma)" (Chaaban interviewed in Dhillon, 2009). The average yearly level of remittances indicated in this thesis was provided by Choghig Kasparian, former General Director of the Central Administration of Statistics, cited in Rahbani (2014a, p. 69). (Dhillon, N (2009, May 4). Global economic crisis: Prosperity and politics in Lebanon [Interview with Jad Chaaban]. In *Brookings*. Retrieved from www.brookings.edu/research/interviews/2009/05/04-lebanon-dhillon)

[621] Corm, 2005

[622] Solid data series on inbound remittances could not be found prior to 2002.

billion in 1990. Throughout the 1990s and 2000s it increased to a record USD 4.8 billion in 2011, equivalent to 9.5 percent of GDP.[623] It then dropped to USD 2.34 billion in 2015 (see Chart 3.4 below).[624] GCC countries, as well as France and Britain, have been the primary suppliers of foreign investments, particularly in the 2000s when the oil boom left Kuwaiti, Saudi, Qatari and UAE investors with massive excess liquidity.[625] Residential and tourism-oriented real estate in Beirut and on the coast have been the most attractive destinations for petrodollars over the past two decades.[626]

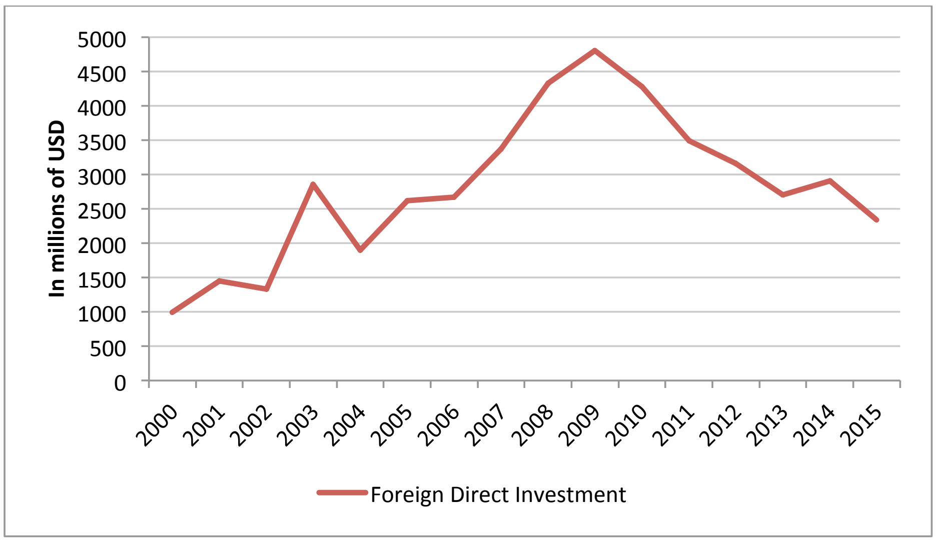

Chart 3.4 – Foreign direct investment in Lebanon (2000-2015)
(Source: World Bank[627] | Chart: Author)

Finally, three other streams of lesser significance have contributed to Lebanon's balance of payments. The first is tourism, which provided significant revenues in years of stability such as of 2009 when 1,851,081 tourists visited the country.[628] The second is financial assistance from international donors, comprising countries (e.g., Saudi Arabia, United States, France, etc.) and international organizations (e.g., Arab Monetary Fund, World Bank, etc.), which have frequently financed grants and loans. Donors, for example, pledged USD 659 million, USD 4.3 billion and

[623] Bathiche, H. (2012, August). The foreign owners. *Lebanon Opportunities*. 32-38, p. 33; Jaffe, J. (2011a, February). Proving again the economic mettle. *Lebanon Opportunities*. 20-23, p. 21
[624] UNCTAD (2016). *World investment report 2016. Investor nationality: Policy challenges*. Geneva, Switzerland: UNCTAD. Retrieved from http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf; World Bank, 2015
[625] Bathiche, 2012, p. 33; Jaffe, 2009, p. 78
[626] Through the Investment Development Authority of Lebanon (IDAL), Lebanese authorities have progressively provided a variety of tax incentives to stream investments into more productive sectors such as information and communication technologies, agribusiness, and industry.
[627] Solid data series on FDI could not be found prior to 2000.
[628] Figures from the Ministry of Tourism are cited in Jaffe (2010, p. 27). (Jaffe, J. (2010, March). Outshining other emerging economies: Against the flow. *Lebanon Opportunities*. 26-29)

USD 7.6 billion respectively during the Paris I, II and III conferences.[629] The final stream is created by the tremendous amount of political and illegal money regularly transferred from individuals, organization and governments abroad to Lebanese media and political parties.[630] A solid estimate is, not surprisingly, hard to provide.

In sum, Lebanon's generally positive balance of payments, at least until the early 2010s, can be seen as evidence that its post-war recovery strategy has indeed rebuilt the country's financial attractiveness over the past 25 years. A set of push and pull domestic and external factors have resulted in the regular streaming of a number of types of financial resources into the Lebanese economy. The financial boom of the second half of the 2000s even led to a situation of capital overavailability in the domestic financial system. The following section details just how this persistent channelling of money inflows has moulded the domestic accumulation regime.

3.2.3 The Growing Financialization of Wealth Creation and Distribution

Sustained financial inflows have helped to make post-war Lebanon's value creation increasingly finance-driven.[631] As mentioned, the significance of financial intermediation is not new: it has been one of the Lebanese economy's key features since independence. Throughout the past quarter century, and particularly in the 2000s, nevertheless, the *process* of financialization has transformed the entire system of accumulation. Lebanon has increasingly come to share a number of the traits of other extraverted, financializing economies of the Global South: a further integration into transnational networks of hypermobile, short-term and interest-bearing capital resources; insufficient financing of the real economy due to the primacy of finance-based value creation; fast-paced expansion of private debt; the spread of 'shareholder value' to households and non-financial firms; and the diffusion of equity-earning social relations, to name a few. The increasing centrality of financial rationales, measurements, vehicles and activities has amped up the role of financial agents, and changed the temporal horizon, performance and the organization of wealth creation in Lebanese society. It has of course also changed its trajectory of wealth distribution. To better understand the evolution of Lebanese

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[629] Jaffe, J. (2008a, April). Believing in the economy against all odds. *Lebanon Opportunities*. 24-29, p. 25; Guillis, E. (2003, May). Banks get personal. *Lebanon Opportunities*. 44-47

[630] US diplomatic cables published by WikiLeaks reveal, for instance, the extent to which international powers such as Saudi Arabia, Iran and the US have provided hundreds of million dollars of financial assistance to their Lebanese allies in the past 25 years (Ali, 2010). (Ali, M. H. (2010, December 8). Lebanon: The greed factor. *The Guardian*. Retrieved from www.theguardian.com/commentisfree/2010/dec/08/lebanon-funding)

[631] Economist Ghassan Dibeh (2005, p. 16) also underlines Lebanon's type of "finance-biased development;" however, to my knowledge, he did not elaborate on the explanatory power of the financialization and regulation literatures to capture the specifics of the growth regime at play.

capitalism, this study sheds light on three major features of its post-1990 regime of accumulation: the performance volatility and service-led structure of its GDP, the primacy of finance-based accumulation in a hypertrophic banking sector, and the increasing disparities in income and wealth distribution that it has led to.

3.2.3.1 A slow and volatile growth occurring primarily through service sectors

From 1993 to 2016, real GDP growth appreciated annually by an average of four percent, in contrast with a pre-war average of six to seven percent.[632] According to Lebanese scholar Sami Attalah, this performance is "weak for a country emerging from a fifteen-year civil war during which GDP [was] compressed by half."[633] Economist Ghassan Dibeh agrees and argues that this growth rate is "dismal when compared to predictions by neoclassical […] theory and the performance of European postwar economies."[634] The reasons for this weakness are twofold. First, a number of structural fiscal, monetary and economic deficiencies (e.g., excessive public debt, inflation) have held back economic activity.[635] Second, because financial inflows are such a critical source of financing, the yearly variation in balance of payments for which they are responsible has inserted a significant element of volatility into GDP growth. Chart 3.5 below is literally a graphic illustration.

GDP growth during the 1992-1996 reconstruction boom does not seem to have been restricted by limited BOP surpluses, however. Initially amounting to five to seven percent, it was boosted essentially by public and private construction sector spending.[636] Economic activity in general also benefited from a relatively confident and stable macroeconomic environment generated by two political developments: Rafiq Hariri's first election as Prime Minister in 1992, and the successful 1991 and 1993 Arab-Israeli peace negotiations that put the prospect of regional stability within reach.

The post-war euphoria was short-lived, nonetheless, as accumulation began to decline in 1995 and fell into recession in 1996-1997. Factors responsible ranged from local to international. Collapsing domestic demand, a lack of profitable business opportunities and weak international

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[632] Gaspard, 2004, p. 213
[633] Griffiths, A. (2012). Reconstruction and peace in Lebanon - Post-war economic policy: A conversation with Sami Attalah. *Accord*, 24. Retrieved from www.c-r.org/accord-article/reconstruction-and-peace-lebanon-post-war-economic-policy-conversation-sami-atallah#sthash.p5lgZMNB.dpuf
[634] Dibeh, 2005, p. 7
[635] Gaspard, 2004, p. 215
[636] Makdisi, 2007, p. 109

competitiveness were exacerbated by declining financial inflows resulting from stagnating oil prices and the return of regional political instability (i.e., 1995 assassination of Israeli PM Yitzhak Rabin, 1996 hostilities with Israel in occupied Southern Lebanon).[637] Additionally, the high remuneration of public debt reduced the dynamism of the private sector. It generated a 'crowding out effect' by funnelling financial placements primarily into the public sector and elevating borrowing costs for households and firms (see details later in this chapter).[638] These growth-impeding elements signalled the emergence of structural deficiencies and raised doubts about the Lebanese economy among residents and non-residents alike.[639]

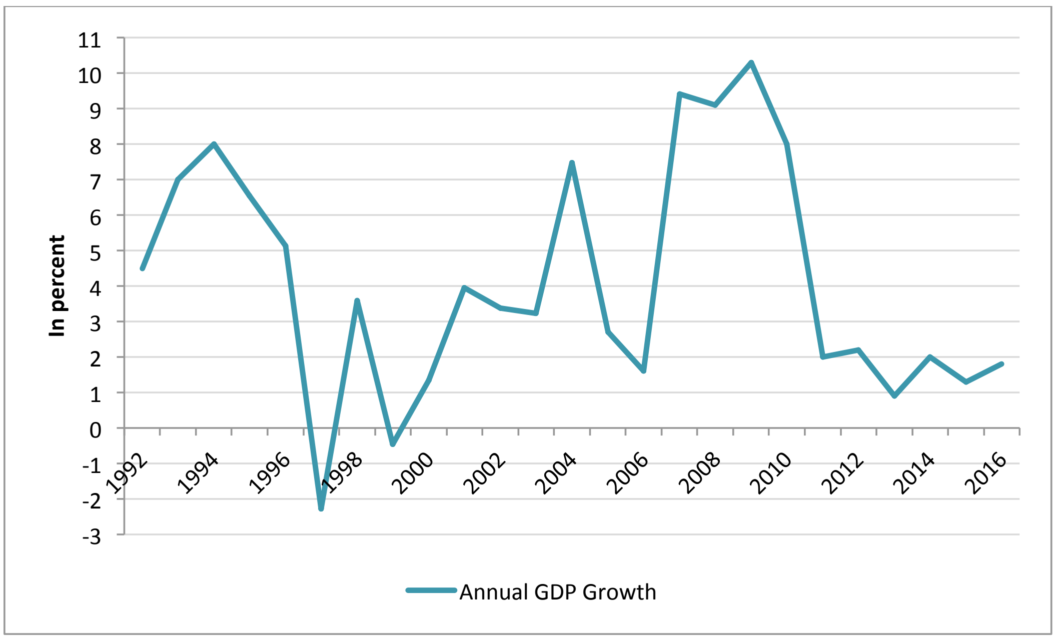

Chart 3.5 – Annual GDP growth in post-war Lebanon (1992-2016)
(Source: World Bank | Chart: Author)

This situation, nevertheless, proved to be as volatile as the GDP. The Paris II conference and inflated oil prices of the early 2000s brought confidence and liquidity, respectively, to the Lebanese economy. GDP growth reached 7.5 percent in 2004 with significant contributions being made by the banking, tourism and construction sectors. But in the second half of the 2000s, a

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637 Berthélemy, Dessus, & Nahas, 2007, p. 1; Dibeh, 2005, p. 3; Roger Melki, multiple personal communication, 2014-2016.
638 Public debt increased from 48 percent of GDP in 1992 to over 140 percent in 2000 (Makdisi, 2007, p. 111).
639 Dibeh, 2005, p. 2

series of negative political developments plunged the country into uncertainty.[640] While these shocks did affect growth in the short term, the local economy remained resilient and even experienced its strongest performance in 2007 to 2010 when oil prices peaked and the US-generated financial crisis boosted short-term capital inflows.[641] Following a counter-cyclical growth pattern vis-à-vis that of the global economy, Lebanon recorded double-digit GDP expansion (e.g., 10.5 percent in 2009) and, with the highest growth rate in the MENA region, outpaced the performance of emerging and Western economies that, in the meantime, had suffered sharp declines.[642]

Since 2010-2011, Lebanon has been going through a new episode of listless growth: real GDP has gradually contracted and in 2013 hardly reached 2.5 percent; it was about 1.5 percent in 2015 and 2016, i.e., far behind performances recorded in the MENA region and other emerging markets.[643] Both temporary and structural factors have limited confidence, and expectations, in the local economy. On the one hand, the ever-increasing public debt, large infrastructure deficit and uncertain governance and business environments, similar to the second half of the 1990s, have continued to sap the vitality of the local economy.[644] On the other, these structural factors have been reinforced by a striking decrease in capital inflows, the product of an increasingly unstable business and political environment tied to the war in neighbouring Syria. At the same time, however, the presence of more than a million Syrian refugees, largely supported by international donors, has at least partially compensated the BOP deficit by boosting local consumption, particularly in the health, education, transportation and housing sectors.[645]

The role of perennial inflation in growth performances and accumulation strategies

Perennial inflation has importantly influenced both economic behaviours and the pace of GDP growth in post-1990 Lebanon. The structurally elevated money supply, tied to the intensity of oil-related money inflows, has regularly fuelled price increases. The post-war era, particularly, saw an immediate episode of sharp inflation tied to the 1992 currency crisis before the rate

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[640] Negative political developments encompassed a wave of political assassinations, including that of PM Rafiq Hariri, and the subsequent withdrawal of Syrian troops in 2005, as well as the 2006 war with Israel.
[641] Pellegrini-Betolli, G. (2016). New uncertainty for Lebanese banks. In *Carnegie Endowment for International Peace*. Retrieved from http://carnegieendowment.org/sada/64081
[642] Jaffe, 2010, p. 1; Taffin et al., *op. cit*., p. 3
[643] Association of Lebanese Banks (2013). *The annual report: Edition 2013*. Retrieved from www.abl.org.lb/subPage.aspx?pageid=7140; Al-Attar, 2016
[644] International Monetary Fund, 2012, p. 27
[645] Roger Melki, multiple personal communication, 2014-2016.

contracted and fell below 10 percent in 1997.[646] Prices even briefly experienced deflation in 1999-2001 when the balance of payments turned negative (see Chart 3.6 below). They were on the rise again in the 2000s and the rate climbed to 14 percent in 2008-2009, when the economy faced a situation of capital overavailability. Inflation later stabilized around three to four percent in the 2010s prior to turning negative (- 1.7 percent) in 2016.[647] These are the official figures. A number of experts cast doubt upon them and contend that annual inflation has been at least five to six percent in recent years. Moreover, and this is of special significance to this research, until the 2014 creation of a Central Administration of Statistics (CAS) monthly housing price index, data series failed to include housing prices.[648] There is little doubt that the 2000s spectacular rise in property prices (see Chapters 4 and 6) significantly fuelled the inflation rate.

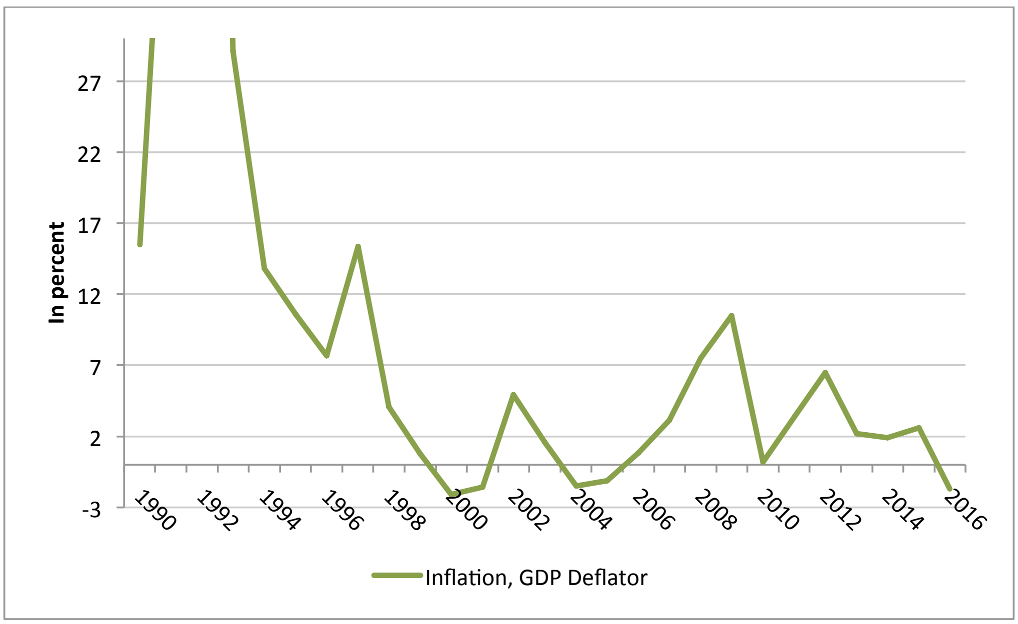

Chart 3.6 – Inflation in Lebanon (1990-2016)
(Source: World Bank, 2017c[649] | Graph: Author)

The ramifications on the local economy of the steady rise in prices have been manifold. Episodes of elevated inflation, for example, weighed down the purchasing power of many

[646] The most salient episode of inflation occurred as a consequence of the 1992 currency crisis during which the general level of prices for goods and services soared by 120 percent.
[647] World Bank, 2017c
[648] International Monetary Fund (2014). *Lebanon: 2014 Article IV Consultation* Washington, DC: IMF Country Report No. 14/237. Retrieved from www.imf.org/external/pubs/ft/scr/2014/cr14237.pdf (p. 5)
[649] World Bank (2017c). *Inflation, GDP deflator (annual percent)* [Data file]. Retrieved from https://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG?locations=LB

Lebanese households, burdened domestic consumption and thereby impeded GDP growth. They also widened the gap between nominal and real interest rates in the financial sector: in years of significant inflation, real interest rates were low and sometimes close to negative.[650] This discrepancy importantly influenced economic behaviours: as explained in Chapter 4, sustained inflation pushed capital holders to reshuffle asset portfolios, reducing bank deposits and increasing property placements and investments. Also, it is worth noting that periods of significant inflation have automatically reduced the burden of public and private debt, an important impact for the regulation of a bank-based growth regime.

A service-led and rentier economic structure suffering from 'Dutch disease'

The generally high level of money supply created by the persistent capture of external financial resources is not *per se* an adverse condition for the Lebanese economy. It "could have been used for a stronger and more durable industrialization process and, more generally, for the enhancement of the human and physical infrastructure," notes economist Toufic Gaspard.[651] But this is not the growth and development strategy opted for by the financial-rentier elite. Quite the contrary, the bulk of money inflows has financed household consumption and speculative, unproductive service activities, leaving productive activities such as industry and agriculture depressed and lagging.[652] As of 2015, service activities totalled 75 percent of total GDP while industry and agriculture amounted to 20.1 and 4.5 percent, respectively.[653] This GDP structure means that the vast majority of Lebanon's economic potential has been channelled into activities that contribute little to its general social welfare: the most significant contributions to value creation have been in financial intermediation and tourism (33 percent of total GDP) and real estate and construction activities (21 percent).[654] This unbalanced economic organization reflects a form of 'Dutch disease,'[655] a well-known phenomenon in economies living off direct and

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[650] Abdallah Attieh, personal communication, April 27, 2015
[651] Gaspard, 2004, p. 150
[652] Talha, L. (2003). *Le régime rentier et son mode de régulation. Essai de problématique*. Paper presented at Forum de la Régulation. Paris, France. October 9-10, p. 6
[653] According to government data and World Bank staff estimates and projections found in World Bank (2016a). More recently, private consumption, pharmaceuticals, and information and communications technology (ICT) sectors have diversified traditional Lebanese growth drivers (World Bank, 2015). (World Bank (2016a). *Lebanon economic monitor - The big swap: Dollars for trus*t. Washington, DC: Middle East and North Africa Region, p. 36)
[654] Figures as of 2013 retrieved from Central Administration of Statistics (2014). Lebanese national accounts (2004-2013): Comments and tables. Retrieved from www.cas.gov.lb/images/PDFs/National%20Accounts/Lebanon_National_Accounts_2012_2013_Comments_&_tables.pdf (p. 7)
[655] Jad Chaaban and Khalil Gebara (2007, p. 11) refer to the 'Dutch disease' as "the deindustrialization of a nation's economy that occurs when the discovery of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports." The term was "originated in Holland after the discovery of the North Sea gas."

indirect, domestic and external rents where accumulation is "supported by increases more in capital inputs than in productivity."[656] In many ways, Lebanon's prevailing institutional structures have played a tremendous role in creating this imbalance by shaping the behaviours of economic agents. This has been especially the case with the tax incentives put in place by successive governments: "If a person invests in a productive sector and creates jobs, he will pay 15 percent tax on profits and 10 percent on dividends," explains Alain Bifani, Director-General of the Ministry of Finance.[657] In contrast, as mentioned earlier, the same person will pay a five percent tax on interest if s/he deposits the same amount of money at the bank, and no tax on capital gain if s/he buys a property and resells it for profit.

3.2.3.2 Finance-led accumulation and the hypertrophy of the banking industry

In addition to affecting the performance and structure of the economy, the persistent capture of external capital resources has very much shaped the size, organization, performance and activities of the domestic financial sector. Lebanon is known for its advanced level of financial development the specificity of which lies in the dominance of banking intermediation and the embryonic character of financial disintermediation (see Figure 3.2 below). The primacy of banking intermediaries, the limited size of other financial intermediaries, and the underdevelopment of capital markets (see Box 3.1 below) are concrete manifestations of the specific financialization trajectory of the Lebanese growth regime.[658] Hypertrophied banks, which accommodate the majority of capital inflows, have unquestionably been instrumental in generating finance-driven value creation by investing in high-yield public debt while, at the same time, failing to provide adequate financing to stimulate the real economy. The Lebanese banking sector, in other words, has been a "growth industry in its own right" rather than a "facilitator of other firms' economic growth" to paraphrase the Dutch scholar Ewald Engelen.[659]

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[656] Gaspard, 2004, p. 185.
[657] Alain Bifani quoted in The Daily Star (2017).
[658] The prevalence of the commercial banking industry in the domestic financial sector is not unusual in the MENA region. The financial models of Egypt, Iran, and Tunisia are also bank-focused (Creane, et al., 2004, p. 3). (Creane, S., Goyal, R., Mobarak, A. M., & Sab, R. (2004) *Financial sector development in the Middle East and North Africa* (International Monetary Fund, Working Paper, No. 04/102). Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.488.2930&rep=rep1&type=pdf)
[659] Engelen, E. (2003). The logic of funding European pension restructuring and the dangers of financialisation. *Environment and Planning A: Economy and Space, 35*(8), 1357–1372, p. 1367

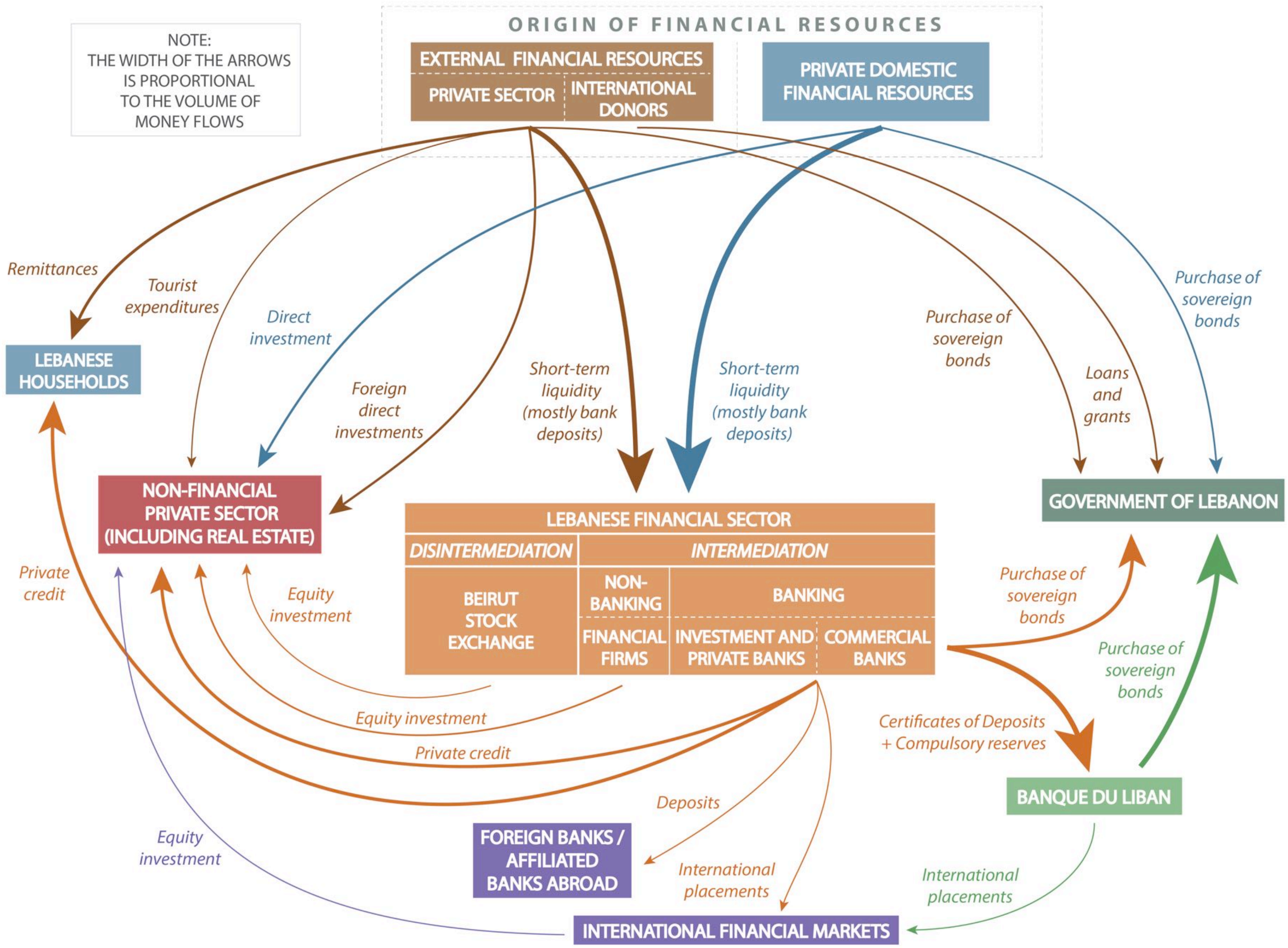

Figure 3.2 – The prevalence of indirect finance in post-1990 Lebanon (Source: Author)

Box 3.1 – The underdevelopment of financial markets

The Beirut Stock Exchange (BSE) was established during French rule in the 1920s but its activity was limited during the pre- and post-independence periods.[660] After its closure during the civil war, the BSE reopened in 1995 and financial authorities, on several occasions, expressed their willingness to boost disintermediation i.e., diversify money supply. Yet, "the attempts to develop financial markets failed completely," asserts Charbel Nahas.[661] In 2015, just 11 companies were listed on the Lebanese stock exchange, mostly banks and Solidere; total market capitalization was about USD 10 billion.[662] This underdevelopment of capital markets is the result of two main factors. On the capital holders side, high-yielding, short-term and BdL-secured bank deposits, indexed on the striking profitability of sovereign bonds, have proven to be very attractive. This is a direct outcome of the priorization of the banking sector by the country's post-war financial recovery strategy, as it sought to secure monetary stability and allow debt financing of the public budget. This significantly impeded the emergence of alternative non-bank financial agents and instruments. In the same vein, Lebanon's unstable and uncertain political-economic and monetary contexts were unable to provide the minimum guarantees expected by most risk-averse investors seeking longer-term bonds and shares.[663] On the capital users side, the weakness of the domestic productive sector in the post-1990 economy has resulted in a limited number of economic agents with significant financial needs. The local economic fabric consists mostly of family and individual business actors unenthused by the prospect of coping with outsider ownership and afraid of market manipulation.[664] As such, to cover their financing needs, small-scale agents have privileged personal equity and bank loans. In most cases, they are, in any case, too small to access capital markets.

In many respects, the Beirut-based financial sector entered a new era in 1992 with a significant shift of mission: local banks began to focus on short-term lending to the government.[665] Thanks to a consolidated balance sheet inflated by external inflows, they rapidly

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[660] Makdisi, 2004, p. 59. In the 1920s, the opening of BSE was intended to raise funds for large infrastructure projects, such as railway and tramway systems as well as electricity supply.
[661] Charbel Nahas, multiple personal communications, 2014-2016 (Translation by the author)
[662] Makdisi, 2004, p. 312; Sader, M. (2015, April). Banks and changes. *Lebanon Opportunities*. 76-79, p. 79
[663] Jean Riachi, personal communication, November 13, 2015
[664] Moore, *op. cit.*, p. 204
[665] Today's large commercial banks, which are all Lebanese, were small when the war ended. Total assets and deposits represented 57 percent and 62 percent of 1982 value, respectively (Makdisi, 2004, p. 61). Banks also had very poor capital adequacy ratios, especially given the sharp

recapitalized and managed to "maintain a high level of liquidity and a high degree of confidence among depositors."[666] As such, the banking industry, which is oligopolistically controlled by a crony elite,[667] has experienced rapid growth in the past two decades and currently exercises remarkable weight in the Lebanese economy: bank liabilities have represented more than three times the GDP in recent years.[668] As of 2013, Lebanon counted 73 banks, including 56 commercial banks and 17 investment banks.[669] The five largest are Bank Audi, Blom Bank, Byblos Bank, Fransabank and the Bank of Beirut.[670] In parallel, the banking sector has also performed better than the real economy: its net annual profits have generally appreciated faster than the GDP and in 2013 attained USD 1.639 billion.[671]

On the liability side: the dominance of short-term deposits

The resources of the banking sector are comprised of deposits, capital accounts and other liabilities. Particular attention is paid to deposits in this study since they represented 84.5 percent of the total liabilities and reached USD 154.95 billion in 2015.[672] Deposits are short-term and mostly enumerated in US dollars, despite a progressive dedollarization.[673] The share of non-resident deposits (i.e., from expatriates and foreigners) is believed now to be 40 percent, including a significant portion from high net-worth individuals (HNWI).[674] Customer deposits

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devaluation of the Lebanese pound of the late 1980s and early 1990s, which left banking organizations with a limited capital base (Dibeh, 2005, p. 14; Hakim & Andary, 1997, p. 234).

[666] Taffin et al., *op. cit.*, p. 15

[667] Recent work conducted by economist Jad Chaaban (2016) has shed light on the extent to which the ruling elite has captured local banks' assets and Boards of Directors. His investigation explores the various types of control exerted by politically affiliated shareholders over the ownership of the 20 biggest Lebanese bank holdings, which totalled 99 percent of consolidated commercial banks' assets in 2014. Chaaban specifically shows that "individuals closely linked to political elites control 43 percent of assets in Lebanon's commercial banking sector," among which he identifies eight families, namely the Hariri, Kassar, Sehnaoui, Raphael, Assaf, Habib, Kheireddine and Hrawi, which control a total of 29 percent of the assets for a total equity of more than USD 7 billion. (Chaaban, J. (2016). *I've got the power: Mapping connections between Lebanon's banking sector and the ruling class* (Economic Research Forum. Working paper series). Retrieved from http://erf.org.eg/publications/ive-got-the-power-mapping-connections-between-lebanons-banking-sector-and-the-ruling-class/)

[668] Makdisi, 2004, p. 113. The deposits-to-GDP ratio impressively amounts to 300 percent (Alieh, 2013c, p. 65).

[669] Gaspard, 2004, p. 193. In parallel to commercial banking, major banks have gradually developed subsidiaries in private banking, leasing, insurance and property development to "diversify their activities away from traditional deposits" and "promote capital market products" (Hakim & Andary, *op. cit.*, p. 234).

[670] Chaaban, J. (2015). *Mapping the control of Lebanese politicians over the banking sector*. Presentation at Issam Farès Institute – American University of Beirut. September 15

[671] Association of Lebanese Banks, 2013, p. 140; Makdisi, 2004, p. 113

[672] Association of Lebanese Banks, 2013, p. 53, 118; Association of Lebanese Banks (2015b, December). *The Economic Letter*. Beirut, Lebanon: Association of Lebanese Banks, Research & Statistics Department. Retrieved from www.abl.org.lb/Library/Files/Files/Economic%20Letter%20December%202015.pdf (p. 4)

[673] The average maturity of deposits is of 55 days, and 66 percent is still enumerated in US dollars (Roger Melki, multiple personal communication, 2014-2016; World Bank, 2015, p. 19).

[674] Official statistics provided by the banking industry and the World Bank show that non-resident deposits represent between 15 and 25 percent of deposits (World Bank, 2016a, p. 19). However, a recent study by the IMF (2015, p. 62) explained that depositors, statistically, are "considered non-residents [by banking organization and authorities] if they do not have a Lebanese address." Since many Lebanese expatriates own real estate in Lebanon and register their local bank accounts with their local address, the IMF suggests that the share of non-resident deposits may, in fact, reach 40 percent. Further, the public sector is the third category of depositor and accounted for 2.1 per cent of deposits in 2013 (Association of Lebanese Banks, 2013, p. 119).

show a twofold concentration. A very small number of depositors, on the one hand, own the great share of deposits: 0.8 percent of all bank accounts contain half of the accumulated bank deposit base.[675] The banking industry, on the other, has an oligopolistic structure with the top ten banks controlling 90 percent, and the top three banks 45 percent, of consolidated bank assets.[676]

The elevated remuneration of deposits, as mentioned earlier, is the magnet that accounts for the attractiveness of the Lebanese banking system to non-resident capital holders.[677] USD and LBP accounts are differently remunerated and yields have followed a downward trend in the past two decades: deposit rates in LBP and USD respectively amounted to 17.12 percent and 5.46 percent in December 1995, 7.7 percent and 4.09 percent in December 2005, and 5.56 percent and 3.52 percent in December 2016. Deposits in national currency purposively receive an average extra incentive since they carry the risk of possible future devaluation. This spread, on several occasions, triggered massive conversion from the US dollar to the Lebanese pound.[678]

On the asset side: the dependence on public debt and the progressive expansion of private debt

The consolidated total assets of commercial banks, which had the highest growth rate in the MENA region in the late 2000s, have totalled USD 179.4 billion in recent years.[679] Three major categories of asset can be identified: loans to the domestic public sector, loans to the domestic private sector, and foreign placements. The objective of banks is to combine high liquidity, limited risk and maximum profit.

The financing of the public sector reached USD 110 billion and stood at 60 percent of total bank assets in recent years.[680] This asset stream holds two components: on the one hand, it includes sovereign bonds (i.e., Treasury bills and Eurobonds) directly subscribed by banks for a total of USD 40 billion (i.e., 21 percent of total assets). On the other hand, it indirectly

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[675] Gaspard, 2004, p. 193-194; Makdisi, 2004, p. 113. Something less than 500 depositors control USD 62 billion (Zbeeb, 2013b).
[676] Chaaban, 2016, p. 2; Gaspard, 2004, p. 218
[677] Lebanese banks offer risk-adjusted rates, notably higher than the London Inter-Bank Offered Rate (LIBOR), while global interest rates hover at record lows (IMF, 2015, p. 63; World Bank, 2015, p. 21). Even though deposit interest rates followed the pace of plunging sovereign rates in the aftermath of the Paris II conference, the spread with international market rates has remained sharp. This was especially the case in the wake of the 2008 financial meltdown, when Lebanese banks and the central bank deliberately maintained higher interest rates to keep bringing in external deposits. At the same time, banking platforms such as Dubai, London and New York were all negatively hit by the crisis, which led banks to offer minimal rates of 0.5 percent and 0.75 percent for deposits in US dollar and Euro, respectively.
[678] World Bank (2012). *Using Lebanon's large capital inflows to foster sustainable long-term growth*. Washington, DC: Poverty Reduction and Economic Management Department Middle East and North Africa Region, p. 25; Yammine, S. (2010b, March). Rates on bank deposits: Still interesting. *Lebanon Opportunities*. 50-53, p. 52
[679] According to Marwan Barakat quoted in Yammine (2010b, p. 51). The total assets of investment banks reached, at the same time, USD 4.2 billion (Association of Lebanese Banks, 2015a, p. 4).
[680] A senior banker who asked to remain anonymous provided the calculation of the respective share of the three investment vehicles.

incorporates reserves, term deposits and Certificates of Deposits placed in the BdL for a total of USD 70 billion (i.e., 38 percent of total bank assets).[681] As explained earlier, the possibility for commercial banks to turn massive short-term deposits into "lucrative, stable and relatively safe investments in Lebanese T-bills" was a key decision made by Rafiq Hariri and the Central Bank in the 1990s in order to revive the attractiveness of the domestic financial apparatus.[682]

In 2015, the financing of the private sector amounted to USD 57.92 billion, i.e., 116 percent of GDP, and accounted for about a quarter of total bank assets.[683] It consists of loans, denominated mostly in US dollars, disbursed to firms and households.[684] Banks, too busy with buying public debt, were initially uninterested in funding private credit; yet, since the second half of the 2000s it has become an important asset stream (see Box 3.2 below).[685] The significant reduction of lending interest rates, allowed by the gradual decrease in deposit rates and supported by BdL-subsidized schemes, has proven to be instrumental in making loans affordable to firms and households. It also helped to underpin this credit boom.[686] Private credit expansion, which is normally intended to address overliquidity, diversify sources of profit, and leverage consumption growth, is generally portrayed as a key indicator of financialization, especially in Southern bank-based economies.[687] In Lebanon, the debt per adult grew from USD 6,653 in 2000 to USD 13,987 in 2016.[688]

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[681] Taffin et al., *op. cit*.
[682] Dibeh, 2005, p. 15; Hakim & Andary, 1997, p. 235
[683] BlomInvest Bank (2015a). *The details of the lending activity in Lebanon during 2015*. Beirut, Lebanon: BlomInvest Bank - Research Department. April 21. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2016/04/The-Details-of-the-Lending-Activity-in-Lebanon-During-2015.pdf
[684] Loans extended in US dollar stood for 72 percent of total loans to the private sector in 2015, although LBP-enumerated loans grew faster under the impetus of the successive BdL stimulus packages (IMF, 2015, p. 71).
[685] Fawwaz Traboulsi, personal communication, November 5, 2014
[686] In December 2015, lending interest rates amounted to 7.45 percent in LBP and 7.06 percent in USD. Private credit growth recorded a 42 percent increase between 2008 and 2010, the highest lending growth in the Middle East, before stabilizing at an annual 10 percent in 2011 (IMF, 2015, p. 71). Retail loans, which represented 28 percent of total loans distributed by the financial sector in 2014, were especially important in boosting expansion of credit activity (BlomInvest Bank, 2014b). (BlomInvest Bank (2014b). *The Central Bank of Lebanon: New regulations for granting retail loans*. Beirut, Lebanon: BlomInvest Bank - Research Department. September 20. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2014/09/2014-09-The-Central-Bank-of-Lebanon-New-Regulations-for-Granting-Retail-Loans2.pdf
[687] Becker, J., Jäger, J., Leubolt, B., & Weissenbacher, R. (2010). Peripheral financialization and vulnerability to crisis: A regulationist perspective. *Competition & Change, 14*(3-4), 225-247, p. 231; Bonizzi, B. (2013). Financialization in developing and emerging countries. *International Journal of Political Economy*, *42*(4), 83-107; Lapavitsas, C. (2009). *Financialization embroils developing countries* (Discussion Paper 14, SOAS, London). Retrieved from https://revistas.ucm.es/index.php/PADE/article/download/.../21280
[688] Crédit Suisse Research Institute (2016). *Global wealth databook*. Retrieved from http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=AD6F2B43-B17B-345E-E20A1A254A3E24A5

Box 3.2 – The uneasy financing of the real economy

Instrumental in attracting "depositors even under dire economic and political conditions," high sovereign and deposit interest rates have crucially hindered the financing of the real economy in three ways.[689] First, well-remunerated government securities and currency deposits have crowded out investment opportunities in the non-financial private sector by capturing most resources and setting an unsustainable level of capital remuneration.[690] At least until the positive monetary shock provoked by the Paris II donor conference in 2002, any rent-maximizing, risk-averse economic agent had a clear interest in choosing bank deposits or a direct subscription to government securities (i.e., without bank intermediation) rather than productive or non-productive vehicles in the real economy.[691] Second, the banking sector had little incentive in engaging in medium-to-long term private lending: deposits were mostly short-term and interest rate spreads were lower than with public lending. Third, when banks did engage in private credit, high deposit interest rates mechanically entailed unaffordable lending rates: they exceeded 10 percent between 1993 and 2014, outside BdL-subsidized schemes, and helped to choke off the local productive economy.[692] Limited access to affordable financing for non-financial firms and individuals has, primarily in the 1990s, generally limited economic growth and income distribution.[693] As importantly, it is also a prime example of the way in which the post-war attractiveness-driven strategy has disconnected the financial sector from the real domestic economy.[694] Such a separation is usually seen as a corollary of the financialization process.

Deposits in foreign banks, investment on international markets, and direct investments in sister or affiliated banks located overseas constitute the other asset classes retained by Lebanese banks.[695] These are aimed primarily at diversifying risk rather than making profit since the financial cost of deposits for Beirut-based banking entities is frequently higher than the returns they obtain abroad.[696]

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[689] Taffin et al. *op. cit.,* p. 15
[690] For instance, economist Ghassan Dibeh (2005, p. 3) asserts that high real interest rates were responsible for "the end of the reconstruction boom phase by 1998."
[691] Sader, M. (2010b, July). Issues for the 2010 budget. *Lebanon Opportunities*. 33-37, p. 79
[692] Dibeh, 2005, p. 16; Jean Riachi, personal communication, November 13, 2015; Sader, 2010b, p. 79
[693] Hakim & Andary, *op. cit*., p. 236
[694] Gaspard, 2004, p. 220
[695] Association of Lebanese Banks, 2013, p. 134
[696] Association of Lebanese Banks, 2013, p. 133

The exposure of the banking sector to multifaceted financial risks

Lebanon's post-1990 bank-based financial sector has faced multiple risks that structurally endanger its short-term stability, and ultimately put into question the ability of the entire regime of accumulation to withstand a major negative internal or external, economic or political, shock.[697] Four categories of risk merit specific attention: maturity, foreign exchange, sovereign and property.

First, maturity risk is the product of an asset–liability mismatch prevalent in the Lebanese banking sector. Public and private loans are longer term, rigid assets while liabilities are very short-term, volatile and liquid.[698] As such, any major drop in liabilities provoked by a political or economic shock that is uncompensated by new highly remunerated inflows is likely to induce a crisis capable of leading to system collapse. The banking sector and the BdL contain this risk essentially by relying on the inertia of depositors, principally Lebanese residents and expatriates: a kind of stability created by loyalty and the difficulty of transferring financial assets to foreign banks, which are generally reluctant, for reasons of compliance, to receive funds from Lebanon.[699]

Second, foreign exchange or currency risk is the potential relinquishment of the currency peg. This could follow a sudden depletion of the BdL's foreign liquidity cushion in cases where an economic or political shock stimulates a rush of capital outflow.[700] The insufficiency of foreign reserves would leave the central bank unable to defend the Lebanese pound and lead inevitably to an episode of currency devaluation that would very likely devolve into a full-scale monetary and financial crisis. In effect, a large portion of the private credit portfolio, and to a lesser extent of the public debt, is enumerated in USD while the income of the public and private debtors is denominated primarily in LBP.[701]

Third, sovereign risk refers to the considerable exposure of Beirut-based banks to the performance of public debt vehicles: as explained earlier, about 60 percent of total bank assets in

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[697] International Monetary Fund. 2014, p. 4
[698] Taffin et al., *op. cit*., p. 18. According to the IMF (2012, p. 29), 20 percent of total loans in Lebanon were long-term in the early 2010s. This figure was probably slightly higher in 2016, as a result of the increased deployment of housing loans. In comparison, this share of long-term lending amounts to 40 percent in high-income countries and 12 percent in the MENA region (*ibid*).
[699] Jaffe, 2008b
[700] Shocks may include, for instance, war or civil violence, the failure of a financial organization, speculation against the Lebanese pound, and the state failure to repay public debt.
[701] Charbel Nahas, multiple personal communications, 2014-2016

recent years have been directly and indirectly invested in sovereign debt.[702] Any state failure to meet debt repayments, as has happened in Argentina, Mexico and Greece in the past, would thus jeopardize the liquidity and stability of the entire banking apparatus.[703] Fourth, property risk refers to the exposure of the banking sector to the volatile property asset values resulting from the 2000s ballooning of private credit. In addition to the increased proportion of construction and home loans in bank asset portfolios, a Lebanese trait shared by other Southern economies detailed in Chapter 4, is the fact that all private credit collateral must be in the form of land or real estate assets. The exposure of the banking system to property risk, in other words, goes beyond demand and supply-side sector financing. Accordingly, any sharp decline in property asset values is yet another situation likely to throw into question the banking sector's ability to continue (see Chapter 9).

3.2.2.3 Growth vs. development: uneven wealth distribution

We have been considering factors related to post-war Lebanon's wealth production. Important to identification of the social, economic and spatial relations constitutive of its growth regime is also its distribution. In this case, findings are clear: the progressive intensification of finance-based accumulation did not result in an advanced level of development and equality. Many analysts such as economist Georges Corm argue that, similar to its pre-war economic pattern, the capital-intensive recovery strategy has generated a fragile and poorly redistributive Beirut-centralized "30 to 50 sq. km. economy."[704] The concentration of wealth creation in a circumscribed area of the country, and in a limited number of poorer labour-intensive economic sectors controlled by the financial-rentier class, has very much exacerbated existing distributional problems. Indeed, this trickle-down model of accumulation has been shown in practice to do little for employment opportunities, wealth and income distribution, or regional development.

Failure to provide employment opportunities

According to the International Labour Organization, Lebanon's unemployment rate remained at or above eight percent throughout the 1990s and 2000s before dropping to about six

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[702] World Bank, 2015, p. 20
[703] Moreover, the performance of public debt instruments affects the sovereign rating granted by international agencies such as Moody's and Standard and Poor's. Importantly, this rating contributes to evaluation of local banks' asset quality and, thus, to calculation of the risk premiums commercial banks must offer to external depositors.
[704] Corm, G. (2013). Il n'y pas de miracle libanais. *Les Cahiers de l'Orient, 112*

percent in recent years.[705] Concentrated as it is in non-productive sectors, the Lebanese rentier and finance-driven economy generates few job opportunities. In particular, the job market does not integrate the youth (15-24 years), whose unemployment has remained stable at the dramatic rate of 24 percent.[706] More generally, about 50 percent of the domestic labour force is believed to operate in the informal sector in which about half of the workers are said to earn less than the monthly minimum wage of USD 450.[707] This preponderance of informal jobs has a variety of negative consequences such as limited financial inclusion and access to formal housing.

Unequal wealth and income distribution

Lebanon falls under the category of intermediate wealth countries: in recent years, the per capita GDP has been in the order of USD 11,000-13,000.[708] Economist Lydia Assouad argues, however, this average estimate hides a considerably unequal wealth and income distribution: the richest one and 10 percent of the adult population accounts for about 40, and 70, percent respectively of total personal wealth; between 2005 and 2014, they received 25, and 55, percent of the national income.[709] This high degree of vertical inequality positions Lebanon "among the countries with the highest levels of income concentration […] alongside Brazil, Colombia, Russia, South Africa and the United States."[710] In other words, the finance-oriented and rentier system of accumulation, intensified in the post-war era, has benefited a limited portion of the population.

At least two major factors account for the wealth and income disparities. First, the wage structure is very uneven. A recent report published by the United Nations Development Program shows that Lebanon ranks 129 among 141 countries regarding the equal distribution of income "across private sector employees, self-employed individuals and proprietors."[711] In concrete terms, a majority of jobs are low paid with an average monthly wage around USD 1,000.[712] In the

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[705] World Bank (2017a). *Unemployment, total (percent of total labour force) (Modeled ILO estimate)* [Data file]. Retrieved from http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=LB
[706] *Ibid*
[707] Saliba, E., Sayegh, W., & Salman, T. (2017). *Assessing labour income inequality in Lebanon's private sector*. Beirut, Lebanon: United Nations Development Programs - Fiscal Policy Advisory and Reform Project at the Lebanese Ministry of Finance, p. 4
[708] Taffin et al., *op. cit*., p. 3
[709] Assouad, L. (2017). *Rethinking the Lebanese economic miracle: The extreme concentration of income and wealth in Lebanon (2005-2014)*. (WID. Word Working Paper Series. No. 13). Retrieved from http://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713/ (p. 1). Likewise, Ghassan Dibeh (2014) found that 66 percent of the adult population owned less than USD 10,000 while 3.5 percent owned USD 100,000 and higher back in 2014.
[710] Assouad, *op. cit.,* p. 4
[711] Saliba, Sayegh, & Salman, *op. cit.,* p. 6
[712] Dibeh, 2014

private sector, 81.5 percent of employees earn less than USD 20,000 a year. Second, the weight of capital returns in Lebanon's structure of factor income has probably reverted to its pre-war and war levels after a decade of decline in the 1990s when labour earnings exceptionally totalled 46 percent of the GDP (see Table 3.1 below).[713]

	1950	*1964-1970*	*1987*	*1997*	*2000-2016*
Capital-Based Income	59	51	77	41	➚
Labour-Based Income	35	40	25	46	➘
Private Sector Wages	*30*	*33*	*20*	*36*	➘
Public Sector Wages	*5*	*7*	*5*	*10*	➘

Table 3.1 – Distribution of factor incomes in Lebanon (1950-2016)
(In percent of GDP)
(Source: Gaspard, 2004, p. 175; Author | Table: Author)

Even though recent data to support the claim are virtually inaccessible, it seems very likely that factors at play in the Lebanese economy over the past 20 years have increased the weight of capital in its asymmetrical income relation.[714] These include the generous remuneration of public debt and bank deposits, and the asset bubble including property, generated by the tremendous increase in financial inflows. Concretely speaking, then, capital holders, through high returns on equity including interest, rent, dividends and realized capital gains, have certainly benefited the most from wealth accumulation without transforming that value into productive investment in the real economy. As such, I contend that, while most Lebanese residents have seen a rise in their income and wealth over the past two decades, disparities in both have become sharper. This is because the capital component of income, received by financial-rentier and upper-middle classes, has increased much faster than wages earned by lower-middle and low-income groups, another concrete manifestation of the continuing financialization of the Lebanese growth regime.[715]

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[713] The factor income structure refers to the respective contribution of capital returns and labour earnings to the national income. It reflects the organization of capital accumulation, existing institutional arrangements and policy decisions (e.g., tax structures). In the case of Lebanon, bank secrecy limits data accuracy on the respective shares of labour earnings and capital income. Economist Toufic Gaspard (2004, p. 162) justifies the statistical prevalence of labour earnings in the 1990s in two ways. First, profits were probably underestimated as dividends were excluded from the estimation of capital-based income. Moreover, he puts forward that the decline in the profit share was the result of "an appreciating, then fixed, exchange rate policy, declining growth and public debt overhang." Second, it can be argued that the global hike in public and private wages by the time the country emerged from war increased the share of labour-based income in value creation.

[714] The figures used in Table 3.1 are the latest official data official on factor income distribution published by the Central Administration of Statistics in the national account.

[715] Assouad (*op. cit.*, p. 11) estimates that "real national income increases steadily, with an accumulated growth rate of almost 50 percent" between 2005 and 2014.

Uneven levels of regional development

In addition to wealth and income disparities among individuals and households, the primacy of Beirut-based finance and service-related activities has also generated uneven levels of local development. While the standard of living in some privileged areas of Greater Beirut is close to that of the GCC countries, historically marginalized areas (e.g., Akkar, the Beka'a valley and Southern Lebanon) and the lower-income urban communities of Beirut's poverty belt face real economic hardship, and have clearly benefited little from economic growth.[716] As economist Ghassan Dibeh explains, while two post-war state entities, the Council of the South and Displaced Fund, contributed to their physical reconstruction and population reintegration, they did nothing to substantially reduce their structural inequality or to alleviate their poverty.[717] Moreover, national provision of basic services such as electricity and water, which remain weak compared to other countries of similar wealth, is even worse in those areas. Despite the objective of 'balanced development' declared in the Taif Peace Accords, in other words, the populations of peripheral regions saw little benefit from any peace dividend.[718]

The extensive vertical and horizontal inequality, though not new, should be cause for alarm: as Lebanese scholars Albert Hourani and Salim Nasr pointed out, exacerbated disparities between a Beirut-based elite living off petrodollars and impoverished urban and regional populations were among the critical triggering factors of recurrent civil unrest, both in post-1943 Lebanon and in the 1975 civil war.[719] Interestingly, Nasr underlined in 1978 "an apparent paradox between an excess of banking resources [...] and an inability [...] to assure the development of infrastructural works, including the vital areas of irrigation, housing and education."[720] This means that the central paradox of a 'growth without development' regime of accumulation was already apparent 40 years ago.

In sum, section two has explored the most striking features of post-war Lebanon's system of accumulation. It has shown how the recovery strategy deployed in the 1990s to regain financial attractiveness has allowed expensive external financial resources to become pivotal contributors to the country's monetary and financial stability and to its growth trajectory. The

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[716] Abdallah Attieh, personal communication, April 27, 2015; Bourgey A., (1989). La guerre et ses conséquences géographiques au Liban. *Annales de Géographie*, *521*, 1-37, p. 25; Traboulsi, 2007, p. 161; Chaaban & Gebara, 2007, p. 3
[717] Dibeh, 2005, p. 10
[718] Dibeh, 2005; Paris, R. (2004). *At war's end: Building peace after civil conflict*. Cambridge, UK; New York, NY: Cambridge University Press.
[719] Hourani, A. (1976). Ideologies of the mountain and the city. In Owen, R. (Ed.). *Essays on the crisis in Lebanon* (pp. 33-42). London, UK: Ithaca Press; Hourani N., 2010; Makdisi, 2004, p. 6; Nasr S., 1978
[720] Nasr S., 1978

persistently high level of money supply has led to the system's increasing financialization privileging the growth of finance-related sectors and activities. This has notably entailed the consolidation of a disproportionally large and extremely powerful banking sector, which nevertheless faces a number of existential risks. The outcome has been a starving of the country's other economic sectors of much needed assistance. In the process, the finance-led strategy has primarily benefited the "confessional-rentier elite" and thereby exacerbated vertical and horizontal inequalities in Lebanese society.[721] Its tremendous financial cost and multiple socio-economic imbalances have made it structurally unsustainable in the medium to long term. The past two decades have shown, moreover, that, even in the short term, tight social regulation is needed to secure the model's stability and reproduction.

3.3 Living on the Brink: The Imperative of Social Regulation to Secure Short-Term Regime Stability

A key finding of regulation theorists is that to avoid crises and maintain its growth trajectory, any capitalist system must manage its vulnerabilities, distortions and contradictions.[722] Social regulation, as outlined in the previous chapter, is the term used for the wide range of policy interventions and institution-building mechanisms needed to stabilize capitalist systems of accumulation and reproduce fundamental social relations. In Lebanon, the persistent vulnerabilities and distortions of its extraverted, finance-led form of capitalism have forced the ruling elite, led by the country's financial authorities, to adopt an advanced system of social regulation. This section discusses the unfolding of its three key dimensions over the past 25 years. First, it shows that the concrete objectives, mechanisms and agents of regulation are embedded in three key macro-institutions: the nature of the monetary and financial regime; the capital-labour configuration; and the specific nature, organization and performance of the national state. Second, it exposes the central role played by the national state, despite its generally weak performance, and the mastermind behind the state in regulation design, the Central Bank of Lebanon. Third, this section identifies the three major regulation challenges faced by the

[721] Chaaban & Gebara, *op. cit*.
[722] Aglietta, M. (1998). Capitalism at the turn of the century: Regulation theory and the challenge of social change. *New Left Review*. 232, 41–90, p. 44; Leyshon, A., & Thrift, N. (2007). The capitalization of almost everything: The future of finance and capitalism. *Theory, Culture & Society, 24*(7-8), 97-115

domestic regime: maintenance of the high money supply, recycling of surplus liquidity, and the mitigation of financial risks.[723] It also gives some examples of BdL-led policy interventions.

3.3.1 The Embeddedness of Social Regulation in the Post-1990 Institutional Environment

Lebanese regulation of its post-war form of capitalism has relied on institution-building and a number of policy interventions. Its outward orientation has made it especially sensitive to events in the international economy (e.g., 2008 financial crisis, post-2010 drop in oil prices), and these have been significant in the shaping of domestic regulation objectives, chronology and concrete instruments. This study suggests, however, that more influential than this has been the country's macro-institutional environment.

3.3.1.1 Post-war years: a critical juncture for institutional development

Similar to the years after the 1989 fall of the Berlin Wall, when Eastern Europe's socialist countries converted to capitalism, the post-war years in Lebanon proved to be a critical juncture in its institutional development. A number of new macro-level institutions emerged, or were restructured in the 1990s recovery process. Some of these may be observed in other countries experiencing financialization or post-conflict situations; others were specific to Lebanon. In all cases, their economic and non-economic arrangements widely affected both economic and societal structures. In the hands entirely of the country's consociational elite, they pushed through a political-economic project that not only perpetuated but exacerbated the power relations and social inequality inherited from pre-war and war conditions.

In Lebanon, three of the many macro-institutions encompassed by the regulation approach have been put to particular use: the monetary and financial regime; the capital-labour configuration; and the specific nature, organization and performance of the national state.[724] In many respects, the 'fixes' performed by these interrelated institutions have, apart from shaping the growth regime as a whole, intentionally and unintentionally reshaped the rules, norms,

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[723] Charbel Nahas, multiple personal communications, 2014-2016

[724] As explained in Chapter 2, the École de la Régulation identifies five macro-level institutions: the relations of work, the enterprise form, the nature of the monetary and financial regime, the organization of the state, and the international regime (Boyer, 2000a).

conventions, resources and agents used to achieve social regulation.[725] In the process, they have built upon prevailing structures of power, strategies, interests and relations among, and between, individual and collective agents.

3.3.1.2 The financial and monetary regime: the currency peg and the high-remuneration of incoming financial resources

The first of Lebanon's key post-war macro-institutions is its monetary and financial regime. The post-1990 recovery strategy, aimed at restoring financial attractiveness and (re)integration to transnational financial networks, has entailed strict monetary and financial constraints: the preservation of monetary stability through the currency peg and the high remuneration of incoming financial resources through debt-financing of the state budget. This regime has notably led to a twofold obligation: to form massive foreign reserves and to preserve high-yielding sovereign securities. It has, in many ways, shaped the traits of the local system of accumulation, as much as the nature and objectives of the state's regulation-related policy initiatives.

The financial and monetary regime has, through structures of incentives and disincentives, in fact, influenced every element of the rentier and finance-led model of Lebanese capitalism. Specifically, it has moulded many of the key features of the local system of accumulation including the high level of money supply in local and foreign currencies, the primacy of a bank-based financial sector, the weakness of its financial markets, the significance of finance-related activity in local wealth creation, increased debt-based modes of consumption, significant inflation, and an advanced degree of external dependency and vulnerability. Within this model of economic organization and social relations, the financial and monetary regime has also carried norms, values and conventions as well as constraints, opportunities and risks that have guided the behaviours and expectations of individual and collective economic agents. For example, the high profitability of sovereign securities has attracted an important portion of domestic savings and the boom in asset prices, including real estate, unleashed by the wide availability of financial resources, has benefited only equity-owning groups. It has penalized middle- and low-income groups, notably in their access to housing (see Chapter 8). By the same token, private credit,

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[725] Boyer, R. (2003). Les institutions dans la théorie de la régulation. *Cahiers d'économie politique: Histoire de la pensée et théories, 44*(1), 79-101; Tickell, A., & Peck, J. A. (1995). Social regulation after Fordism: Regulation Theory, neo-liberalism and the global-local nexus. *Economy and Society*, *24(*3), 357-386, p. 360

albeit in full growth, has generally remained expensive when not subsidized by the Central Bank of Lebanon.

In parallel, the financial and monetary constraints and their institutional arrangements have also critically shaped the objectives, chronology and instruments of regime regulation, ensuring the persistence of the prevailing pattern of accumulation while correcting its distortions, contradictions and tensions. This key macro-level institution, regardless of its financial costs and negative economic impacts, has guided many of the important policy interventions of Lebanese (financial) authorities over the past quarter century. Examples include the organization of international donor conferences, notably Paris II, whose decisions have protected the regime's fundamentals; and the pro-active central bank policy in recent years, which has increased the country's artificial money supply through stimulus packages to support growth and secure financial stability and engineered complex financial schemes to preserve the currency peg (see later in this section). The commitment of successive Lebanese governments to protection of the attractiveness and profitability of the banking sector is also evidence of the influence of its monetary and financial regime, as well as of cronyism and rent-seeking. In this sense, social regulation has involved a form of path dependence in post-war Lebanon: rising exit costs have made the transformation or re-assessment of the regime increasingly harder to accomplish over time.

3.3.1.3 The capital-labour configuration: the increased significance of equity-owning groups and equity-earning social relations

The second key macro-institution is the capital-labour configuration. The salience of capital, rather than wage, factors in the domestic income relation predates the civil war (see Table 3.1, p. 169); new to post-war Lebanon, however, is the rise of 'mass-based financialization' with its increases in equity-owning groups and equity-earning social relations. Since the early 1990s, the Lebanese, from the ruling elite to lower-middle classes, have increasingly resorted to financial assets and services. The very high remuneration of deposits in local banks, the direct holding of local sovereign securities and/or of other financial products on international financial markets, and the ownership of land and real estate assets have played an increasingly critical role in the way people accrue wealth. At the same time, the democratization of consumer credit and mortgage loans in the 2000s has also contributed to financialized accumulation with extraordinary levels of consumption incommensurate with wages that, themselves, were generally outpaced by inflation.[726] As a result, middle and lower-middle class groups have become increasingly captive to multiple lines of credit.

In parallel, an evolution in spirit has epitomized the financialization of everyday life: the ubiquity of 'shareholder value' as motivator of local transactions. On the one hand, the norm of short-term, double-digit profitability has spurred the upper-middle class and elite to take advantage of high-yielding sovereign bonds and booming real estate. This rentier culture, also called 'pipeline mentality,' is believed to have replaced the entrepreneurial mindset that traditionally gave the trade-oriented Lebanese bourgeoisie its distinctive reputation. On the other, the diffusion of a rent-shaped and get-rich-quick mentality, reinforced by the significance of remittances to household income, is suspected of breaking the work-reward link amongst upper-to-lower middle class groups. "The work ethic is reduced to nothing," says the General Director of the Ministry of Finance.[727] Economists Jad Chabaan and Khalil Gebara share this analysis and denounce the fact that reward has become a windfall gain that is "not a function of productivity or work."[728]

The quantitative and qualitative expansion of the 'social base' of financializised accumulation has a crucial implication for regime regulation: the progressive spread of equity-earning, to the detriment of wage-earning, social relations.[729] As underlined by the regulation and financialization scholarship summarized in Chapter 2, capital-earning social relations are expected to contribute to norms, values and conventions in the social body that facilitate implementation of regulation interventions. This is why increasing the share of equity-owning groups, and the importance of equity-earning social relations, has been among the key concerns of the local elite's regulation strategy. As demonstrated later in this thesis, property has proven key to this objective, notably with the rapid expansion of housing finance. Analysing the Lebanese situation from a regulationist perspective also leads us to question the extent to which those capital-earning social relations are sufficiently developed to really stabilize the Lebanese mode of development. This question hardly finds a definitive answer. But it seems clear that despite the rapid expansion seen in recent decades, both equity-owning groups and equity-earning

[726] Becker et al., *op. cit.,* p. 231; Hafez, *op. cit*., p. 468
[727] Alain Bifani, personal communication, May 4, 2015 (Translation by the author)
[728] Chaaban & Gebara, 2007, p. 8
[729] Becker et al., *op. cit.,* p. 230

social relations remain well below levels observed in Northern finance-led economies. Moreover, against a background of limited financial inclusion, further financialization of the Lebanese economy and society has incontestably broadened the economic, social, cultural and political gap between equity-owning groups and the remaining households: whole populations are unable to obtain financing to access basic goods and services (e.g., health care, a car, post-secondary education) let alone accumulate wealth.

3.3.1.4 The nature, organization and performance of the Lebanese state

The third key macro-institution is the Lebanese state: fragmented, loosely organized and weakly performing. These features are widespread amongst conflict-affected countries, but make Lebanon a specific case amongst finance-led economies. Three of its functional characteristics seem to be responsible for the institutional environment of its social regulation. First, the country's national government has a tradition of minimalist intervention in the economy. It rarely goes beyond the elaboration of pro-business legal frameworks and tax rebates. Under Rafiq Hariri's leadership, after 1992, this pro-market orientation was reinforced. Second, because rent-seeking practices prevail and its political and sectarian organizations are so prone to deadlock, the post-Taif state is effectively a neo-patrimonial arena for elite interest aggregation. In this context, the decision-making process for any major reform is frequently paralyzed, at best slowed down, by power struggles amongst troika members. More damaging to the social fabric and, as mentioned, prospects for stability, is the fact that this arena is one where the interests of non-elites barely register. Third, the ongoing fiscal crisis has critically constrained the scope and instruments of policy intervention in the economy. That the state is penniless, in other words, severely limits the government's room to manoeuvre to intervene *directly* in its financial and economic affairs. These three features have weighted on the choice of regulation strategies and instruments as well as on the agency of major state actors (e.g., government, Parliament, central bank). As importantly, this series of deficiencies has sapped the already low confidence in state action held by a majority of Lebanese citizens and therefore in the economy, which has in turn influenced the economic behaviours of residents and non-residents alike.

3.3.2 The Central Bank, the Mastermind of Social Regulation

Having underlined the constraints under which the post-war state has operated, its success as a politically dominant agent of social regulation is both counter-intuitive and hard to deny. In parallel to the design and implementation of the post-war financial recovery strategy, it has managed to play a major role in adjusting, stabilizing and reproducing the country's system of accumulation. By the state, however, I mean one actor in particular: the central bank.[730] In effect, the Banque du Liban, along with the Ministry of Finance and, to a lesser extent, Parliament, has orchestrated regime regulation through a number of very influential policy decisions and interventions.

3.3.2.1 A powerful, efficient and independent state actor

In many respects, the BdL presents a "positive if relative exception […] to the near universal failure of Lebanon's state institutions [organizations];" this in the face of political sectarianism, recurrent corruption and political interference.[731] The Banque du Liban, established by the 1963 Code of Money and Credit, is an independent public body that has accrued immense political and economic power over the past 25 years. This power is not totally new: it was already influential in the decade that preceded the civil war.[732] Also, unlike most central banks experiencing protracted episodes of war and violence, the BdL managed to preserve its status and functions between 1975 and 1992 when the country endured hyperinflation, capital flight and the contraction of foreign reserves.[733] It is only after 1992, nevertheless, that it began to gain its present influence by becoming one of the masterminds of the post-war financial recovery. In a context of inordinately large deposit inflows and banking sector presence, it has proven to be an extremely strategic and generally efficient entity.[734] From a Weberian perspective, the central bank's behaviour as a legal, rational and bureaucratic state actor has shown a marked contrast to other Lebanese state actors.

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[730] By making this argument, I concur with Baumann and Mouawad (*op. cit.*, p. 67) who, in a recently published article, stressed the BdL's "key role in reproducing Lebanese capitalism" since the pre-war period.
[731] Leenders, 2012, p. 225
[732] See for instance Baumann and Mouawad (*op. cit.*) regarding the way the BdL contained the 1966 Intrabank crisis.
[733] Dibeh, 2005, p. 13
[734] Boyer, R. (2000b). Is a finance-led growth regime a viable alternative to Fordism? A preliminary analysis. *Economy and Society, 29*(1), 111-145, p. 112

BdL achievements are frequently associated with the name of its Governor: Riad Salameh. Then Prime Minister Rafiq Hariri installed Salameh and a new central bank administration in 1993. Ties were close between these two major figures: the new Governor was previously Hariri's private banker as well as a Vice-President and Financial Advisor at Merrill Lynch in Paris.[735] Over the years, Salameh has become one of the most influential architects and managers of the growth regime as well as a charismatic leader, in the Weberian sense, in business circles and beyond.[736] Many analysts consider him to be the '*de facto* President of Lebanon' and his power, widely but often uncritically lauded in the local media, has remained unchallenged and immune to political-sectarian and party politics. Other analysts also portray him as the 'Wizard of Oz,' a frequent allegory used in critical financial analysis.[737]

3.3.2.2 A large portfolio of prerogatives characteristic of central bank-led capitalism

The centrality of the Banque du Liban to the post-1990 regime is a function of the form of central bank-led capitalism that emerged with neoliberal globalization in the 1980s.[738] Its singularity, and its power, lies in its locally specific prerogatives that exceed the duties usually conferred to central banks.[739] The Lebanese monetary authority has wide areas of intervention that, in practice, are rife with "internal contradictions and conflicts of interest."[740] They range from managing interest rates and acting as residual buyer of government securities to safeguarding monetary and financial stability, minimizing currency risk, setting up novel vehicles of banking capitalization, developing financial and capital markets and enhancing economic growth and job creation.[741] In concrete terms, the BdL has resorted to an array of cost-free, sometimes unconventional, resources and expansionary policy levers, unlike orthodox central banks that are concerned primarily with controlling money supply and limiting inflation. The

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735 Barazy, M. (2012). *Lebanon finance 2.0. A tribute to Governor Riad Salameh*. Beirut, Lebanon: Data and Investment Consult Lebanon; Leenders, 2012, p. 227

736 A number of honours distinguished Riad Salameh, including the French Legion of Honour (in 1997 and 2009) and multiple 'Best Central Bank Governor' awards. Salameh also sits in the Board of Governors at the International Monetary Fund and the Arab Monetary Fund.

737 Berthier, 2017a

738 Regulation theorists and political economists have discussed at length the transformation of technocratic central banking since the 1980s. It has gained substantial political credibility, independence from government control and tremendous influence in orienting patterns of wealth distribution in finance-led regimes (Boyer, 2000b, 112; Bowman, Erturk & Froud, 2013, p. 458; French, Leyshon & Wainwright, 2011, p. 801; Mann, 2010, p. 611). (Bowman, A., Erturk, I., & Froud, J., (2013). Central bank-led capitalism? *Seattle University Law Review*, *36*. 455–487, p. 458; French, S., Leyshon, A., & Wainwright, T. (2011). Financializing space, spacing financialization. *Progress in Human Geography, 35*(6), 798-819; Mann, G. (2010). Hobbes' redoubt? Toward a geography of monetary policy. *Progress in Human Geography, 34*(5), 601-625)

739 The usual prerogatives include management of the money supply and inflation, stabilization of the exchange rate, the accumulation of foreign reserves and the control of banking activities (Mankiw, 1998, p. 743). (Mankiw, N. G. (1998). *Principes de l'économie*. Paris, France: Economica)

740 Hakim & Andary, 1997, p. 239

741 International Monetary Fund, 2015

BdL has boosted the attraction of external liquidity, regulated the velocity of capital circulation in the local economy, and mitigated the accompanying financial risks. Interestingly, this mix of proactive monetary and macro-prudential interventions — deployed in a muddling-through manner by Riad Salameh and his administration — preceded the strategy adopted by many monetary authorities across the globe in the aftermath of the 2008 financial crisis.

3.3.2.3 A stability-driven agenda but a poorly democratic governance

As the gatekeeper of Lebanese capitalism in a precarious governmental environment that left a lot of room for its liberation, the Banque du Liban has accrued extensive political power. Successive governments, the overwhelming majority of Parliament members, state administration members and major Beirut-based bankers have all given the bank free rein to secure the country's stability and, directly and indirectly, protect collective and individual elite interests.[742] In fact, as economist and former Minister Charbel Nahas explains: "Many [elected officials] do not really understand the financial system at play, but they have an almost religious belief that no one should touch the system and those who manage it."[743] The BdL-led trajectory of social regulation, regardless of its economic and social costs, has thus remained generally unchallenged outside, and also within, the central bank. The apparently ineradicable risk of financial collapse and lack of easily implementable alternatives have largely contributed to the silencing of critical voices.

Similarly, there has been no, or very limited, criticisms of the way in which the architect-in-chief of social regulation has bypassed democratic governance to shaped the policy agenda. The BdL is a secretive entity where decision-making is opaque, informal and not subject to parliamentary control. Circulars, which are BdL decisions in central-banking jargon,[744] tackling key financial and economic policy issues are elaborated and voted in close-door meetings by a handful of unelected technocrats under the leadership of the immensely influential Governor. This democratic deficit is especially disturbing in light of the "congruence of interests between the state and commercial banks."[745] Some may find it excessive to claim that post-1992 BdL monetary and prudential interventions have defended only elite financial interests; however, as discussed, it is clear that by protecting the stability of the country's finance-led regime of

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[742] Leenders, 2012, p. 230
[743] Charbel Nahas, multiple personal communications, 2014-2016 (Translation by the author)
[744] The Central Bank of Lebanon issues two types of decisions: basic circulars and intermediate circulars.
[745] Dibeh, 2005, p. 13

accumulation at all costs the monetary authority has automatically consolidated the interests of the financial-rentier class and perpetuated a very unequal configuration of social relations.

3.3.3 The Three Challenges of Social Regulation: Definition and Policy Interventions

The vulnerabilities, distortions and contradictions inherent in the post-1990 system of accumulation have resulted in three major regulation challenges. The first is perpetuation of the economy's ability to attract external financial resources. The second is recycling of the surplus liquidity and the third is mitigation of the system's financial risks. Concretely speaking, attempts to avoid a financial crisis in the short term, and collapse of system as a whole, have forced authorities, primarily the central bank, to create policy responses that reflect, and help to perpetuate, the macro-institutional environment. Below are details of these regulation challenges and a number of associated policy responses. Together they set the stage for an analysis of the centrality of property to regime stability in the following chapters.

3.3.3.1 The maintenance of high money supply

The first regulation challenge is to secure a level of financial inflows sufficient to preserve the currency peg, finance the public debt and bolster wealth creation.[746] In the context of the secondary form of dependency of Lebanese capitalism, monetary and financial stability and economic growth are put at risk when deposit growth slows below a certain level and the entire mode of development has the potential to collapse. It is argued that an annual six-to-eight percent increase in capital inflows, i.e., USD six-seven billion in 'hot money,' is necessary to meet the country's public and private financing needs and support the buffer of international reserves.[747] As underlined earlier, the volume of financial inputs is contingent on trust within the Lebanese political-economic environment as much as on volatile oil prices and the levels of remuneration offered in other financial centers. To stimulate the 'pump' of money inflows, financial authorities have resorted to two main levers: reinforcement of the financial connection to the diaspora, and maintenance of a high degree of confidence among depositors.[748]

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[746] Charbel Nahas, multiple personal communications, 2014-2016; Gaspard, 2004, p. 154

[747] International Monetary Fund, 2015, p. 11. Lebanese banks cannot afford to meet the increasing needs of public and private debt without recording at least the same rise in deposits. This is an absolute requirement of compliance with international prudential standards in terms of debt-to-deposit ratio (Jean Riachi, personal communication, November 13, 2015).

[748] Charbel Nahas, multiple personal communications, 2014-2016; Taffin et al. *op. cit.*, p. 15

Reinforcing financial connections with Lebanese non-residents

Lebanese authorities and banks constantly seek to further develop financial connections with the widespread Lebanese diaspora. As such, the maintenance of high levels of money inflows is a major policy and business objective; one that has motivated, for example, the opening of bank branches in emigration countries (e.g., Africa, Europe, North America), intense advertising campaigns and the regular organization of conferences (e.g., the annual Beirut-based Lebanese Diaspora Energy Conference) and the support of powerful diaspora organizations (e.g., African Continental Council). The challenge is to maintain connection with highly skilled young professionals who, against a background of thriving "circular migration" as explained earlier, repatriate considerable amounts of capital through bank deposits and remittances.[749]

Sustaining a high degree of confidence among depositors

The maintenance of a high degree of confidence among non-resident depositors has proven to be even more important to stimulation of short-term deposit growth. In many ways, this confidence is tied to the preservation of elevated liquidity and profitability in the banking sector. "Capital flows are highly sensitive to interest rate movements and […] to exchange rate expectations," notes economist Samir Makdisi.[750] This is especially true in the contexts of recurrent political instability and economic shocks, and of the reinforced competition across regional and international financial centers. It is for this reason that the central bank and the banking sector have sought to maintain high, inflation-adjusted prime interest rates, in USD and LBP: to cover the perceived risk of parking money in Lebanon and to offer a sufficiently generous spread with other international placements. In particular, the BdL and the Ministry of Finance have used the remuneration offered on government securities (i.e., Treasury bills in LBP and Eurobonds in USD) and BdL-issued financial instruments such as Certificates of Deposits to make Lebanese banks "among the highest paying […] in the world."[751] Yet, a recurrent constraint for technocrats has been the retention of this factor remuneration within reasonable limits to

[749] According to economist Jad Chaaban (interviewed in Dhillon, 2009), an increased number of highly skilled young professionals who firstly immigrated to GCC countries have ultimately moved to North America, Europe and Australia.
[750] Makdisi, 2004, p. 106
[751] Yammine, 2010b, p. 50. In spite of a progressive contraction of sovereign and deposit interest rates, Lebanese financial authorities have managed to keep rates on USD deposits higher than the international rates, set by the London Interbank Offered Rate (LIBOR): LBP deposits are also very attractive (International Monetary Fund, 2015, p. 63; Yammine, 2010b, p. 51).

minimize its costs: increases in the public deficit, in financing of the entire Lebanese economy and in its skewing of the structure of the domestic financial sector.

In the past two decades, two episodes have illustrated the significance of the management of interest rates: the 2002 Paris II donor conference and the reaction of Lebanese financial authorities to the 2008 global financial crisis. Among the three international donor conferences for Lebanon organized in the 2000s in the French capital (see details in Box 3.4 below), the second 2002 conference had the most concrete policy implications for the regulation of the country's growth regime. The Paris II summit was organized in the context of severe financial stress: the balance of payments was in deficit, the excessive resource cost made the public debt burden increasingly unsustainable, and depleted foreign exchange reserves endangered monetary stability.[752] Simply stated, the very foundation of the post-war growth regime was at risk.

The main decision taken during Paris II to avoid short-term sovereign default and financial collapse was to refinance Lebanon's public debt at lower rates. The strategy was to trigger a shock of positive confidence to re-boost money supply. "Those [donor] conferences were only a matter of public finance and capital inflows," confirms Charbel Nahas.[753] Results were convincing: in the face of a decline of sovereign bond yields from a 11–15 percent bracket in 2002 to a five-nine percent bracket in 2003 and a corresponding drop in deposit rates, the confidence of non-resident capital holders in the soundness of Lebanon's financial system was restored. The balance of payments, sustained as well by the rapid rise in oil prices, began to record a surplus, foreign reserves surged, and the country experienced, consequently, an unprecedented financial boom and economic growth throughout the 2000s.[754] Essentially, as Chapter 4 will explain, the rejigged profitability of sovereign debt temporarily elevated the percentage of resident and non-resident capital assets streamed into real estate activity.

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[752] Gaspard, 2004, p. 216; Makdisi, 2004, p. 107
[753] Charbel Nahas, multiple personal communications, 2014-2016
[754] For example, BdL foreign reserves surged by 45 percent and the dollarization rate dropped in the months following Paris II (Rashleigh, 2003, p. 77). (Rashleigh, B. (2003, June). Six months after the event: Has Paris II met expectations? *Lebanon Opportunities*. 76-78)

Box 3.3 – The international donor conferences of Paris I, II and III

Organized in February 2001, November 2002 and January 2007, successive international donor conferences brought together the Lebanese government, its local lenders, international powers (e.g., Saudi Arabia, France, USA, Kuwait) and international and regional financial organizations (e.g., the IMF, World Bank, Arab Fund for Economic and Social Development) to set the parameters of three aid and reform packages.[755] The organization of the Paris I and II conferences, on the one hand, sought to choke off the sources of financial and monetary collapse. The Paris III conference, on the other, was intended primarily to help the Lebanese economy absorb the fallout of the July 2006 War. Each aid and reform package, similar to the 1980s IFI-led structural adjustment programs, relied on the following conditionality-based mechanism: the pledging of money in the form of loans and grants by international donors in exchange for governmental reform programs such as trade facilitation and liberalization, privatization programs (e.g. for the power and telecommunications sectors), cuts to public expenditures, and public revenue-enhancing measures (e.g., creation of a value-added tax).[756] Pledged liquidity totalled USD 659 million in Paris I, USD 4.3 billion in Paris II and 7.62 billion in Paris III.[757]

Later on, the policy response of the Lebanese financial authorities to the 2008 global financial crisis created another milestone in regulation of the post-1990 growth regime.[758] In order to preserve the attractiveness of, and the confidence in, the domestic banking system, the BdL and the MoF managed to maintain elevated sovereign interest rates (i.e., five to nine percent according to maturity although they all declined to below six percent in 2010). The relatively high sovereign bond yields allowed commercial banks to offer deposit rates of three to four percent in US dollars and six to seven percent in LBP while most global financial platforms, crippled by the crisis, were offering much lower rates of remuneration. In simple terms, the preservation of attractive rates of interest on public debt and deposits, and the spread these created with those of the international market, allowed Lebanon to entice an increased amount of

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[755] Interestingly, Baumann (2012b, p. 275) notes that, although delegates attended the Paris II conference, the IMF was initially "unwilling to support the Lebanese peg after a similar currency arrangement had [...] failed in Argentina and Turkey."
[756] Sherry, H. (2014). *Postwar Lebanon and the influence of international financial institutions: A "Merchant Republic."* (Civil Society Knowledge Center, Lebanon Support). Retrieved from http://civilsociety-centre.org/paper/post-war-lebanon-and-influence-international-financial-institutions-"merchant-republic"
[757] Guillis, 2003
[758] Roger Melki, multiple personal communication, 2014-2016

liquidity. This, critically, helped to maintain monetary and financial stability and propped up GDP growth.[759]

3.3.3.2 The recycling of surplus liquidity

The second regulation challenge has been to correct distortions caused by these massive capital inflows, particularly in times of financial boom. Interest-bearing liquidity in the Lebanese banking sector must materialize into assets to create value and remunerate both depositors and banks. However, deposit growth has generally grown faster than economic growth: in recent years total deposits have amounted to USD 155 billion in Beirut-based banks while the national GDP has reached about USD 50 billion.[760] In scholarly terms, Lebanon has recurrently faced a 'wall of money,' or 'liquidity trap,' where the amount of liabilities requiring remuneration exceeds the absorption rate of the economy.[761] The distortion is particularly acute for deposits in local currency, a consequence of the large amount of dollars converted since the late 2000s into Lebanese pound deposits, and the mismatch in the dollarization rate of resources and lending schemes. In concrete terms, surplus capital is primarily enumerated in LBP while most lending programs are in USD. This is the reason why Lebanese banks have constantly sought to create new opportunities for capitalization, i.e., new safe, income-yielding outlets with short to medium-term maturity to accommodate cash in LBP. As mentioned previously, this situation of overliquidity is not Lebanon-specific: social scientists Rodrigo Fernandez and Manuel Aalbers have shown just how this is "one of the key drivers of financialization and [how it] explains partially why so many assets have been opened up to financialization."[762]

One of the central bank's essential prerogatives is to coordinate and supervise the recycling of short-term profit-seeking liquidity in the banking sector. In doing so, the BdL must factor in the two major constraints faced by Lebanese banks: an elevated resource cost and a limited appetite for risk. This is the reason why it has set up a series of incentives and subsidies totalling USD 1.5 billion to boost the circulation of capital and help banks allocate their excess

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[759] World Bank, 2012, p. 25
[760] Bathiche, 2011; Kallas, V. (2009, September). Banks have a cash flow problem: Excess liquidity. *Lebanon Opportunities*. 47-53, p. 53
[761] Fernandez, R., & Aalbers, M. B. (2016). Financialization and housing: Between globalization and varieties of capitalism. *Competition and Change*. 20, p. 16; Senior official of Banque du Liban #1, November 28, 2015
[762] Fernandez & Aalbers, 2016, p.16

liquidity targeted vehicles.[763] Two major policy levers have been used, namely: the deployment of in-house financial instruments tied to sovereign debt, and the growth of private credit.

In-house financial instruments tied to public debt

The financial authority has deployed in-house financial instruments with a twofold objective: mop up banks' surplus liquidity, on the one hand, and sustain foreign reserves and cover the governmental need for local currency financing, on the other.[764] It is with this objective in mind that the BdL has, since 2009, accelerated the issuance of well-remunerated Certificates of Deposits, i.e., USD 70 billion in 2015 for a nine percent interest.[765] Likewise, the MoF has generally helped the banking sector cope with its excess liquidity by borrowing money in LBP and USD, which is not included to public budget but deposited at a loss at the Banque du Liban.[766] The latest BdL initiative dates back to the summer of 2016 when the financial authority engineered a controversial tripartite swap scheme with the MoF and major local banks. The aim was to consolidate foreign exchange reserves and recalibrate the banks' balance sheets, both of which were almost certainly weakened by the 2010s contraction in capital inflows.[767] Beirut-based experts further explain that the rapid deployment of such in-house financial instruments has illustrated the intermediary role increasingly played by the BdL between the Treasury, on the one hand, and the country's banks, on the other, which are more and more reluctant to invest directly in government securities.[768]

The growth of private credit

To help banks expand private lending without interfering with elevated deposit rates, the central bank has engineered three sophisticated forms of incentives in parallel to public debt-derived vehicles: interest subsidies, the partial lift of reserve requirements, and the issuance of soft loans (stimulus packages). The common rationale underlying these monetary tools has been to lessen the cost of loans to households and firms and to meet three regulation objectives: foster

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[763] Charbel Nahas, multiple personal communications, 2014-2016
[764] International Monetary Fund, 2014, p. 20; 2015, p. 52
[765] Chaaban, 2016, p. 5
[766] Charbel Nahas (multiple personal communications, 2014-2016) contends that this mechanism cost taxpayers about USD 600-700 million.
[767] Nevertheless, Gaspard (2017) recently questioned the objectives of this complex operation that brought billions of USD into the BdL vaults and immensely benefited to a small number of local banks. Indeed, he (*ibid*, p. 10) argues that a more likely aim of the scheme was to "strengthen the capital of at least two major banks that lost substantial amounts, of more than one billion dollars combined, from investments in Turkey and Egypt."
[768] Al-Attar, 2017

the recycling of excess liquidity, boost GDP growth and reduce the banking sector's exposure to sovereign risk. Leaving interest subsidies aside,[769] this work reviews the two BdL monetary interventions that have provided low-cost liquidity to the banking system since the late 1990s: (i) the partial lift of reserve requirements, and (ii) the issuance of soft loans. These two incentives to accumulation of private debt are critical to an understanding of the way in which the property market has become implicated in Lebanon's financial and economic stabilization. The regulation-urbanization nexus will be analyzed in upcoming chapters.

(i) The partial lift of reserve requirements. Offering targeted exemptions to reserve requirements is a monetary lever that the Banque du Liban long ignored: it preferred orthodox policies in times of war and monetary, economic and political instability.[770] Yet, with the new BdL administration appointed in 1993 surfaced a new monetary doctrine. In 1997-1998, to encourage the banking sector to issue state-sponsored housing loans in Lebanese pounds (see Chapters 5 and 8), it resorted for the first time to a targeted lift of required reserves.[771] Access to obligatory reserves was extended to loans issued to "firms in the industrial, information technology (IT), agriculture and tourism sectors" with Circular 84 in 2001.[772] In 2009, in response to contracting private credit growth, a considerable influx of liquidity (e.g., USD 24 billion for the single year of 2009) and the shift in bank deposits from US dollar to local currency, the BdL scaled up this incentive and opened it to USD-denominated mandatory reserves with Circular 185.[773]

(ii) The issuance of soft loans. Granting such loans to local banks as part of successive stimulus packages throughout the 2010s is the second monetary lever used by the Banque du Liban to subsidize private credit growth. Soft loans were meant to add to the targeted lift of mandatory reserves on which local banks rapidly reached their maximum usage.[774] BdL-run stimulus packages issued in local currency totalled the equivalent of USD 1.45 billion in 2013,

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[769] As explained by the IMF (2015, p. 73), a five-to-seven percent subsidy scheme, paid directly by the Ministry of Finance to borrowers, applies to the "interest charged on medium to long term loans in foreign currency to productive sectors" since 1997. Its objective has been to reduce the lending cost for borrowers without diminishing banks' spread and profitability.

[770] Unlike most central banks collecting about 2.5 percent of bank deposits, the Central Bank of Lebanon applies a 25 percent requirement for deposits in local currency and, since 2002, a 15 percent requirement for those in foreign currency. This procedure has allowed the regulator to amass large liquidity reserves.

[771] Economist Roger Melki (multiple personal communication, 2014-2016) explains, however, that the first BdL-subsidized loan programs date back to 1994. At the time, the aim of the central bank was not to stimulate the economy but compensate the crowding-out effect of well-remunerated government security over-lending to the private sector. The cost of such programs, targeting specific economic activities (e.g., industry, agriculture, tourism), was financed through the Ministry of Finance, however, rather than through money supply.

[772] World Bank, 2016a, p. 29

[773] Kallas, 2009; Banker #1, CEO of a major Beirut-based bank, November 25, 2015; World Bank, 2016a, p. 29

[774] Chami, H. (2013a, February). Central bank extends low-cost lending. *Lebanon Opportunities*. 56-57; Senior official of Banque du Liban #1, November 28, 2015

USD 928 million in 2014, USD one billion in 2015 and another USD one billion in 2016. This alternative and costless mechanism of credit supply, which may boost inflation if not carefully balanced, works as follows: the monetary authority lends newly issued money at a minimal rate of one percent to commercial banks, which, in turn, relends this money to borrowers at a capped final rate of six percent.[775] As detailed in upcoming chapters, these successive incentive schemes have primarily supported the real estate and construction sectors through the rapid expansion of home loans.[776] There are ways in which the regulation objective pursued by this credit boost is different from that motivating the first BdL incentive scheme, created in the late 1990s and deployed throughout the 2000s. Specifically, the deficit recorded by the balance of payments in recent years has limited the system's excess liquidity. This is the reason why stimulus packages throughout the 2010s, apart from contributing to the recycling of surplus capital, have primarily been extended to bolster consumption-based accumulation in a period of weak GDP growth.[777] In other words, as is the case in many other Southern economies, the expansion of private debt has played a "'functional' role in the management of the business cycle."[778]

3.3.3.3 The mitigation of financial risks

The third regulation challenge has been to mitigate a number of the financial risks run by banks, the financial system and the domestic economy at large. Officials at the Banque du Liban, the CEO of a major Beirut-based bank affirms, have a "paranoid fear" of any form of financial trouble since they know how much "a small shock can have a big effect" on the very subtle equilibriums of the domestic financial system. "The banking sector is the bastion of our economy, and if one or two banks happen to fall, others will follow," concurs a senior executive of a major property development firm, who stresses the high degree of interconnection between local financial agents.[779] This perception of financial vulnerability is not baseless: as discussed earlier, the Lebanese banking sector runs at least four major risks — namely, maturity, foreign exchange, sovereign and property — intimately tied to the financial model shaped by the early 1990s recovery strategy. In addition to direct banking risks, BdL expansionary monetary policies,

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[775] Administrative fees aside, the spread went straight into the pocket of the banking sector and, thus, served to reinforce bank profits. For example, journalist Mohammed Zbeeb (2013b) estimated that the banks gained about USD 65 million from this injection of fresh money in 2013.
[776] Additionally, the BdL set up "a new investment scheme in August 2013 designed to promote investment in Lebanese start-up companies in the knowledge economy" (IMF, 2015, p. 75).
[777] Senior official of Banque du Liban #1, November 28, 2015
[778] Bonizzi, *op. cit.*, p. 92
[779] Property developer #3, general manager of a major Beirut-based development firm, November 21, 2014

which have artificially increased the amount of liquidity circulating in the economy, have stimulated the development of asset bubbles whose potential burst could destabilize the financial sector through the credit system (see Chapter 9).

For all of these reasons, macro-prudential action and the enforcement of Basel I, II and III international banking Accords have been pivotal to the preservation of Lebanon's financial stability, especially since the central bank has power over the supply of just one (i.e., the Lebanese pound) of the two currencies used in its banking system. On the one hand, the Banque du Liban has carefully supervised the capital, liquidity and leverage of local banks. It has imposed a detailed prudential framework regulating liquidity requirements, capital requirements, capital allocation, leverage ratio, supervisory review, stress testing and the type of offered financial services.[780] On the other hand, the financial monetary authority has also specifically controlled private credit expansion by applying a series of tight ratios to lenders and borrowers. In particular, property-related loans have been under special scrutiny to prevent the contagion to the financial system through the credit system of a crash in property values (see details in Chapters 5 and 9).[781]

In sum, this third section has teased out the major features of the regime of social regulation brought to bear in post-1990 Lebanon to overcome the vulnerabilities and manage the distortions and contradictions of a growth regime constantly at risk in the short term. Three dimensions most salient to our further study of its effect on urbanization have been explored. The first of the three encompasses the macro-institutions of post-war Lebanese capitalism, of which three are key: the nature of the monetary and financial regime; the capital-labour configuration; and the specific nature, organization, and performance of the national state. All have critically influenced regulation objectives, mechanisms and agents. The second of these dimensions is the Central Bank of Lebanon and its role as director of regulation strategy. The third involves the regulation challenges themselves, the most important of which are three: the maintenance of high money supply, the recycling of surplus liquidity and the mitigation of financial risks. Finally, a number of regulation policy interventions have been analyzed. Contributing as it does only to

[780] Taffin et al., *op. cit.*, p. 15
[781] De Brandt, O., & Durant, O. (2014). Marchés du logement et politiques macroprudentielles: La situation européenne. *Revue d'Économie Financière*. *3*(115), 247-268, p. 247

short-term monetary and financial stability and economic growth, social regulation has served only to buy some time, or to paraphrase David Harvey, to 'reschedule the crisis.'[782]

Conclusion

In this chapter, my aim was to carry out an institutionally grounded account of the mutations of Lebanese capitalism in the post-war period by untangling the sophisticated coupling of its system of accumulation and its mode of social regulation. As a consequence of a costly post-war recovery strategy initiated by then Prime Minister Hariri and his administration in the early 1990s to regain financial attractiveness, the rentier and finance-led character of the local economy has amplified over the years. Monetary and financial stability and GDP growth have increasingly become contingent on a positive balance of payments fuelled by external money supply (i.e., liquidity inflows, inbound remittances, FDI). These indirect rentier streams, which have ensured a persistently high level of money inflow in the financial system, have been critical to financing the economy and instrumental to the further financialization of domestic wealth creation and distribution. A variety of effects have been discussed including the hypertrophy of a bank-based, job-weak and risk-prone financial sector, the underfinancing of non-financial activities, and the persistence of striking vertical and horizontal inequality across Lebanese society.

For all of these reasons, this externally dependent, vulnerable and highly unequal system of accumulation appears to be unsustainable in the medium to long term and permanently on the brink of collapse in the short term. Accordingly, it has required tight social regulation to ensure its short-term stability and reproduction. Specifically, this chapter showed how regulation objectives, mechanisms and agents have been embedded in at least three key macro-institutions of post-war Lebanese capitalism: the monetary and financial regime; the capital-labour configuration; and the specific nature, organization and performance of the national state. It also demonstrated that the Central Bank of Lebanon is the mastermind of social regulation, and that regulation has focused on three key challenges: the maintenance of high money supply, the recycling of surplus liquidity, and the mitigation of financial risk.

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[782] Kamal Hamdan, economist and Managing Director of the Consultation and Research Institute, quoted in Lebanon Opportunities (2003, p. 71). (Harvey, D. (1989b). *The Urban experience*. Oxford, UK: Blackwell, p. 196; Lebanon Opportunities Staff (2003, March). Better than the rest. *Lebanon Opportunities*. 70-71)

This systemic investigation of Lebanon's post-war mode of development is an essential prerequisite to a discussion of the political economy of city-making in post-war Beirut. As argued in the introduction and demonstrated in upcoming chapters, the production of space in the capital, and throughout the country in general, has been intimately connected to the social regulation of the capital-intensive growth regime. To explain just how this is the case, the next chapter looks into the peg that has attached urbanization to regulation: the property market.

Chapter 4 – The Centrality of Property to Lebanon's Growth Regime

The interdependence of the transformations and crises of capitalism, on the one hand, and the growth and decline of cities, on the other, has been a core research track in urban studies. And the influence is equally profound in both directions. The ways in which the global and country-specific trends of capitalism influence the drivers, features and agents of urban development is equal to those in which the making of cities affect the life and death of capitalist systems. Lebanon is no exception and the production of space in post-war Beirut both reflects and affects the trajectory, challenges and constraints of the outward-oriented, capital-intensive and finance-led mode of development analyzed in Chapter 3. The Lebanese capital does share a number of commonalities with other Eastern Mediterranean metropolises such as Amman, Cairo, Istanbul and Tel Aviv. Yet, the political economy of its urbanization, despite variations in patterns of land ownership, market workings and state interventions, resonates rather with rationales and dimensions observed in Hong Kong, Tokyo and Dubai where property is purposively used for the stabilization of liquid and globally connected local economies.

The concrete mechanisms linking urban production to the fate of capitalism in Lebanon remain under-researched and require further analytical and conceptual work. This is the gap that this chapter intends to fill by unravelling the evolution of the nature and role of property in the post-1990 growth regime: not simply a commodity that meets people's housing needs and brings a substantial contribution to wealth accumulation, it has increasingly become a financial asset pivotal to the functioning and perpetuation of the domestic financial and monetary system. To show how this is the case, I delve into the question why the property market has become a pivotal *meso-institution* in the regulation-urbanization nexus and how property activity and asset prices have become a *consequence,* and an *instrument, of regulation*. This chapter examines, in other words, the reasons for which, and the concrete mechanisms by which, the property market, through its various financing channels, is the peg that mediates the circular relationship between urban development and capitalist reproduction. In doing so, the Beirut property sector, whose vitality reflects the dynamism of this feedback loop, is portrayed as a social construct with instrumental value rather than as the mere expression of market forces. The financialization of land and real estate assets is also analyzed as a consequence of, and condition for, the pivotal role given to property in the reproduction of Lebanese capitalism.

The chapter is divided into three sections that detail an array of conceptual and analytical arguments for the centrality of property. The first lays out the reasons why the crucial position of property in domestic wealth accumulation makes Lebanon what Finnish urban scholar Anne Haila calls a "property state."[783] The second brings into view the role of property in regime regulation. It identifies the theoretical underpinnings of, and motivations for, conceptualization of the property market as a meso-institution before untangling the two directions of the regulation-urbanization nexus. Finally, the third section investigates the elite- and mass-based financialization of property entailed by and required for the nexus to operate.

4.1 Lebanon, a 'Property State' in the Middle East

Lebanese property has occupied a prime position in domestic wealth accumulation for over a century, which allows the country to fall easily within Haila's "property state" category. The rentier character of its economy has historically ensured a recurrently high level of property demand from wealthy expatriates, foreign capitalists and the local bourgeoisie seeking investment opportunities within which to sink capital resources. By relating the dynamism of the real estate market, and thus, of construction activity, to the pace of financial inflows to the Lebanese economy, existing Beirut scholarship highlights the structurally contingency of property on sources of external funding. Yet, the various channels through which increasingly diversified capital sources find their way to property, and the reasons for which resident and non-resident capital holders choose this investment vehicle, have remained largely under-examined. This thesis seeks to address that gap.

4.1.1 A Brief Overview of Property in Lebanese Capitalism

The acquisition of property assets and engagement in development activity by residents and non-residents is "an almost constant feature of the Lebanese economy," states economist Toufic Gaspard.[784] While land and home purchases by rich expatriates had already galvanized the local market in the 19th century, the massive influx of petrodollars in the past few decades has fuelled waves of speculative real estate investment and construction. Over time, property has thus become a major contributor to domestic wealth creation.

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[783] Anne Haila (2000; 2016, p. 16) introduced the notion of "property state" in her work on Hong Kong and Singapore where "real estate plays an important role in the economy, public revenue and the wealth of people." (Haila, A. (2000). Real estate in global cities: Singapore and Hong Kong as property states. *Urban Studies, 37*(12), 2241-2256; Haila, A. (2016). *Urban land rent: Singapore as a property state*. Chichester, West Sussex, UK: John Wiley & Sons)
[784] Gaspard, T. K. (2004). *A political economy of Lebanon, 1948-2002 the limits of laissez faire*. Leiden, Netherlands; Boston, MA: Brill, p. 71

4.1.1.1 A perennial investment vehicle to sink diaspora money

In Lebanon, the building of portfolios of land and real estate assets has been a recurrent investment strategy and a "symbolic source of prestige" for the domestic and diasporic bourgeoisie for over 150 years.[785] As early as the late 19th century under Ottoman domination and later on during the French mandate, Lebanese expatriates in America, Europe and Africa pushed up local property values by purchasing land and building large houses in their home villages. In the decades following 1943 independence, early flows of oil money repatriated by expats and rich Arab businessmen began to sustain the country's balance of payments and trigger massive real estate investment and intensive construction activity.[786] One figure captures the significance of this pre-civil-war realty frenzy: between 1964 and 1972, about 64 percent of total investment went to the construction sector.[787] The velocity of this development activity fuelled a rapidly growing but poorly controlled property market: on the eve of civil war, about 70 percent of the Beirut housing stock had been built after 1945.[788] An estimated 40,000 to 50,000 luxury homes were empty in the capital alone, while the majority of the population lived in precarious housing conditions.[789]

During the war, the pace of real estate activity remained astonishingly steady. New housing needs provoked by military confrontations, destructions and population transfers supported land and real estate transactions mainly financed by sustained money flows from abroad.[790] Likewise, numerous large projects (e.g., luxury hotels, gated communities, shopping malls) were built, sometimes on public land, with militia sponsorship and financing.[791] The end of civil strife by the turn of the 1990s, and the demolished infrastructure and housing stock left in its wake, led to the first real estate and construction boom, specifically in Greater Beirut where a significant portion of investment value was concentrated. This was also the time when Solidere, the controversial private-sector-led reconstruction megaproject in Beirut Central District was initiated. It notably

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785 Picard, E. (2005). Trafficking, rents, and diaspora in the Lebanese War. In C. J. Arnson & I. Wi. Zartman (Eds.). *Rethinking the economics of war: The intersection of need, creed, and greed* (pp. 27-67). Washington, DC: Woodrow Wilson Center Press, p. 41

786 Bourgey A., (1989). La guerre et ses conséquences géographiques au Liban. *Annales de Géographie*, *521*, 1-37, p. 11; Gaspard, 2004, p. 145; Sadik, R. (1996). *Nation building and housing policy: A comparative analysis of urban housing development in Kuwait, Jordan, and Lebanon* (Unpublished doctoral dissertation). Department of City and Regional Planning. University of California at Berkeley, Berkeley, p. 109; Corm, G. (1993). La reconstruction du centre de Beyrouth: Un exemple de fièvre immobilière au Moyen-Orient. *Revue d'économie financière*. *3*(1), 323-335; Traboulsi, F. (2007). *A history of modern Lebanon*. London, UK: Pluto, p. 160

787 Gaspard, 2004, p. 153

788 Gaspard, 2004, p. 73

789 Traboulsi, 2007, p. 160

790 Bourgey, 1989, p. 9

791 Picard, 2005, p. 39

attracted foreign buyers and investors in addition to Lebanese expats and residents. This brief historical review shows one important thing: that massive capital accumulation in the built environment is not new. Yet, as will be demonstrated below, a new era opened out in the 1990s and 2000s when the real estate and construction sectors gaining even greater significance, and a particularly strategic position in a domestic mode of development increasingly dependent on rentier capital resources and finance-led forms of wealth accumulation.

4.1.1.2 The real estate and construction sectors: two key contributors to GDP

Coming up with an accurate and indisputable estimate of the contribution of property to the Lebanese economy faces a twofold methodological challenge. First, reliable data on the shares of construction and real estate in the GDP are generally scarce, often incomplete, and at best, diffuse. Second, the overall and respective contributions of the two sectors vary greatly during periods of property boom and slowdown, and data series available to researchers are insufficient to build average appraisals for the 10-to-15-year periods needed to smooth conjectural effects. This is the reason why this study estimates changes in the position of property in the Lebanese economy in recent decades rather than charting the year-to-year performance of the real estate and construction sectors.

The contribution of property to domestic economic growth in absolute and relative terms has undeniably increased, notably during the post-war era. As shown in Table 4.1 below, construction and real estate totalled about 21 percent of GDP in 2014, i.e., during the second post-war property slowdown, while they amounted to 13.3 percent in the pre-war era and 17.9 percent in 1997, i.e., at the beginning of the first post-war property downturn.[792] Even though I was unable to compile reliable aggregate data, it is reasonable to suggest that the overall contribution of property during the 1990s and 2000s real estate and construction booms was probably higher than that respectively indicated in 1997 and 2014. For example the construction sector alone accounted for 13.3 percent of GDP in 2009 during the apex of the second property boom.[793] In parallel to the steadily growing significance of property to value creation, it is worth

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[792] Central Administration of Statistics (2017). *Lebanon national accounts 2015: Comments and tables*. Retrieved from www.cas.gov.lb/images/PDFs/National%20Accounts/CAS_Lebanon_National_Accounts_2015_Comments_and_tables.pdf (p. 24). Apart from its direct economic benefit, activity in the construction and real estate sectors also has secondary and tertiary benefits through its stimulation of related sectors and professions, all of which contributes to accumulation in the economy at large.

[793] Central Administration of Statistics (2010). *Lebanon national accounts 2009*. Retrieved from www.cas.gov.lb/images/PDFs/National%20Accounts/pcm/2009%20EN.pdf. As a matter of comparison, construction activity reached more than

pointing to the elevated share of construction (9.4 percent) in the 1990s post-war context, where it atypically exceeded the performance of real estate (8.5 percent). The reconstruction period probably had a 'catch-up' effect that exaggerated the contribution of construction activity to the GDP, which had been much lower in previous decades (e.g., 4.4 percent in 1973 and 4.8 percent in 1987).[794] Construction, albeit on a growth curve, returned to normal and performed less strongly than real estate in 2014.

	1973	**1987**	**1997**	**2014**
Construction	4.4	4.8	9.4	6
Real Estate	8.9	NC	8.5	15
Total Property Sector	13.3	/	17.9	21

Table 4.1 – Construction and real estate activities in Lebanon's GDP (1973-2014)
(In percent)
(Source: CAS, 2016;[795] Gaspard, 2004, p. 152 | Table: Author)

As for a regional cross-country comparison, the overall significance of the property sector to wealth accumulation is higher in Lebanon than in neighbouring Eastern Mediterranean economies and slightly higher than in other "property states." While the construction and real estate sectors officially accounted for 21 percent of GDP in Lebanon in 2014, for example, they totalled 19.3 percent in the UAE in 2013, and 16 percent in Hong Kong and 15 percent in Turkey in 2012.[796] A comparative perspective on the respective performances of real estate and construction is also of interest. On the one hand, the Lebanese construction sector has generated four to six percent of GDP in recent years. This is below levels recorded in the UAE and OECD countries where construction accounts respectively for nine and seven percent of value creation, but is roughly equivalent to performances observed in Egypt, Hong Kong, Israel, Jordan, Singapore and Turkey.[797] On the other hand, the Lebanese real estate sector, which accounts for

10 percent of GDP in the US, Spain and Ireland during boom years (Barkham, 2012, p.67-68). (Barkham, R. (2012). *Real estate and globalisation*. Hoboken, NJ: Wiley-Blackwell)

[794] *Ibid*

[795] Central Administration of Statistics (2016). *National accounts 2004-2015* [Data file]. Retrieved from www.cas.gov.lb/index.php/national-accounts-en

[796] He, D. (2014). Les effets de la politique macroprudentielle sur les risques du marché de l'immobilier residentiel: Le cas de Hong Kong. *Revue de stabilité financière - Banque de France*, *18*, 115-130, p. 116; Deloitte Turkey and Investment Support and Promotion Agency of Turkey (2013). *The real estate sector in Turkey*. Retrieved from www.invest.gov.tr/en-US/infocenter/publications/Documents/REAL.ESTATE.INDUSTRY.pdf (p. 10); UAE Ministry of Economy (2015). *The Annual economic report 2015*. Dubai, UAE: Planning and Decision Support Department. Retrieved from www.economy.gov.ae/EconomicalReportsEn/MOE%20Annual%20Report%20English%20-%202015.pdf (p. 24)

[797] Bank Audi (2016). *Egypt economic report*. Beirut, Lebanon: Bank Audi Group Research Department. Retrieved from www.bankaudi.com.eg/Library/Assets/EgyptEconomicReport-2016-English-040615.pdf; Deloitte Turkey and Investment Support and Promotion Agency of Turkey, *op. cit.*; Department of Statistics Singapore (2017). Share of GDP by industry. In *Singstat.gov*. Retrieved from www.singstat.gov.sg/statistics/visualising-data/charts/share-of-gdp-by-industry; Government of the Hong Kong Special Administrative Region

14-15 percent of GDP in recent years, records above-average performance. Indeed, real estate amounted to 12 percent of GDP in Hong Kong, 10.3 percent in the UAE, and 10 percent in Turkey. This relatively stronger performance is probably a corollary of the country's three-digit inflation in land and real estate asset prices, which unfolded in the 2000s prior to being hauled back by multiple interventions of the Central Bank of Lebanon since 2010-2011 (details in upcoming chapters).

Another piece of evidence of the central position of property to the post-war Lebanese regime of accumulation is its weight in the distribution of investment expenditures: between 1997 and 2009, construction captured up to 67 percent of private investments, with an even higher share for direct foreign investments.[798] Experts also indicate that industries working closely with the property sector probably attracted most of the remaining investments.[799] Beirut received more than half of the country's property investments.

4.1.2 A Demand-Driven Property Market and the Structural Dependence on External Money Supply

In recent years, the Lebanon-focused city and property literature has stressed the outward-oriented and demand-driven workings of property activity. In an economy where rent-financed accumulation predominates, Lebanese economist Charbel Nahas' seminal contribution has been key to exposure of the correlation between the volume of liquidity injected into land and real estate and the oil price-driven trajectory of the balance of payments (see Graph 4.1 below).[800] The dynamics are as follows: the greater the inflation of oil prices, the greater the Lebanese capture of money inflows, and the greater the capital resources available for financing of demand and supply in the property market. Interestingly, the link between Lebanon's trajectory of balance of payments and the intensity of its property activity mirrors the general relationship, in a globalized economy, established between financial cycles and property-sector activity.[801]

(2016). *2015 economic background and 2016 prospects*. Hong Kong: Economic Analysis Division – Government of the Hong Kong Special Administrative Region. Retrieved from www.hkeconomy.gov.hk/en/pdf/er_15q4.pdf (p. 14); UAE Ministry of Economy, *op. cit*., (p. 24)

[798] Berthélemy, J.-C., Dessus, S., & Nahas, S. (2007). *Exploring Lebanon's growth prospects* (World Bank. Policy Research Working Paper, No. 4332). Retrieved from https://openknowledge.worldbank.org/handle/10986/7316?locale-attribute=en (p. 4); World Bank (2012). *Using Lebanon's large capital inflows to foster sustainable long-term growth*. Washington, DC: Poverty Reduction and Economic Management Department Middle East and North Africa Region, p. 16

[799] Interestingly, this high proportion of construction in total investment is akin to levels observed in the 1990s in 'property states' such as Hong Kong and Singapore whose finance-based political economies bear some similarities to the liquid growth regime at work in Lebanon (Smart & Lee, 2003b, p. 159; Haila, 2016, p. 16). (Smart, A. & Lee, J. (2003b). Financialization and the role of real estate in Hong Kong's regime of accumulation. *Economic Geography*, *79*(2), 153-171)

[800] Charbel Nahas, multiple personal communications, 2014-2016

[801] Dehesh, A., & Pugh, C. (2000). Property cycles in a global economy. *Urban Studies*, *37*(13), 2581-2602, p. 583

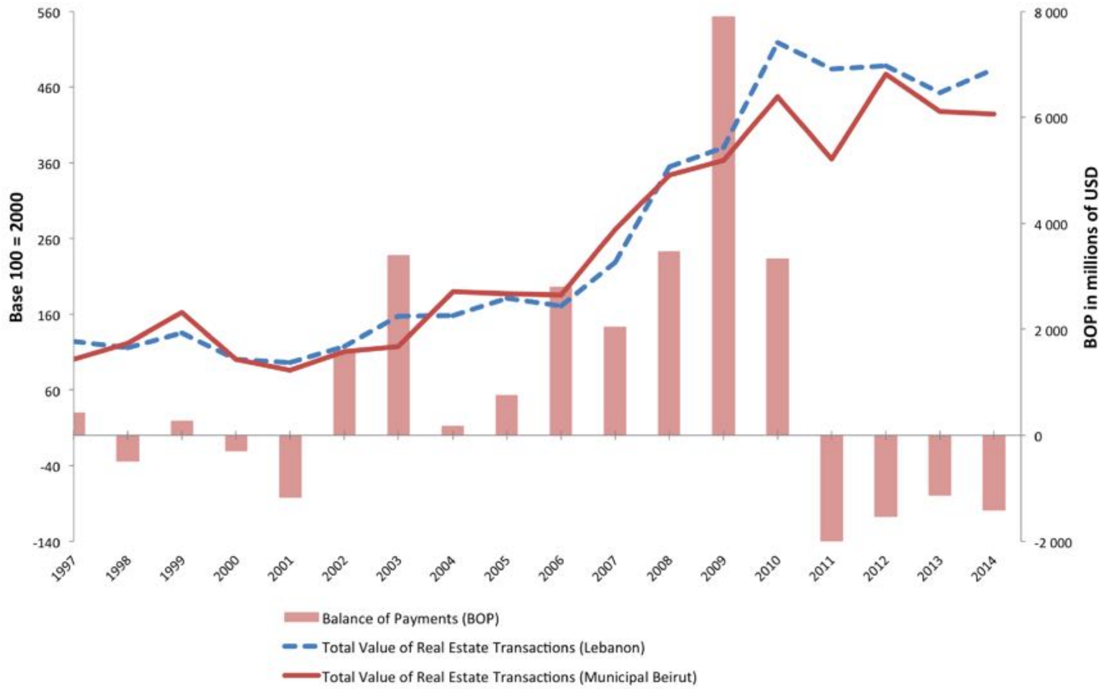

Chart 4.1 – The correlation between external money supply and real estate demand (1997-2014)
(Source: Banque du Liban, Central Administration for Statistics | Chart: Author)

As importantly, Nahas clarifies the relationship between real estate investment and construction activity. Specifically, he points to the fuelling of demand and, therefore, of the number of real estate transactions and level of real estate asset prices, by external money transfers (e.g., liquidity inflows, remittances and foreign direct investments) and domestic capital resources (e.g., savings and personal wealth). By pushing up the real estate market, the influx of non-resident capital lifts the anticipation and profit expectations of developers and financiers who reactively engage in more construction activity and, accordingly, attract capital resources to finance property projects. Simply put, the curve of the external money supply accounts for a significant proportion of the variation in real estate demand; supply, or construction activity, is accounted for by the particular expectations of profit from future real estate transactions. Nahas summarizes this causal chain in the following formulae, which capture the primary drivers of property demand and supply (see Figure 4.1 below).

Demand: real estate transactions = f (Δ incoming capital resources)
Supply: construction = f (anticipation (real estate transactions + future prices))

Figure 4.1 – The drivers of property demand and supply in Lebanon
(Source: Nahas, multiple personal communications, 2014-2016)

As will be detailed later, the financing pattern of property activity in post-2000 Lebanon has experienced transformations that soften, without calling into question, its structural dependence on liquidity inflows. The Banque du Liban has indeed boosted real estate demand over the past 15 years with the rapid deployment of financing for subsidized housing. In other words, as the BOP turned negative in the 2010s, an artificial money supply was instrumental in sustaining demand and asset prices. The injection of central bank liquidity has thereby become a temporary but key driver of property activity within a structure dominated by external money supply.

4.1.3 The Diversified Sources and Channels of Property Financing

Although this dimension remains widely ignored in the literature, the past two decades of activity in the Lebanese property sector have also been marked by the diversification of capital sources and investment channels. The increasing availability of finance capital and the deployment of bancarized channels to morph money into property have contributed to a boosting of the real estate and construction sectors and a reinforcement of their respective positions in the domestic economy. It has also significantly altered the nature of property investment and, as will be shown in the second part of this study, affected "what is built, how and for whom" in the capital and elsewhere in the country.[802]

It is common knowledge in real estate economics that the financing of transactions and construction projects normally calls upon sources of both equity and debt. Nonetheless, the specificity of the Lebanese property sector, at least in the 1990s, lays in funding schemes that were based almost entirely on personal equity with very little debt; this despite the country's advanced degree of financial development and the banking sector's relatively high level of liquidity. As of the 2000s, this pattern began to change: equity sources were diversified and debt quickly emerged in the financial schemes used to acquire assets on the demand side, and on the

[802] Healey, P. (1992). An institutional model of the development process. *Journal of Property Research, 9*(1), 33-44, p. 35

supply side, to fund the construction of property projects. Accordingly, capital resources (external and domestic) are now likely to be channelled, directly and indirectly, into the built environment through three distinct classes of assets: property assets (i.e., land lots, buildings), traditional financial assets (i.e., deposits in commercial and private banks, financial instruments provided by investment banks), and property-backed financial assets (i.e., shares in investment funds and joint-stock companies detaining and developing real estate) (see Figure 4.2 below).[803]

	MAIN ASSET CLASSES	FINANCING OF REAL ESTATE AND CONSTRUCTION SECTORS
DOMESTIC CAPITAL AND INCOMING CAPITAL (FDI, remittances, deposits)	1. PROPERTY ASSETS	1.a Purchase of land and existing built properties by individual and corporate investors [*direct financing*] 1.b Equity supplied by financiers not resorting to *ad hoc* SPV to finance new development projects [*direct financing*]
	2. FINANCIAL ASSETS 2.a Deposits in commercial banks 2.b Deposits in private banks and securities sold by investment banks	2.a Lending schemes to builders and homebuyers [*indirect financing*] 2.b Financing of development project through securities investment opportunities offered by banks' real estate subsidiaries [*indirect financing*]
	3. PROPERTY-BACKED FINANCIAL ASSETS Securities in joint-stock companies and investment funds specialized in real estate	3. Financing of development project through structured financial instruments [*indirect financing*]

Figure 4.2 – The direct and indirect channels of property financing in Lebanon
(Source: Author)

Direct channels include the purchase by individual and incorporated agents of land lots and existing built property (e.g., residential units, buildings, commercial premises). They also include the equity supplied by individual and institutional financiers who are not resorting to *ad hoc* special purpose vehicles (SPV) to finance development projects. Indirect channels include deposits in commercial banks that finance lending schemes to homebuyers and development firms. They also include deposits of High Net Worth Individuals (HNWIs) into private banks, and securities sold by investment banks for the funding of development projects through schemes

[803] In purely economic terms, the purchase of land and built property is considered to be a financial *placement* that creates no value, while the financing of real estate projects is an *investment* that generates value and adds to the GDP (Charbel Nahas, multiple personal communications, 2014-2016).

arranged by real-estate subsidiary firms. Likewise, indirect vehicles include investments made by individual and institutional agents, sometimes through fiduciary schemes,[804] in structured financial instruments set up by development companies and financiers for the funding of development projects and the acquisition of real estate portfolios. These sophisticated instruments are SPVs, such as joint-stock companies and investment funds specialized in real estate, that generally issue unlisted property-backed securities (see details and case studies in Chapter 7).[805]

Property is, thus, a major vehicle for value generation in Lebanon. This was historically the case in the modern and post-independence periods and has gained ground in the post-war era. By accounting for about 20 percent of GDP, the construction and real estate sectors contribute to domestic wealth creation to an extent rarely observed even in Hong Kong and Singapore, the countries from which Anne Haila elaborates her notion of "property state."[806] However, data from the documentation of the immense contribution of property to GDP, the structural correlation of money inflows and real estate demand, and an account of the diversification of capital sources and investment channels fail to provide a complete picture. The puzzle of property attractiveness, and a satisfying account of the Lebanese regulation-urbanization nexus are incomplete without the 'whys.' Why have resident and non-resident capital holders decided to invest their resources in the acquisition of land and real estate assets, and the development of property projects, rather than in other asset classes? This is one of the questions the next section attempts to answer by repositioning the property frenzy into a larger inquiry on the role of real estate and construction activity within the interconnected world of regime regulation and the production of urban space.

4.2 The Property Market: The Meso-Institution Connecting Urbanization With the Reproduction of Lebanese Capitalism

The significant allocation of money inflows and more generally of private investment, to property in post-war Lebanon remains mysterious for any analyst unsatisfied with explanations featuring the 'natural' attractiveness of property, the 'cultural taste' of the Lebanese for real estate, or the role of global neoliberal forces. This section adds another, institutionally grounded, analysis to these explanations that reconciles structure- and agency-based theoretical models in

[804] As explained in Chapters 5 and 7, fiduciary schemes, also called trusts in Anglo-Saxon countries, are common in global finance. They are primarily intended to give capital holders anonymity and financial manoeuvres, a veil of secrecy.
[805] Solidere, as explained later in this chapter, was the only firm that issued property-back securities listed on the stock exchange. Other entities have mostly been private equity funds that trade unregistered securities through private offerings, i.e., not through public offerings in stock exchanges.
[806] Haila, 2000, 2016

urban studies. It argues that the real estate mania in post-war Beirut is first and foremost a social phenomenon tied fundamentally to the fact that the property market has become an intermediate-level institution of regulation. Simply put, property, apart from contributing significantly to economic growth, has become instrumental in securing the country's short-term financial and monetary stability, and this has led the ruling elite to maintain the level of real estate and construction activity by taking advantage of a series of elaborate formal and informal incentive structures. Details of these structures and their effects are outlined below, first, in my institution-based conceptualization of Lebanon's property market. They then clarify the ways in which realty acts as the interface of the regulation-urbanization nexus by revealing how regime regulation shapes urbanization and urbanization, in turn, contributes to regime regulation.

4.2.1 Situating Property in Post-1990 Lebanon's Regulation-Urbanization Nexus: A Conceptual and Analytical Challenge

It is my thesis that the property market has been used as a time- and place-specific institution of regulation in post-war Lebanon. This function of real estate and construction essentially emerged with the 1990s rebuilding of the country's financial system and economic apparatus — a critical juncture for institutional development — and then gained momentum throughout the 2000s.[807]

4.2.1.1 The property market, the peg connecting urbanization to regime regulation

The increased financialization of the Lebanese economy, the uncommonly significant contribution of the real estate and construction sectors to value creation, and the gradual bancarization of their financing channels have increasingly positioned the property market as a meso-institution of regulation. By this I mean that the property market is a human construct whose rules, conventions, resources and actors are embedded in macro-institutional constraining and enabling structures and power relations whose persistent concern is to secure capitalist reproduction.[808] The property market is the peg that links city-building to stabilization of the

[807] For historical institutionalists, critical junctures refer to decisive, rapid periods of institutional genesis and/or transformation (Capoccia & Kelemen, 2007, p. 348). (Capoccia, G., & Kelemen, R. D. (2007). The study of critical junctures: Theory, narrative, and counterfactuals in historical institutionalism. *World Politics*, *59*(3), 341-369)
[808] Arvanitidis, P. A. (2014). *The economics of urban property markets: An institutional economics analysis*. London, UK; New York, NY: Routledge; Healey, P. (1991). Models of the development process: A review. *Journal of Property Research*, *8*(3), 219-238; Healey, 1992, p. 37; Healey, P., & Barrett, S. M. (1990). Structure and agency in land and property development processes: Some ideas for research. *Urban Studies*, *27*(1), 89-104, p. 90

Lebanese capitalist system, property financing tying the actions of agents involved in real estate and construction to the macro-level concerns of economic growth and financial and monetary stability. In simple terms, realty is one of the few fields where individuals and organizations, through their economic decisions, can concretely contribute to the reproduction, and/or precipitate the crisis, of the local growth regime.

In line with the definition of 'pegged urbanization' given in Chapter 1, the position of the property market in post-war Lebanon's regulation-urbanization nexus is more precisely conceptualized as follows. On the one hand, the constraining and enabling structures of the three prevailing macro-institutions[809] that organize the Lebanese economy and society influence the amount and type of capital resources invested, and the profile of agents involved, in the property market. They shape the formal rules and norms (e.g., building and rental laws, planning regulations, tax frameworks, credit regulations, financial incentives, administrative procedures) and informal conventions (e.g., homeownership, property inflation) "through which property is defined, generated, used and exchanged."[810] As such, the country's political economy very much orients the features of property activity and, ultimately, the trajectory of urban development. On the other hand, urban production contributes to the reproduction of Lebanese capitalism, or to its fall, through the economic decisions of individuals and organizations (i.e., investors, buyers, banks, development companies, landowners, private equity firms, etc.) in the property market as well as through development outcomes that all exert a positive or negative cross-level feedback.[811] In this sense, conceptualization of the property market as a meso-institution of regulation at the center of a regulation-urbanization nexus reflects the Lefebvrian argument that the city's built environment is not merely a container for prevailing capitalist social relations and economic structures, but a means to shape and reproduce them.

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[809] As indicated in Chapter 3, at least three major macro-institutions structure and guide post-war Lebanon's growth regime: the monetary and financial regime dominated by the currency peg and the debt-financing of public budget; the capital-labour configuration with the significance of equity-based social relations; and the fragmented, loosely organized and weakly performing Lebanese state.
[810] Arvanitidis, *op. cit.,* p. 118
[811] Arvanitidis, *op. cit.,* p. 119

4.2.1.2 The structure vs. agency debate in Beirut property market

In order to theorize the property market as an institution, a reconciliation must be brought about of structure- and agency-based explanatory models (e.g., the neo-Marxian criticism of neoliberalism, rational choice, etc.). Patsy Healey and other institutional urban scholars who build on the seminal contributions of sociologist Anthony Giddens, and of regulation economists, have shown that the real estate market's rules, conventions, resources and actors, whose study is at the core of this thesis, form the major links between structural and agential forces. They emphasize the prevalence of relational dynamics in the making of social phenomena (see details in Chapter 2).[812] In this work, I understand the property market as the outcome of interaction of the broader macro-institutional *structure* of finance-led and rentier Lebanese capitalism, on the one hand, and of the *agency* of individuals and organizations (i.e., investors, buyers, banks, development companies, landowners, private equity firms, etc.) involved in Beirut's spatial production, on the other.[813] In other words, paraphrasing Healey, I suggest here that the property market in Lebanon in general and in Beirut in particular is not an autonomous, self-regulating apparatus through which economically rational and utility-maximizing buyers and sellers engage in the exchange of real-estate commodities. Rather, it is a social phenomenon in which the behaviours of property-related agents are embedded in a larger relational framework of rules and conventions, and these reflect post-Taif political-economic constraints, power structures and cultural practices.[814] Each direction of the nexus linking city-making to capitalist reproduction is explored, in turn, below.

4.2.2 Rules, Conventions, Capital Resources and Agents in the Property Market: How Regulation Shapes Urbanization

In any society, informal conventions shared within communities and the formal rules and norms put in place by public decisions strongly influence capital allocation between and within economic sectors. Property is no exception: through the design of perceived and actual transaction costs, myriads of institutional structures shape the amount and nature[815] of resources

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[812] Healey, 1992, p. 35
[813] *Ibid*; Healey & Barrett, *op. cit*., p. 98
[814] Healey, 1991; 1992, p. 37; Healey & Barrett, *op. cit*., p. 90
[815] By the nature of capital, I refer to its source (i.e., finance capital, family savings, personal wealth) that directly or indirectly shapes the actual objective and the financial or non-financial expectations of any property investment. The nature of capital resources is generally believed to strongly determine the primacy of use or of exchange value in any investment decision (Healey, 1992, p. 35).

allocated to real estate and construction, and the various paths used to carry out investments. Numerous financial and non-financial incentives and constraints, which range from the social perception of homeownership to planning and taxation frameworks, weight on agent preferences to invest (or not) in realty.[816] This intermediate-level institutional environment, in the terms of urban political economists, constitutes the property market's 'intrinsic dynamic,' a feature that critically influences its capacity to attract capital resources and thereby determines the intensity and the features of local urbanization.[817]

In Lebanon, a large number of the arrangements shaping and organizing the property market reflect post-war macro-institutions and their primary concern for sustained economic growth and financial and monetary stability. The first dimension of the regulation-urbanization nexus is thus the way in which regime regulation orients urban production. Put another way, the trajectory created by real estate and construction activity, housing prices, and urbanization at large, is shown here essentially to be a *consequence of regulation*. In this light, the puzzling attractiveness of Beirut real estate for resident and non-resident capital holders alike is primarily a result of the central position of the property market in the regulation-urbanization nexus.

4.2.2.1 Informal rules and conventions: from asset diversification to the emergence of mortgage-based homeownership

At least seven influential practices, perceptions, customs and norms that constitute the Lebanese property market's meso-institutional environment, namely: the constraint of asset diversification, the protection of investment portfolios against inflation and currency risk, the lucrative remuneration of property investment, the 'home bias' of Lebanese expats, the 'cultural affinity' and 'economic familiarity' of Lebanon for Gulf capital holders, the deep-seated expectation of ever-increasing property prices, and the emergence of mortgage-based homeownership as a new social norm. All of these factors have helped to attract capital resources to the supply and the demand side of the property sector and to shape the strategies and behaviours of agents involved in Beirut urban production.

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[816] Arvanitidis, *op. cit.,* p. 119; Buitelaar, E. (2007). *The cost of land use decisions: Applying transaction cost economics to planning & development*. Oxford, UK; Malden, MA: Blackwell Pub, p. 37. The formal and informal arrangements of the property market are generally intertwined and reinforcing: for instance, a number of informal conventions inspire the emergence of formal rules while many formal regulations essentially contribute to shaping informal conventions (e.g., homeownership).

[817] Droege, S., & Johnson, N. B. (2007). Broken rules and constrained confusion: Toward a theory of meso-institutions. *Management and Organization Review, 3*(1), 81-104, p. 84; Haila, A. (1991). Four types of investment in land and property. *International Journal of Urban and Regional Research, 15*(3), 343-365, p. 347

The constraint of asset portfolio diversification

Diversifying portfolio investment is a recurrent concern for capital holders who seek to balance risk-return preferences and secure their capital base, especially during periods of volatility in international financial and commodity markets as was the case in the 2000s. In post-war Lebanon, the limited development of industry and agriculture, as well as of the domestic financial markets shaped by the finance-led and bank-dominated regime of accumulation, left resident and non-resident investors with a limited number of local investment opportunities. Apart from well-remunerated bank deposits and individually subscribed government bonds, realty is one of them. As such, it has over time become a central vehicle in the diversification strategy of moneyed residents, expatriates and foreign investors whose cross-border portfolios generally comprise local and international outlets.[818]

The protection of investment portfolios against inflation and currency risk

The use of property as a hedge against inflation and currency risk is common in economic thinking. Land lots and buildings, along with diamonds and gold, are considered assets of long-term value storage, or capital preservers, in contrast to bank deposits that lose value in times of high inflation and currency crisis.[819] This perception matters in many economies; yet, it is specifically prevalent in Lebanon whose recent history was marked by the 1980, and early 1990, periods of hyperinflation and currency devaluation that ruined many Lebanese investors with deposits in LBP-denominated savings.[820] These traumatic episodes continue to affect individual and collective economic behaviours and contribute to the belief, despite the massive destruction of urban environment during war years, that property is a safe and tangible asset of refuge in times of economic and political instability. The property industry frequently uses this argument in marketing campaigns, as Figure 4.3 illustrates.[821]

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[818] Berthélemy, Dessus, & Nahas, *op. cit*., p. 15; Nahas, C. (2009). *Identification of factors behind real estate markets activity and exposure of the financial sector in Lebanon* (Unpublished report); Charbel Nahas, multiple personal communications, 2014-2016

[819] Aalbers, M.B. (2017) The variegated financialization of housing. *International Journal of Urban and Regional Research*, *41*(4), 542-554, p. 5; Nahas, 2009, p. 9; Wyly, E. (2016). *Mapping the hedge city: Vancouver and global capital*. Proposal for the First Annual Larry Bell Urban Forum Connecting Urban Theory and Public Policy. Vancouver, September 2016. Retrieved from http://ibis.geog.ubc.ca/~ewyly/research/hedge_city_v6.pdf

[820] Land lots and buildings, together with gold, are vehicles of long-term value storage in contrast to bank deposits that lose value in times of high inflation rates (Nahas, 2009, p. 9).

[821] Baharoglu, D., Peltier, N., De Brular, L., & Bubley, R. (2005). *The Macroeconomic and sectoral performance of housing supply policies in selected MENA countries: A comparative analysis*. Washington, DC: World Bank, p. 3

Figure 4.3 – Slogan on construction boards in Beirut: "Real estate cannot be lost or stolen, nor can it be carried away. It's about the safest investment in the world."
(Source: Author, 2014)

At the same time, the peg of the Lebanese pound to the US dollar has also reinforced the role of property as an inflation hedge, since the Banque du Liban holds little monetary sway on USD-denominated deposits and therefore cannot ensure a level of deposit remuneration that reflects the macro-economic domestic situation.[822] Additionally, the dollarization of land and real estate prices adds to the refuge character of property for risk-averse capital holders fearful of periods of instability.

The 'homeland bias' of Lebanese expatriates

Without falling into a "romanticization of diasporic sentimentality," 'homeland bias' is a phenomenon that matters in diaspora communities when it comes to investment strategies.[823] It materializes generally in the purchase of land and real estate in the country of origin. Apart from offering interesting financial prospects, a property asset brings a form of social recognition in home communities and facilitates the possibility of return. Interestingly, the migrant investment literature indicates that such non-pecuniary motivations are particularly salient among diasporans

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[822] Interestingly, Li (2004, p. 266) describes the same impact of monetary constraints on property attractiveness in the case of Hong Kong, whose financial system is also pegged to the US dollar. (Li, L.-H. (2004). Real estate cycle and government behaviour in Hong Kong. N. Aveline & L. Ling-Hin (Eds.). *Property markets and land policies in Northeast Asia - The case of five cities: Tokyo, Seoul, Shanghai, Taipei and Hong Kong* (pp. 247-287). Maison Franco-Japonaise / Center for Real Estate and Urban Economics, Hong Kong University. Retrieved from https://halshs.archives-ouvertes.fr/halshs-00394362/document)

[823] McGregor, J. (2014). Sentimentality or speculation? Diaspora investment, crisis economies and urban transformation. *Geoforum; Journal of Physical, Human, and Regional Geosciences*, 56, 172-181

whose "origin country emerges from a period of conflict."[824] This is the case of Lebanon where expats purchase homes all over the country, including the capital. Testimonies regularly found in the local media show that many non-resident Lebanese justify their property investment with the prospect of an eventual homecoming or post-retirement return, or with the project of sending their children to one of the prestigious Beirut-based universities. Unsurprisingly, development firms and banks, as well as the Investment Development Authority of Lebanon (IDAL), have rapidly integrated this dimension into their marketing strategies. The cultural, social and emotional value of property is now a recurrent motto in advertising campaigns. "Get back to your roots, own your home in Lebanon," is, for example, the type of slogan used to lure expat investment.[825]

The 'cultural affinity' and 'economic familiarity' of Lebanon for Gulf capital holders

Lebanese real estate has historically attracted Gulf buyers and investors, albeit probably to a lesser extent than many Beirut-based property professionals testify to.[826] Alongside a search for attractive remuneration and a supposed taste for the country's pleasant climate and lifestyle, investors from GCC countries are believed to find 'cultural affinity' and 'economic familiarity' in Lebanon.[827] They presumably appreciate language familiarity and a cultural and legal business environment close to Gulf standards, regulations and procedures. Investing in the Lebanese property sector generally reduces information asymmetries and transaction costs in comparison with other cross-border investment opportunities (e.g., in Europe and North America).[828] Moreover, Lebanese expats in the Gulf frequently provide local firms and individuals with

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[824] Nielsen, T. M., & Riddle, L. (2009). Investing in peace: The motivational dynamics of diaspora investment in post-conflict economies. *Journal of Business Ethics*, *89*(4), 435-448, p. 435

[825] The firm Sakr Real Estate used this slogan during an online advertising campaign: https://goo.gl/images/hxiSZr. In the Eastern Mediterranean, this phenomenon is however not specific to Lebanon: in Israel, the property industry also portrays real estate as a way to build "a very strong connection" with the diaspora (Goldman, 2015). (Goldman, M. (2015, September 21). Ghost apartments' haunt Jerusalem. *Al Monitor*. Retrieved from www.al-monitor.com/pulse/originals/2015/09/ghost-apartments-jerusalem-real-estate-market-housing-prices.html#)

[826] Aveline, N. (2000). *Marchés fonciers et immobiliers à Beyrouth*. (Document No. 6). Beirut, Lebanon: CERMOC- Observatoire de Recherches sur Beyrouth et la Reconstruction

[827] See the literature on cross-border investment and the role of diaspora networks: Gillespie, K., Riddle, L., Sayre, E., & Sturges, D. (1999). Diaspora interest in homeland investment. *Journal of International Business Studies, 30*(3), 623-634; Leblang, D. (2010). Familiarity breeds investment: Diaspora networks and international investment. *American Political Science Review, 104*(3), 584-600.

[828] As a result of the regional tension tied to the ongoing Syrian crisis, and following travel bans issued by various GCC governments such as Saudi Arabia, the United Arab Emirates and Bahrain (Al Jazeera Staff, 2016). (Al Jazeera Staff (2016, February 24), Gulf investors have progressively stopped visiting and investing in Lebanon. Saudi and UAE ban citizens from travelling to Lebanon. In *Al Jazeera*. Retrieved from www.aljazeera.com/news/2016/02/saudi-uae-ban-citizens-travelling-lebanon-160223154000581.html)

information about property investment opportunities in Lebanon and act, accordingly, as 'reputational intermediaries.'[829]

A two-digit profit for property financiers and considerable capital gains for buyers

Property activity generally offers very lucrative remuneration in Lebanon, regardless of its significant variation in periods of boom and stagnation. This is mostly the result of above-average price inflation during boom years and of the elevated remuneration that development actors are forced to promise to outway perceptions of acute country and sector risks and attract (non-resident) investors. On the supply side, it is hard to come up with a solid estimate of investment performances in Beirut real estate. Developers are usually reluctant to release figures, and when they do, they refer to different metrics such as the return on equity (ROE), return on investment (ROI), or internal rate of return (IRR) of projects. For example, the general manager of a major Beirut-based development firm suggested that, after boom years during which ROE could reach 50 percent, the overall return he could offer to equity investors was in the range of 15-20 percent.[830] Alternatively, the general manager of another large development company mentioned an annual IRR of 16-18 percent.[831] On the demand side, buyers become accustomed to cashing out enormous capital gains in short periods of time: according to local actors, they amounted to 300-400 percent of initial investment for transactions initiated between 2006 and 2009.[832] This "irrational exuberance" of risk-adjusted profit in the property sector has crucially fuelled the perception that rent gaps exist to exploit and has sparked related anticipatory economic behaviours on many occasions during early boom periods.[833] This was the case, for instance, in the first half of the 2000s after years of property slowdown and price stagnation. Most actors shared the conviction that land and real estate assets in Beirut were undervalued in comparison with prices observed elsewhere in the region. As financial inflows were on a growth curve and the property market showed signs of recovery, many resident and non-resident individuals and firms determined to acquire assets in hope of rapid capital gains.[834]

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[829] Nielsen & Riddle, *op. cit*.
[830] Property developer #5, personal communication, November 7, 2014
[831] Property developer #3, personal communication, November 21, 2014
[832] According to Mohammed Sinno, Managing Director of Vertica Property, cited in Alieh (2013b, p. 63). (Alieh, Y. (2013b, August). One third of sales of residences. *Lebanon Opportunities*. 59-63)
[833] Shiller, R. J. (2016). *Irrational exuberance*. Princeton, NJ: Princeton University Press
[834] Marwan Barakat, personal communication, April 22, 2015; Nahas, 2009, p. 19. As economist Roger Melki (multiple personal communications, 2014-2016) explains, financiers, developers and external buyers realized that prime real estate was at USD 1,500 per sq. m. in Beirut while it was USD 5,000 elsewhere in the region.

The perception of ever-increasing prices

The actual profits made by property suppliers and buyers in the past two decades have reinforced a deep-seated public belief that Lebanese land and real estate assets inevitably gain value through time. Another factor key to Lebanon's property attractiveness, as will be detailed in Chapter 6, is this form of "boom thinking," whose conceptual underpinnings were identified by American Nobel laureate economist Robert Shiller in his work on investor behavioural psychology.[835] It results mostly from what the urban scholarship calls a 'land myth,' i.e., a biased perception that asset values are structurally on the rise in countries with massive financial liquidity and limited surface area such as Japan and Hong Kong.[836] In Lebanon, land and real estate asset prices are believed to generally experience a 'rise-and-plateau evolution,' but no data are available to evaluate their actual long-term performance. The country is supposedly immune to boom–bust cycles. Price corrections occurred during slowdown periods such as the late 1990s and the 2010s, but local experts argue that they have never seen a major bust in times of peace.[837] Nevertheless, this 'ascending staircase theory' ignores risks tied to the dependence of the local property market on uncertain capital inflows and investment strategies affected largely by internal and external financial, economic, and political shocks and risks.[838] The outward-oriented dimension of the land and real estate markets and their speculative price structures make them vulnerable to the risk of capital flight and, thus, of value depreciation, even in times of peace. A Beirut-based banker who asked to remain anonymous summarizes the dangers of this firmly rooted perception in the Lebanese society with a simple but accurate statement: "People tend to forget that, with stairs, you can go up but you can also go down."

Unsurprisingly, instrumental in diffusing the principle of the ineluctable character of property price growth are property-owning groups and all rent-maximizing economic agents whose full or partial remuneration is indexed to the pace of realty activity and the level of asset

[835] Shiller, R. J. (2012). *The subprime solution: How today's global financial crisis happened, and what to do about it*. Princeton, NJ: Princeton University Press, p. 41; Shiller, 2016

[836] Aveline, N. (2005). *Les marchés fonciers à l'épreuve de la mondialisation: nouveaux enjeux pour la théorie économique et pour les politiques publiques* (Habilitation Thesis). Retrieved from https://tel.archives-ouvertes.fr/tel-00394000/en/; Kerr, D. (2002). The place of land in Japan's postwar development, and the dynamic of the 1980s real-estate bubble and 1990s banking crisis. *Environment and Planning D, 20*(3), 345-374

[837] In times of war, however, property prices rapidly fell as in 1983-84 when Lebanon recorded a severe outflow of capital. Exceptions to this downward trend were observed in regions receiving massive inflows of displaced populations who made property values increase dramatically (Aveline, 2000, p. 28; Taffin et al., 2010). (Taffin, C., Roy, F., Gonnet, L., & Nahas, C. (2010). *Real estate market activity and exposure of the financial sector in Lebanon*. Washington, DC: World Bank, Social and Economic Development Group, Middle East and North Africa Region)

[838] Yammine, S. (2007, December). The price is right. *Lebanon Opportunities*. 86-91, p. 87. The risk of capital flight from property does exist, although the dollarization of property prices diminishes its exposure to sovereign monetary and fiscal risks (Taffin et al., *op. cit.*, p. 5).

value.[839] This is the case of property owners, development firms, brokers, commercial and investment banks, and real estate experts, but also of business magazines (e.g., Lebanon Opportunities, Executive Magazine, Le Commerce du Levant), which release pro-growth recommendations and crucially contribute to the “social contagion of boom thinking” (see Figure 4.4 below).[840] By carefully reviewing the publications of these business magazines over the past 15 years or so, I have observed that a small circle of local property professionals and analysts (e.g., Massaad Fares, Joe Kanaan, Abboudi Farkouh, Nabil Sawabini, Raja Makarem and Marwan Barakat) come up again and again with statements announcing new ‘hot spots’ in the city, alerting people to land scarcity, forecasting the contagion of price increases, and promising an upcoming ‘new era’ of rapid growth when the market slows down. Such statements are clearly intended to advertise and amplify the upward movement of prices or to gain time when prices stagnate. They play quite a significant role in shaping public discourse and the psychology of investment decisions, particularly in the context of market opacity (e.g., the absence of any official price index). In this way, property professionals and business media outlets actively contribute to perceptions of property as an attractive investment vehicle and to normalization of the processes that maximize the built environment’s exchange value.

[839] Aveline, 2005, p. 181
[840] Shiller, 2012, p. 41

Figure 4.4 – The property-dedicated front covers of the business magazines Lebanon Opportunities (December 2007 issue) and Le Commerce du Levant (September 2016 issue) (Source: Lebanon Opportunities; Le Commerce du Levant)

Mortgage-based homeownership: a new social norm

"There is this irrational and psychological aspect that makes people love to acquire property in Lebanon," remarks a high-profile Beirut-based developer, alluding to the recent surge in homeownership. Presumptions of the Lebanese' emotional attachment to private ownership, upon which this type of cultural argument is based, are deep-seated among local property professionals who, for the most part, believe in the country's exceptionality and, more generally, in the role of ownership as a symbol of 'modernity.' Such views are, in fact, commonplace worldwide: as economist Bernard Vorms points out, the Belgians supposedly have 'a brick in the belly,' the French like to 'invest in bricks and mortar,' while homeownership is the 'cornerstone of American dream.'[841] The argument stressing cultural attraction to property is therefore not Lebanon-specific: it is regularly and widely used by banking and property industries in many countries to justify and encourage the expansion of homeownership. More generally, housing tenure is frequently associated with a number of social beliefs: rental housing is rather negatively perceived in Lebanese society while homeownership is considered socially attractive.[842] A prominent local journalist explains that landlords, like entrepreneurs, have social recognition,

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[841] Vorms, B. (2014). Vers un monde de propriétaires? Politique du logement et statuts d'occupation en France et à l'étranger. *Revue d'économie financière*. *3*(115), 69-86, p. 69

[842] Perin, C. (1977). *Everything in its place: Social order and land use in America*. Princeton, NJ: Princeton University Press

while tenants, along with employees (*wazaf*), are generally seen as people "having envy and resentment." This is why homeownership is normally considered to be a strong signal of upward social mobility among lower-middle and middle-income groups.

Owning a home is also lauded in Lebanese elite circles as a vector of financial and political stability in a society traumatized by years of war-related displacements and monetary instability. "Hariri clearly considered that giving Lebanese the opportunity of purchasing their home was a factor of stability," states Mohammed Beydoun, Minister of Housing and Cooperatives between 1990 and 1992 in the post-war era's first government.[843] Abdallah Attieh, former adviser to President Selim El-Hoss (1998-2000) and Vice-Prime Minister Issam Fares (2000-2005), agrees: "We encouraged Lebanese citizens to acquire their homes; people who own their apartment do not shoot at buildings."[844] Also spread by the banking sector, this type of stability-related consideration and more generally, the principle of an 'ownership society' are, again, far from Lebanon-specific.[845] Homeownership is portrayed as a medium of social integration and a way of bolstering dweller involvement in community and city affairs in many countries.[846] It is also viewed in the literature as a "badge of citizenship" conveying "a sense of participation and belonging."[847] More critically, a number of planners and social scientists have analyzed the steady growth of homeownership, which generally relies upon the development of mortgage financing, as a way of fastening new landlords to the established social order by giving them a stake in the system's political and economic stability.[848] In this sense, in Lebanon as in many other countries, the valorization of mortgage-based homeownership, and its dissemination as a social norm, is generally a part of the larger elite project to foster conservatism and promote the political-economic status quo (see Chapter 9).

4.2.2.2 Formal rules: tax and legal arrangements and monetary interventions

The institutional environment of the Lebanese property market also includes a number of rules formalized in local fiscal, legal and regulatory frameworks, as well as in a number of

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[843] Mohammed Beydoun, personal communication, May 8, 2015 (Translation by the author)
[844] Abdallah Attieh, personal communication, April 27, 2015 (Translation by the author)
[845] Shiller, R. (2008, October 10). Robert Shiller on the ownership society. *Newsweek*. Retrieved from www.newsweek.com/robert-shiller-ownership-society-92183
[846] Perin, *op. cit.*; Vorms, *op. cit.*, p. 70
[847] Gibb, *op. cit.*, p. 137; Shiller, 2012, p. 5
[848] Bourdieu, P. (2000). *Les structures sociales de l'économie*. Paris, France: Éditions du Seuil, p. 146. Property professionals and urban theorists usually make a distinction "between housing that is owned outright and housing that is mortgaged" when it has to do with the acquisition of a residential property asset (Aalbers & Christophers, 2014, p. 387). (Aalbers, M. B., & Christophers, B. (2014). Centring housing in political economy. *Housing Theory and Society, 31*(4), 373-394)

monetary policies.[849] Similar to informal norms and conventions, formal arrangements have been key to funnelling capital resources into real estate and construction activity given that they play a major role in reducing risk, increasing asset liquidity, and maximizing absolute and relative financial performance. Public policy decisions, in other words, have created a structure of incentives and disincentives that have intentionally and unintentionally influenced the perceptions, strategies and decisions of resident and non-resident agents involved in city development.

A lax framework of planning, zoning and building regulations

The land market is loosely regulated in Lebanon: all land parcels are constructible unless a specific local master plan applies, frames zoning regulations and defines total amounts of construction allowed.[850] This is the case in Beirut where the 1954 master plan, which is under the control of the state-governed Directorate General of Urbanism rather than that of the Municipality, grants elevated development rights ranging from a floor area ratio (FAR) of five and a land coverage ratio of 100 percent in Zone 2 to an FAR of one and a coverage ratio of 15 percent in Zone 10.[851] In effect, the planning and zoning framework is permissive and allows the construction of dense projects in central areas (e.g., Ras Beirut, Ain El-Mresseh, Rmeil, Medawar). As mentioned several times, these relaxed regulations are responsible for the significant rent gap between current land use, dominated by pre-1954 low-rise residential buildings with a large number of apartments that were long under rent control, and the 1954 zoning regulations which grant substantial development rights. In times of property boom, city builders and landowners have used this key incentive to initiate large projects and restructure the built environment. By the same token, the Construction Law (1971) has critically contributed to the rise in property activity and profitability. The most recent revision in 2004 (Law 646/2004) notably granted a 25 to 35 percent increase on floor area ratios.[852] Existing research conducted by Beirut-based scholars shows how Article 16, known as the 'grands ensembles' building regulation, provides a particularly powerful incentive to intensify land use and augment project

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[849] Healey, 1992, p. 35
[850] Fawaz, M. (2003). *Access to housing by the poor: Comparative analysis of housing performance and policy in selected MENA region countries. Lebanon Report assessment of housing sector*. Washington, DC: World Bank, p. 10, 20
[851] Municipal Beirut is composed of 10 building zones. Zone 1 is the Solidere area and is directed by *ad hoc* regulations. Zone 8 is considered a 'special zone' and Zone 9 is '*none aedificandi*.' Zones 2 (floor area ratio is of five and building coverage ratio of 100 percent) to 7 (floor area ratio is of three and building coverage ratio of 70 percent) represent about two thirds of the municipal area.
[852] Georges Khayat, personal communication, July 10, 2014

profitability.[853] In effect, this arrangement allows development firms to access an exception-based permitting process and obtain extra floor area when the site is at least of 4,000 sq. m (see also Chapter 6).

A favourable tax environment on both demand and supply sides

Over the last quarter century, the Lebanese state has gradually installed a generally low-tax environment. This orientation is part and parcel of the post-war financial recovery strategy aimed at boosting money inflows and restoring a business-friendly climate. It is also the result of ongoing accession negotiations with the World Trade Organization and donor requirements expressed during international conferences (i.e., Paris I, II, II).[854] In many ways, this pro-growth tax framework contributes to Lebanon's position as a "real fiscal paradise for real estate investors."[855] Indeed, taxation on both demand and supply sides (on property ownership, construction and transactions) almost nonexistent as there is no property tax, no Value-Added Tax on real estate, and no capital gain tax for individual owners.[856] Moreover, registration fees for transactions are low and loosely applied.[857] As for investors and development firms, tax rates on profits (five percent) and dividends (ten percent) from residential construction and real estate activities are well below rates found in other economic sectors (except the banks), where a ten percent tax on profits and a fifteen percent tax on dividends apply.[858] This pro-property bias is primarily the result of Decree Law 282/94 that amended the 1959 Income Tax Law to stimulate the construction industry.[859] Likewise, the capital gains tax is easy to evade for incorporated agents through the legal arrangements presented below.

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[853] Krijnen, M., & Fawaz, M., (2010). Exception as the rule: High-end developments in neoliberal Beirut. *Built environment*. *36*(2), 245-259, p. 122; Saksouk, A. (2015). *Where is Law? Investigations from Beirut* (Working Paper. Neighbourhood Initiative. American University of Beirut). Retrieved from www.aub.edu.lb/Neighborhood/Documents/Abir%20NI%20Report.pdf
[854] Alexa Hechaime, multiple personal communications, 2014-2016
[855] Aveline, 2000
[856] Azzi, J. (1998). Tax reform issues in the 1990s: A case study of Lebanon and its prospects for long-term prosperity. *Arab Law Quarterly*, *13*(2), 107-154; Hechaime, A. (2015). L'impôt sur la propriété bâtie. *La Revue Fiscale Libanaise*. 3. 14-17
[857] Nahas, 2009
[858] Investment Development Authority of Lebanon (2016). Tax structure by type of business. In *Investment Development Authority of Lebanon*. Retrieved from http://investinlebanon.gov.lb/en/doing_business/tax_system/tax_structure_by_type_of_business. As economist Ghassan Dibeh (2005, p. 10) highlights, taxation structure was reformed "in a typical supply side fashion" in the post-war era: the tax rate on profits was reduced from 50 to 10 percent and the tax rate on wages from 32 to 10 percent while the "corporations tax rate became a flat 10 percent." (Dibeh, G. (2005). *The political economy of postwar reconstruction in Lebanon*. (Research Paper, UNU-WIDER, United Nations University (UNU), No. 2005/44). Retrieved from www.wider.unu.edu/publication/political-economy-postwar-reconstruction-lebanon.)
[859] Azzi, *op. cit.*, p. 166

Pro-growth legal arrangements for eased capital circulation and asset liquefaction

A series of legal arrangements "removing 'regulatory impediments' to capital mobility" and liquefying land and real estate assets is also instrumental in reducing the transaction costs associated with the production and exchange of property.[860] One of the most emblematic is the Lebanese model of joint-stock companies, the Société Anonyme Libanaise (SAL). Incorporated in Lebanon, SALs are special-purpose entities that serve to insulate companies from financial risk, secure a number of tax breaks and shroud corporate schemes to obscure the identity of actual investors and facilitate the participation of, and risk sharing with, other investors. SAL entities also ease transactions since they allow the transfer of firm shares, and not of the actual asset, from one owner to the other without tax (Article 19 of Decree Law 282/93).[861] The right to create SAL and holding companies was long reserved for Lebanese citizens; but Laws 771/2006 and 772/2006 extended it to non-nationals.[862] Joint-stock companies are used in myriads of local economic sectors including the property industry. Development firms almost systematically incorporate their mother company as well as the property assets (i.e., land lots, buildings) they own and/or develop (see details in Chapter 7). Further, individuals increasingly use SALs to register large condominiums and facilitate property transfers between family members in order to avoid inheritance tax, which has rapidly appreciated in recent years as a consequence of the upswing in property values.[863] By replacing sales with corporate deals and removing taxation on the proceeds of the transaction (various experts, however, question this last point), joint-stock companies, and their derivatives such as holding and offshore companies, crucially ease capital accumulation and circulation within the property sector.[864]

In parallel to legal arrangements organizing corporate structures, Laws 520/1996, 234/2000 and 705/2005 also facilitate the channelling of interest-bearing capital into property-

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[860] Corpataux, J., Crevoisier, O., & Theurillat, T. (2009). The expansion of the finance industry and its impact on the economy: A territorial approach based on Swiss pension funds. *Economic Geography, 85*, 313–334 cited in Rouanet, H., & Halbert, L. (2016). Leveraging finance capital: Urban change and self-empowerment of real estate developers in India. *Urban Studies, 53*(7), 1401-1423, p. 1408

[861] In case of property transfer, registration fees apply but are paid by the buyer.

[862] Krijnen & Fawaz. p. 122

[863] Rizk, S. (2014a). Les sociétés s'imposent de plus en plus comme une solution pour la gestion des actifs fonciers et immobiliers. *Revue Fiscale Libanaise. 2,* 20-33

[864] Nash, M. (2015, April). Seashore, Inc. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/seashore-inc. According to several economists and fiscal experts such as Roger Melki (multiple personal communications, 2014-2016), the fiscal optimization scheme offered by a SAL vehicle is misleading for a firm that is buying another company strictly for the land that it owns. While the seller avoids capital gains tax with the corporate deal, real taxation is, in fact, delayed for the buyer. Indeed, once the project is developed, the SAL will find itself paying substantial capital gains due to the discrepancy between the land value registered in the firm's book, which dates from original incorporation, and its actualized value. This delayed taxation, sometimes unanticipated by nonprofessional players, is likely to affect substantially the return made by investors on a project. In other words, this scheme may allow a property firm to avoid capital gains taxation and registration fees in the short term but result in increased taxation in the long term (Nash, 2015).

related assets through bank subsidiaries and private equity firms specialized in real estate. These laws specifically clarify the use of fiduciary schemes, the activity of financial intermediation companies, and asset securitization (see details in Chapter 5). Other pro-growth measures such as relaxation of the drastic limitations on foreign acquisition of land and real estate assets in Lebanon (296/2001 and 299/2001 Amendments to the 1969 Decree on Foreign Ownership) have similarly enhanced the attractiveness of Lebanese real estate to investors.[865]

The (un)expected impact of monetary interventions over property investment

In addition, a number of monetary decisions have indirectly but strongly shaped the intensity and features of property activity in post-1990 Lebanon. Two categories of policy intervention heavily affected direct and indirect capital flows into the built environment during the 2002-2014 period.[866] First, the decisions taken during the Paris II international donor conference, which lowered the performance of traditional financial assets such as sovereign bonds and bank deposits, unexpectedly but positively influenced the relative attractiveness of land and real estate assets and quickened the pace of capital storage, accumulation and circulation in the property sector in the mid-2000s. Second, a set of BdL monetary decisions aimed at regulating the growth regime by targeting the property sector specifically affected the trajectory of real estate and construction activity and asset prices.

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[865] *Ibid*. The 1969 Decree (11614/1969), enacted in a period of economic prosperity, drastically limited land investments for foreign nationals. This very restrictive legal framework sought to obviate massive land purchases by Gulf nationals and wealthy Palestinians, whose presence in Southern Lebanon was newly authorized by the 1969 Cairo Accord (Nahas, 2009, p. 17). In contrast, the 2001 reform, voted under the pressure of business interests after years of economic slowdown and financial stress, relaxed ownership constraints. It allowed non-Lebanese physical or moral persons to *collectively* own up to three percent of the area of any *caza*, and 10 percent of the *caza* of Beirut (*Ibid*). Built and unbuilt areas are both considered in the calculation. Further, registration fees were reduced from 16 percent to 5.8 percent of the transaction value, i.e. the rate paid by Lebanese buyers.

[866] As indicated in Chapter 3, 2002-2014 was the period during which Lebanon accommodated considerable flows of capital and, thus, recorded a BOP surplus.

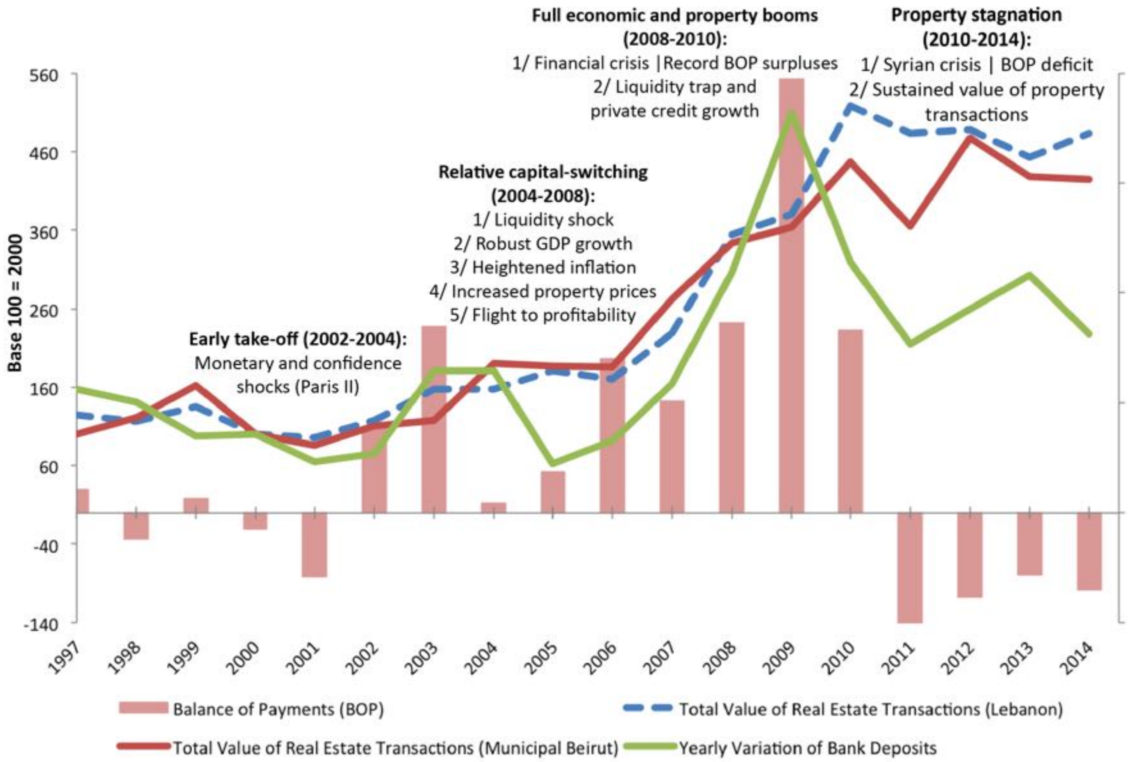

Chart 4.2 – The variations of BOP, bank deposits, and real estate transactions in Lebanon (1997-2014)
(Source: Banque du Liban, Central Administration for Statistics | Chart: Author)

To illustrate and detail the role of monetary interventions in property investment, this study identifies four phases of real estate activity between 2002 and 2014 (see Chart 4.2 above): (i) the early take-off of real estate investment in 2002-2004, (ii) the relative and temporary capital switch to property in 2004-2008, (iii) the full economic and property boom of 2008-2010, (iv) and the stagnation of real estate investment in 2010-2014.

(i) The early take-off of property investment (2002-2004):

As detailed in Chapter 3, Lebanon experienced a period of slow economic growth, including episodes of recession, in the second half of the 1990s and early 2000s. This contraction aggravated the public debt and jeopardized monetary stability, pushing the country's financial stability and, more generally, its post-war growth regime to the edge of collapse. This is the reason why the Lebanese government met with its credit suppliers (i.e., Lebanese banks) and foreign sponsors for a donor conference known as Paris II in 2002. The objective was straightforward: trigger a positive confidence shock to loosen debt pressure and ensure the financial system's viability through refinancing of the public debt at lower rates. Corrective measures led to a steep decline in the remuneration of sovereign debt: yields on government securities, regardless their maturity, foundered below 10 percent the same year (Chart 4.3 below). Also, this decision directly and adversely affected returns on commercial banks' deposits, which dropped below ten percent in LBP and four percent in USD (Chart 4.4 below). This monetary policy shock, also called interest rate shock, crucially allowed the restoration of trust and confidence in the Lebanese financial system: despite the reduction in financial asset remuneration, the BOP immediately began to record a surplus and fuelled the upward trend of bank deposits and property transactions (see Chart 4.2 above).[867]

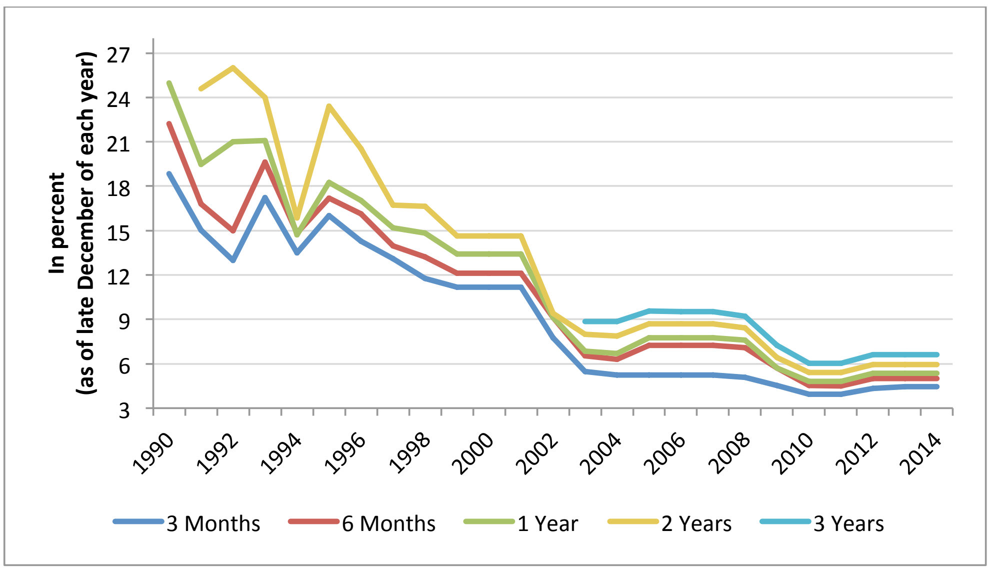

Chart 4.3 – Primary market effective rates on outstanding Treasury bills in Lebanon (1990-2014) (By maturity) (Source: Banque du Liban | Chart: Author)

[867] For economists Ramón Adalid and Carsten Detken (2007, p. 9), a monetary policy shock affects "the quantity and marginal utility of money relative to other assets (as well as to consumption and production)." (Adalid R., & Detken, C. (2007). *Liquidity shocks and asset price boom/bust cycles*. (ECB Working Paper, No 732.). Retrieved from www.ecb.europa.eu/pub/pdf/scpwps/ecbwp732.pdf?2e7b6604588092af31c0c2f562edbedb)

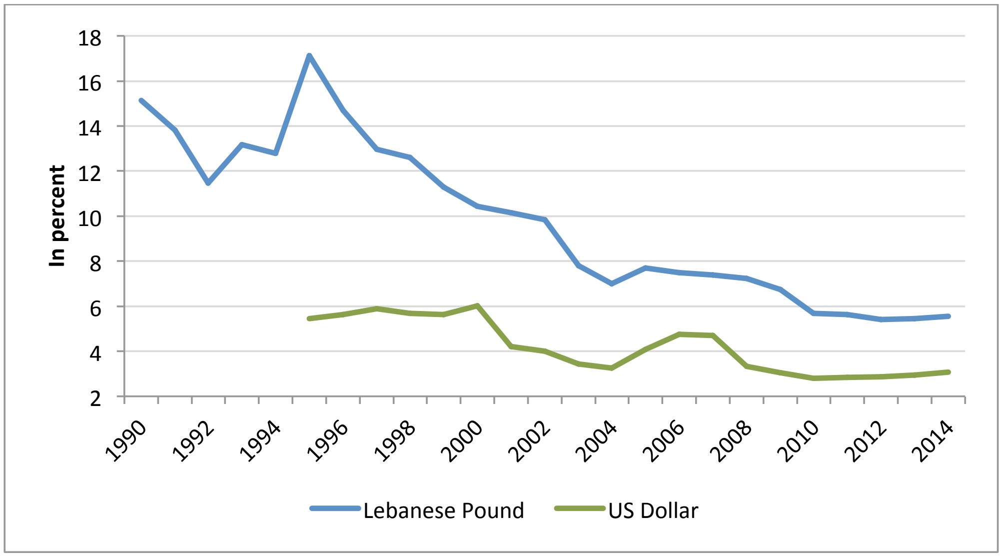

Chart 4.4 –Deposit interest rates on LBP and USD by commercial banks in Lebanon (1990-2014)
(Source: Banque du Liban | Chart: Author)

(ii) The relative and temporary capital switching to property (2004-2008):

In the wake of Paris II, Lebanon entered a phase of robust economic growth. It was initiated by an early liquidity influx in commodity markets and a surge in transfers from international donors, both resulting from escalating oil prices and sustained by renewed confidence in the local financial system. The conditions for a financial and economic boom were met. At the same time, the increased availability of capital resources brought about rapid inflation (see Chart 3.6, p. 157), which outpaced nominal interest rates, resulted in negative real interest rates, and pushed up asset prices including land and real estate (see Chart 4.5 below). Essentially, this early upward adjustment of property values, which came after years of sluggish activity and price stagnation, began to revive real estate and construction activity by intensifying the profit expectations and anticipation-based behaviours of suppliers and buyers.

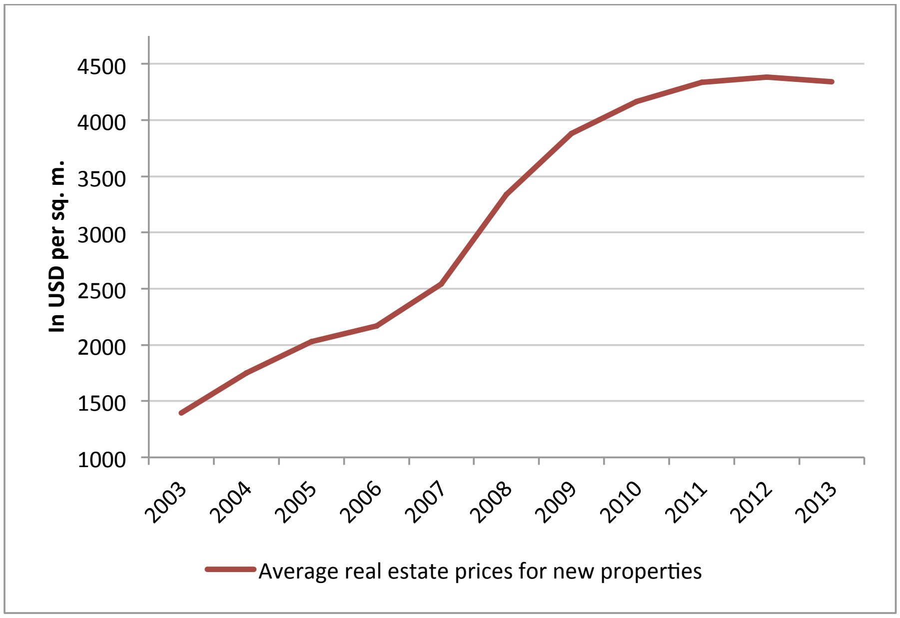

Chart 4.5 – The fast-paced escalation of property asset prices in Municipal Beirut (2003-2013) (Source: InfroPro, 2014[868] | Chart: Author)

Just as critically, the Paris II monetary shock, besides restoring confidence and a positive BOP, is believed to have unexpectedly altered the allocation of capital investments in relative terms. As explained in Chapter 3, well-remunerated bank deposits and individually subscribed government securities attracted local and regional capital holders and long engendered a crowding-out effect on other investment streams throughout the 1990s.[869] These traditional financial assets occupied a prime position in the portfolio of resident and non-resident rent-maximizing investors, who were less involved in other sectors such as property, in which profitability was lower and risk was higher. For example, this crowding-out effect was probably a significant factor in the late-1990s reduction in real estate demand that brought about property stagnation and led to the accumulation of 150,000 to 200,000 unsold residential units.

The combination of the 2002 monetary shock and massive capital inflows generated a *relative and temporary* capital switching from the traditional financial asset classes, whose remuneration was markedly reduced by Paris II decisions and heightened inflation, to land and

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[868] InfoPro (2014). *Business opportunities in Lebanon – Year XI. Real estate in Greater Beirut*. Retrieved from www.databank.com.lb/docs/Real%20Estate%20Prices%20In%20Greater%20Beirut%20and%20suburbs-InfoPro%202014.pdf
[869] Gaspard, 2004, p. 218

real estate assets.[870] Indeed, Chart 4.2 shows that property transactions grew more rapidly than government securities and currency outlets between 2004 and 2008. To be clear, resident and non-resident capital holders did not abandon financial outlets, which were also on the rise in absolute value and prevalent in *stock value* due to an interest rate structure still generally higher than in many other countries. However, property assets with an increased risk premium[871] benefited disproportionately from the *flow* of incoming liquidity. Real estate, in particular prime assets, outperformed a number of low-risk financial outlets in Lebanon and abroad. The CEO of one of the major Beirut-based development companies confirms how the Paris II financial re-engineering paved the way for this capital flight: economic agents sought to diversify risk, maximize income and extend their asset portfolios in the context of the Lebanese finance-led economy where, except for property, investment alternatives were scarce. In this way, the Paris II-generated monetary shock, combined with increased oil-related money transfers, was a critical factor in triggering the real estate and construction boom that unfolded in Lebanon, and in Beirut in particular, between 2004 and 2010-2011. Nevertheless, all of the experts consulted confirm that this relative reallocation of capital was unexpected: at the time, neither the central bank and the Ministry of Finance nor the banking sector anticipated the repercussions of Paris II monetary decisions intended to bail out the country, on the property market and, ultimately, on the urbanization process.

From a conceptual perspective, this sharp increase in real estate activity, greater than that experienced in traditional financial outlets, exemplifies one of the key arguments of the financialization literature: the activity of the secondary circuit (i.e., real estate) is increasingly dependent on "what happens in the quaternary circuit" (i.e., the financial sector).[872] This contention is particularly justified for Lebanon, where the first-generation contributions introduced in Chapter 2 on capital switching from the primary to the secondary circuit have little relevance given the very limited weight of industrial activity in the local economy. Equally

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[870] It is important to mention a methodological caveat: according to the urban scholarship, watertight quantitative evidence on the shift of funds from one specific investment vehicle to realty is almost unattainable (Christophers, 2011, p. 1351). This endeavour is even more challenging in the case of Lebanon where data is scarce. That said, sufficiently reliable data were collected from the Central Bank of Lebanon and the Central Administration of Statistics to come up with the argument of a relative and temporary form of capital switching, which remains, of course, open to further discussion. (Christophers, B. (2011). Revisiting the urbanization of capital. *Annals of the Association of American Geographers, 101*(6), 1347-1364)

[871] The risk premium is the "expected excess return on a security or portfolio, where excess return is the difference between an actual return and that of a riskless security" (Sharp, unknown date). Assessing the actual spread between the yields provided by various outlets is, nonetheless, a very difficult task given that there is no historical or official dataset on property yields in Lebanon. (Sharp, W. (n. d.). *Risk Premia*. Retrieved from https://web.stanford.edu/~wfsharpe/mia/prb/mia_prb2.htm#risk)

[872] Aalbers, M. B. (2008). The financialization of home and the mortgage market crisis. *Competition & Change, 12*(2), 148-166, p. 151

important is the way in which this *relative* capital-switching episode of the mid-2000s has illuminated the emerging role of prime land and real estate in the financial industry's portfolio management activity, as well as the way, more generally, property began to compete with other types of securities for capital accumulation and speculation in the post-war Lebanese growth regime.[873]

(iii) The full economic and property boom (2008-2010):

The 2008 international financial crisis was the ultimate factor that accelerated capital circulation and storage in property assets and led to a peak in real estate and construction activity in Beirut at a time when property markets were crashing and banks, developers and home buyers were declaring bankruptcy in many countries worldwide (e.g., Dubai, Ireland, Spain, Britain, US). Beirut's astonishing urban development trajectory of 2008-2010 interestingly underscores the very diverse repercussions of the global financial crisis on urbanization processes. As detailed in Chapter 3, the limited exposure of the domestic banking and property sectors to financial markets protected Lebanon, transforming it into a safe haven that attracted even more capital resources. Record inflows of deposits, FDI and remittances, which were also fuelled by record oil prices (e.g., USD 136 a barrel in June 2008), sustained massive a BOP surplus and shaped property activity in three important ways.

First, FDI significantly concentrated on highly capital-consuming upmarket residential developments in Beirut through both direct and indirect channels (see Chapters 6 and 7). Concretely speaking, a heightened number of wealthy non-resident economic agents invested in high-end real estate through the purchase of condominiums and/or equity investments in construction projects. Second, inflated remittances boosted the revenue of the Lebanese middle class, which increasingly acquired mid-market property, mostly through mortgage schemes. Third, the enormous increase in bank deposits, which finally outpaced the surge in real estate activity (see Chart 4.2), reinforced the situation of overliquidity in the financial system, despite fast-paced inflation (e.g., 14 percent in 2008) and a new cutback in the remuneration of government bonds and USD and LBP-denominated deposits (see Charts 4.3 and 4.4). Accordingly, the Lebanese economy, whose GDP amounted to USD 38 billion in 2010, found

[873] Babeau, A., & Taffin, C. (2014). Introduction. *Revue d'économie financière*. *3*(115), 9-24. p. 10; Case, K., & Shiller, R. (2003). *Is there a bubble in the housing market?* (Brookings Papers on Economic Activity, No. 2). Retrieved from www.brookings.edu/bpea-articles/is-there-a-bubble-in-the-housing-market/ (p. 328-330)

itself with a stock of capital of USD 110 billion that it could not absorb. As explained in the next section, this is why the central bank decided to address this "wall of money" by accelerating the deployment, in general, of private credit and, in particular, of the supply of housing loans to buyers and construction loans to builders.[874] By fortifying real estate and construction activity in this way, credit expansion strongly shaped urbanization.

(iv) The stagnation in property investments (2010-2014):

As underlined in Chapter 3, financial inflows began to contract as of 2011 in response to the brief drop in oil prices in 2009-2010. This decline put Lebanon's BOP into deficit and triggered a period of slow economic growth. Despite the short-lived upward readjustment of commodity prices, money transfers continued to diminish in ensuing years: the Syrian crisis destabilized the Lebanese political-economic environment and reduced the country's financial attractiveness in the eyes of non-resident capital holders. Reduced FDI (see Chart 3.4, p. 152) and the stagnation of deposit inflows (see Chart 4.2 above), despite a continued increase in deposit value, illustrate this financial and economic slowdown. In parallel, the value of real estate investments began to stagnate, but not to decline even in the face of a reduction in number of transactions.[875]

The stagnation in property investments may encompass the realities of two quite different market segments. On the one hand, upscale property suffered an overvaluation crisis generated by the immense amount of capital accumulated in this specific market segment throughout the 2000s (see details in Chapter 6). Excessive prices rendered assets inaccessible to most resident buyers and unattractive to non-resident investors who did not anticipate further price increases in the short term.[876] On the demand side, in other words, in the face of increased risk and bearish profits in the high-end Lebanese property market, rent-maximizing purchasers turned to local, highly liquid, short-term investments or, more likely, vehicles abroad.[877] This trend perfectly illustrates what US economist Gerald A. Epstein calls "the elasticity of financial real estate investment with

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[874] Fernandez, R., & Aalbers, M. B. (2016). Financialization and housing: Between globalization and varieties of capitalism. *Competition and Change*. 20(2), 71-88

[875] Inflated property prices mitigated the impact of the sharp decline in the number in transactions (see Chapter 6).

[876] Developers seem to have anticipated this overvaluation-induced downward trend: the number of issued permits, which reflects the anticipation of future demand, started to diminish as early as 2009 (Gebara, Khechen & Marot, 2016a). (Gebara, H., Khechen, M., & Marot, B. (2016a). Beirut Building Database [Geographic Information System file]. Faculty of Architecture and Engineering & Neighborhood Initiative, American University of Beirut. Retrieved from: https://scholarworks.aub.edu.lb/handle/10938/10283)

[877] Berthélémy et al, *op. cit.*, p. 15

respect to changes in expected rates of return."[878] At the same time, upmarket supply exceeded the market absorption capacity at this price level and, accordingly, put an increased number of development firms into the delicate situation of selling off an overabundance of projects initiated during the boom years. The CEO of one of the largest Beirut-based development companies confirms the way in which the overvaluation of property assets and their reduced profitability lessened property attractiveness and caused a partial capital disinvestment from development activity against a background of global capital circulation:

> Today, no one is going to invest in a package financing upmarket residential development in prime locations in Beirut because land has become irrationally expensive and there is no buyer at the end of the day. […] I can no longer offer 18 percent [return to investors] and [the] risk is higher, so I am at an impasse. If I guarantee 15 percent return to my investors for projects in London, it needs to be 20-25 percent in Beirut to remunerate the risk.

On the other hand, middle-income realty has contributed significantly to the relative stability of the total value of real estate transactions in the past few years. Again, this is the result of monetary decisions: successive BdL-led stimulus packages, which were principally channelled into mortgage schemes offering artificially low interest rates, encouraged user demand and, therefore, sustained asset values and real estate activity (see details in Chapters 6 and 8). In this way, BdL-sponsored credit growth allowed real estate, but not construction, to resist the financial and economic slowdown better than other sectors. It could be suggested that the stagnation of real estate transaction value and the reduced growth of bank deposits since 2010 (see Chart 4.2) signals — in the allocation of money supply primarily from external sources — a new episode of relative capital switching between traditional financial outlets and property assets. But this does not seem to be the case. The central bank's expansionary monetary policy creates a significant bias in the analysis of private resource allocation by injecting the equivalent of billions of US dollars into the Lebanese economy, earmarked primarily for the property market. The strong performance of real estate activity relative to other sectors in recent years, in other words, does not seem be a function of the readjustment of capital investment choices in a time of financial

[878] Epstein, G. A. (1992). Political economy and comparative central banking. *Review of Radical Political Economics*, *24(*1), 1-30, p. 22

stress and economic stagnation; instead, it is a direct outcome of the fresh liquidity purposively injected by the central bank into the property market to keep the system afloat.

By addressing the first direction of Lebanon's regime regulation-urbanization linkage, this study teases out the way in which the country's macro-institutions of post-war capitalism find expression in its property market's rules and conventions, i.e., the constraining and enabling meso-institutional arrangements that shape property investment and influence the perceptions and actions of economic agents. The urbanization of capital in Beirut reflects the post-war accumulation strategy of the country's elite and it is shaped by interventions intended primarily to stabilize and reproduce the country's growth regime.

4.2.3 The Rise of Property-Based Regulation: How Urbanization Contributes to Capitalist Reproduction

We can now look into the second direction of the nexus: the way in which urbanization concretely contributes to the reproduction of post-war Lebanese capitalism by ensuring persistent economic growth and financial stability. Uncovering why and how property activity and housing prices are an *instrument of regulation,* and Greater Beirut a *space of regulation,* is an essential contribution to an understanding of the property market as a meso-institution. In countries such as Japan, the United Kingdom, Hong Kong and the UAE, use of the actions of individual and collective agents in the property market to stabilize local growth regimes makes city-making a pivotal component of social regulation.[879] The same situation holds in Lebanon where real estate and construction activity is key to securing of short-term financial and monetary stability by addressing the macro-level regulation challenges identified in Chapter 3. It has assumed a significant role in sustaining a high level of money supply, absorbing excess liquidity in the quaternary circuit, supporting GDP growth and containing sovereign and property risks in the banking sector. As explained below, each of these functions has been more or less prevalent according to the periods of financial boom and stagnation that have followed one another since the early 1990s. City-making has clearly played a critical role in the short-term stabilization of local capitalism. It seems reasonable to suggest that this role, in hand with rent-seeking, has

[879] Grjebine, T. (2015). Faut-il encourager les booms immobiliers pour sortir de la "stagnation séculaire"? *L'Économie politique*, *1*(65), 7-22

guided most public decisions to facilitate capital investments in real estate and construction and sustain the upward trajectory of Lebanon's property market.[880]

4.2.3.1 Sustaining a positive balance of payments: the complementary roles of property and traditional financial outlets

The development process has contributed to regime regulation by sustaining a positive balance of payments, most particularly during periods of financial and property booms such as the mid-1990s and the 2000s. "Real estate has been part and piece of the mechanism of capital attraction [...] since the mid-eighties," explains Charbel Nahas.[881] Property and banking activities play complementary roles in maintaining Lebanon's appeal to a transnational financial elite comprised primarily of Lebanese expatriates, Gulf businessmen and foreign banking entities. The two sectors provide outlets with diverse degrees of maturity and risk: while bank deposits and individually subscribed government bonds channel the very short-term savings of risk-averse capitalists, real estate and construction activity drain medium to long term placements and the investments of equity investors and buyers who accept a certain level of risk to maximize remuneration.[882] Successive property booms, through the real estate transactions and intense construction activity they entrain, have therefore contributed significantly to preservation of the high money supply in the Lebanese economy. The familiar strategy of attracting non-domestic capital resources through the multiple financing channels of property supply and demand was thus part and parcel of the post-war recovery plan as well. According to Nahas, who was initially involved in the megaproject in the 1990s prior to distancing himself from the land company, Solidere was conceived as a tool to capture external liquidity.[883] It was elaborated in parallel to the macro-financial recovery strategy based on highly remunerated sovereign debt and deposits (see Chapter 3). Likewise, the specific tax incentives and legal and regulatory arrangements previously reviewed in this chapter were all intended to make direct and indirect property

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[880] Aveline, A. (2004a). Introduction - The overall context of the Asian financial crisis and its interaction with domestic property markets. In N. Aveline & L. Ling-Hin (Eds.). *Property markets and land policies in Northeast Asia - The case of five cities: Tokyo, Seoul, Shanghai, Taipei and Hong Kong* (pp. 8-37). Maison Franco-Japonaise / Center for Real Estate and Urban Economics, Hong Kong University. Retrieved from https://halshs.archives-ouvertes.fr/halshs-00394362/document; Buckley, M., & Hanieh, A. (2014). Diversification by urbanization: Tracing the property-finance nexus in Dubai and the Gulf. *International Journal of Urban and Regional Research*, *38*(1), 155-175; Smart, A, & Lee, J. (2003a). Housing and regulation theory: Domestic demand and global financialization. In R. Forrest & J. Lee (Eds.), *Housing and social change: East-west perspectives* (pp. 87-107). London, UK; New York, NY: Routledge; Smart & Lee, 2003b

[881] Nahas, 2009, p. 20

[882] *Ibid*

[883] Charbel Nahas, multiple personal communications, 2014-2016

investment vehicles more profitable, more liquid, and more secure in order to steady the growth curve of real estate and construction.

The capacity of Lebanese real estate to attract transnational capital lies first and foremost in its price trajectory. In this regard, the dizzying growth of land and real estate asset values in the post-war period has contributed fundamentally to the regulation dimension of property activity by generating the immense returns that netted such a large number of non-resident capital holders. This was especially the case with the tremendous 2000s price increase in Beirut; and all the more so as it coincided with a reduction in the profitability of traditional financial vehicles in the aftermath of Paris II. As underlined earlier, the two or three-digit profit made from equity investment in construction projects and real estate transactions compensated, at least in part, for the decline in the remuneration of deposits and individually subscribed sovereign securities. This contribution of property to the balance of payments was probably even more salient during the international financial crisis of the late 2000s, when yields from construction and real estate activity largely exceeded the performance of local and international traditional financial outlets. Inversely, this contribution proved to be limited in times of property stagnation during which transactions, prices and construction were sluggish and therefore attracted fewer non-resident takers. Nonetheless, one can reasonably conclude that exuberant property activity in post-war Lebanon has, in general, galvanized the inflow of non-resident wealth and thus sustained domestic financial and monetary balance and economic growth.

4.2.3.2 Recycling excess liquidity and supporting debt-driven accumulation: the role of property-related credit expansion

The growth of private credit in times of financial boom and stress has been another important way in which the development process has contributed to regime regulation in Lebanon. The evolution of the debt-based financing of realty supply and demand has been impressive over the past 20 years. Bank debt, uncommon in local property activity in the 1990s, has experienced rapid expansion since the late 1990s and early 2000s. As of 2015, the IMF observed that lending to the real estate and construction sectors totalled at least 40 percent of all domestic private debt and contributed to half of the increase in credit since 2010.[884] Construction

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[884] International Monetary Fund (2015), *Background notes for the 2015 Article IV Consultation*. Washington, DC: IMF Country Report No. 15/190. Retrieved from www.imf.org/external/pubs/ft/scr/2015/cr15190.pdf (p. 71)

loans issued to builders, on the one hand, began to escalate in the second half of the 2000s (see details in Chapter 7). Housing loans, on the other, began their expansion in the early 2000s prior to recording a phenomenal increase in number and value since 2008-2009 (see Chart 4.6). This study places particular emphasis on the twofold role of housing finance in the reproduction of local capitalism.

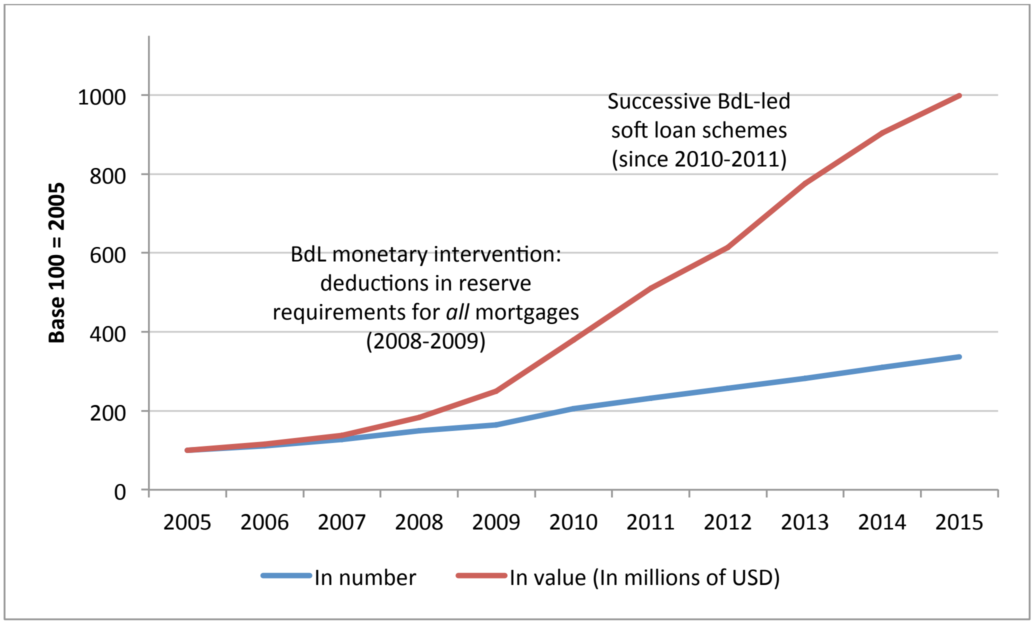

Chart 4.6 – Evolution of the stock of outstanding housing loans in number and value (2005-2015)
(Source: Banque du Liban[885] | Chart: Author)

The recycling of excess liquidity in times of financial boom

In many respects, real estate and construction, which are highly credit-consuming activities, were instrumental in absorbing a large portion of the "wall of money" accumulated in the Lebanese banking sector during the 2000s financial boom. Banks, at the time, crucially lacked investment outlets for the externally generated surplus liquidity available in the quaternary circuit. The rapid deployment of mortgage and construction lending offered sizeable and profitable strategies of capitalization for those seeking to recycle massive amounts of cash.[886] As indicated in Chart 4.6, the year 2009 was a milestone for the expansion of mortgage home

[885] Reliable data in *stock* could not be gathered for the period prior to 2005.
[886] Leyshon, A., & Thrift, N. (2007). The capitalization of almost everything: The future of finance and capitalism. *Theory, Culture & Society, 24*(7-8), 97-115

financing. In the context of the international financial crisis, the financial sector was experiencing outstanding capital overavailability resulting from a record BOP surplus. In response, the central bank extended deductions in reserve requirements, which at the time were limited to loans disbursed through the Public Corporation for Housing, to all home loan schemes. As will be shown in Chapter 5, the orchestrated surge in housing credit has been a strategy routinely used by the central bank over the past 20 years to pursue regulation objectives. Apart from providing subsidized liquidity to commercial banks, its extension of loan maturity increased the amount of recycled money and enlarged access to liquidity-constrained households. Moreover, to maximize the client base, and thus the volume of liquidity sunk into assets, the BdL went as far as allowing banking entities to provide subsidized home loans to Lebanese expatriates, for properties inside the country.

Property also facilitated the growth of private debt beyond mortgage and construction lending: it performed the role of credit multiplier in the domestic financial system. In Lebanon, banks require a land or real estate asset as the ultimate security for subscription to any private loan (e.g., car loan, business loan). In concrete terms, this meant that the higher the inflation of property-based collaterals during the property boom, the larger the number and amount of loans disbursed and the greater the ability to deal with the liquidity trap. This method of stimulating and securing a rise in loan books is not rare: according to economist Natacha Aveline, it is common practice in many Southern economies with immature financial markets, limited access to credit risk assessment, and inflated land prices.[887] Lebanon's development process was thus critical, directly and indirectly, to the recycling of a sizeable portion of excess capital retained by banks during the years of financial frenzy.

The vital support to economic growth in times of stagnation

As of 2010-2011, when the country entered a protracted period of financial stress and economic stagnation that has persisted to the time of writing (summer 2018), housing finance acquired a new role in regulation. As mentioned earlier, mortgage lending occupied a pivotal position in the successive stimulus packages engineered by the Banque du Liban throughout the 2010s. Its base function became clear against the backdrop of a balance of payments that had turned negative: domestic consumption secured a minimum level of economic activity. In view of

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[887] Aveline, 2004a, p. 23

the property sector's contribution to value creation, in other words, the maintenance of real estate demand through provision of artificially low interest rates has been crucial to continuation of debt-driven accumulation and, thus, to prevention of a recession. Various accounts suggest that successive property-focused stimulation packages have accounted for at least 50 percent of real GDP growth since 2010.[888]

The establishment of a property-owning middle class

Equally important is a second contribution of the rapid growth in post-2000 mortgage lending to regime regulation: linkage of the individual financial interests of an increased proportion of citizens to the stability of the financial system. The acquisition of property assets through mortgage debt has indeed been central to the formation of a new home-owning population group, (upper) middle-income households, which subsequently found a direct and concrete interest in perpetuating the post-Taif political-economic system. The state-sponsored expansion of housing finance, in other words, has entailed a rise in property-based wealth beyond the usual elite financial circles, and this, regulation theorists argue, is likely to reinforce economic and political stability in such a finance-driven growth regime.[889] This assumption resonates with works from the urban scholarship that emphasize regulation-driven motivations, and the interests of specific capitalist actors, in the state-sponsored deployment of mortgage programs across the globe.[890] The literature shows, for example, how similar motivations drove the rise of mortgage-based homeownership in most capitalist states in the second half of the 20th century and have driven the same in post-communist states since the early 1990s.[891] Conversely, Chapters 8 and 9 will highlight the probability that increased mortgage lending in Lebanon has contributed to a weakening of social stability by worsening the gap between property owners and non property-owning communities.

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[888] Senior official of Banque du Liban #1, November 28, 2015. A study of the International Institute of Finance is quoted in Executive Magazine (2015a). (Executive Magazine Editors (2015a, June). The dangers of stimulus. *Executive Magazine*. Retrieved from www.executive-magazine.com/opinion/leaders/the-dangers-of-stimulus)

[889] Boyer, R. (2000a). The political in the era of globalization and finance: Focus on some Régulation School research. *International Journal of Urban and Regional Research*, *24*(2), 274-322; Coakley, J. (1994). The integration of property and financial markets. *Environment and Planning A: Economy and Space*, *26*(5), 697-713, p. 697; Schwartz, H., & Seabrooke, L. (2009b). Conclusion: Residential capitalism and the international political economy. In H. M. Schwartz & L. Seabrooke (Eds). (2009). *The politics of housing booms and busts*. Basingstoke, UK; New York, NY: Palgrave Macmillan; Smart & Lee, 2003a, p. 102

[890] Aalbers & Christophers, *op. cit*., 385; Newman, K. (2009). Post-industrial widgets: Capital flows and the production of the urban. *International Journal of Urban and Regional Research, 33*(2), 314-331, p. 315

[891] Aalbers & Christophers, *op. cit*., p. 385; Dreier, P., Mollenkopf, J., & Swanstrom, T. (2013). Metropolitics for the twenty-first century. In J. Lin & C. Mele (Eds). *The urban sociology reader* (2nd ed) (pp. 148-56). London, UK: Routledge, p. 140; Jackson, K. T. (1987). *Crabgrass frontier: The suburbanization of the United States*. New York, NY; Oxford, UK: Oxford University Press

Overall, the rapid expansion of credit-based forms of accumulation in the built environment does not make Lebanon an exception in the context of regulation practices of financializing economies across the globe. Resorting to private debt growth is "a permanent, rather than a cyclical, feature of capitalism; a permanent attempt to postpone crisis," observes social scientist Derek Kerr.[892] The significance of property-related lending highlighted in this study seems most akin to practices adopted in Japan and GCC countries, where local regulation strategies are guided by the debt-led accumulation tied to development processes (see Chapter 2). The role of private debt in financial stabilization and wealth accumulation will be especially important to keep in mind as we explore why and how Lebanese financial authorities, and the real estate and banking industries, have relentlessly striven to limit strategies of housing provision to mortgage-based homeownership over the past 20 years (see Chapters 5 and 8).

4.2.3.3 Private debt and inflated property values alleviate risks in the banking system

Third, the development process has significantly contributed to regime regulation by mitigating, at least in the short run, two of the four major risks weighing on the Lebanese financial system: sovereign risk and property risk. On the one hand, increased bank financing on both demand and supply sides of property activity, which has boosted the rapid growth of real estate and construction, has also largely sustained private credit growth and, thus, stabilized the share of public debt in loan books and contained the local banks' considerable exposure to sovereign risk. Government securities remain the first asset class retained by Beirut-based banking organizations but the surge in the number and value of property-related private debt instruments has progressively contributed to their portfolio diversification. On the other hand, the artificial maintenance of high property values in the face of decreased property activity in times of financial stress and slow economic growth has been critical to shielding the banking sector from property risk, at least temporarily, since the value of all collaterals and seized assets is dependent upon the trajectory of real estate and land prices. Additionally, the elevated value of collaterals induced by soaring property asset prices has also mechanically fortified the growth of the banking sector: high value guarantees reduced their obligation to make loan loss provisions,

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[892] Kerr, *op. cit.*, p. 353

improved their balance sheets or increased their lending capacity.[893] In many respects, the strategic role of property values in securing short-term financial stability has been the major purpose of "artificially perpetuating an overvaluation of real estate."[894] Yet, the central bank and, more generally, financial and political elites, do not publicly assume a "centrality of concern for [inflated] real estate prices" whose social cost to the community at large is immense: the higher the value of real estate the lower the access to affordable housing (see Chapter 8).[895] The ruling elite in fact dismiss this repercussion: a senior BdL executive with whom I met judges the social cost of its property-based regulation to be "very modest" in comparison with the short-term macro-economic and financial equilibrium that inflated asset prices help to secure.

Further, property-based regulation is not without danger in Lebanon. Ironically, it is likely to result in cross-contamination between property and banking sectors in the event of a credit crisis or a crash in property values (see Chapter 9). Although property-based regulation can help to shore up the domestic financial system sector, in other words, it can also jeopardize its stability, as has been observed since the 1980s in many advanced and emerging economies (e.g., Japan, Thailand, US, Spain). This is the reason why the Banque du Liban claims to be actively engaged in risk reduction, imposing strict rules to prevent speculative lending to real estate development firms and homebuyers and relaxing the duration during which local banks are allowed to keep seized collaterals on their balance sheets.[896] But a property-driven financial crisis is a worst-case scenario that cannot be ruled out.

In brief, examination of the second direction of the regulation-urbanization nexus has highlighted the most important ways in which the development process, through the cross-level feedback of agent choices in the property market, has contributed to the short-term reproduction of post-war Lebanese capitalism in times of both financial boom and stagnation. As such, this investigation has brought into view the mechanics by which real estate and construction activity and house prices have been an *instrument of regulation* and Greater Beirut a *space of regulation*. It has shown how the Lebanese property market acts as a meso-level institution, key to the regulation-urbanization nexus, and how this explains the property frenzy that has transformed Beirut in the past generation or so.

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[893] Charbel Nahas, multiple personal communications, 2014-2016
[894] Nahas, 2009, p. 1
[895] Smart & Lee, 2003b, p. 169
[896] Nahas, 2009, p. 20

4.3 The Financialization of Property in Post-War Lebanon

The final aim of this chapter is to show that the financialization of land and real estate assets is both a consequence of, and condition for, the property market's function as a meso-level institution of regulation. On the one hand, the influence of regime regulation over urban production has brought about the financialization of property; on the other, financialization has become a prerequisite to the development process's continuing contribution to regime stability. This final section points particularly to the acceleration of the integration of finance and property in the 2000s and to the elite- and mass-based streams by which this occurred. From a conceptual perspective, this study highlights the way in which the roads to the liquefaction of property may vary between and across the Global North and South. The very limited use of securitization schemes in Lebanon calls for reconceptualization of the financialization of urban production in Southern economies where banking intermediation prevails.

4.3.1 Solidere and the Financialization of Urban Reconstruction in the 1990s

In Lebanon, reconstruction of the Beirut Central District is, until the time of writing, the first and only urban intervention to connect property activity directly to the stock market. Solidere, the private joint-stock land company in charge of the megaproject, issued securities in 1993 to amass a capital of about USD 1.6 billion, equivalent to 30 percent of the country's GDP.[897] It remains one of the few Lebanese firms, together with major local banks and a couple of building materials companies, that are listed on the Beirut Stock Exchange. Two types of shares constituted Solidere's initial ownership structure, according to Bahigge Tabbarah, a prominent lawyer and former Minister of Justice who put the firm together.[898] About 60 percent of the capital structure (the A shares – USD 985 million) took the form of compensation paid to the owners of expropriated properties; the remaining 40 percent (the B shares – USD 650 million) was comprised of capital contributions made by individual and institutional Lebanese investors, and to a lesser extent, foreign financial agents.[899] The cash subscriptions were channelled through

[897] Corm, 1993, p. 330, 332
[898] Bahigge Tabbarah, personal communication, September 14, 2014. Bahigge Tabbarah was also Rafiq Hariri's personal lawyer.
[899] Institutional investors include, for example, local banks (e.g., BankMed, Audi Bank, BLOM Bank) and foreign banks (e.g., Crédit Agricole, Bank of New York) (Wehbe, 2012). It is also worth noting that a number of large individual stakeholders and board members such as Nasser Chammaa, Fouad El-Khazen, Rafael Sabbagha, Sarkis Demirjian and Camille Abou Farhat are connected to major local political groups and religious organizations, as well as to multiple local and transnational business interests (*ibid*). (Wehbe, M. (2012, August 2). Lebanon real estate: Who owns Solidere ? *Al-Akhbar English*. Retrieved from http://english.al-akhbar.com/node/10650)

local and international banks (e.g., Saudi American Bank, BNP Paribas).[900] Optimistic financial projections initially promised investors returns of 18 percent, and dividends per share that would average six percent per year for the first five years, and 30 to 40 percent in ensuing decades.[901] But the profitability of Solidere proved to be very disappointing and the original A and B share quotations of USD 100 collapsed over the years to USD 10 in 2015.

Figure 4.5 – Residential and hotel developments in Solidere-managed Beirut Central District (Source: Author, 2012)

Nonetheless, the tying of Solidere to capital markets speaks volumes about its perceived relationship to the larger plan for post-war recovery, both essentially systems of rentier accumulation and finance-led development. The reliance on funds raised on the capital market embodies the core conception, on the part of the Lebanese ruling elite (including the government and financial authorities), of the megaproject as a 'speculative pump' to boost external money supply.[902] As outlined in the previous section, a primary concern for Solidere proponents, apart from the creation of a new rent-seeking vehicle for local elites, was the use of reconstruction to complement highly remunerated government securities and deposits in the capture of

[900] Najem, T. (2000). *Lebanon's renaissance: The political economy of reconstruction*. Berkshire, UK: Ithaca Press, p. 167
[901] Corm, 1993, p. 331
[902] Charbel Nahas, multiple personal communications, 2014-2016

transnational capital. Returns expected in the financial markets are notoriously elevated, and the use of this financing strategy has necessarily oriented the project in a profit-oriented, speculative direction privileging upscale residential, commercial and hotel developments (see illustrations with Figure 4.5 above). This seems to be one of the reasons for which Solidere has benefited from the beginning from "exceptional exemptions and privileges:" tax and planning regulations meant to maximize profitability and, thereby, financial attractiveness.[903]

Retrospectively, the financial rationale underlying BCD reconstruction, despite its relative financial and development failure, has been crucial to repositioning of the real estate and construction sectors as key contributors to the post-war regime of accumulation, and triggering of the gradual financialization of property assets. This mutation was not particularly obvious during Beirut's first property boom in the 1990s. Except for Solidere, the accelerated real estate and construction activity here was not speculative: it was focused primarily on the reconstruction of conflict-damaged buildings and infrastructure, and involved, for the most part, local financiers, developers and buyers loosely connected to international finance. In the vast majority of cases, amateur developers (e.g., businessmen, doctors, lawyers, architects, etc.) resorted to direct and simple schemes based on personal wealth and upfront payments (see details in Chapters 6 and 7). Yet, at the turn of the millennium, the specific price levels, profit expectations, legal arrangements and upmarket supply initiated by Solidere began rapidly to diffuse through the rest of the local real estate industry presaging major transformations. Likewise, transnational financiers and builders, including many who were involved in property projects in Solidere, began to show interest in projects at other Beirut locations. This is why it is fair to argue that the initial financialization of BCD reconstruction in the 1990s laid the foundation for its progress throughout the industry after 2000 when it began to influence the profiles, perceptions, strategies and practices of financial and property agents working throughout the Lebanese capital.

4.3.2 The Financial Turn of Urban Production in the 2000s

The development of the regulation-urbanization nexus has incontestably accelerated the pace, and diversified the tracks, of property financialization in post-2000 Lebanon. It has rendered urban production increasingly subject to nomadic, yield-maximizing finance capital resources managed by local and transnational financial agents who see land and real estate

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[903] Corm, 1993; Nahas, 2009, p. 20

essentially as financial vehicles.[904] Beirut's recent city-making dynamics, in other words, have exemplified the rationales, circuits, schemes and actors by which real estate and finance are tied. The redirection of excess liquidity, during the 2008 international financial meltdown, to the city's property market is just one concrete example. This episode also confirms, more generally, that positive and negative financial shocks at the global level can affect property cycles at the local level in very different ways. Likewise, as Natacha Aveline has analyzed in other contexts, the 2000s property boom, which was at least partly triggered by the Paris II-generated positive monetary shock, illuminates the way that intense episodes of urbanization often follow in the wake of state monetary decisions and/or the drop in the value of other financial vehicles.[905] A frequently cited example is the Plaza Agreement that initiated an unprecedented property boom in Japan in the 1980s (see Chapter 2). Accordingly, it seems reasonable to suggest that the accelerated liquefaction of land and real estate assets observed in Beirut supports a more general rule: the greater the use of property to stabilize growth regimes, the more complete the morphing of city-building into a process shaped by monetary decisions and connected to international finance resources and actors. To confirm this relationship, the present study unravels details of the elite- and mass-based forms of financialization that have gained local momentum in the past 15 years.[906]

4.3.2.1 The three manifestations of elite-based financialization

The most recognizable sign of Beirut's on-going elite-sponsored financialization of property is the number of upmarket condominium towers built in prime locations (see details in Chapter 6). In many respects, Paris II has played a critical role in this evolution. The 'flight to profitability' provoked by the drop in interest rates, underlined earlier, did more than boost real estate and construction activity: it altered the nature of high-end property. In addition to its nature as a commodity, upmarket real estate, on both supply and demand sides, became a financial vehicle competing with other financial asset classes. The financial performance of prime land lots, condominiums and buildings, in other words, transformed them into financial investment alternatives to traditional outlets. Strengthening this process were the legal arrangements and tax

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[904] Harvey, D. (1982). *The limits to capital*. Oxford, UK: Basil Blackwell; Haila, 1991
[905] Aveline, 2005, p. 53-55
[906] Fernandez, R., Hofman, A., & Aalbers, M. B. (2016). London and New York as a safe deposit box for the transnational wealth elite. *Environment and Planning A: Economy and Space*. *48*(12), 2443-2461

incentives adopted or reformed in the 1990s and the first half of the 2000s. A crucial arrangement, for example, has been the opportunity to liquefy prime land, buildings and large condominiums by incorporating them as special purpose entities through the SAL system.

In sum, the first priority of Beirut's high-end real estate has not been the accommodation of people but the storage of capital, fructification of value and diversification of portfolios. This reality materializes at night when anyone walking amongst the city's new residential towers will see a vast expanse of black: the lights are off in the majority of units.[907] Yet luxury high-rises, unlike bank deposits and individually subscribed government bonds, are financial vehicles visible to the naked eye, and with concrete and adverse impacts on urban life. On the supply side, the elite-based financialization of property has unfolded through at least three channels: securitization deals, real estate funds, and private equity schemes.

The (limited) use of securitization deals

Securitization deals[908] have been a marginal source of funds in the Lebanese real estate sector; only Solidere has used this strategy to access fresh capital. In the past 15 years, at least three securitization transactions involving fiduciary agents have been carried out to recapitalize the land development firm. BEMO Securitization SAL, a financial subsidiary of the Beirut-based BEMO Bank, arranged two of them: the first in 2002 through the 'Indigo Trust Fund I' and the second in 2003 through 'Indigo Trust Fund II.'[909] Concretely speaking, the organization acquired shares from Solidere and bundled them into securities traded on the financial market. In a context of the very limited financial disintermediation in Lebanon, 'Indigo Trust Fund I' is thought to be the first securitization transaction undertaken in the country.[910] Later on, in 2013, the BLC Bank and BEMO Securitization SAL structured another securitization transaction of USD 185 million. The objective was to ease Solidere's cash flow and finance its activities, primarily infrastructure

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[907] Condominiums were generally sold but rarely lived in during boom years. Since the early 2010s, however, newly built units can hardly find a buyer.

[908] As explained in Chapter 2, securitization refers to the liquefaction process dividing illiquid financial assets into shares. Securities are subsequently mixed in structured portfolios and offered to individual or institutional investors on secondary financial markets (Aveline, 2005, p. 63-64).

[909] Assaf, H. (2005b, February). Hot property can Solidere shares continue to set the markets ablaze? *Lebanon Opportunities*. 40-43; BlomInvest Bank (2002). *The Lebanon Brief: Monday 11 March – Saturday 16 March 2002*. Beirut, Lebanon: BlomInvest Bank - Research Department. Issue 282. Retrieved from www.blominvestbank.com/Library/Files/Downloads/11Mar-16Mar-2002.pdf; BlomInvest Bank (2003). *The Lebanon Brief: Monday 17 March – Saturday 22 March 2003*. Beirut, Lebanon: BlomInvest Bank - Research Department. Issue 329. Retrieved from www.blominvestbank.com/Library/Files/Downloads/17Mar-22Mar-2003.pdf; Diab, N. (2002, April). Une opération de titrisation concrétisée. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/4544-une-opration-de-titrisation-concrtise

[910] Ayoub, M. G. (2004). *Securitization in Lebanon: The done and the doing*. (Unpublished Master's Thesis). Department of Financial Economics. American University of Beirut. Beirut, p. 3

work on the reclaimed waterfront of the city center.[911] This deal, performed through the 'Beirut Central District 1' fund, was portrayed in business publications as "the largest ever asset-backed issuance in the local capital markets."[912] As mentioned, as of 2018, Solidere has remained the only private property agent to access public offerings on the Beirut Stock Exchange to finance its activities. The recent BdL circular allowing new real estate firms to raise part of their initial capital through public offerings, however, may expand the use of this financing strategy in years to come.

The emergence of real estate funds

The BdL circular 427 passed in the summer of 2016 has indeed opened up new horizons for elite-based financialization: it authorized the establishment of specialized real estate firms whose primary purpose is to bail out indebted development companies and protect banks in the face of protracted property stagnation. Apart from this policy objective, which will be further analyzed in Chapter 5, of interest here is the fact that, to finance their activity, property fund managers are allowed to raise 40 percent of their capital in public offerings and to borrow 60 percent from banks. As such, these new actors in the property sector are expected to attract funding from (mostly non-resident) individual and institutional investors concerned to get returns on property portfolios comprised of Beirut real estate. In other words, those *ad hoc* funds will issue the typical financial products associated with elite-based financialization: property-backed securities. As of the winter of 2018, the establishment of a USD one billion fund was in preparation, which will probably lead to the issuance of the equivalent of USD 400 million of property-backed bonds in the months and years to come.

The rise of private equity financing

At the same time, the financing of property activity through private offerings has been a preferred solution for a couple of large property actors. This is a direct result of the very limited size of the Beirut Stock Exchange. Raising capital resources through private offerings refers to the trading of securities not publicly listed, most generally to a small number of high-net-worth

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[911] Chami, H (2013b, May 7). BSEC and BLC co-lead largest securitization deal. In *Businessnews.com.lb*. Retrieved from www.businessnews.com.lb/cms/Story/StoryDetails.aspx?ItemID=2971
[912] *Ibid*

individuals seeking to diversify their financial portfolios.[913] Concretely, financial intermediaries such as private equity firms or investment bank subsidiaries collect cash through dedicated funds to "make investments in real property either directly or through joint ventures with property companies."[914] Internationally, these financial instruments are known to offer stronger financial performance but to carry higher levels of exposure to property crises.[915] In Beirut, private equity financing has allowed asset managers to position themselves as property agents, and to foster the financialization of city-making by spreading their "financial narratives, practices and measurements."[916] Apart from blurring "the traditional distinctions between developers and financiers," they have introduced new "kinds of organizations […] to plan and execute development projects" (see Chapter 7).[917]

Three major conditions are believed to account for the increased involvement of private equity schemes and agents in the financing of post-2000 Lebanon's property supply. The first is the rapid inflation that drained the value of bank deposits and encouraged large capital holders to find alternative placements.[918] The second is the BdL effort to modernize financial regulations in order to diversify financial intermediaries and develop disintermediation activities (see Chapter 5). These regulatory changes facilitated private equity activity. The third, and probably most significant, is the financial context in which private equity activity has gained ground: the strong influx of liquidity into the domestic financial system as the profitability of traditional investment vehicles was reduced and alternative vehicles remained rare. Accordingly, a couple of financial organizations that offered private equity services decided to include property assets in their portfolios, especially as the property market started to show positive signals price-wise. Jean Riachi, CEO of FFA Private Bank, recalls:

> Real estate emerged as an investment vehicle in the early 2000s when we realized that we did not have much to sell to our Gulf customers, except for a few shares from Solidere and Lebanese banks in Beirut Stock Exchange. We could offer our clients our disintermediation services in international markets, but without having much added value

[913] Thomas, P., & Romanet-Perroux, P. (2012). *Real estate: Finance de l'immobilier*. Paris, France: Revue Banque, p. 104
[914] Glickman, E. (2013). *An introduction to real estate finance*. Amsterdam: Academic Press, p. 272
[915] Glickman, *op. cit.*, 272; Thomas and Romanet-Perroux, *op. cit.,* p. 104
[916] Aalbers, 2017, p. 7
[917] Logan, *op. cit*., 391-401
[918] Salem, R. (2011, May). Funding's new frontier. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/fundings-new-frontier

compared with their traditional brokers. Thus, we considered that residential real estate in Lebanon was potentially an enticing niche, and we soon realized that Lebanese expatriates and residents also showed interest in our property packages.[919]

Private equity was therefore critical to diversification of equity sources in the financing of the Beirut-based property sector as much as to the privileging of its powerful new property agents, i.e., bank subsidiaries and private equity management firms (see Chapter 6 and 7). More crucially for the future of the Lebanese metropolis, these financial engineering tools were instrumental to the construction of the high-density, capital-intensive projects characteristic of the 2000s urban restructuring process.

4.3.2.2 Mass-based financialization through the deployment of housing finance

The fast-paced growth and democratization of mortgage lending in post-2000 Lebanon represents another fundamental novelty: the mass-based financialization of property. This may sound surprising in view of the Northern-centric urban scholarship, where financialization is generally tied to mortgage securitization (see Chapter 2).[920] The home loan portfolio of Lebanese banks is indeed unconnected to the stock market. Yet, it is undeniable that the housing finance system has become a key transmission channel through which banking and the property sector interests intersect, for better and for worse. Events in the bank-dominated financial sector (e.g., the liquidity trap, reduced financial inflows) have significantly motivated and guided expansion of the primary mortgage market, as a result of the latter's contribution to financial stability and debt-driven accumulation. At the same time, mortgage lending has become a critical financing instrument in the property market. This supports the view of its fast-paced development as a form of mass-based financialization, even though the process has not altered the actual nature of assets as occurs when credit organizations resort to secondary markets to trade mortgage-based securities.

The contribution of mortgage lending to financialization is also clear when observing its impact on the trajectory, traits and actors of urban production. Credit growth, on the one hand, has influenced the development process by supporting its price formation, directing its market

[919] Jean Riachi, personal communication, November 13, 2015 (Translation by the author)
[920] Aalbers, 2008 ; Fernandez, Hofman, & Aalbers, *op. cit*.

cycles, and intensifying real estate and construction activity in specific locations (e.g., the Beirut suburbs). It has done so notably through its creation of a new middle-market segment that has attracted a new category of upper-middle-income households able to access finance-backed homeownership for the first time. On the other hand, mortgage lending has reassembled the landscape of city-making actors by putting commercial banks back in a property game they had left for many years during and after the civil war.

Just as importantly, the real estate sector's soon-to-be-created lease-to-own programs (see Chapters 5 and 8) are expected to complement the mortgage market. These alternative financing instruments, whose purpose is to include lower-middle-class households ineligible for loan programs in bank-sponsored homeownership channels, has been discussed in Parliament in recent years. While the initiative was officially touted as a policy response to the 2014 termination of rent control, it may in fact pursue two larger objectives embedded in the regulation-urbanization nexus. First, the lease-to-own programs are believed to facilitate the integration of new population groups into the banking system. Property financing is a major vehicle of financial inclusion in a country where less than half of the adult population has a bank account and only 15 percent borrows money from the financial sector.[921] Second, property leasing is also expected to strengthen the position of the financial apparatus in the real estate sector by offering new financial vehicles to institutional capital holders, most probably local banks, through dedicated private leasing firms investing in leased property portfolios.[922]

4.3.3.3 The spread of 'shareholder value' in urban policy-making

The financialization of property, finally, unfolds through the spread of the 'shareholder value' concept in urban policy-making. Discussions and decisions in Parliament touching directly or indirectly on property issues provide very good illustrations. Since the 1991 Law on Solidere, financial profitability and attractiveness have systematically been concerns in the making of new laws (see Chapter 5). Examples are legion but I will mention one particularly telling episode that emerged from the preparatory work of the 2014 reform of rent control. A number of influential Members of Parliament sitting in the Justice and Administration Committee strove to align the

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[921] BlomInvest Bank (2015d). *Financial inclusion: The case of Lebanon*. Beirut, Lebanon: BlomInvest Bank - Research Department. November 28. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2015/11/Financial-Inclusion-The-Case-of-Lebanon1.pdf; World Bank (2014). *Global financial inclusion database – Lebanon* [Data file]. Retrieved from: http://databank.worldbank.org/data/reports.aspx?source=1228.
[922] Daou, R. (2016). Central Bank of Lebanon soon launching a fund for real estate lending. In *BlomInvest Bank. The Research Blog*. June 24. Retrieved from http://blog.blominvestbank.com/central-bank-lebanon-soon-launch-fund-real-estate-lending/

rental yield of newly liberalized real estate assets with the remuneration of LBP-denominated bank deposits, i.e., a five to seven percent rate. This might appear to be a technical detail but is in fact a very concrete example of the way in which considerations tied to regime regulation have proven to be influential in determining the financial characteristics of housing provision and, more generally, in organizing the entire urban development process. In relation to the latter, this episode exemplifies how regulation-related financial objectives have increasingly prevailed over affordability-related concerns in determinations of urban production in post-1990 Lebanon.

4.3.3 Conceptualizing the Financialization of Property in the Global South: Observations from Beirut

A key analytic lens used to investigate the continuing interconnectedness of finance and real estate, since the first contributions on financialization in 1980-90s urban scholarship, has been securitization (see Chapter 2). In post-war Lebanon, however, securitization remains of little importance to financing of the supply and demand sides of property. This is primarily a result of the specific financialization pattern of the domestic growth regime, where resource-rich banks rule the financial sector. On the one hand, the limited securitization of real estate finance is a direct implication of the minimal development of local financial markets, which logically limits the possibility of securitizing property assets. As explained earlier, Solidere is, to my knowledge, the only property company that has raised funds through securitization deals so far. At the same time, an increased number of agents have circumvented the difficulty of accessing finance capital through public offerings by opting for private equity channels. On the other hand, the massive growth of mortgage portfolios over the past 10 years represents financialization without securitization. The decision not to trade mortgage-backed securities on a secondary market stems mainly from the exceptionally high liquidity ratios of banks, which do not need to relieve their balance sheets to respond to credit demand.[923] In fact, securitizing loan portfolios would conflict with the banks' efforts to recycle their excess liquidity.

The securitization-free trajectory of the Lebanese property sector puts into question the conclusions of existing city and real estate literatures in two important ways. First, it underlines the variation in patterns of financialization between the Global North and South. These differences are generally under-researched since analytical and conceptual efforts have

[923] Charbel Nahas, multiple personal communications, 2014-2016

overwhelmingly concentrated on Northern cities, where securitization is a common practice. Indeed, accumulation in the financial sectors of most Northern economies, especially in the Anglo-Saxon world, unfolds primarily through the capture of fictitious capital on financial markets. Banks, however, dominate the Lebanese financial system and disintermediation is poorly developed. This is a trait shared by many financializing Southern economies that capture transnational, interest-bearing capital primarily through high deposit interest rates and not, or less, through stock markets.[924] Conceptualizing the integration of property and finance through securitization thus seems pointless in these resource-rich, bank-dominated Southern financial systems. This shows, more generally, how variations in the financialization of economies between, and across, the North and the South have resulted in diverse trajectories of property financialization.

Second, consequently, the Lebanese case study calls for an expansion of the conceptual "frontier of financialization" beyond securitization to encompass Southern realities, while being attentive to the need not to stretch the concept beyond meaning.[925] The need to go beyond securitization is amplified by the fact that this instrument has lost momentum in Northern economies in recent years. Economist Charbel Nahas views the securitization of property assets as no longer in "the spirit of the times:" the post-2008 expansionary monetary policies of many central banks generated an abundance of liquidity in many banking systems and, accordingly, limited the further deployment of securitization.[926] The limited development of securitization in Lebanon and more generally in the Global South, in other words, may become the norm in the Global North as a consequence of the monetary and macro-prudential reshuffling that has occurred since the 2008 financial crisis, a crisis that was triggered precisely by the failure of securitized home mortgages in the United States. Inquiry into, and conceptualization of, the diversity of mechanisms that increasingly interlink finance and property should, therefore, become a major priority in the urban research agenda.

This third section has examined why and how the further interconnectedness of the property and financial sectors in post-1990 Lebanon is the outcome of, and prerequisite for, the property market's positioning as a pivotal meso-institution mediating its regulation-urbanization

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[924] Becker, J., Jäger, J., Leubolt, B., & Weissenbacher, R. (2010). Peripheral financialization and vulnerability to crisis: A regulationist perspective. *Competition & Change, 14*(3-4), 225-247, p. 228
[925] Fields, D. (2017). Unwilling Subjects of Financialization. *International Journal of Urban and Regional Research, 41*(4), 588-603
[926] Charbel Nahas, multiple personal communications, 2014-2016 (translation by the author)

nexus. It brought into view the financial turn of property in the 2000s and the two tracks by which land and real estate were increasingly transformed into liquid asset classes. Just as importantly, this study has laid out the way the very limited recourse to securitization in the bank-dominated and resource-rich Lebanese financial sector calls for better recognition of the variation in models of financialization between and across the Global North and Global South.

Conclusion

This chapter uncovered the centrality of property to post-war Lebanon's growth regime. By unpacking the contribution of real estate and construction activity to wealth accumulation and financial stability, it highlighted the concrete mechanisms by which the property market is the peg that binds the production of space to the reproduction of Lebanese capitalism. To clarify the intertwinement of the circular, cross-level and multidimensional relationships at play in this urban political-economic puzzle, I conceptualized the property market as an intermediate-level institution of regulation that makes real estate and construction activity and house prices both a *consequence of regulation* and an *instrument of regulation*. Importantly, this institutional analysis of the property market is critical to an understanding of post-1990 Beirut's property frenzy as a social phenomenon embedded in a regulation-urbanization nexus.

More specifically, the first section explained why Lebanon can be categorized as a "property state" in which real estate and construction historically occupy a prime position in domestic wealth accumulation. It underlined the way in which the recurrently high level of demand, which drives property activity at large, has been dependent primarily upon external financial inflows and secondarily on an artificial money supply. As importantly, it identified the direct and indirect channels through which increasingly diversified capital sources have found their way into the Beirut built environment. The second section subsequently analyzed the contribution of property to financial and monetary stability by teasing out the cross-level feedback loop of Lebanon's regulation-urbanization nexus. In addition to situating the study's conceptualization efforts in a middle position in the social science structure-agency debate, it examined how post-war Lebanon's macro-institutions have shaped the resources, rules and conventions of the property market and guided the perceptions and decisions of individuals and organizations involved in city development. The second section also uncovered how the behaviours of individual and collective agents in the property market, in turn, have contributed to regime regulation at the country level. The third section, finally, showed why and how the financialization of property has been a consequence of, and prerequisite for, the property market's situation as a meso-institution of regulation. It also discussed the various elite and mass-based channels that have enabled the further interplay of property and finance, and identified the specificity of financialization of real estate in bank-dominated and resource-rich economies of the Global South.

Now that I have identified the mechanisms at work within the regulation-urbanization nexus, a major step in the furthering of this institutional investigation is an inquiry into the primary agents and instruments that have engineered this social phenomenon. This is the objective of Chapter 5, where I examine the institutional design of the property market and attempt to demonstrate that the Lebanese state has been instrumental in adapting it to the needs of state-wide economic regulation.

Chapter 5 – The National State and the Institutional Design of the Property Market

In resonance with the 'weak state' discourse frequently heard in and about Lebanon, most Beirut-based informants familiar with city affairs agree that the state is generally absent from urban production apart from the role that it has played in the (re)construction of basic infrastructure since the early 1990s. Analysts such as Thomas Schellen, Editor-at-Large of Executive Magazine, for instance, use the metaphor of "absentee landlord" to describe the state's position *vis-à-vis* urban issues.[927] My objective in this chapter is to demonstrate that, while the national state has not undertaken direct development activity, it has indeed been a pivotal agent of the social construction of post-1990 Beirut's 'pegged urbanization.' I argue throughout this analysis that the central bank, the government and Parliament have together shaped the regulation-urbanization nexus through the institutional design of the property market. By doing so, they have been also instrumental in driving the financialization of urban production. Yet, property-based regulation should not be seen as a grand strategy: to paraphrase British political economist Bob Jessop, it was discovered rather than planned and is the result of an approach better considered as muddling-through.[928] It should, as well, be addressed as part of a larger post-war shift in urban development strategy where housing concerns were sidelined as policy centered increasingly on the growth of property activity and asset values.[929]

To support and document this assumption, I investigate the ways in which formal institution-building has moulded the resources, rules and conventions of real estate and construction activity, and influenced the actors financing and undertaking that activity. I focus on three state policy instruments: the making of legal, regulatory and tax frameworks; the rearrangement of public organizations involved in housing provision; and central bank interventions (see Figure 5.1). Concretely speaking, these instruments, which have generally been

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[927] Thomas Schellen, personal communication, July 10, 2014

[928] Jessop, B. (2001). Capitalism, the regulation approach, and critical realism. In A. Brown, S. Fleetwood, & J. Roberts (Eds). *Critical realism and Marxism* (pp. 88–115). London, UK: Routledge (p. 106)

[929] Public authorities were not particularly proactive in organizing the housing market and sheltering the poorest section of the society prior to 1975. They simply preserved the rent control system imposed during French rule and ordered studies and modernist plans for urban development and public housing projects that, for the most part, were never implemented (Mohammed Beydoun, personal communication, May 8, 2015; Fawaz, Saghieh, & Nammour, 2014, p. 9; Sadik, *op. cit.*; Verdeil, 2010a). Nevertheless, these housing-centered concerns, albeit limited, disappeared altogether from a post-1990 state policy agenda that has increasingly concentrated on the centrality of property to the country's growth regime. In other words, the objectives of maximizing the expansion of the property market and diversifying its financing channels have supplanted any concern for coherent urban development and affordable access to housing. This means that the macro-economic and financial dimensions of the urban development process have prevailed over the social dimension in the way in which the Lebanese state has addressed the urban question in the past quarter century. (Fawaz, M., Saghieh, N., & Nammour, K. (2014). *Housing, land and property issues in Lebanon: Implications of the Syrian refugee crisis*. Beirut, Lebanon: UN-Habitat and UNHCR; Verdeil, E. (2010). *Beyrouth et ses urbanistes. Une ville en plans (1946-1975)*. Beirut, Lebanon: Presses de l'IFPO)

used on a countercyclical basis,[930] have been key to design of the pro-growth institutional arrangements of the property market identified in Chapter 4.[931]

Equally important to a study of Lebanon's post-war urban growth politics is the mix of formality and informality in decision-making and agent interaction within the state apparatus and between public and private elite agents (e.g., agenda-setting, policy design, informal bargaining).[932] In this light, I contend that the Lebanese state is a neopatrimonial arena for elite interest aggregation behind a legal-rational bureaucratic façade of Parliament, government and the central bank. When it comes to property-related issues, there is little question that the 'confessional-rentier elite' governs *through* the state, securing its own individual and collective financial and political interests by putting city-making to use in capitalist reproduction. The consensus and cooperation-based dynamics that have structured the exercise of power within the state machinery and in local politics since independence have also been the main features of urban policy-making over the past twenty-five years.

THREE POLICY INSTRUMENTS TO DESIGN THE INSTITUTIONAL ARRANGEMENTS OF THE PROPERTY MARKET		
INSTRUMENT 1	*INSTRUMENT 2*	*INSTRUMENT 3*
THE MAKING OF LEGAL, REGULATORY AND TAX FRAMEWORKS	THE RESHUFFLING OF HOUSING-RELATED PUBLIC ORGANIZATIONS	THE CENTRAL BANK'S MONETARY AND REGULATORY ACTION

Figure 5.1 – The three state policy instruments used to design the institutional arrangements of the property market in post-war Lebanon
(Source: Author)

This chapter is divided into three sections, each inquiring into a specific policy instrument used by the state to design the institutional structure of the property market. The first section examines the 2014 reform of rent control to illustrate the construction of pro-growth legal, regulatory and tax frameworks. The second section reviews the post-1990 trajectories of three housing-related state organizations, the Public Corporation for Housing, the Housing Bank and

[930] By countercyclical basis, I mean that these legal, organizational and financial policy instruments were implemented mostly during periods of financial, economic and property stagnation— namely between 1996 and 2001-2002 and since 2010-2011.
[931] Interestingly, there is in fact a circular relationship between state action and the institutional arrangements of the property market: state decisions shape institutional structures as much as the latter orient policy-making.
[932] Lascoumes, P., & Le Galès, P. (2007). Introduction: Understanding public policy through its instruments: From the nature of instruments to the sociology of public policy instrumentation. *Governance*, *20*(1), 1-21, p. 8

the Ministry of Housing and Cooperatives. Finally, the third section analyzes the central bank's key monetary and regulatory policy interventions.

5.1 Legislative Production: A Classic Tool of Institutional Design

Pro-growth legal, regulatory and tax frameworks are traditional instrument of institutional design. Urban production is no exception and creation of a framework of public rules (e.g., property rights, zoning, building codes, property taxation rates, rental market regulation, etc.) is essential to the orientation of agent behaviours and direction of the use and development of urban space. In Lebanon, the making of laws and regulations is not only captured, as discussed in Chapter 1, by elite interests but generally dysfunctional in ways that will be discussed below. Yet, in the post-war period, it has significantly shaped the institutional structure of the property market. In this section, I focus on the production of legal, regulatory and tax frameworks by the national state and explore the case of the 2014 reform of rent control. After a brief review of the dysfunctionality of Lebanese lawmaking, I document the close cooperation of elite public and private agents in the elaboration and adoption of this controversial new rental law. I then identify its expected institutional implications for the property and banking sectors.

5.1.1 Dysfunctional Legislative Production in Lebanon

In post-1990 Lebanon, the structural dysfunction of the Taif-inherited political settlement and the recurrence of political crises have regularly "plunged the legislative and executive branches of the government into a complete impasse."[933] As an example, Parliament passed a single law in 2007 and just two in 2013.[934] To be more precise, legislative activity is generally paralyzed unless specific political-financial interests or the survival of the growth regime are at stake. A recent episode illustrates this reality: Members of Parliament (MPs), who have extended their own mandates several times in the past decade, were not able to reach a quorum and elect a President of the Republic from the spring of 2014 to the fall of 2016. Yet, they all met on

[933] World Bank (2015). *Lebanon economic monitor - The great capture*. Washington, DC: Global Practice for Macroeconomics & Fiscal Management, Middle East and North Africa Region, p. 30
[934] *Ibid*

November 15, 2015 to ratify an externally imposed anti-money laundering bill to protect the domestic financial sector from international boycott.[935]

5.1.1.1 The control of political leaders and business elites over the legislative process

Unsurprisingly, the major political figures commonly lock the legislative process to "divide the spoils" and preserve bargaining power.[936] They control the four major phases through which proposed legislation pass, namely: elaboration and discussion in parliamentary committees, validation and agenda-setting in the Speaker's Office, voting in plenary assembly, and issuance of implementing decrees by the state administration.

Phase one is committee work where bills are elaborated and discussed behind closed doors and in the absence of a formal policy agenda.[937] Economist and former Minister Charbel Nahas explains that the great majority of bills comes from ideas that have emerged overnight in the minds of Ministers or MPs who then design proposals with the assistance of lawyers or former judges.[938] But Nahas adds: "We are far from enlightened despots who, assisted by skilled experts, know exactly what they want. There is a lot of disorder in it." An MP on the 'Justice and Administration' committee, understood as the most efficient among them, agrees: he sees legislative production as "totally dysfunctional." The following observations illustrates his point:

> The committee is slow and produces poor quality work and discussions. Hundreds of proposals are outstanding. Moreover, most MPs have limited attention spans, limited legal literacy and no [intellectual] interest in macro-economic implications when they address policy problems.

The Parliamentary committees where legislation is designed are key *loci* of power and their immunity to public scrutiny obscures the bargaining that goes on inside. Lobbyists and experts from major economic sectors (e.g., banks, property industry) are regular visitors and, under the cover of technical advisor to the MPs, impose their views and interests.[939] Elected

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[935] For more details about the bill, the website of the BdL's Special Investigation Commission is available from www.sic.gov.lb/_NewsSearch.php?Month=11-Nov&Year=&cAction=Search
[936] Legal expert, personal communication, June 21, 2014; Nizar Saghieh, personal communication, May 28, 2014 (Translation by the author)
[937] André Nader, personal communication, April 16, 2015
[938] Charbel Nahas, multiple personal communications, 2014-2016 (Translation by the author)
[939] Marwan Sakr, personal communication, April 11, 2014 (Translation by the author)

officials also frequently face a situation of direct or indirect conflict of interest: many are the shareholders, members of boards of directors, or lawyers of firms whose activity will be affected by bills under preparation.

Phase two is the transfer of bills from the committee to the Parliamentary Office, run by the powerful Speaker of Parliament. The Office, explains an actor and acute observer of Lebanese politics, can modify the proposed legislation at will. Concretely speaking, any final draft or consistent package of law transmitted by a committee can be reshuffled in the Speaker's Office: last-minute additions or eliminations of controversial elements are commonplace. Those alterations are generally the outcome of political negotiations tied to converging or diverging views among major political figures and groups, and of the intervention of specific business interests. The Speaker's Office has also full control of the agenda of plenary sessions.

Phase three is the organization of plenary sessions during which bills are submitted to the vote. Sessions are normally purely formal: MPs follow voting instructions of the political leaders who have struck deals beforehand in the Speaker's Office or elsewhere. The plenary assembly is a "mere recording chamber," confirms a Member of Parliament. Finally, phase four of the legislative process is the issuance of a bill's implementing decrees by the relevant ministries. Events, again, are locked into place: troika members appoint and, therefore, control all key civil servants and their decisions. Dysfunction, opacity and cronyism in legislative production are commonplace in many countries across the globe but it seems fair to say that they reach their zenith in post-1990 Lebanon with the control of the 'rentier-confessional' elite over the legislative process.

5.1.1.2 The adoption of pro-growth legislations and the preservation of status quo

The dominance of elite interests in the legislative process is particularly visible when it comes to banking and property issues. "It is like asking a criminal to reform the penal code," says a local analyst.[940] The research of various Beirut-focused scholars has shown how changes in the city-making legal framework over the past 20 years have consistently privileged the growth of the real estate sector, and the profits of city builders, bankers and landlords, regardless of their

[940] Legal expert, personal communication, June 21, 2014 (Translation by the author)

implications for city development and for the public good.[941] The point of initiation was probably Law 177. Adopted in 1991, in very opaque and controversial conditions, this law provided the legal foundation for creation of Solidere and officialised, for what was an *ad hoc* project of downtown redevelopment, the delegation of a series of public planning prerogatives to the private sector.[942] Since then, recourse to legislative action has snowballed and addressed a wide range of property-related questions through either:

(i) adoption of pro-growth legislation that directly or indirectly affects construction (e.g., 2004 Construction Law), property financing and legal arrangements (e.g., the 1995 Law on holdings, Fiscal Law 282/93 on the taxation of SAL, the 2006 Law on the creation of the Public Corporation for Housing and of rent-to-own programs, the current bill on property leasing, etc.), and property ownership (e.g., the 2001 amendments to the 1969 Decree Law relaxing restrictions of foreign ownership);

(ii) preservation of the status quo in terms of construction (e.g., blocking of the new heritage protection bill until the fall of 2017), planning (e.g., the upholding of 1954 zoning regulations), and taxation (e.g., absence of tax on unbuilt property and on property capital gains for individuals,[943] avoidance of capital gain taxation for companies through the SAL scheme, and the decision not to apply VAT on property development activities).

In addition to emphasizing the formulation of growth-oriented legislation, Beirut-focused scholars have stressed the extent to which, and the ways by which, elites have managed to impose their rent-seeking views and interests.[944] A case in point is the real estate industry's drafting of the building code: the 2004 reform of the Construction Law is said to have been prepared by a group

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[941] Krijnen, M., & Fawaz, M., (2010). Exception as the rule: High-end developments in neoliberal Beirut. *Built environment*. *36*(2), 245-259, p. 122; Saksouk, A. (2015). *Where is Law? Investigations from Beirut* (Working Paper. Neighbourhood Initiative. American University of Beirut). Retrieved from www.aub.edu.lb/Neighborhood/Documents/Abir%20NI%20Report.pdf

[942] Large-scale bribery of Members of Parliament is suspected to have enabled the adoption of Law 117. Dozens of deputies, who originally opposed the bill, allegedly received bribes of USD 100,000 in cash and/or "interest-free loans from a major politician's private banks—up to USD one million each—that enabled them to subscribe to Solidere's initial public offering" (Wakim, 1998 in Leenders, 2012, p. 58). (Wakim, N. (1998). *Al-Ayadi as-Sawd*. Beirut, Lebanon: Shirkat Al-Matbu'at li-al-Tazwi' Wa al-Nashr cited in Leenders, R. (2012). *Spoils of truce corruption and state-building in postwar Lebanon*. Ithaca, NY: Cornell University Press)

[943] The taxation of capital gains on property for individuals was adopted, under very limited conditions, as part of the funding mechanism of a bill on salary hikes for the public sector. However, this bill was not passed into law.

[944] Ashkar, H. (2011). *The role of the state in initiating gentrification: The case of the neighbourhood of Achrafieh in Beirut* (Master's thesis). Retrieved from http://hishamashkar.org/node/57; Bekdache, N., & Saksouk-Sasso, A. (2009). *Retrieving Ein El-Mraise: Private struggles and public concerns*. Paper presented at 2009 ISA-RC21 Sao Paulo Conference Inequality, Inclusion and the Sense of Belonging. Sao Paulo, Brazil. August 23-25; Ghandour, M. (2001). *Building law: A critical reading of the Lebanese case*. Paper presented at the 89th ACSA Annual Meeting - Paradoxes of Progress: Architecture and Education in a Post-Utopian Era. Baltimore, MD. March 16-20; Ghandour, M. (2002). Building as social practice. In Salama, A. M., O'Reilly, W., & Noschis, K. (Eds.). Proceedings from : *Architectural education today: Cross-cultural perspectives* (pp. 63-69). Lausanne, Switzerland; Krijnen & Fawaz, *op. cit*.; Saksouk, *op. cit*.

of developers and architects — an allegation confirmed and detailed by a number of key actors interviewed for this study.[945] Elite agents with property interests often manage to introduce contradictory and vague statements into new legislation to create the conditions by which illegality and exception become legal.[946] In so doing, they facilitate "multiple interpretations of the same requirement" and, accordingly, preserve and/or expand their business interests.[947]

5.1.2 The Making of the 2014 Rental Law: "The Meal Was Cooked"[948]

The most recent legal intervention into the institutional arrangements of the property market with very concrete repercussions for the daily life of thousands of urbanites is the 2014 reform of rent control. In many respects, the legislative process I examine here is representative of the process outlined above for legislative production in general. From committee work to adoption in plenary session, my inquiry shows how the expansion of banking and property activity and the growth of property asset prices have overridden any holistic attempt to organize housing provision and provide affordable units. At its core, it highlights the control of elite interests and documents the intricate play of elite cooperation.

Details of the Lebanese model of rent regulation, also known as the 'old rents' system, and of the reform will be discussed in Chapter 8. They will be sketched out here to better situate the context of legislative work. Rent control, a law that provided *de facto* access to affordable formal housing to a sizeable number of low-income households in Greater Beirut, was introduced in 1940 under the French mandate and survived for 70 years until its 1992 partial reform and 2014 termination. Under pressure from landlords and business interests, its reform had been on the policy agenda for decades. I trace below the salient episodes of its lengthy elaboration process and detail the key steps, discussions and actors that led to its final demise.

5.1.2.1 A long, opaque and elite-controlled elaboration process (1977-2012)

The first attempt to reform rent regulation dates back to 1977. After the first phase of the civil war, Farid Raphaël, then Justice Minister, founder of the Banque Libano-Française, and

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[945] For instance, the Building Promoters Federation of Lebanon and the developer Jamil Ibrahim were supposedly among the property industry's key actors who played a role in designing some of the major mechanisms introduced in the new Construction Law.
[946] Krijnen & Fawaz, *op. cit*
[947] Ashkar, *op .cit*.; Krijnen & Fawaz, *op. cit*., p.126
[948] This redolent metaphor — a Lebanese saying (*tabkin et-tabkha*) — was used by a member of the parliamentary committee to describe how specific actors and interests controlled the process of rental law reform.

future President of the Association of Lebanese Banks (1997-2001) initiated discussions with a group of lawyers to terminate the 'old rents' system. But the war started up again and early proposals were abandoned. The second attempt was in 1994-1995, a few years after the Decrees 159/1992 and 160/1992 had extended validity of the existing rent-controlled leases and established a free market for those just signed. Bahige Tabbarah, then Justice Minister,[949] together with Farid Raphaël and Samir El-Jisr, then Head of the Tripoli Bar Association, began to talk informally about ending rent regulation altogether. For some of the meetings, Tabbarah included private actors such as the Building Promoters Federation of Lebanon, i.e., the historical association of builders.[950] But Tabbarah (Justice Minister) and Prime Minister Hariri could not agree on a termination scenario.[951] Hariri wanted termination to be immediate; Tabbarah suggested following the path of Syria and Egypt where rent control was phased out. Tabbarah also wanted financial compensation for tenants and some form of state support for mortgage-based homeownership involving incentive schemes for credit organizations. The bill was finally transferred to Parliament in 2002 but remained on the shelf.

In 2009, on the impetus of then Justice Minister Ibrahim Najjar, a famous Beirut-based lawyer, rent control was back on government and parliamentary agendas. This was the end of the second property boom: real estate and construction activity had reached its apex, property prices were surging and so was housing finance. Pressure was strong, in other words, to put an end to rent regulation. Development firms had optimistic market expectations and had widely promoted a perception of land scarcity, banks were set to expand the scope of home loans to bolster private credit growth, and many landlords with rent-controlled assets were frustrated with the sharp discrepancy between their meagre rental revenues and the high land value and increased rents on the open market. Discussions in Parliament were initially based on Bahige Tabbarah's early 2000s proposal. In 2010, the work was transferred to an *ad hoc* sub-committee composed of a few influential MPs and external advisory members, and then, in the same year, moved back to the 'Justice and Administration' committee chaired by MP Robert Ghanem.[952] According to a number of informants, this latter move was the first turning point in a legislative process that

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[949] Bahige Tabbarah was also Rafiq Hariri's personal lawyer. He is considered to be the mastermind behind Law 117/1992 and the establishment of Solidere.
[950] Property developer #4, personal communication, April 19, 2014
[951] Alexa Hechaime, multiple personal communications, 2014-2016; Ibrahim Najjar, personal communication, September 26, 2014; Bahige Tabbarah, personal communication, October 14, 2014
[952] Antoine El-Hajj, personal communication, October 14, 2014; Samir El-Jisr, personal communication, November 18, 2014. The chairmanship of the 'Administration and Justice' committee is traditionally a position held by a Maronite Christian in Lebanon.

concluded in the 2014 reform.

In many ways, a study of the 'how' and 'by whom' of this legislation speaks much about its actual objectives. To do this, I conducted interviews with committee members and then crosschecked their statements with the minutes of closed-door committee meetings I obtained from the Parliamentary record. These were analyzed with the help of Nizar Saghieh, a lawyer and head of the Beirut-based NGO Legal Agenda.[953] This allowed me to identify the agents who were particularly active in the drafting process and the issues upon which their discussions were focused. Likewise, this rich material allowed me to analyze the key relational and structural components of the social environment within which decisions were made, and the form of institutional design to which they contributed. Overall, three points deserve to be emphasized: the multiplicity of elite public and private attendees, the nature and interests of the two discussion leaders, and the cooperation and consensus-building atmosphere prevailing within the committee.

A multiplicity of public and private actors with variegated networks and forms of capital

First, I will address the list of public and private agents who attended meetings and the way in which they contributed to discussions. They belonged to various social and professional networks (e.g., politicians, financiers, legal experts) and concentrated various forms of capital (e.g., financial, social, symbolic, political). MPs from most political parties were understandably the primary actors of the committee. They belonged to various social and professional networks (e.g., politicians, financiers, legal experts) and concentrated various forms of capital (e.g., financial, social, symbolic, political). MPs from most political parties were logically the primary actors of the committee.[954] According to a knowledgeable observer of Lebanese politics, most attending elected officials defended the positions and executed the orders of their respective political bosses. Moreover, it is worth noting that, while I could not find any evidence linking MPs to specific property interests, a number were lawyers working for law firms counting major

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[953] All views and analyses presented in this section are my own and do not necessarily reflect the opinion of Nizar Saghieh.
[954] The committee notably included the following MPs: Robert Ghanem (Committee Chair, Future Movement – March 14th; lawyer, son of a former General-in-Chief of the Lebanese army); Samir El-Jisr (Future Movement – March 14th; former Minister of Education; lawyer, close to Fuad Siniora and the late Rafiq Hariri, former Justice Minister and former President of the Tripoli Bar Association), Ghassan Moukheiber (Free Patriotic Movement – March 8th; lawyer and human rights activist), Naamatallah Abi Nasr (Free Patriotic Movement – March 8th; former Secretary General of the Maronite League), Nadim Gemayel (Phalanges party – March 14th; lawyer and son of former Lebanese President Bachir Gemayel), Ibrahim Najjar (Lebanese Forces – March 14th; lawyer and former Justice Minister), Walid Sukkarieh (Hezbollah-affiliated maverick – March 8th), Michel Hellou (Free Patriotic Movement – March 8th; lawyer — now deceased) and Nawar El-Sahili (Hezbollah – March 8th).

development and banking firms among their clients.[955] The committee also held several categories of external public and private agents in an advisory capacity who were active in discussions, but took no part in deliberations. This was the case with legal experts (i.e., judges and representatives from the Beirut and Tripoli Bar Associations) who, claiming a form of bureaucratic neutrality, helped to position the reform as a technical and legal issue centred on landlords' rights rather than a social, economic and political issue centred on housing and urban development. In parallel, financiers, i.e., representatives from the central bank and the Association of Banks, actively lobbied for facilitated access to be granted to tenants for subsidized home loans. Conversely, bureaucrats, i.e., senior civil servants from the Ministry of Justice, Ministry of Social Affairs, and Ministry of Finance, generally remained in the background during discussions, even as they voiced recurrent concerns about the reform's financial sustainability. Further, landlord and tenants associations were surprisingly absent, at least officially, from the committee. Various MPs suggested that inflamed debates between landlord and tenant representatives during previous rounds of negotiations had dissuaded the committee from having them on board. Finally, it is worth noting that, while lawyers and financiers took powerful positions in the process, developers, who had been vocal in their opposition to rent control on many occasions and had attended discussions in the early 2000s, did not have the direct role they had presumably taken, for example, in the elaboration of the 2004 Construction Law. This does not mean that the property industry did not strive to advance its interests by other means, just that I was unable to find any evidence of direct involvement.

The pivotal role of two committee members: Samir El-Jisr and Antoine Chamoun

Interviews and meeting minutes suggest that two participants stood out during committee work. One MP and one housing expert played pivotal roles, leading discussions and elaborating specific mechanisms (e.g., an *ad hoc* judicial committee, a new rent calculation, a compensation fund, details of which are in Chapter 8). Those two figures were Samir El-Jisr, lawyer, former Justice Minister and "legislative mastermind" of the Hariri-controlled Future Movement (known to be aligned with business interests), and Antoine Chamoun, founder and former Director of the

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[955] For example, MP Nadim Gemayel is an associate of the Selim El-Meouchy Law Firm, which counts CGI, a major Beirut-based development firm, and Saradar bank as important clients. The Selim El-Meouchy Law Firm also collaborates with Bechara El-Khoury, a top-tier financier managing offshore companies investing in Lebanese real estate (see Chapter 7). In addition, Parliamentary Speaker Nabih Berri is one of the founders of the development firm Jamil Ibrahim Establisment and his children are financially involved in a number of property firms (see Chapter 7).

Public Corporation for Housing who is now the General Manager of Bank of Beirut Invest. Interestingly, in parallel to their work on the new rental law, El-Jisr and Chamoun also framed legislation for another property-related bill: the extension of leasing schemes for land and real estate assets.

A consensus and cooperation-based approach built on a shared vision and agenda

El-Jisr and Chamoun proved to be instrumental in making the committee a space, not for power struggle, but for elite cooperation. And the consensus they orchestrated among committee members was that which dealt the fatal blow to rent control. That most members wanted the law to pass at any cost was confirmed by a senior source from the Ministry of Finance.[956] A puzzling fact supports this presumption: all of the technical debates within committee meetings, which addressed, for instance, the setup of a compensation fund and alternative housing solutions for tenants (see details in Chapter 8), unfolded without any estimation of the actual number of controlled leases or of the socio-economic profile of tenants. MPs, in other words, were discussing issues about which they had very little quantitative and qualitative information.[957] Likewise, when I conducted interviews with committee members, I noted their unfamiliarity with the mechanisms of the reform: most vigorously defended the termination of rent regulation without knowing much about the actual content of the new legislation.

Another interesting point of consensus among committee members was the perception of the state in general and of the role in particular that it should play in the phasing out of rent control. Most elected officials did not hold the state in high esteem: they very often talked about it in suspicious and acrimonious terms. In fact, they ironically strove to distance themselves from what seemed to be an alien entity, one to which they did not belong as Members of Parliament. They also, and with some ease, held the state accountable for the enduring "spoliation" of the country's landlords.[958] In the eyes of many MPs, the outrage of public authorities, which limited the profitability of rent-controlled assets, justified the principle of drawing the compensation and assistance promised to certain categories of low-income tenants directly from the public budget. And then to be completely consistent, most elected officials refused to support the *ad hoc*

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[956] Senior official of the Ministry of Finance, personal communication, May 28, 2015.
[957] The Ministry of Finance, my sources argue, provided the first statistical survey to committee members during their discussions over new amendments, i.e., after the vote of April 1, 2014.
[958] Member of Parliament, personal communication, April 29, 2015.

taxation of capital gains on property that had been earmarked for those compensation programs and alternative housing solutions. In sum, the obsession to end the longstanding "injustice" to property owners and the will to boost the financial attractiveness of real estate assets annihilated any general discussion of the state's responsibility for a holistic strategy for housing provision.[959]

The elaboration phase finally wound up in 2012. All committee members validated the proposal, which was then transferred to the Speaker's Office. The legislation sparked a series of harsh comments from legal circles however. First, its length, 58 articles enumerated in 24 pages, aroused much criticism given that most bills and legal directives are very concise.[960] Second, the majority of legal analysts I consulted judged the proposal to be fuzzy and poorly written: full of contradictions, repetitions and inconsistencies.[961] Such criticisms are not surprising: as mentioned, strategic placement of inconsistencies in lawmaking is frequently a deliberate tactic in Lebanon's legislative production.

5.1.2.2 April 1, 2014: elite interests and Lebanese politics summarized in a vote

The second turning point in the legislative reform process was its inclusion in the plenary assembly's April 1, 2014 agenda. The scheduling and organization of the vote are again illustrative of the mechanism of legislative production and reflect the significance of consociational elite interests in Lebanese politics. Nabih Berri, Speaker of Parliament since 1992, was a particularly crucial stakeholder in this regard. As one of the three members of the Taif-inherited ruling troika, Berri occupies a very powerful position within the Lebanese political system. State decision-making in general and the making of law in particular offer him a high degree of manoeuvrability.[962] Concretely speaking, he can facilitate, delay or block the adoption of new legislation, as he has done on several occasions (e.g., the activation of World Bank-sponsored loans in 2004) in order to strike deals with the executive, i.e., the President of the

[959] One of the committee members interviewed for this research confirms that he tried, unsuccessfully, to include the reform of rent control as one element of a larger housing-oriented law package including new legislation on transportation, property taxation, property leasing and the construction of public housing.
[960] Marwan Sakr, personal communication, April 11, 2014
[961] Alexa Hechaime, multiple personal communications, 2014-2016; André Nader, personal communication, April 16, 2015; Marwan Sakr, personal communication, April 11, 2014
[962] Leenders, 2012, p. 132

Republic and the Prime Minister, and advance his own political and business interests.[963] Speaker Nabih Berri has, in short, extensive control over Parliament's agenda and voting details.[964]

The puzzling inclusion of the new rental law in the parliamentary agenda

Putting the new rental law to the vote in the April 1, 2014 plenary session was a surprise to almost all MPs and observers interviewed, particularly given the number of laws up for passage and the fact that rent control reform was not an urgent issue. The reasons behind this move remain unclear and observers offer two hypotheses. Some see in the April 1, 2014 session another example of deal-making among political blocks and troika leaders, a current mode of operation according to former Ministers Mohammed Beydoun and Charbel Nahas.[965] A well-informed observer of Lebanese politics confirms that political trade-offs almost always accompany the adoption of laws and decrees that cross economic and social fields, especially when votes are unanimous.[966] Specifically, some pundits see, in this case, a deal between March 14th and March 8th leaders, all of whom represent business interests, on a package of law that included the legislative termination of rent control and two other politically sensitive issues: a salary hike for public sector employees, and the regularization of daily workers of the national electric utility company (Électricité du Liban). A lawyer closely following parliamentary activity concurs: "We do not know what led to the vote, but the reason is certainly political as MPs were asked to vote an insane number of laws during the same day [about 60 laws within 24 hours]."[967]

Other experts bring in the institutional instability tied to the Syrian crisis: the Presidency of the Republic had remained vacant from May 2014 to November 2016, Parliament had extended its mandate several times, and the organization of general elections was on hold. This, they allege, opened a window of opportunity for MPs to get rid of a thorny bill that, unlike other pro-growth legislations, might adversely affect their re-elections. "Nobody wants to lose the next elections for passing this law," commented Fuad Siniora, former Prime Minister and March 14th leader, to Executive Magazine back in 2012.[968] A MP from the March 8th block interviewed buys

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963 Leenders, 2012, p. 137
964 Bahout, J. (2016). *The unraveling of Lebanon's Taif Agreement: Limits of sect-based power sharing*. Carnegie Endowment for International Peace. Retrieved from www.carnegieendowment.org/2016/05/16/unraveling-of-lebanon-s-taif-agreement-limits-of-sect-based-power-sharing/iy99?mkt_tok=eyJpIjoiWmpsa05qWTVNekU%E2%80%A6
965 Mohammed Beydoun, personal communication, May 8, 2015
966 Legal expert, personal communication, June 21, 2014
967 André Nader, personal communication, April 16, 2015 (Translation by the author)
968 Cochrane, P. (2012, May). Turning tragedy into transformation. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/turning-tragedy-into-transformation

this argument and confirms that such an explanation "was openly accepted in Parliament." Nonetheless, the hypothesis remains uncertain: in the Lebanese electoral system, people vote in their family's village rather than in the electoral district where they live, which reduces the influence on elected officials of the ballot's pressure. In other words, the persistence of the old electoral system together with the cult of a party leader embedded within political-sectarian and elite structures, ensures that deputies generally vote according to their patron's instructions rather than the interests of their electorate.

A unanimous vote for a controversial reform

In a plenary assembly on April 1, 2014, Members of Parliament voted almost unanimously to adopt the law phasing out rent control. The new legislation was put to the vote as one article, a current practice in the Lebanese Parliament to avoid an article-by-article debate over the law's content. During the session, a couple of MPs publicly voiced concerns about the fate of tenants, despite the support they gave to the bill in committee, but they submitted no amendments. According to a journalist who attended the event, discussion on the vote lasted less than an hour and the vote was informal (i.e., not nominative): Nabih Berri simply asked MPs to raise their hands if they were against it.[969] The law received 126 votes across 128 seats, an overwhelming consensus disconnected from the relatively harsh debates the question had fuelled in the Lebanese public at large and the disruptive socio-economic and political implications it would almost certainly have. In fact, various sources confirm that a large number of MPs failed to read the law and instead followed the voting instructions given by all political parties.[970] The deputies interviewed for this investigation admitted that most of their colleagues did not understand or simply did not know what was at stake in the proposal they adopted. This reality is at least partly the result of the biases discussed here in post-1990 Lebanese legislative production: the agenda and the 60+ bills discussed during the April 1 session were transferred from the Speaker's Office to MPs just 48 hours before the vote, leaving no time for deputies to read the proposals carefully if at all.

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[969] Journalist #1, personal communication, March 27, 2015

[970] Voting instructions were given by almost all political parties including Hezbollah, regardless of its efforts to depict itself as defending the rights and the needs of low-income and middle-class groups in Lebanon. But as a senior political analyst requiring anonymity indicates: "Hezbollah talks populism but votes and acts neoliberalism." Another acute observer of Lebanese politics concurs: "Hezbollah is far from representing working-class interests, there is no evidence that it differs from other members of the ruling class."

In the summer of 2014, as soon as Parliament adopted the law phasing out rent control, two appeals were submitted to the Constitutional Council to obtain more rights for long-time tenants. One was ironically lodged by a group of 10 MPs most of whom had voted for the new law; the other was submitted by Michel Sleiman just before leaving the office of President of the Republic. This unanticipated move, which did not block the law's implementation, produced positive results: the Constitutional Council importantly recognized the constitutional nature of the right to housing in addition to ruling three articles invalid, primarily on procedural grounds.[971] The Council's decision forced the parliamentary committee to issue further amendments to the reform in April 2015, which previously came into effect on December 28, 2014.[972]

5.1.3 The End of Rent Control and its Institutional Implications

Terminating the system of rent control was "more than merely a battle of tenant versus landlord," said Executive Magazine editors in an op-ed a few years ago.[973] Charbel Nahas shares this view and suggests a look at "the third angle of the triangle" to make sense of the motives behind the sudden haste to put the new rental law back on track.[974] I agree and propose that the 2014 reform was more than simply a solution to a contractual matter: it was, above all, a stimulation to property growth and the further expansion of housing finance, i.e., the two dimensions that would consolidate institutional change in the property market and, ultimately, reinforce the regulation-urbanization nexus.

5.1.3.1 Transaction costs, premium land and property attractiveness: three levers to boost property activity

I believe that the termination of rent control was expected to sustain the growth of real estate and construction activity in at least three ways. First, the 2014 reform was likely to help the property industry reduce the transaction costs associated with the redevelopment of occupied lots

[971] The Legal Agenda (2014, September 23). Rent control in Lebanon: Balancing ownership and housing rights. In *The Legal Agenda*. Retrieved from http://legal-agenda.com/en/article.php?id=651&folder=articles&lang=en. The Constitutional Council ruled out articles 7, 13 and 18 (paragraph 4).

[972] Arbid, J. (2015, June). Striking a balance. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/rent-law-striking-a-balance; Rozelier, M. (2014b, August 12). Ibrahim Najjar: La libéralisation des loyers anciens est désormais acquise. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/880546/ibrahim-najjar-la-liberalisation-des-loyers-anciens-est-desormais-acquise.html; Noujeim, S. (2014, December 15). L'application de la loi sur la libéralisation des loyers ajournée de facto. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/900955/lapplication-de-la-loi-sur-la-liberalisation-des-loyers-ajournee-de-facto.html

[973] Executive Magazine Editors (2014, May). Rent law reform is needed. *Executive Magazine*. Retrieved from www.executive-magazine.com/opinion/leaders/rent-law-reform-needed

[974] Charbel Nahas, multiple personal communications, 2014-2016 (Translation by the author)

and optimize the development process at large. Many real estate firms found in rent regulation a source of uncertainty: although they purchased rent-controlled properties at a lower price, evicting tenants to demolish the buildings was a costly and unpredictable task that could take years and negatively affect the construction process. In fact, delays in evictions could severely jeopardize the profitability of a property project, which is generally contingent upon the meeting of tight deadlines. This risk pushed many builders to pay significant compensation to occupiers.[975] Various accounts of interviewees also exposed the practices of certain developers who regularly used threats and acts of intimidation to pay smaller amounts of compensation or to avoid going to court to obtain evictions. The longstanding support of property professionals for the termination of rent control is thus not surprizing. Many argue that the 2014 reform was expected to make development work "faster and cheaper."[976]

Second, the end of rent regulation set out to boost construction activity by freeing up stocks of premium land on which sit a large share of price-controlled buildings in Municipal Beirut. "The question of land is clearly central, we are talking about billions of dollars," concedes a source close to the executive. The same informant adds: "Entrepreneurs know precisely where land lots and properties under 'old rent' are." As indicated in Chapter 4, there is, indeed, a significant rent gap between the current pattern of land use in Beirut's central quartiers (e.g., Rmeil, Ras Beirut, Basta, Medawar), dominated by pre-1954 low-rise residential buildings containing a large number of rent controlled units, and the substantial development rights conferred by the 1954 zoning law that allow the construction of denser property projects. Land value, determined in part by development rights, is much higher than the value of pre-1954 three or four-storey buildings which do not meet maximum exploitation ratios. As a result, the stock of premium land in underdeveloped central areas stimulates the property industry's interest, particularly as property firms seek to constitute the 4000+ sq. m. parcels specified in the 'grands ensembles' regulation for erection of large property projects (see details in Chapters 4 and 6).

Third, the new law aims to strengthen the financial attractiveness of property and sustain asset values. The projected yield used to update rents prior to full liberalization was a central

[975] The general director of a major Beirut-based development company (Property developer #5, personal communication, November 7, 2014) explains, for instance, that one of the firm's projects required the eviction of about 20 long-time tenants who received compensations of between USD 20,000 and 80,000. He also argues that, as of 2014, compensation, based on market values, could reach USD 500,000 for a USD one million worth apartment. A prominent property broker confirms this trend: "We are willing to pay good compensations since we know that land prices are going up and profit made from building new properties are way higher than money paid to old tenants" (translation by the author).
[976] Property developer #5, personal communication, November 7, 2014

discussion during the reform design. Most influential members, under the impetus of MP Samir El-Jisr and his "well-thought and well-written plans," originally aimed to set the annual rate of return on rents at about seven percent in order to "align yields with banks' interests rates on the Lebanese pound."[977] In many ways, this proposal was a clear illustration of the perception of property as an alternative to bank deposits in a larger plan to attract foreign and diaspora financial resources to Lebanon (see Chapter 4). Likewise, this concern also casts light on the proliferation of the concept of 'shareholder value' in urban policy-making: committee members treated property rental value as an exogenous parameter to be compared with the profitability of other domestic investment vehicles, not as a reflection of housing-specific endogenous attributes (e.g., location, construction standards). Article 36 of the 1962 Law on Built-Up Property Taxation for residential properties was finally used as a justification to bring the expected yield down to five percent in the law passed in April 2014. Political and popular pressure then reduced it to four percent.[978] Yet, even though the rentier elite was unable to increase rental yields to the expected level, the prospect of full rent liberalization in nine to 12 years will reinforce the actual value of the formerly rent-controlled housing stock, stock which had lost financial attractiveness in recent decades.

5.1.3.2 The expansion of bancarized homeownership

Of equal importance, I believe, is the intention of the new rental law to further expand private credit by granting 'old tenants' access to bancarized homeownership. The entire compensation system was designed to encourage tenants who cannot afford the new rent to leave quickly with a sufficient amount of money to find alternative accommodation. This is where the issue of mortgage credit comes to the fore. The new law stipulates that 'old tenants' have priority access to subsidized loans offered by the Housing Bank (HB) and the Public Corporation for Housing (PCH), i.e., two major mortgage credit organizations (see the next section and Chapter 8). Evicted tenants, the law stipulates, are expected to use their compensation as a down payment. Likewise, the set-up of future property leasing schemes is also portrayed as a solution for lower-middle income groups who fail to meet the criteria for mortgage-based tracks.[979] The upcoming

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[977] Samir El-Jisr, personal communication, November 18, 2014
[978] A rental rate of return of four percent is in line with the recommendations made by the Ministry of Finance in 2012.
[979] The new law indicates that tenants have access to subsidized loan programs to buy out the home in which they live and for which they can also benefit from a 25 percent exemption of the built-up property tax.

arrival of new households on the homeownership market is thus completely in line with the objectives of property-based regulation: it will help to support middle-end real estate demand, boost private debt growth, sustain the level of property asset prices, and expand the significance of equity-owning groups. In this sense, it is worth noting that the centrality of homeownership to the 2014 reform of rent regulation differs from similar policy initiatives observed in many other countries where governments usually terminate rent control to better develop the free rental sector.[980] A final element supports my argument on the primacy of pro-growth regulation objectives in the new rental law: no solution is either identified or provided to lower-income tenants who cannot afford the rent increase and who are not eligible for mortgage-based and lease-to-own homeownership programs. These vulnerable households, who probably account for a sizeable portion of tenants, remain totally out of the policy's scope.

In sum, this first section has attempted to show how the pro-growth transformation of the legal, regulatory and tax frameworks has been a key policy instrument in the institutional design of the property market. Focusing on legislative production at the national state level, my aim has been to demonstrate how the making of laws is critical to the shaping of incentive and disincentive structures that facilitate capital circulation in the built environment and, more generally, guide agent behaviours in city development. To exemplify this argument with a case study, I have investigated in detail the 2014 reform of rent control and described precisely how it was intended to sustain the growth of real estate, construction and banking activity. Moreover, by examining the process by which it was elaborated and adopted in Parliament, I have also shed light on the concrete ways by which public and private agents cooperated and built consensus in property-related legislative production.

5.2 Lebanon's Fannie Mae and Freddie Mac: The Restructuring of Housing-Related Public Organizations

Collectively, the nature, mission and tools of the public entities involved in housing provision form the second pivotal policy instrument used by the national state to shape the institutional structures of the property market.[981] Social science scholarship frequently

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[980] Whitehead, C. (2014). Le secteur locatif privé en Europe: Des trajectoires différentes, des tensions similaires? *Revue d'économie financière*. *3*(115), 149-164, p. 151

[981] By public entities, I refer to the collective state agents involved in the design and implementation of public policy (Ménard, 2014). (Ménard, C. (2014). Embedding organizational arrangements: Towards a general model. *Journal of Institutional Economics, 10*(04), 567-589, p. 568)

emphasizes the instrumental role of collective state actors, argued to be "political to the core," in institution-building through their generation of rules and conventions, and distribution of resources in myriads of economic sectors, including property.[982] One illustration of this theoretical assumption is the way in which two state-sponsored organizations have been particularly influential in organizing urban sprawl in the United States in recent decades: the Federal National Mortgage Association (known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (known as Freddie Mac). In effect, these two credit entities have fundamentally shaped American urban political economy by facilitating access to homeownership through mortgage credit and connecting housing production to finance capital through the standardization of specific financing practices (e.g., secondary mortgage markets, credit scoring, and risk-based pricing).[983]

In Lebanon, various national and local state bodies intervene directly and indirectly in several dimensions of urban production including infrastructure planning, urban planning and construction. This section seeks to shed light on those dealing with housing production since they have experienced substantial mutations over the past quarter century, with the rise of the regulation-urbanization nexus. Their transformations have generally been brought about in the service of one objective: to bring to an end the state's direct involvement in home credit financing and housing provision, which existed, albeit to a limited extent, prior to 1990, and to reposition public authorities as intermediaries in the growth of private-led housing finance.[984] Three particular cases illustrate this policy shift: the privatization of the Housing Bank in 1994, the creation of the Public Corporation for Housing in 1996-1997, and the elimination of the Ministry of Housing and Cooperatives in 2000. By transforming the rules, resources and actors of housing provision, the (re)organization of these three public entities has reshaped the incentive and disincentive structures of the property market and thereby affected agent behaviours and professional practices in Beirut's urban development. As importantly, a detailed account of the

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[982] Leenders, 2012, p. 13; Schwartz, H., & Seabrooke, L. (2009b). Conclusion: residential capitalism and the international political economy. In H. M. Schwartz & L. Seabrooke (Eds). (2009). *The politics of housing booms and busts*. Basingstoke, UK; New York, NY: Palgrave Macmillan, p. 216; Shepsle, K. A. (1999). The political economy of state reform: Political to the core. *Brazilian Journal of Political Economy. 19*(3), 39–56, quoted in Leenders, 2012, p. 13

[983] Aalbers, M. B. (2012). Subprime cities and the twin crises. In Aalbers, M. B. (Ed.). *Subprime cities the political economy of mortgage markets* (1-22). Chichester, West Sussex, UK; Malden, MA: Wiley-Blackwell, p. 10; Schwartz & Seabrooke, 2009b

[984] The Lebanese government successively established two public credit institutions aimed at granting subsidized housing loans: the Housing Bank in 1977, and the Caisse Autonome de l'Habitat in 1980. In addition, as part of a reconstruction plan designed by the Council for Development and Reconstruction (CDR), a USD 650 million housing program and strategy, mostly based on housing finance, was passed into law in 1983 (Sadik, 1996, p. 111, 123). (Sadik, R. (1996). *Nation building and housing policy: A comparative analysis of urban housing development in Kuwait, Jordan, and Lebanon* (Unpublished doctoral dissertation). Department of City and Regional Planning. University of California at Berkeley, Berkeley)

decision-making processes that led to organizational change provides new evidence of the mechanisms of elite interest aggregation in Lebanese urban growth politics.

5.2.1 Rebuilding State Organizations After War: An Uneasy Challenge

It is first necessary to resituate the reorganization of housing-related state actors in the very specific political economy of post-war Lebanon where the leverage of the market over the state accelerated in the 1990s. As outlined in Chapter 1, the restricted scope of state authorities was a pragmatic as much as an ideological choice after years of war that damaged and disordered the public sector. On the one hand, the difficulty of establishing efficient bureaucratic structures in the context of the Taif-inherited political settlement helped to impose and justify views and practices that were hostile to the state.[985] On the other hand, the appointment of Rafiq Hariri as Prime Minister in 1992 intensified a post-independence market-led vision that limited state intervention in the economy.[986] In many ways, Hariri's neoliberal impetus allowed private actors to take over a series of state prerogatives, often through the development of public-private partnerships. More generally, the years of 'Harirism' significantly contributed to an idea within the Lebanese society that the private sector was more able than the state to solve policy problems.[987]

A number of works have examined the renewed trajectories, strategies and practices of the post-1990 Lebanese state in the realm of urban production. Lebanese and foreign scholars have particularly emphasized the increased delegation of tasks and powers to the private sector and the frequent manipulation of public bodies to secure and advance specific political and economic interests. The flagship of this transfer of public powers and prerogatives in city-building was the joint-stock company Solidere, for the management of Beirut's downtown redevelopment. But researchers have also investigated the dynamics of the Council of Development and Reconstruction (CDR), the Investment Development Authority of Lebanon (IDAL) and the Directorate General of Urbanism (DGU).[988] To complement these contributions, this study

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[985] Leenders, R. (2004). Nobody having too much to answer for laissez-faire, networks, and post-war reconstruction in Lebanon. In S. E. Heydemann (Ed.), *Networks of privilege in the Middle East: The politics of economic reform revisited*. (pp. 169-200). Basingstoke, UK; Hampshire, NH: Palgrave Macmillan, p. 188

[986] Baumann, H. (2012b) *Citizen Hariri and neoliberal politics in postwar Lebanon*. (Doctoral dissertation). SOAS, University of London. Retrieved from: http://eprints.soas.ac.uk/14240/1/Baumann_3400.pdf

[987] Mohammed Beydoun, personal communication, May 8, 2015

[988] Krijnen, M. (2010). *Facilitating real estate development in Beirut: A peculiar case of neoliberal public policy* (Unpublished Master's Thesis). Department of Urban Planning and Policy, American University of Beirut, Beirut; Krijnen & Fawaz, *op. cit*.; Hourani, N. (2010). Transnational pathways and politico-economic power: Globalisation and the Lebanese Civil War. *Geopolitics, 15*(2) 290-311, p. 297; Leenders, 2012

concentrates on another manifestation of state (re)positioning: that in the field of urban production. It does this by addressing the issue of housing provision, a pivotal component of the regulation-urbanization nexus and a critical component in the institutional design of the property market. It specifically investigates the trajectory of three current or previously public entities: the Housing Bank, the Public Corporation for Housing, and the Ministry of Housing and Cooperatives.

5.2.2 The Privatization of the Housing Bank: The Neutralization of a Public Credit Organization

The Housing Bank, despite its limited significance in the local system of housing finance, has quite an interesting history, and offers a clear example of the redirection of the post-war Lebanese state's attitude toward housing provision. This bank, specializing in home loans, was originally established as a public entity in the wake of the 1976 elections by President Elias Sarkis and Prime Minister Selim El-Hoss.[989] A few months after the outbreak of the civil war, their objective was to provide a social response to the increased tensions dividing the country. The creation of public banks in general was meant to "address social inequalities […] and weaken oligarchic control of the financial sector while not subverting its dominant position," as well as to channel funds to "historically under-funded productive sectors."[990] The Housing Bank in particular was created to provide long-term, LBP-denominated housing loans at lower interest rates. It had an original equity of USD 17 million. Given the reluctance of most private actors to inject significant amounts of money, the banks' ownership structure relied upon an equal partnership between the state (the Treasury) and the National Social Security Fund (NSSF).[991] A decade later, the currency devaluation of the late 1980s and early 1990s put the Housing Bank on the edge of bankruptcy, its loan portfolio being entirely enumerated in Lebanese pounds.[992] Simply put, borrowers progressively found themselves paying off home loans with a 'worthless currency.' The ownership of a few property assets, including its own office buildings in Beirut (Raouche) and Burj Hammoud (Dora), allowed the bank to avoid failure. But by the time the country emerged from war, its financial situation was very weak, and all the more so as the state

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[989] The Housing Bank and the Industry and Agriculture Bank were officially created by Decree 14 of January 13, 1977.
[990] Hourani, 2010, p. 297
[991] Senior housing expert, personal communication, April 15, 2015
[992] The Industry and Agriculture Bank went bankrupt with the Lebanese pound collapse in the second half of the 1980s.

was incapable of injecting fresh money into it and the NSSF was about to withdraw its share of the bank's capital.[993]

5.2.2.1 The privatization of the bank's ownership structure

In 1994, in line with the controversial reconstruction strategy outlined in Chapter 3, PM Rafiq Hariri decided to privatize and recapitalize the Housing Bank (Decree 5738/1994). The Association of Banks in Lebanon and a small number of influential Beirut-based bankers, all backed by the central bank's new administration, steered the privatization process.[994] The Housing Bank's Board of Directors rapidly came under the control of the largest Lebanese banks (Alpha banks), which acquired 80 percent of the capital, the state retaining the remaining 20 percent.[995] This was increased by new shareholders to about USD 33 million, a figure which, over two decades of fast-paced growth, had reached almost USD 68 million by 2016.

The strategy of recapitalization by privatization chosen for the bailout of the Housing Bank, nevertheless raises questions about the objectives of the state and the banking sector in the process. A majority of financial sector agents interviewed advanced two primary reasons for the privatization. First, the state faced a dire financial situation after years of military fighting and financial devaluation and could hardly inject the fresh money needed to revitalize the bank. Second, Rafiq Hariri's first government made no secret of its neoliberal agenda, the principles of which dictated minimization of the state's direct involvement in the economy by privatization of public entities and services. Budgetary and ideological explanations of this kind are certainly valid; however, a few other Beirut-based observers I met called on the specific political-economic context of 1990s Lebanon to lift the veil on two further motivations.

On the one hand, Rafiq Hariri's active support for the privatization of the Housing Bank could have entailed a more political aim. In the context of post-Taif Lebanese politics, he transformed this small public bank specialized in mortgage credit into the private financing arm of his reconstruction endeavours: the Council for Development and Reconstruction, his executive and planning arm at the time. Placing the Housing Bank under private control, a well-informed

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[993] Senior housing expert, personal communication, April 15, 2015

[994] Charbel Nahas, multiple personal communications, 2014-2016. This was the case of François Bassil from Byblos Bank and Farid Raphaël from Banque Libano-Française.

[995] Alpha banks refer to the top 14 Lebanese banks including BankMed, Bank Audi, Blombank, Byblos Bank, SGBL, BLC Bank, Bank of Beirut and Banque Libano-Française. The Lebanese state keeps two seats on the bank's new Board of Directors, one is granted to the Ministry of Finance, the other to the Ministry of Social Affairs.

interviewee notes, presented the advantage of isolating the firm from political struggles and deal-making with other troika members. Two public-private reconstruction megaprojects, which were later abandoned, presumably needed financial involvement from a resource-rich and politically independent Housing Bank: Elyssar (in Southern Beirut) and Linor (in Northern Beirut).[996] It is hard to deny that the 1990s financial environment facilitated Hariri's presumed use of the newly privatized Housing Bank for political purposes: major Lebanese banks, i.e., the company's majority shareholders, were making a fortune with the debt-driven financing strategy adopted by the government. As such, my informant, who asked to remain anonymous, suggests that the bankers were not in a position to refuse Hariri a little help in the organization and securing of his political interests in the reconstruction.

On the other hand, the commercial banks probably had their own agenda in taking over the Housing Bank. Even though it did not carry a lot of weight in the financial sector, the bank, according to Charbel Nahas, benefited from "exorbitant advantages" by accessing cheaper resources independent of high deposit rates.[997] Housing finance was nearly nonexistent in the 1990s and did not raise enthusiasm among bankers in Lebanon for reasons I will clarify later in this section; however, the major banks anticipated the expansion of mortgage-based schemes as a way of deploying novel vehicles of capitalization in the medium to long term. With this in mind, the local banks allegedly saw in the Hariri-led privatization of the Housing Bank an easy and low-cost opportunity to neutralize a competing public credit firm, whose objective was to provide affordable loans. They transformed it into "a cooperative between commercial banks" that modestly contributed to the short-term stability of the domestic financial sector.[998] The CEOs of major Lebanese banks who I interviewed refuted this interpretation, but a banker who had long sat on the Housing Bank's Board of Directors confirmed it.

5.2.2.2 The regulation-driven reorganization of the Housing Bank's activity

Over the years, the interests of the Housing Bank's private directors have materialized into a primary strategy for the firm: bank activities have increasingly protected the interests of its powerful shareholders and supported the growth of real estate demand and property asset prices.

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[996] Senior housing expert, personal communication, March 13, 2015

[997] Charbel Nahas, multiple personal communications, 2014-2016. As explained in Chapter 8, the Housing Bank does not collect deposits. Its resources are mostly long-term soft loans and Foreign Worker's Certificates of Deposit.

[998] Charbel Nahas, multiple personal communications, 2014-2016

Provision of affordable financing solutions to lower-middle-class resident homebuyers, which was the bank's initial purpose has progressively become an objective of secondary importance. One anecdote and two statistics illustrate. First, my sources confirm that on several occasions the board of directors prevented the issuance of more affordable loan schemes, which might have competed with the programs offered by commercial banks.[999] Second, statistics on the bank's activity speak for themselves: 53 percent of disbursed loans go to expatriates who acquire property in Lebanon. Moreover, in recent years the average monthly income of households accessing home loans has amounted to 8.4 times the minimum wage or USD 4,007.[1000] In sum, the privatization carried out by Rafiq Hariri's government in post-war years has turned this public credit entity into a 'business as usual' commercial bank that facilitates property investment for diaspora members and provides home loans primarily to upper-middle income families. In this way, without eliminating the Housing Bank, the Alpha banks have managed to neutralize it by taking over its capital and refocusing its activities on the expansion of homeownership and sustaining of real estate asset prices in the larger context of the regulation-urbanization nexus. As such, reconfiguration of the Housing Bank has contributed to institutional change in the property market.

5.2.3 The Public Corporation for Housing: A Key Intermediary in the Democratization of Mortgage Finance

If transformation of the Housing Bank was emblematic of the Lebanese state's strategic repositioning on issues of housing provision, establishment of the state-owned Public Corporation for Housing in 1997 was its most concrete and meaningful vehicle. The public entity has assumed a pivotal role in the development and standardization of the domestic system of private-led housing finance and in expansion of the middle-income property market. It has become a critical intermediary between borrowers and lenders: it has managed to attract first-time homebuyers and, thanks to incentive structures created in partnership with the central bank and the Ministry of Finance, to bring the banking sector back into mortgage financing. All things considered, this state-run entity has assumed a mission comparable to that of Fannie Mae and

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[999] Similarly, various informants such economist Abdallah Attieh (personal communication, April 17, 2015) explain how, as a result of presumed pressures from existing banks and political-economic interests, projects involving the establishment of mutual banks and microfinance entities never received authorizations from the Banque du Liban.
[1000] Senior housing expert, personal communication, April 15, 2015

Freddie Mac by propelling mortgage-based homeownership to the center of post-war Lebanon's political economy of urbanization.

5.2.3.1 A new form of public-private partnership to guarantee and subsidize loans

The Public Corporation for Housing replaced the Caisse Autonome de l'Habitat (CAH), which had been established by Law 6/80 in July 1980. The CAH had offered Treasury-financed LBP-denominated home loans; however, as with the Housing Bank, the 1980s and early 1990s currency collapse, and the dearth of public liquidity, had made continued operation very difficult as the reconstruction years wore on.[1001] The liquidity issue and the dominance of neoliberal views within Hariri circles were primary reasons for the government's decision to shift its strategy from direct lending of subsidized home loans to facilitation of a privately led system that took the form of a public-private partnership with the banking sector.

The PCH was formally created in 1997 in the wake of July 24, 1996 Law 539. Its mission was clear: secure and subsidize LBP-denominated mortgage loans issued by local commercial banks. But the banking sector was reluctant to commit to medium to long term housing loans in local currency as USD-denominated deposits dominated their liabilities.[1002] Just a few years after pegging currency to the US dollar, monetary stability remained fragile and the painful experience of the Housing Bank and the Caisse Autonome de l'Habitat was still fresh in the minds of bankers. At the same time, issuance of loans in Lebanese pounds was the only option since most wages, especially in the public sector, were paid in local currency. The dilemma of providing affordable loans in LBP while at the same time protecting risk-averse local banks explains the two year period of intense negotiations necessary between state agents and the banking sector to finalize a sustainable and attractive scheme. The first PCH-sponsored loan was disbursed on September 14, 1999.

5.2.3.2 Hardball public-private negotiations to get banks on board

The hard bargaining principally involved the PCH, the Ministry of Finance, the central bank and the CEOs of Lebanon's major commercial banks. The same players from the banking industry who pushed for the privatization of the Housing Bank were also involved in the genesis

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[1001] Antoine Chamoun, personal communication, September 30, 2014
[1002] Antoine Chamoun, personal communication, May 12, 2015

of the PCH.[1003] But in the context of ever-growing public debt and dysfunctional public governance, they were initially reluctant to partner with the state. Other actors were the Association of Banks and Nabih Berri, Parliamentary Speaker, who played an important role by facilitating meetings with various parliamentary committees.[1004] One agent who assumed a key middleman role was Antoine Chamoun, who, as discussed, later helped to facilitate the 2014 reform of rent control. As a senior executive in the Ministry of Housing, he was a skilled consensus builder among the various stakeholders. At the end of negotiations, he was a good candidate for the chairmanship of the PCH and took up the role for several years before entering the banking sector and helping to steer the series of housing-related legislative reforms discussed here. In hindsight, it seems fair to argue that Chamoun was one of the most instrumental players in the expansion of private-led housing finance.

The BdL-designed incentive structure

The most challenging part of the negotiations was reaching an agreement between the state and the banking industry to distribute obligations and benefits. The public-private protocol in other words, needed to include a sufficiently attractive form of financial engineering, and adequate guarantees, to convince the retail banks to accept the risks of the housing loan scheme.[1005] The turning point was apparently the state's proposal to provide cheap LBP-denominated financial resources to the banks through a targeted lift of their required long-term central bank reserves. The Banque du Liban offered banks collaborating with the PCH the possibility of taking 60 percent of the loan values from their own cost-free compulsory reserves.[1006] Additionally, the financial authority also allowed commercial banks to place a portion of their reserves, equivalent to the value of the remaining 40 percent of their PCH-sponsored loan portfolios, in well-remunerated government bonds.[1007] This BdL-led monetary incentive, created under the auspices of Governor Riad Salameh, was an innovative way of responding to the scarcity of public liquidity and of overcoming the banking sector's reluctance to become involved in mortgage financing. Further, a new law (543/1996) exonerating banks from a series of taxes on housing loans, on the one hand, and soft loans provided to six local

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[1003] Charbel Nahas, multiple personal communications, 2014-2016
[1004] Antoine Chamoun, personal communication, May 12, 2015
[1005] Senior housing expert, personal communication, March 17, 2015
[1006] Antoine Chamoun, personal communication, September 30, 2014; Charbel Nahas, multiple personal communications, 2014-2016
[1007] Taffin, C., Roy, F., Gonnet, L., & Nahas, C. (2010). *Real estate market activity and exposure of the financial sector in Lebanon*. Washington, DC: World Bank, Social and Economic Development Group, Middle East and North Africa Region, p. 22

banks by the International Finance Corporation, on the other, were also added to the package to encourage banking institutions to provide subsidized housing loans in local currency.[1008]

Limited lending duration and high spreads for commercial banks

The protocol connecting state actors and the banking sector contained a two-phase loan scheme, which extended lending duration to 30 years and limited the banks' exposure to the risk of an asset-liability mismatch. The scheme, explained in greater detail in Chapter 8, is the following: phase one (15 years) has the PCH paying the interest with borrowers refunding the capital to commercial banks. The banks are out of the scheme after phase one in order to limit their financial risk. Phase two (15 years) then has borrowers repaying the interest to the PCH.

The state also agreed to cover a portion of the substantial spread between the low-cost financial resources and the relatively high lending interest rates. High profitability was indeed a condition of the banking sector's acceptance of the lending program's risk. The Ministry of Finance therefore committed to filling the gap between the interest charged by commercial banks to the PCH in phase one (about five percent) and that paid by borrowers to the PCH in phase two (about 4.5 percent). It did so by transferring a portion of the construction and building permit fees to the PCH.[1009] Concretely, this arrangement meant that the Lebanese taxpayer covered a part of the banks' profit from the housing loans. The banking sector's doubts about the Lebanese state's capacity to honour its various responsibilities was one of the reasons for which the 1997 negotiations were so difficult, and resulted in substantial incentives to commercial banks' inclusion. Interestingly, those doubts came to fruition in 2014 when accumulated delays in interest payments led to a crisis of confidence between the banking sector and the PCH (see Box 5.1 below).

[1008] Fawaz, M. (2003). *Access to housing by the poor: Comparative analysis of housing performance and policy in selected MENA region countries. Lebanon report assessment of housing sector*. Washington, DC: World Bank, p. 29

[1009] The 10 percent down payment paid by borrowers, and the interest paid by PCH borrowers in phase two, are the other financial resources expected to cover PCH interest payments to commercial banks in phase one.

Box 5.1 – The 2014 crisis between the PCH and the banking sector

By 2014, the PCH had an outstanding balance of interest payments of about USD 60 million, which led a number of retail banks to threaten to back out of the public-private protocol.[1010] The PCH's cash flow problem had its origin in three situations: the overheating of sponsored credit supply; the failure, since 2011, of the Ministry of Finance to transfer construction and building permit fees to the PCH (amounting to about USD 109.4 million in 2014); and a delay in payment of interest by borrowers to the public entity (the first lending contracts signed in the late 1990s and early 2000s only reached phase two in 2014, so no payments by that date had been made).[1011] Successive state payments in 2014 and 2015 finally allowed the PCH to pay its debt to banks and solve the crisis. This episode indicates how fragile public-private partnerships can be in the context of a protracted dearth of public liquidity and the generally dysfunctional governance of state actors, even when their terms are highly favourable to the private sector.

In spite of these recent tensions, creation of the Public Corporation for Housing remains the most important practical component of the Lebanese state's post-war strategy for housing production. By democratizing private-led housing finance, the public entity has become a pivotal actor in the expansion of homeownership, and has, in the end, played an essential role in the design of the rules, resources and agents of the property market.

5.2.4 Elimination of the Ministry of Housing and Cooperatives: The End of Housing-Centered Policy Interventions

In 2000, a final and highly symbolic step was taken in the reorganization of state entities responsible for housing: elimination of the Ministry of Housing and Cooperatives (MoHC). The MoHC was established through Law 9, on January 31, 1971. It replaced the Council for Housing, created by decree in 1962 to provide housing solutions for low-income groups.[1012] The Ministry, according to former Minister Mohammed Beydoun, had acquired two official directives over the

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[1010] The PCH pays about USD 11,3 million per month to issuing banks (Schellen, 2015a). (Schellen, T. (2015a, June). A place all their own. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/a-place-all-their-own)
[1011] Hage Boutros, P. (2015b, August 11). L'EPH garantit près de la moitié des achats de résidences principales. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/938597/leph-garantit-pres-de-la-moitie-des-achats-de-residences-principales.html; Schellen, 2015a; Taffin et al., *op. cit.*, p. 22
[1012] Verdeil, 2010

years: assembly of financial resources for the Housing Bank and the Caisse Autonome de l'Habitat, on the one hand, and construction of public housing projects, on the other.[1013] The MoHC was for years the only public entity officially involved on both the supply and demand sides of the property market.

Nevertheless, as the war ended, the Ministry struggled with meagre resources to develop housing credit and launch public housing projects.[1014] Fulfilling its twofold mission throughout the 1990s became increasingly difficult in the broader context of intensification of the state's pro-market orientation, the emergence of new state agents managing post-war recovery, and the rapid disappearance of housing issues from the public policy agenda. First, the MoHC lost control of the newly privatized Housing Bank, and access to the Caisse Autonome de l'Habitat. The latter was eliminated with the creation of the Public Corporation for Housing, which fell under the auspices of the Ministry of Social Affairs. Second, it was further weakened by establishment of the powerful and resource-rich Ministry of the Displaced in 1993.[1015] Between 1994 and 2005, that Ministry transferred a total of USD 1.2 billion into a controversial Central Fund for the Displaced, which paid a one-time compensation to thousands of war-displaced families, in order to help them buy a home in Greater Beirut or rebuild their home in their region of origin.[1016] Third, the construction of low-cost public housing, already an uncommon practice in Lebanon, vanished completely from the state's policy agenda and its toolkit. The only major attempt in the post-war period was the Elyssar project in Beirut's southern suburbs, which entailed the creation of an *ad hoc* public agency, out of the hands of the MoHC, in 1995.[1017] This attempt failed. This is why economist Charbel Nahas has admitted that the Ministry of Housing "did not do anything anymore; it had been a dead entity for a long time" when Rafiq Hariri returned to Prime Ministership in 2000.[1018]

[1013] Mohammed Beydoun, personal communication, May 8, 2015
[1014] Sadik, *op. cit.*, p. 147
[1015] Mohammed Beydoun, personal communication, May 8, 2015
[1016] Leenders, 2012, p. 64. This controversial fund was suspected of serving the clientelist interests of leaders and warlords from most major parties and communities.
[1017] Elyssar was a project for a 560-hectare section of Beirut's southern suburbs, home of an estimated 80,000 inhabitants (mostly displaced Shia communities), which would have provided 7,000-10,000 affordable housing units (Clerc-Huybrechts, 2008; Harb, 1996; Nohra, 2010). Interestingly, it involved on-site upgrading, "freeing the beaches for high-end developments" (Fawaz & Peillen, 2002). The project, nonetheless, never saw the light of day due to a political deadlock between the Hariri-controlled state and the two locally powerful political parties, Amal and Hezbollah. (Harb, 2001). (Clerc-Huybrechts, V. (2008). *Les quartiers irréguliers de Beyrouth*. Beirut, Lebanon: Presses de l'Ifpo; Fawaz, M., & Peillen, I. (2002). *Urban slums reports: The case of Beirut, Lebanon. Understanding slums: Case studies for the 2003 Global Report on Human Settlements*. London, UK: Eartscan; Harb, M. (1996). *Politiques urbaines dans la banlieue sud de Beyrouth*. Beirut, Lebanon: Presses de l'Ifpo; Harb M., (2001). Urban governance in post-war Beirut: Resources, negotiations, and contestations in the Elyssar project. In S., Shami (Ed.). *Capital cities: Ethnographies of urban governance in the Middle East (*111-133). Toronto, ON: Toronto University Press; Nohra, N. (2010, May). Development disorder. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/development-disorder)
[1018] Charbel Nahas, multiple personal communications, 2014-2016 (Translation by the author)

In the wake of the privatization of the Housing Bank and the establishment of the Public Corporation for Housing, the elimination of the Ministry of Housing and Cooperatives was the final step in the reorganization of state entities involved in housing provision. Over the last quarter century, the Lebanese state has withdrawn from direct involvement in home credit financing and housing production, and become, instead, a key intermediary in the expansion of private-led housing finance. In the process, the transformation of the nature, missions and tools of state actors dealing with housing issues has proven to be a policy instrument that has been critical to the shaping of institutional arrangements in the property market. The decision-making processes detailed in this section are also particularly illustrative of the mechanisms of interest aggregation that facilitate the mutually beneficial cooperation among and between public and private agents involved in the management of urban growth politics.

5.3 The Banque du Liban's Monetary and Regulatory Action

Alongside legislative production and the reorientation of housing-related state organizations, the third and perhaps most crucial state instrument used in the institutional shaping of the property market and creation of the regulation-urbanization nexus has been the policy of the Banque du Liban. As explained in Chapter 3, the BdL has been the gatekeeper of post-war Lebanese capitalism. When it comes to property, the central bank remains an extremely strategic and powerful agent. It carefully governs the resources, rules and conventions of the market with a variety of monetary and regulatory levers that guide the formation of real estate supply and demand. In doing so, the public financial authority has acquired considerable influence over the profile and practices of financiers, builders and buyers and, more broadly, over the city development process. Yet, to my knowledge, no in-depth research has been conducted to uncover the tools by which the central bank actually carries this out. In the Beirut-focused literature, in other words, the use of property activity to secure regime stability, and the financialization of property that this has entailed, has until recently been under-researched. Interestingly, these regulation-related dimensions are also generally absent from analyses of the high-profile actors from the central bank and the banking sector interviewed for this study.[1019] Most took the line of the BdL, that its facilitation of homeownership was meant to foster social inclusion. The reality, however, looks quite different.

[1019] Senior official of Banque du Liban #1, November 28, 2015; Banker #2, personal communication, November 24, 2015

The central bank introduced residential real estate into its policy agenda in the late 1990s and early 2000s to organize and control the involvement of the banking sector in property financing. Over the years, the BdL seems to have designed its multipronged interventions in the property market to meet two major regulation objectives. The first is invigoration of property activity in order to sustain land and real estate asset values and expand private debt. In periods of economic stagnation, the central bank has also supported real estate demand specifically to bolster GDP growth. The second objective is reduction of the risk of a property bubble and credit crisis and introduction of rules and tools capable of mitigating their potential adverse consequences. The arduous policy balance attempted by the Banque du Liban over the past two decades, in other words, has been the maximization of construction and real estate activity, and of the exchange value of property assets, without precipitating a crash.

To better understand the mechanisms by which the BdL has attempted to achieve this, I investigate the details of four of its monetary and regulatory tools below (see Table 5.1 below for an overview). I first review the successive expansionary monetary measures that have allowed the rapid growth of housing finance. I then look into three types of regulatory intervention: the modernization of financial regulations to intensify (dis)intermediation businesses, the tightening of macro-prudential rules to better supervise private lending activity, and the creation debt-restructuring schemes to bail out distressed property firms. In contrast to the two policy instruments previously documented, I was not able to collect first-hand information about the decision-making processes that led to the elaboration and implementation of monetary and regulatory interventions. As explained in Chapter 3, deliberations remain very opaque at the central bank and inquiring into the dynamics of interest aggregation within the organization is always a difficult task. The unlimited trust most political and financial agents place in the central bank's policy choices seems, however, to underline its outstanding capacity to build consensus and cooperation in elite circles.

Policies	Period	BDL Circulars and Decisions / Laws	Type of intervention	Context	Regulation objectives	Implications for the property market
1. Expansionary monetary measures	1998 2009 2010s	Multiple BdL Circulars including 185/2009, 313/2013, 383/2015; Multiple Intermediate Decision including 8781/2004	Monetary	Excess liquidity and property supply. Slow growth. Risk of a drop in property asset values.	Develop housing finance to support property demand and prices, recycle surplus liquidity, limit financial risk, and sustain GDP growth.	Sustained real estate demand. Expansion of a middle-income market. Inflated property asset values.
2. Modernization of financial regulationss	1996 2000 2005 2006	Laws 520/1996, 234/2000, 705/2005; Multiple BdL Circulars including 29/1996 and 204/2009; Multiple BdL Basic Decisions including 6213/1996 and 7551/2000	Regulatory	Legal vacuum for (dis)intermediation tools. Limited development of financial markets. Significance of sovereign risk.	Diversify financial placement opportunities to invigorate money supply and decrease sovereign risk.	Influx of finance capital. Emergence of large private equity-backed development firms. High-value and high-density property projects.
3. Tightening of macro-prudential rules for private lending activity	2000s and 2010s	1963 Code Of Money and Credit; BdL Circulars 78/2000; 81/2001, 177/2008 376/2014, 383/2014, 369/2014	Regulatory	Rapid private credit growth. Increased domestic and regional risk.	Contain Lebanese banks' exposure to real estate risk. Support the value of property-based collaterals to limit financial risk.	Sustained property prices. Limitation of speculative real estate supply and demand.
4. Creation of debt-restructuring schemes for property firms	2015 2016	BdL Circular 135/2015 BdL Circular 427/2016	Regulatory	Financial, economic and property stagnation. Increased number of NPLs extended to development firms.	Mitigate the risk of a credit-induced financial crisis. Sustain property values and stimulate GDP growth.	Bailout of development firms and protection of the banking sector. Sustained property prices. Attraction of new small-size equity investors.

Table 5.1 – The Banque du Liban's interventions in the property market: regulation objectives and institutional implications (Source: Author)

5.3.1 Expansionary Monetary Interventions and Housing Finance

Expansionary monetary interventions have been used as a major tool by the central bank for the shaping of institutional arrangements of the property market. Scholarship in the fields of finance and real estate has long underlined the implications of monetary policy for property activity: in many countries worldwide, it has significantly shaped real estate demand and asset price levels.[1020] Economists particularly highlight how likely it is that expansionary monetary policies injecting fresh liquidity into domestic financial systems will cause real estate transactions and housing prices to surge.[1021] Nevertheless, such proactive interventions have long been seen as unconventional in orthodox financial circles: public financial authorities have preferred to adjust interest rates to stimulate the economy and asset prices, on the one hand, or to mitigate property booms and avoid crashes, on the other.[1022] This is the case of most MENA countries where interest rate subsidies have generally been "a principal feature of housing finance policies."[1023]

Over the past twenty years, under the leadership of Governor Riad Salameh, the Central Bank of Lebanon has frequently opted for unorthodox policy-making. In the context of the regulation-urbanization nexus, expansionary monetary policies have been used to structure and accelerate the deployment of housing finance. In effect, allowing banks access to cheaper financial resources has proven to be crucial to development of the supply of mortgage loans and, therefore, sustaining of domestic real estate demand and asset prices. As briefly explained in Chapter 3, the BdL has engineered two successive incentive structures to provide the banking system with low-cost liquidity, mostly in Lebanese pounds: the partial lift of reserve

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[1020] Agnello, L., & Schuknecht, L. (2009). *Booms and busts in housing markets: Determinants and implications*. (ECB Working Paper, No. 1071). Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.165.3616&rep=rep1&type=pdf (p. 8); Boivin, J., Kiley, T., & Mishkin, F. S. (2010). The evolution of the monetary transmission mechanism? (NBER Working Paper, No. 15879) cited in Dokko, J., Doyle, B. M., Kiley, M. T., Kim, J., Sherlund, S., Sim, J., & Van Den Heuvel, S. (2011). Monetary policy and the global housing bubble. *Economic Policy*, *26*(66), 237-287; Crowe, C., Dell'Ariccia, G., Igan, D., & Rabanal, P. (2011). *How to deal with real estate booms: Lessons from country experience* (International Monetary Fund, Working Paper, No. 11/91). Retrieved from https://econpapers.repec.org/article/eeefinsta/v_3a9_3ay_3a2013_3ai_3a3_3ap_3a300-319.htm (p. 11); Iacoviello, M., & Minetti, R. (2003). Financial liberalization and the sensitivity of house prices to monetary policy: Theory and evidence. *The Manchester School*, *71*(1), 20-34, p. 20; Rutland, T. (2010). The financialization of urban redevelopment. *Geography Compass*, *4*(8), 1167-1178, p. 1171

[1021] Many central banks, including the US Federal Reserve and the European Central Bank, resorted to expansionary monetary policies in the aftermath of the 2008 financial crisis (Belke, Orth & Setzer, 2008, p.8). (Belke A., Orth, W., & Setzer, R. (2008). *Global liquidity and house prices: A VAR analysis for OECD countries*. Paper presented at 21st Australasian Finance and Banking Conference. Sydney, Australia. December 16-18. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1096525)

[1022] Adalid R., & Detken, C. (2007). *Liquidity shocks and asset price boom/bust cycles*. (ECB Working Paper, No 732.). Retrieved from www.ecb.europa.eu/pub/pdf/scpwps/ecbwp732.pdf?2e7b6604588092af31c0c2f562edbedb (p. 10); Crowe et al., *op. cit.*, p. 2; Senior official of Banque du Liban #1, personal communication, November 28, 2015

[1023] Interest rate subsidies in a number of MENA countries are mostly "tax benefits from deductible interest (e.g., in Morocco) and tax exemptions on savings for housing finance (e.g., in Tunisia)" (Baharoglu et al., 2005, p. 20). (Baharoglu, D., Peltier, N., De Brular, L., & Bubley, R. (2005). *The Macroeconomic and sectoral performance of housing supply policies in selected MENA countries: A comparative analysis*. Washington DC: World Bank) requirements, and the issuance of soft loans (stimulus packages). The Banque du Liban has therefore spared no expense: from the late 1990s to 2014, it provided the equivalent of eight billion US dollars of subsidized liquidity to local commercial banks, which granted a total of 98,000 housing loans, including 66,000 through the intermediation of the Public Corporation for Housing.[1024]

5.3.1.1 The partial lift of reserve requirements in the 1990s and 2000s

The first form of monetary engineering used to subsidize the mortgage market was, as mentioned, provision of targeted exemptions to requirements for commercial banks' reserves at the Banque du Liban. This lever had long been ignored in Lebanon, the financial regulator preferring orthodox monetary policies in times of monetary, financial and political instability. However, central bankers rapidly realized in the post-war years that the obligation to amass liquidity reserves to secure the currency peg opened the door to unorthodox policy options. The unusually high level of reserves required on deposits has specifically allowed the BdL to use partial exemptions to encourage the banking sector to provide loans at a lower cost to targeted economic sectors.[1025] The real estate and construction sectors have indisputably been the primary beneficiaries of this incentive: "62 percent of all loans benefiting from reserve requirements exemptions" were home loans in recent years.[1026] This kind of monetary intervention was first initiated in the late 1990s to facilitate the launching of lending programs sponsored by the Public Corporation for Housing during a phase of weak financial and economic performance. It was later extended to all housing loan schemes in the late 2000s during a phase of very rapid financial and economic growth.

[1024] Wael Hamdan is quoted in El-Khoury (2014a). (El Khoury, B. (2014a, January). La BDL a subventionné 98 000 crédits logements pour 8 milliards de dollars. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/node/23009)

[1025] International Monetary Fund (2015), *Background notes for the 2015 Article IV Consultation*. Washington, DC: IMF Country Report No. 15/190. Retrieved from www.imf.org/external/pubs/ft/scr/2015/cr15190.pdf (p. 75); World Bank (2016). *Lebanon economic monitor - The big swap: Dollars for trus*t. Washington, DC: Middle East and North Africa Region, p. 34. Unlike most central banks that collect about 2.5 percent of bank deposits, the BdL decided in the 1990s to collect reserves equivalent to 25 percent of deposits enumerated in local currency and 15 percent of those enumerated in foreign currency.

[1026] The IMF (2015, p. 77) also suggests that "about 60 percent of outstanding housing loans currently benefit from reserve requirement exemptions."

A circumscribed lift of compulsory reserves for the setup of the PCH in 1997-1999

The central bank resorted to the partial lift of compulsory reserves for the first time in 1997-1999 in order to facilitate the public-private partnership of the banking sector and the Public Corporation for Housing and the Ministry of Finance. As explained earlier, this incentive was key to convincing commercial banks to enter the deal and, more generally, to regaining a foothold in a mortgage market they had abandoned since the end of the civil war.

In an analysis of the regulation motivations behind this first property-related monetary intervention, its timing is very telling: it occurred during the financial, economic and property stagnation of the second half of the 1990s. The balance of payments navigated between slight deficit and surplus, the exposure of local banks to public debt increased, and GDP growth was weak. Under these circumstances, it seems fair to hypothesize that the central bank had two short-term policy objectives. First, it intended to support real estate demand to stimulate property growth and sustain real estate asset values, with the ultimate objective of boosting GDP growth. Indeed, stimulating demand was key to avoiding the accumulation of unsold properties that mechanically immobilized investors' liquidity and led to a compression of property values. Second, the BdL aimed to encourage the banking sector to use the Lebanese pound as a lending vehicle for the private sector, to reduce its dependence on sovereign securities in asset portfolios in a time of growing uncertainty.

An extended lift of compulsory reserves to expand housing finance in 2009

In 2009, the central bank took recourse to the targeted lift of reserve requirements for a second time (Intermediate Circular 185). Specifically, it extended subsidized financing to *all* mortgages in Lebanese pounds and US dollars issued by *all* banks out of PCH-sponsored programs.[1027] This package was clearly intended to finance a larger segment of homebuyers and a larger category of homes — including large high-end properties.[1028] The financial regulator did not initially impose any ceiling on buyers' income or loan amounts, loosened terms and lending interest rates, and included no restrictions on primary residences and on house sizes.

[1027] Exemptions to reserve requirements amounted to 60 percent of the loan value if disbursed in LBP and 30 percent if issued in USD. This extension to reserves in USD results from the fact that exemptions in LBP-denominated reserves could not go much over 60 percent, as a significant portion must be preserved for macro-prudential reasons. Moreover, exemptions in USD-denominated reserves could not go much over 30 percent given the role of reserves in foreign currency in preserving monetary stability.

[1028] Abdallah Attieh, personal communication, April 27, 2015; Nasser, N. (2009, November). Low, low rates on lira. *Lebanon Opportunities*. 42-48; Yammine, S. (2008, September). The meaning of zero. *Lebanon Opportunities*. 51-54

Again, when the trajectory of housing finance is linked to regime regulation, the timing of this second property market intervention illuminates the BdL's actual policy objectives. It is worth stressing that the context in the late 2000s, a product of the fast-paced financialization of the country's growth regime throughout the 2000s, was very different from that of the launch of the first reserve exemptions in the late 1990s. This second intervention took place as the balance of payments recorded unprecedented surpluses, GDP reached a two-digit performance, and the property sector experienced its largest boom of the post-war period. As such, I suggest that the central bank had at least three regulation objectives. First, the financial sector was experiencing tremendous levels of capital inflow (e.g., USD 24 billion for the single year of 2009) and was in crucial need of new profitable outlets for the massive surplus of liquidity.[1029] Second, the year 2009 was a turning point in the second property boom with a drop in the number of issued building permits (see Chart 6.7, p. 348) reflecting investors' and builders' cautious expectations of price appreciation and property activity. It seems that this first sign of property slowdown, after years of intensive construction and real estate growth in Municipal Beirut, encouraged the central bank to extend subsidized housing finance to a much wider range of buyers, including the high-end segment, as a way forward to sustain demand and avoid any drop in property asset prices. "We decided to intervene to make sure that property prices do not peter out [...] as deflation risk is even more dangerous than [that of] inflation," confirms a senior source from the BdL. Just as interestingly, this second stimulus of real estate demand was correlated with a debate that emerged at the time between the Banque du Liban and International Financial Institutions about the risks that would accompany the burst of a property bubble in the Lebanese capital (see details in Chapter 6). Third, private debt experienced rapid growth throughout the 2000s with the specificity of having property assets as sole collaterals. In this light, securing collateral values by sustaining property asset values was probably another motivation for the financial regulator.

5.3.1.2 The issuance of soft loans through stimulus packages in the 2010s

Granting soft loans to commercial banks, as part of successive stimulus packages, is the second form of monetary engineering used by the Banque du Liban to subsidize the mortgage

[1029] Kallas, V. (2009, September). Banks have a cash flow problem: Excess liquidity. *Lebanon Opportunities*. 47-53; Banker #1, personal communication, November 25, 2015 market, among other economic sectors, for regulation purposes.[1030] Soft loans were meant to complement the targeted lift of mandatory reserves given that local banks had rapidly reached their maximum usage by the early 2010s.[1031] They refer to a costless credit mechanism, subject to inflation if not carefully balanced, which works as follows: the monetary authority lends newly issued money at a minimal rate of one percent to commercial banks that, in turn, relend this money to homebuyers at a capped final rate of maximum six percent.[1032] Statistics provided by the Banque du Liban show that, between December 2012 and July 2015, housing loans amounted to USD 3.1 billion for a total of 23,449 beneficiaries (with an average loan of USD 133,000), including a substantial portion of subsidized funds earmarked from the BdL-run stimulus packages that totalled an equivalent of USD 1.45 billion in 2013, USD 928 million in 2014, USD one billion in 2015, and another USD one billion in 2016.[1033]

A look at the financial and economic contexts within which this monetary intervention was implemented again reveals the way in which the property sector was leveraged for regulation purposes. Since the early 2010s, Lebanon has recorded weak financial and economic performances with the persistence of a negative BOP, slow GDP growth, and a depressed property market, with a glutted supply and limited demand. In many respects, the situation is comparable to the context of the first BdL monetary intervention of the late 1990s. A key difference, however, is the fact that the property market is now even more central to the banking sector's stability, given the significance of property-related lending portfolios and the use of property assets as collateral to secure the enormous growth of private debt. This is why I suggest that the supply of fresh liquidity, independent of bank deposits, was intended primarily to buttress domestic real estate demand and property asset values, in turn to stimulate GDP growth and preserve financial stability.[1034] All of the analysts interviewed confirmed that the stimulus money has proven to be vital: while the upmarket segment experienced a sharp drop in demand, it

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[1030] Fully 50 to 60 percent of the credit facilities were dedicated to home loans in the successive packages issued throughout the 2010s.
[1031] Chami, H. (2013, February). Central Bank extends low-cost lending. *Lebanon Opportunities*. 56-57; Senior official of Banque du Liban #1, personal communication, November 28, 2015
[1032] This surprisingly elevated cap aroused controversy with a number of analysts criticizing the BdL for giving priority to the banking sector's profit rather than to the affordability of home loan schemes. Instead, commercial banks would make significant profit on those subsidized home loans by accessing cheap resources (i.e., one percent interest) from the central bank while offering loan schemes that rarely charged interest below three-four percent.
[1033] Hage-Boutros, P. (2015a, January 8). Le troisième plan de relance de la BDL alloue 600 millions de dollars à l'immobilier. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/904524/le-troisieme-plan-de-relance-de-la-bdl-alloue-600-millions-de-dollars-a-limmobilier.html; Senior official of Banque du Liban #1, personal communication, November 28, 2015
[1034] Put another way, unlike the situation of the 2000s, the challenge of recycling surplus liquidity has become less prevalent for the financial regulator.

reinvigorated the middle-income segment of the property market with local buyers.[1035] Quite logically, the stimulus packages have also helped to diversify the features of real estate supply with their increased provision of middle-market properties to match local demand (see Chapter 6).

The partial lift of reserve requirements and the issuance of soft loans by the central bank have been instrumental in structuring and accelerating the deployment of private-led housing finance in post-war Lebanon. In many ways, this provision of low-cost financial resources to commercial banks has decisively shaped the property market by channelling more money into real estate, making homeownership accessible to a wider range of households, and allowing buyers to afford higher purchase prices.[1036] Simply put, expansionary monetary interventions have sustained real estate demand and asset prices and influenced, accordingly, the number, location and features of construction projects developed by city builders.

5.3.2 Modernized financial regulations to intensify (dis)intermediation business

The Banque du Liban, sometimes in partnership with the Ministry of Finance, has also employed at least three kinds of regulatory intervention to directly and indirectly shape the institutional structures of the property market.

The first was the modernization of financial regulations and had two major aims. Lebanese financial authorities have sought to consolidate the position of Beirut as a key regional center of banking intermediation. Second, they have developed financial disintermediation activity, i.e., the trade of registered and unregistered securities on financial markets. The expansion of disintermediation, a request regularly made by IFIs and international sponsors, has been motivated by its anticipated twofold contribution to regime regulation. The growth of securities markets is expected to augment the country's financial attractiveness and stimulate BOP surplus by creating new placement opportunities, alternative to traditional outlets whose profitability decreased in the aftermath of Paris II. Second, disintermediation is meant to diversify the financial sector's structure by reducing its overwhelming banking orientation and exposure to sovereign risk. This is the reason why Lebanese authorities in the post-war era have forwarded a

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[1035] World Bank (2015). *Lebanon economic monitor - The great capture*. Washington, DC: Global Practice for Macroeconomics & Fiscal Management, Middle East and North Africa Region, p. 19

[1036] Schwartz, H., & Seabrooke, L. (2009a). Varieties of residential capitalism in the international political economy: Old welfare states and the new politics of housing. In H. M. Schwartz, & L. Seabrooke (Eds). (2009). *The politics of housing booms and busts* (pp. 1-27). Basingstoke, UK; New York, NY: Palgrave Macmillan, p. 24

series of new financial laws and regulations meant to clarify, standardize and ease the business of non-commercial banks and other finance capital investment firms. Although these have not purposively targeted real estate and construction, I suggest they have indirectly contributed to the institutional arrangements of the property market. In particular, a number of BdL circulars and financial laws have facilitated the arrival of large rent-seeking capital holders into the market, as well as of new brokers who have introduced financial mechanisms that have helped to direct more capital resources into property development activity.

5.3.2.1 The increased formalization of (dis)intermediation activity

The modernization of the financial regulatory framework was primarily aimed at formalizing and supervising financial firms doing intermediation and disintermediation and their business practices. In the 2000s, Law 234/2000 and a series of BdL Basic Decisions first increased the supervision of financial firms offering disintermediation services.[1037] As with any financial company in Lebanon, these banking and non-banking agents (e.g., insurance firms, private equity firms, investment banks) are registered with and carefully overseen by the central bank.[1038] Unlike commercial banking organizations, they are not allowed to receive deposits or lend money; rather, they carry out asset management and act as brokers in the buying and selling of securities (e.g., bonds, stocks, private equity) locally and internationally.[1039] Capital investment firms are precisely intended to trade listed securities on local and international financial markets, in other words, as well as to set up private equity schemes selling unregistered securities.

In parallel, a number of regulatory initiatives have standardized financial engineering instruments used by financial firms doing intermediation and disintermediation business. Two of them are of specific interest to our property-focused study: fiduciary and securitization schemes. Law 520/1996 as well as BdL Circulars 29/1996 and 204/2009 have legislated fiduciary operations. Fiduciary schemes, also called trusts in Anglo-American countries, are very common in global finance: they allow capital holders to remain anonymous and undertake secretive financial manoeuvres. Technically speaking, large capitalists entrust a financial organization,

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[1037] Law 745/2006 subsequently lifted the quota of Lebanese shareholders imposed on listed financial firms. BdL Basic Decisions include, among others, decisions 6213/1996, 7551/2000, 8805/2004, 9356/2006 and 9935/2008.

[1038] Privately raised funds, funds acquired from banks and other financial firms, and issued bonds constitute the resources of financial companies (Banque du Liban, 2009, p. 5). (Banque du Liban (2009). *Financial markets handbook*. Beirut, Lebanon: Financial Markets Department. Central Bank of Lebanon. Retrieved from www.databank.com.lb/docs/Financial%20Markets%20Handbook%202009.pdf)

[1039] Banque du Liban, 2009; Hakim, S., & Andary, S. (1997). The Lebanese central bank and the treasury bills market. *Middle East Journal*, *51*(2), 230-241 most frequently a bank, with the management of an alienated portion of their assets. Trusts entail the transfer of management rights, in other words, but not of property rights, from the settlor to the trustee.[1040] Inspired by the *waqf* legal framework and the financial legislation of Luxembourg, Lebanon's Law 520/1996 defines a fiduciary scheme as a specific contract offered by a financial firm and regulated by the Code of Obligations and Contracts.[1041] In addition, after years of preparation on the part of the BdL and Parliament, Lebanese authorities introduced a specific piece of legislation on asset securitization in 2005 (Law 705). As explained in Chapters 2 and 4, securitization refers to the liquefaction process dividing illiquid financial assets into shares mixed in structured portfolios and offered to individual or institutional investors on secondary financial markets.[1042] A regulatory framework for this advanced financial instrument was a specific commitment of the Lebanese government to the IFIs and its international sponsors.[1043]

5.3.2.2 The inclusion of property into capital investment portfolios

Most observers of the Lebanese financial sector agree that the legislation modernizing the regulatory framework of its capital investment activities did not allow for the significant expansion of its financial markets. However, that legislation interestingly, but perhaps unintentionally, contributed to the increased channelling of finance capital in property. In fact, it built on and ordered the official, less official, and sometimes fraudulent, mechanisms (e.g., figureheads) by which a number of financial actors, including investment banks, had been involving themselves in property development financing since the 1990s and earlier.[1044] In effect, the BdL and Lebanese government legislated *a posteriori,* regulating the existing financing channels used by local financial firms that wanted a stake in the local property game.[1045]

[1040] Alexa Hechaime, multiple personal communications, 2014-2016

[1041] This legal structure is the major difference between Lebanon and countries where Common Law or an Anglo-Saxon legal tradition prevails. In these systems, trust schemes are not simple contracts, they are "legal relationships or arrangements between various parties" (Atkinson, 2015, p. 104). (Atkinson, P. (2015). The use of corporate vehicles to conceal illegal assets. In Basel Institute of Governance (2015). *Tracing illegal assets: A practitioner's guide*. Basel, Switzerland: International Center for Asset Recovery)

[1042] Aveline, N. (2005). *Les marchés fonciers à l'épreuve de la mondialisation: Nouveaux enjeux pour la théorie économique et pour les politiques publiques* (Habilitation Thesis). Retrieved from https://tel.archives-ouvertes.fr/tel-00394000/en/ (p. 63-64)

[1043] Ayoub, M. G. (2004). *Securitization in Lebanon: The done and the doing*. (Unpublished Master's Thesis). Department of Financial Economics. American University of Beirut. Beirut, p. 37, 46

[1044] For instance, Charbel Nahas (multiple personal communications, 2014-2016) explains that a number of banks or bankers were directly or indirectly active in the real estate sector despite the limitations imposed by the 1963 Code of Money and Credit on operations tied to members of banks' Board of Directors. The new financial legislation helped to limit the use of figureheads by allowing banks to pursue, indirectly, property activity under certain conditions.

[1045] Diab, N. (2002, April). Une opération de titrisation concrétisée. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/4544-une-opration-de-titrisation-concrtise; Charbel Nahas, multiple personal communications, 2014-2016

In the context of the small size of the Beirut Stock Exchange, the modernization of financial regulations has concretely accelerated the presence of new financial actors and the deployment of private equity schemes in the financing of real estate supply. An increased number of banking and non-banking financial companies now officially involve themselves in development activity through their asset management services. As I will detail in Chapter 7, financial firms have included property in the asset portfolios of clients, who undertake the actual investments. This is the case for a number of investment banking and real estate subsidiaries of major bank holdings, which provide this type of short-to-medium term placement opportunity to clients, Lebanese and non-Lebanese, seeking portfolio diversification.[1046] In doing so, banks can respect BdL Basic Circular 81/2001 and its prohibition on real estate brokerage, direct participation in property operations, and lending money to firms with common managers (i.e., sister subsidiaries within the same economic entity).[1047] Likewise, for non-Lebanese customers of financial firms using fiduciary schemes to bypass the 1969 Law restricting foreign property ownership, the new regulations have also reduced transaction costs and facilitated property-related investment. Consequently, as I will show in Chapters 6 and 7, the new financial regulations undoubtedly contributed to the funnelling of finance capital for construction of large capital-consuming projects in Beirut throughout the 2000s.

In sum, the BdL-led modernization of financial regulations, which was initially intended to consolidate banking intermediation and accelerate the development of financial markets, has helped to transform the financing structure of the Beirut development industry. It has, specifically, brought in new financial agents and increased the amount, and diversified the origin and nature, of financial resources invested in realty. In doing so, it has bolstered the growth of construction and real estate activity and sustained property asset values. In hindsight, and as importantly, the rise of private equity financing in the local real estate market appears to be a key step in the liquefaction of property assets and an important factor in the massive process of urban change that has been transforming Beirut since the early 2000s.

[1046] In Lebanon, the activities of specialized banks, which include independent private banks, range from private to corporate and investment banking. The revenues of those banking entities “are limited to the fees and commissions they earn on money management and on providing advisory services to clients” (Sader, 2011, p. 58). (Sader, M. (2011, September). Investment banking: Proposal for a new vision. *Lebanon Opportunities*. 56-58)

[1047] Speetjens, P. (2013, June). Invested development. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/real-estate-lebanon-bdl/5742

5.3.3 The tightening of macro-prudential rules for property-related credit

The second type of BdL regulatory intervention that has shaped the institutional design of the property market was the setting up of macro-prudential regulations limiting the banking sector's exposure to property risk. As underlined earlier, mortgage and construction loans prevail in banks' private lending portfolio and overvalued property assets serve as collaterals to all private loans. The risk of a property price collapse and of a collaterally-induced credit crisis has therefore become a major source of vulnerability for the Lebanese financial sector and a primary source of concern for public financial authorities.

The central bank has responded to the threat in a number of ways. First, it established a new department, the Financial Stability Unit, to monitor and centralize risk-management initiatives. Second, the BdL has over the years deployed a "tight regulatory and supervisory regime" on both the supply and demand sides of private credit.[1048] While the reinforcement of prudential mechanisms meets the new loan risk management rules imposed by the Basel III international banking accords, it is also clear evidence of an increased perception of credit-related risk in the Lebanese financial system.[1049] Prudential action has thus pursued a variety of objectives ranging from better management of property cycles to better protection of the banking sector in the event of a property crash.[1050] In sum, pre-emptive measures on the supply and demand sides of the credit system have striven to manage the risk accompanying the massive recourse to property in the social regulation of Lebanese capitalism.

5.3.3.1 Macro-prudential measures on the supply side of credit

On the credit supply side, the macro-prudential rules imposed by the central bank largely address the management of property collaterals seized by commercial banks and the formation of loan loss provisions for banks' outstanding loan portfolios.

[1048] Taffin et al., *op. cit.*, p. 23

[1049] De Brandt, O., & Durant, O. (2014). Marchés du logement et politiques macroprudentielles: La situation européenne. *Revue d'Économie Financière*. *3*(115), 247-268, p. 247. The Basel III international banking accords reinforced macro-prudential measures targeting real estate financing in the aftermath of the 2008 financial crisis.

[1050] Allen, F., & Gale, D. (2001). *Comparative financial systems: A survey*. (Center for Financial Institutions Working Papers, No. 01-15, Wharton School Center for Financial Institutions, University of Pennsylvania). Retrieved from https://pdfs.semanticscholar.org/50e0/90703031fdc0fb8cbabd89b3478aad0c8856.pdf (p. 45); Daou, R. (2016b, June 24). Central Bank of Lebanon soon launching a fund for real estate lending. In *BlomInvest Bank*. *The Research Blog*. Retrieved from http://blog.blominvestbank.com/central-bank-lebanon-soon-launch-fund-real-estate-lending/; Nahas, 2009; De Brandt & Durant, *op. cit*. Even though macro-prudential frameworks were deployed worldwide in the aftermath of the 2008 financial crisis, it is worth noting that emerging countries and regions such as India and Hong Kong had historically been proactive in taking such measures to contain the build-up of risk (De Brandt & Durant, *op. cit.*, p. 249).

The regulation-driven management of seized property collaterals

Article 154 of the 1963 Code of Money and Credit allows Lebanese commercial banks to retain two types of assets in their property portfolios: those owned for operational purposes (e.g., headquarters, local branches), and the assets acquired from defaulting borrowers.[1051] The second category is the most significant from a prudential perspective since it very much affects the stability of the banking system. This is why the central bank supervises the conditions and mechanisms by which banking organizations are allowed to keep recovered assets in their balance sheets. The Code of Money and Credit originally established a strict framework: since 1963, any seized asset must be resold within two years of acquisition; if not, the bank must refer the issue to the central bank.[1052] Likewise, the banking legislation stipulates that in the event of a failure to liquidate recovered properties all banks must constitute over a five-year period (20 percent each year) loan loss reserves "equivalent to the value of real estate properties swapped against non-performing loans."[1053] In brief, the financial regulator's objective has been to preclude the banking sector from building a large, risk-prone property portfolio.

Over the past 15 years with the rise of the regulation-urbanization nexus, the central bank has nonetheless relaxed this initial framework. The high valuation of property assets has gained increased importance in its policy agenda, in parallel to the supervision and protection of the banking sector. Portfolios of recovered assets have become a significant variable in the management of property cycles, which has led the BdL Banking Control Commission to be increasingly permissive and allow banks to keep seized assets for more than two years.[1054] In doing so, the Banque du Liban has first and foremost striven to avert the massive sales of seized assets in times of property stagnation, as any further excess supply could depreciate real estate prices and, ultimately, threaten financial stability. This trend was formalized in 2015 with Circular 135 that officially extended, under certain conditions, provisioning periods for amortization of newly seized assets and constitution of reserves from five to 20 years (Article 5 of Circular 135/2015).[1055]

[1051] El-Khoury, B. (2015b, July 21). Les banques sommées de liquider certains de leurs actifs immobiliers. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/935355/les-banques-sommees-de-liquider-certains-de-leurs-actifs-immobiliers.html; Taffin et al., *op. cit*., p. 25

[1052] Charbel Nahas (multiple personal communications, 2014-2016) specifies that, according to the 1963 Code of Money and Credit, recovered properties can be retained within a bank's portfolio for a year, with an extra year added upon the central bank's authorization.

[1053] Taffin et al., *op. cit*., p. 24-25

[1054] Banker #1, personal communication, November 25, 2015

[1055] The extension to 20 years for reserves constituted against non-liquidated real estate properties applies only to NPL issued between 2003 and 2008 (Charbel Nahas, multiple personal communications, 2014-2016; Taffin et al., *op. cit*., p. 23).

Apart from protecting the real estate market from a fatal drop in asset prices, the central bank's strategy has also aimed at supporting banks' balance sheets and maximizing their profits. Indeed, 80 percent of bank-controlled assets in recent years were recovered between 1998 and 2004, i.e., during the period of stagnation preceding the second post-war property boom. In other words, most of the banks' property portfolios were acquired at low cost during the property slowdown of the late 1990s and early 2000s, so that any sale generally resulted in immense capital gain to the banks.[1056] As of 2014, the total value of properties seized by the Alpha banks was estimated to be about USD 700 million.[1057]

The formation of increased loan loss provisions in the face of multifaceted risks

In the face of the rise in domestic and regional risks, the financial regulator has concomitantly ordered banks to raise their collective loss provisions against outstanding loan portfolios (BdL Intermediate Circulars 376 and 383 of November 1 and December 24, 2014). Required provisions are tailored to each bank's performance in impairment tests (stress testing) supervised by the Banking Control Commission.[1058] This tightening of capital requirements, IMF economists Erlend W. Nier and Jacek Osiński note, is usually meant to "force banks to hold more capital against these [property-related] loans, resulting in relatively higher costs, and thus discourag[ing] heavy exposure to the sector."[1059] Concretely, a higher level of provision is intended to help the banking system cope with losses in the case of a plunge in real estate prices.[1060]

5.3.3.2 Macro-prudential measures on the demand side of credit

On the credit demand side, the Banque du Liban supervises the bank financing extended to development firms and homebuyers, enforcing strict measures that limit credit exposure to real estate and contain speculative demand. The increase in capital requirements is meant to avert situations of overleveraging that would result, Dubai-like on the supply side, and US-like on the

[1056] El-Khoury, 2015b. According to a former member of the Commission, in cases where the BdL Banking Control Commission forces a bank to sell off a seized property, that bank often resorts to a paper real estate investment company to keep the property under the control of someone close to the bank or to its leadership.
[1057] For example, the Byblos Bank group retains USD 31 million of seized properties in an asset portfolio worth USD 19 billion (El-Khoury, 2015b).
[1058] Osama, H. (2015, January 13). Banks told to raise loan provisions. *The Daily Star*. Retrieved from www.dailystar.com.lb/Business/Local/2015/Jan-13/283876-banks-told-to-raise-loan-provisions.ashx
[1059] Nier, E., & Osinski, J. (2013). *Key aspects of macroprudentiel policy - Background paper*. Washington, DC: International Monetary Fund. Background Paper, p. 19
[1060] Crowe et al., *op. cit.,* p. 16

demand side, in a credit-induced property crash. Both scenarios would destabilize Lebanon's domestic financial and monetary system (see Chapter 9). Regulations began to be tightened with the Intermediate Circular 177/2008 when the US subprime mortgage crisis turned into an international financial disaster and the local property sector recorded a two-digit annual growth. Since then, development firms can officially obtain a loan only if they self-finance 40 percent of a land purchase and 30 percent of a construction project, secure a minimum pre-sold ratio of 10 to 20 percent, and provide land as collateral that must "amount to at least 60 percent of the project's value."[1061] My interviews with Beirut-based developers, however, indicated that a number of real estate tycoons with close relationships to major bankers have frequently managed to obtain bank financing for projects that did not meet those criteria.

The central bank has also imposed specific loan-to-value (LTV) ratios to homebuyers who access a loan through avenues other than the Housing Bank and the Public Corporation for Housing, which have their own requirements (see Chapter 8). Precautionary measures for household debt particularly arose "in a context where loan maturities […] lengthened and where the granting of retail loans […] recorded a substantial surge."[1062] Intermediate Circular 369/2014 officially set the debtor's down payment at 25 percent of the asset's price and capped the debt-to-income (DTI) ratio at 35 percent of the household's income.[1063] As Nier and Osiński explain: "Limits on the LTV and DTI ratios complement each other in dampening the cyclicality of mortgage loan demand, with the LTV addressing the wealth aspect and the DTI the affordability aspect, respectively."[1064] Nevertheless, a number of accounts suggest that LTV and DTI ratios have been circumvented in recent years with a proliferation of "'under-cover' toxic loans" (see Chapter 8).[1065] Further, the value of the loan cannot exceed 60 percent of the asset used as a guarantee according to Basic Circular 81/2001.[1066] Recent stimulus packages issued by the central bank also contained specific prudential requirements for housing loans: in 2013 the maximum loan amount was USD 525,600 and beneficiaries could not resell property acquired with subsidized funds for a seven-year period in order to limit speculation.[1067]

[1061] Jaffe, J. (2009, August). The real state of the property market. *Lebanon Opportunities*. 76-82, p. 77; Taffin et al., *op. cit.*, p. 25
[1062] Daou, 2016b
[1063] *Ibid*
[1064] Nier & Osinski, *op. cit.*, p. 20
[1065] Berthier, R. (2017b). Lebanon's toxic loans gamble. In *Synaps Network*. Retrieved from www.synaps.network/lebanese-economy-watchdog#chapter-2589704
[1066] Taffin et al., *op. cit.*, p. 23
[1067] Chami, H. (2013a, February). Central bank extends low-cost lending. *Lebanon Opportunities*. 56-57; Rahbani, L. (2013, March). Borrow local, buy local. *Lebanon Opportunities*. 56-60

Given the low growth environment, and the escalation of household indebtedness with each successive stimulus package, these prudential requirements may turn out to be crucial in the near future. Debt servicing currently exceeds 50 percent of household income, and has resulted in a hike in the number of non-performing (housing) loans (NPLs) over the past few years.[1068] Official statistics shows that, after years of reduction in the 2000s, the ratio of doubtful debt to the total gross loan portfolio has increased from 3.7 percent in 2011 to 4.9 percent in 2016.[1069] But uncertainty exists about the actual quality of the private lending portfolio in general and property-related loans in particular since Circular 135/2015 "authorised banks to rate substandard loans (renegotiated with borrowers unable to pay) as normal."[1070] The IMF, on the one hand, underlines that *reported* NPL ratios "are low at 1.6 percent, due in part to lending rate subsidies provided by the BdL's economic stimulus program."[1071] A number of financial experts interviewed, on the other hand, argued without providing detailed data, that the actual level of failure for housing loans is much higher.

In sum, the BdL macro-prudential framework has organized and supervised access to bank financing in the property sector. As such, it has critically shaped the profiles, practices and constraints of agents on the supply and demand sides of the property market, as well as the trajectory of asset values.

5.3.4 Debt-restructuring schemes to bail out distressed property firms

The third type of BdL regulatory intervention contributing to the institutional design of the property market is the series of recent attempts to restructure development firms' outstanding debt, which officially totalled USD 9.99 billion in 2015.[1072] Together with the deteriorated credit situation of households, that of city builders has been a source of concern for the central bank in recent years. The macro-prudential measures taken to regulate the credit allocated to development companies described above were probably too modest to properly protect the banking sector from

[1068] Charbel Nahas, multiple personal communications, 2014-2016; International Monetary Fund, 2015, p. 77
[1069] Taffin et al., *op. cit.*, 25; World Bank (2017b). *Bank nonperforming loans to total gross loans (percent) in Lebanon* [Data file]. Retrieved from http://data.worldbank.org/indicator/FB.AST.NPER.ZS?locations=LB. Internationally, the tipping point where default rates become critical for financial stability is estimated to be about eight percent.
[1070] Berthier, R. (2017a). Abracada... broke Lebanon's banking on magic. In *Synaps Network*. Retrieved from www.synaps.network/abracada-broke
[1071] International Monetary Fund (2017). *Lebanon financial stability assessment*. Washington, DC: Country Report No. 17/21. Retrieved from www.imf.org/~/media/Files/Publications/.../2017/cr1719.ash (p. 11)
[1072] BlomInvest Bank (2015c). *Financial intermediation in Lebanon: Spinning the economic wheel*. Beirut, Lebanon: BlomInvest Bank - Research Department. November 20. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2015/11/Financial-Intermediation-in-Lebanon-Spinning-the-Economic-Wheel1.pdf

the risk of failure in the development industry. In hindsight, medium and large Beirut-based development companies resorted to bank financing during the 2000s property boom in a much higher proportion than most developers and bankers acknowledge (see Chapter 7). This high level of indebtedness became worrisome in the 2010s when the deteriorated financial environment and excessive property values brought about a severe slowdown in the upper segment of the property market (see Chapter 6).

While I was not able to access data on doubtful construction loans despite multiple requests to the BdL, it is hardly a secret that after years of limited activity an increased number of development companies are in distress. Stocks of unsold, overpriced condominiums are accumulating, and firms are under considerable financial pressure to pay suppliers and repay outstanding, expensive loans.[1073] The potential failure of development actors presents multiple risks for the property market and the banking sector, and for Lebanon's growth regime at large. Risks range from the destabilization of credit firms tied to the massive accumulation of bad debts to a crash in real estate values, all of which may bring about a violent financial and monetary crisis (see Chapter 9). It is in response to, and as an official recognition of, such existential threats to the property market and the domestic financial system that the Banque du Liban intervened in 2015 and 2016 with Basic Circular 135/2015 and Intermediate Circular 427/2016 to restructure the potentially doubtful debt of development firms.

With Basic Circular 135/2015, the Banque du Liban has allowed banks to work out new repayment schedules adapted to debtors' cash flows. The circular did not formally identify development firms as the target of this debt-restructuring scheme but there is little doubt that, against a background of protracted property stagnation, construction loans were its primary target. The possibility of debt reorganization, which excluded "loans benefiting from government subsidies on lending rates" (i.e., housing loans), was also meant to respond to "the weaknesses that led to the deterioration of the client's financial situation and [to] the way to address this weakness."[1074] Yet, a recent piece in Executive Magazine suggests that "the circular is all but unutilized" by banks and the development industry for reasons I was not able to discover. In any case, this first initiative was apparently not satisfactory: the BdL went further in the summer of

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[1073] For example, Vincent Zarifeh, Financial Director of Plus Properties, explains that banks charge a seven to eight percent interest on construction loans (Haddad, 2016b). (Haddad, C. (2016b, July 5). La Banque du Liban veut stimuler le secteur immobilier. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/994862/la-banque-du-liban-veut-stimuler-le-secteur-immobilier.html).
[1074] See Articles 1 and 2 of Basic Circular 135/2015.

2016, and by way of Intermediate Circular 427, allowed the establishment of real estate investment firms specifically to acquire development firms' stocks of unsold units and, accordingly, reduce their debt burden.

5.3.4.1 Financial stability and property growth as policy objectives

Intermediate Circular 427 was ostensibly released to pursue two major regulation-driven objectives: diminish the risk of a property-generated financial crisis, and stimulate property and GDP growth.

The first of these was to bail out distressed development companies and protect the banking sector from payment defaults in order to reduce the risk of a property-generated financial crisis.[1075] In concrete terms, developers were given the possibility of offloading fixed assets and, thus, of avoiding distress sales and/or default on their bank payments. The initiative was expected to repay about 40 percent of the total banking debt amassed by property development firms. At the same time, the circular also spared banks the need to accrue further loss provisions and reschedule outstanding non-performing loans, which would help to boost their profitability and maintain their lending capacity.[1076]

The second objective was to stimulate real estate and construction activity, avoid a protracted reduction in property values, and reinvigorate GDP growth in a period of "economic complexities" to use the words of Governor Riad Salameh.[1077] The strategy indeed intended to signal the stability of the local property market and reassure buyers and investors, especially resident and non-resident capitalists who had put equity into real estate projects on hold. A major concern, in other words, was to reignite financial fluidity in the property sector and preserve its financial attractiveness after years of stagnation. In addition, some financial analysts suggest that Intermediate Circular 427 set out to attract a new category of less affluent but risk-tolerant Lebanese expatriates whose budget was too limited to buy an actual property in Beirut.[1078]

[1075] BlomInvest Bank (2016b). *Real estate in Lebanon: Adaptation in a tumultuous environment*. Beirut, Lebanon: BlomInvest Bank - Research Department. August 5. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2016/08/Real-Estate-in-Lebanon-Adaptation-in-a-Tumultuous-Environment-1.pdf
[1076] BlomInvest Bank, 2016b
[1077] BdL Governor Riad Salameh was interviewed in The Business Year Editors (2016). Reinforcing confidence. *The Business Year*. Retrieved from www.thebusinessyear.com/lebanon-2016/reinforcing-confidence/vip-interview
[1078] Banker #3, personal communication, August 11, 2016

5.3.4.2 An uncertain financial engineering for a risky scheme

The financial rationale underlying the creation of loan liquidation vehicles appears however to be a risky gamble: it lies in the bulk purchase of unsold properties at a presumably attractive price to be resold retail years later at a profit.[1079] To accommodate this scheme, the BdL set up a specific form of financial engineering in which investment companies must provide at least 40 percent of the cost of acquisition through securities sold in financial markets, while domestic banks can provide credit that cannot exceed 60 percent. In parallel, the financial regulator also set up a series of requirements. First, only properties financed by existing outstanding loans issued by a Lebanese bank were eligible. Second, the development firms performing transactions with *ad hoc* investment firms to offload fixed assets must repay construction loans first.[1080] Third, the real estate funds must "dispose of their acquired properties within no more than 10 years."[1081]

Uncertainty resides today in the incentive mechanisms used by the BdL to convince banks to issue loans to real estate investment companies whose portfolio value, and, thus, profit expectation, is very unpredictable in the medium term. Will the BdL provide low-cost liquidity to the banks as it did for housing loans in a series of future stimulus packages? In the event that the central bank does provide subsidized liquidity, this would be the first time, to my knowledge, that real estate businesses benefited from financial incentives disbursed through the intermediary of retail banks. The only evidence I found of BdL involvement in the management of property-related debt was the aborted establishment of loan liquidation vehicles in 2003 (see Box 5.2 below). But more details should be available soon as property tycoons Massaad Fares, former Chairman of the Real Estate Syndicate of Lebanon (REAL), and Namir Cortas, Chairman of the Real Estate Developers Association of Lebanon (REDAL) announced, in 2017, the creation of a USD one billion real estate fund.[1082] Interestingly, the professional organizations headed by Cortas and Fares are said to have been involved in the elaboration of the circular.

[1079] Moreover, investment firms may have to pay additional costs to terminate construction work. Estimations on the number of uncompleted property projects ranged from 40 to 60 projects in Beirut in 2016 (Haddad, 2016a). (Haddad, C. (2016a, January 10). Au Liban, l'immobilier n'a pas connu de réelle reprise en 2016. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/1028255/limmobilier-na-pas-connu-de-reelle-reprise-en-2016.html)

[1080] Haddad, 2016b; Byblos Bank (2016). *Lebanon this Week - Issue 453 (June 27 – July 9)*. Beirut, Lebanon: Byblos Bank – Economic Research. Retrieved from www.byblosbank.com/Library/Files/Lebanon/Publications/Economic%20Research/Lebanon%20This%20Week/LTW-453.pdf (p. 8)

[1081] SGBL, *op. cit.*, p. 5

[1082] FFA Real Estate (2016). Central bank steps in to boost the real estate sector. In *FFA Real Estate*. Retrieved from www.ffarealestate.com/news/central-bank-steps-boost-real-estate-sector. Medsecurities, the financial firm affiliated to Hariri family-owned

Box 5.2 – The 2003 project of a Real Estate Investment Trust in Lebanon

After years of slow property activity, the Banque du Liban, in 2003, worked on the establishment of a real estate investment company. The purpose was to manage a USD 250 million asset portfolio comprised of all of the land and real estate assets (e.g., land, residential and commercial buildings, hotels) recovered by banks after customer failure.[1083] This was a project, then, in contrast to Intermediate Circular 427, to transfer already seized assets to a special purpose entity charged with developing, managing and selling the portfolio. It was intended to be controlled by the banks but open to external shareholders.[1084] In this respect, it would be similar to the loan liquidation vehicles established in other countries such as Japan where a Cooperative Credit Purchasing Company, owned by local banks, is in charge of clearing the banking sector's bad debts.[1085] However, feasibility and management issues, together with the initiation of a second property boom, is said to have discouraged the Central Bank of Lebanon and the banking sector from establishing the fund.[1086]

5.3.4.3 The short-sighted dimension of property-based regulation: a paroxysmal illustration

Intermediate Circular 427 underlines the limitations of the BdL's muddling-through approach to property-based regulation: it preserves at all cost the immediate stability of the property and banking industries without taking into consideration the multiple risks it helps to postpone or create in the medium term. First, the debt-restructuring instrument appears to play for time until a new, however unlikely, upward property cycle can, in the short term, kick in. Indeed, a problem unsolved by the scheme is the massive amount of liquidity immobilized by unsold units in the aftermath of the overconstruction dynamics during the 2000s property boom. The BdL initiative simply transfers part of the repackaged financial weight and risk to the banks and the real estate investment firms' new (naïve?) small equity investors. What will happen to real estate investment companies if they do not manage to resell acquired properties within the 10-year period, if they resell at a loss, or if the property market simply crashes?

BankMed, is expected to raise equity for Legacy Central, i.e., the investment firm specially created by Massaad Fares and Namir Cortas (El-Khoury, 2017).

1083 Rashleigh, B. (2003, May). Central bank to the rescue. *Lebanon Opportunities*, p. 59

1084 *Ibid*

1085 Kerr, D. (2002). The place of land in Japan's postwar development, and the dynamic of the 1980s real-estate bubble and 1990s banking crisis. *Environment and Planning D, 20*(3), 345-374, p. 365

1086 Roger Melki, multiple communications, 2014-2016 (Translation by the author)

Second, this exercise-in-illusion also puts into question the actual role of commercial banks and the efficacy of their exposure to real estate risk. The possibility of a more or less direct association of domestic banks with the establishment of property investment portfolios is hardly understandable from a macro-prudential perspective. As emphasized by Lebanese financial analyst Jihad El-Hokayem, Kafkaesque structures may emerge with banks "lending to companies or funds, which they partially own, money to buy projects from developers who owe them money and are struggling to sell their project."[1087] This lack of financial traceability and degree interest intertwining resonates with the fuzzy financial structures that fostered the trade of mortgage-backed securities in the 2000s, albeit in a different configuration. These highly financialized schemes critically fuelled the subprime crisis in the US and the ensuing financial crash that devastated a number of economies and ruined an incalculable number of households worldwide.

In brief, this third section has examined the reasons why the central bank's monetary and regulatory actions have probably been the policy instruments most crucial to construction of the institutional structures of Beirut's property market. It has shown specifically how four regulation-driven policy interventions, namely the setup of expansionary monetary measures, modernized financial regulations, tightened macro-prudential lending rules, and debt-restructuring schemes, have played critical roles in the shaping of profiles, resources and practices of development agents on both demand and supply sides of urban production. As such, the action of the Banque du Liban has very much oriented the features of the real estate market and the trajectory of property asset values. Equally importantly, it has illustrated the increased financialization of the policy instruments involved in the shaping of the regulation-urbanization nexus.

Conclusion

In this chapter, I examined the critical role of the Lebanese state in the social construction of 'pegged urbanization' by documenting how the government, Parliament and central bank organized the regulation-urbanization nexus through the institutional design of the property market. I showed, more specifically, that Lebanese authorities use three policy instruments to create preferred conditions for urban production and to orient private development: the creation of pro-growth legal, regulatory and tax frameworks; the restructuring of public organizations

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[1087] Jihad El-Hokayem was quoted in An Nahar (2016). (An Nahar Staff (2016). Real estate heading toward a 'two for the price of one" freefall. *An Nahar English*. Retrieved from http://en.annahar.com/article/480592) involved in housing provision; and the monetary and regulatory actions of the Banque du Liban. In the first section, I focused on legislative production in an examination of the way in which the 2014 rent control reform was designed to sustain the growth of real estate, construction and banking activities. In the second section, I unpacked the transformation of the nature, missions and tools of state entities dealing with housing production and drew particular attention to the conscious rearrangement of institutional structures in the property market through the privatization of the Housing Bank, the creation of the Public Corporation for Housing and the elimination of the Ministry of Housing and Cooperatives. In the third section, finally, I shed light on four central bank interventions, namely the setup of expansionary monetary measures, modernized financial regulations, tightened macro-prudential lending rules, and debt-restructuring schemes, and described the multiple mechanisms by which they have influenced the profiles, resources and practices of property agents on both demand and supply sides as well as the trajectory of property asset values.

This exploration of institutions and policies essentially showed how the agency of the state has been a critical component of 'pegged urbanization' and the financialization of the city-making process in Beirut. The property market is neither the deterministic outcome of top-down global neoliberal forces nor the 'natural' reflection of local supply and demand dynamics. It is an institutional construct whose incentive and disincentive structures, created primarily by state action, shape the behaviours and interactions of private, local and transnational, agents involved in the production of space. Moreover, my detailed investigation of decision-making processes has shown how, when it comes to property issues, the post-Taif Lebanese state remains a primary arena for elite interest aggregation. Through my case studies, I documented the dominance of cooperation and consensus in the exertion of power within the Lebanese state machinery and between public and private individuals and organizations. On this basis, it is seems fair to argue that urban production in Lebanon is a neopatrimonial arena where the 'rentier-confessional' elite governs *through* the state to reproduce local capitalism and secure collective and individual interests.

The use of city-making to reduce the distortions, vulnerabilities and contradictions of capitalism is not unique to post-war Lebanon. As indicated in Chapter 2, it has been a "political drug" for financial elites in many countries across the globe such as Japan and the GCC countries.[1088] The adverse consequences of this policy orientation, however, should have alerted Lebanese policy-makers: in most cases, property-based regulation has produced massive housing unaffordability and unleashed highly destabilizing financial disasters caused by the crash of overheated real estate markets. The Lebanese financial elite seems, in fact, to be caught in a vicious circle, fuelled partly by the path-dependent features of post-war macro-institutions, and to be repeating the mistakes of its foreign counterparts.[1089] The policy choice of Lebanese public authorities, particularly the Banque du Liban, to keep privileging property-based regulation is particularly worrisome, given that its manifold disruptive impacts are already evident. In effect, as I unpack in the third part of this dissertation, mobilizing urban production to maintain the stability, durability and profitability of rentier and finance-led capitalism in the post-war period has given rise to a myriad of visible and less visible mutations of the urbanization process and generated a plethora of adverse consequences for the daily life of urbanites, particularly in Greater Beirut.

[1088] Fernandez, R., & Aalbers, M. B. (2016). Financialization and housing: Between globalization and varieties of capitalism. *Competition and Change*. 20(2), 71-88, p. 17

[1089] Many central banks adopted expansionary monetary policies since 2008: they have flooded financial sectors with liquidity without anticipating the resulting risks of asset bubble and addressing the negative organizational and distributional implications they may imply for local economies and communities (Arthus & Virard, 2016). (Arthus, P., & Virard, M. P. (2016). *La folie des banques centrales*. Paris, France: Fayard)

PART THREE ❖ THE IMPLICATIONS OF THE REGULATION-URBANIZATION NEXUS FOR URBAN DEVELOPMENT, HOUSING PROVISION AND URBAN POWER

Part Three examines the second component of post-war Beirut's 'pegged urbanization:' the concrete transformation of urban development and housing provision brought about by the creation of the regulation-urbanization nexus. The rearrangement of the property market's institutional structure has indeed had manifold organizational, financial, morphological, spatial and social implications for the development process, development agents and housing provision. The proliferation of condominium towers and its radical restructuring of the built environment as well as the increasingly difficult access to affordable housing are the most conspicuous transformations; however, a number of less visible but crucial mechanisms and actors in the production of space have also experienced substantial change. To show how this is the case, Chapter 6 investigates the impact of the interdependence of urbanization and regime regulation on the development process (e.g., price formation, property cycles, construction dynamics) in Greater Beirut. Chapter 7 explores the changing face of development agents by tracing the professionalization and financialization of the property industry. Chapter 8 demonstrates how the increased dominance of bancarized homeownership programs has, rather than solving the housing problem, amplified a protracted housing crisis in the formal sector and contributed to the growth of urban informality.

Chapter 6 – The Property-Led Transformation of the Development Process

"Every country goes through periods during which people believe that speculation will never stop and buildings will touch the sky," observes a prominent returnee developer, putting into perspective the real estate and construction frenzy in post-1990 Beirut.[1090] Property-led transformations are not unique to Lebanon: most cities and metropolises of the Global North and South penetrated by financial capitalism have experienced similar, sometimes radical, periods of urban restructuring.[1091] The scenario is remarkably similar: condominium towers populated by wealthy resident and non-resident households invade prime locations and destabilize the local community. In the process, the developments alter the urban morphology, push up property prices citywide, and worsen socio-spatial segmentation by displacing low- and middle-income groups to the periphery. Urban scholarship has comprehensively documented the outcomes of financialized urbanism; and it has also, above all, attempted to identify specific factors at every level to explain variations in the causes, mechanisms and actors driving the processes of urban change.

In line with the literature, this chapter seeks to examine how the distinctive feature of Lebanon's post-war urban political economy, i.e., the regulation-urbanization nexus, has shaped a (re)development process that has physically, socially, economically and culturally transformed the capital city. It shows overall that the regulation-driven institutional environment of property activity has been instrumental in directing asset price formation, the workings of demand-driven cycles, and the radical transformation of Beirut's built environment and social fabric. To this end, I base my analysis on the quantitative and qualitative dynamics of the formal residential market in Greater Beirut during the two property cycles of the 1990s and 2000s.[1092] I concentrate my inquiry on the 2000s property cycle during which the regulation-urbanization nexus gained traction and real estate and construction activity was most significant.

Section one investigates the buoyancy of the residential property market in Lebanon by identifying the primary and secondary factors that have guided the formation of land and real

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[1090] Property developer #5, personal communication, November 7, 2014 (Translation by the author)

[1091] Property-led urbanization refers to a model of urban development "largely shaped by the competition for private capital investment in property" (Levy, 2013). (Levy, J. M. (2013). *Contemporary urban planning*. Upper Saddle River, NJ: Pearson Education)

[1092] Over the past two decades, residential projects have accounted for about 80 percent of attributed construction permits in Municipal Beirut (Alieh, 2013a; Bathiche, 2010c, p.79; Gebara, Khechen, & Marot (2016a). (Alieh, Y. (2013a, May). Small apartments multiply. *Lebanon Opportunities*. 84-87; Bathiche, H. (2010c, August). No bubble. *Lebanon Opportunities*. 75-80, p. 78; Jaffe, J. (2009, August). The real state of the property market. *Lebanon Opportunities*. 76-82; Gebara, H., Khechen, M., & Marot, B. (2016a). *Beirut Building Database* [Geographic Information System file]. Faculty of Architecture and Engineering & Neighborhood Initiative, American University of Beirut. Retrieved from https://scholarworks.aub.edu.lb/handle/10938/10283) estate asset values. It also deconstructs the myth of absolute land scarcity and discusses the possible existence of a price bubble. Section two returns to the timeline and unpacks the specifics of the two demand-driven property cycles (1992-2002 and 2003-2016), which have physically and socially restructured Greater Beirut. Section three addresses the defining features of Municipal Beirut's 2000s transformation, which concretely manifest the financial turn in property development: the proliferation of condominium towers, the spatial dynamics of the construction activity, and the progressive replacement of the existing urban fabric.

6.1 The Construction of Property Prices in Lebanon

In recent years, the exuberance of its real estate prices has frequently put Beirut under the spotlight of media attention. In 2011, for instance, The Business Insider listed the Lebanese capital as one of eleven cities, including Hong Kong, Paris, Singapore and London, whose property prices were more expensive than those of New York City.[1093] Likewise, in February 2018, the Global Property Guide ranked it as number 43 in a list of the world's most expensive cities.[1094] Accurately incorporating Beirut into international comparisons is in fact very difficult for a simple reason: the city has no official property price index and no data series on long-term price evolution. This paucity of data, however, does not prevent world rankings from signalling an incontestable inflationary trend recorded by local land and real estate values in the post-war era, especially in the 2000s. In many ways, the steep increase is not new to Lebanon where property prices have been "persistently high when compared to countries with similar income."[1095] But the recent "vertiginous and irrational" three-digit inflation of Beirut's property asset values, disconnected from the citizenry's standards of revenue and the city's poor infrastructure, services and quality of life, is different. This time it has affected the pace and traits of urban development to an unprecedented extent.[1096] Surprisingly, however, the process of property price formation has remained largely unexamined. In fact, field research has shown that discussions of the causes and drivers of housing price inflation are virtually taboo for a majority

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1093 Galante, M. (2011, October 13). 11 places with more expensive real estate than New York City. *Business Insider*. Retrieved from www.businessinsider.com/the-most-expensive-real-estate-in-the-world-2011-10?op=1&IR=T

1094 "World's most expensive cities" (2018). In *Global Property Guide*. Retrieved from www.globalpropertyguide.com/most-expensive-cities

1095 Nahas, C. (2009). *Identification of factors behind real estate markets activity and exposure of the financial sector in Lebanon* (Unpublished report), p. 7

1096 Nassib Ghobril, Chief Economist and Head of the Economic Research & Analysis Department at Byblos Bank, as quoted in El-Khoury (2017). (El-Khoury, B. (2017, February). Immobilier: faut-il craindre un crash? *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/27062-immobilier-faut-il-craindre-un-crash-)

of policy-makers. When asked why land and real estate assets are so expensive, an informant close to the Beirut Municipality once gave me this embarrassed answer: "I prefer not to talk about it if you are recording." At the same time, most property professionals, officials and analysts, under the cover of neo-classical economic precepts, explain it away as a function of land scarcity.

To remedy this gap, this section seeks to identify the factors involved in the formation of post-1990 Beirut's property prices and the relationship of real estate to land asset values. The argument that I have been building up to is this: property prices are a construct of the regulation-urbanization nexus, economically, socially, fiscally and legally. They are not simply an indicator of scarcity and value. I will seek to demonstrate that a combination of primary and secondary factors ranging from sustained real estate demand to the significance of money laundering have shaped their trajectory. Just as importantly, I will explain how real estate prices drive land prices and why absolute land scarcity[1097] is a misleading myth, i.e., why it cannot explain property inflation. What I suggest instead is that Beirut faces a situation of relative land scarcity that affects development activity without influencing the trajectory of real estate prices. I will discuss, finally, the existence of a possible property price bubble in post-2000 Lebanon. While this complex question will receive no definitive answer, I will follow the lead of a number of Beirut-based heterodox economists to suggest that the surge in Beirut's property asset values throughout the 2000s generally reflects the evolution of the country's economic fundamentals and not the dynamics of a bubble. I will nevertheless stress that the disconnect between property prices and other financial and economic indicators in the 2010s may call into question the current soundness and future stability of prices in the real estate market.

6.1.1 The Combination of Primary and Secondary Factors in Price Formation

A series of primary and secondary factors have moulded the construction of property prices in post-war Lebanon (see Figure 6.1 below). Sustained money supply and the institutional structures of property activity have been the primary drivers of real estate and land asset values by securing a generally high level of real estate demand. A set of secondary factors including the weakness of public land governance, poor quality of market information, and widespread money

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[1097] By absolute scarcity, I refer to the argument of most bankers and developers that a limited number of land lots are available for construction in Municipal Beirut.

laundering have then contributed to the property price growth curve.

Figure 6.1 – The construction of property asset prices in post-2000 Lebanon
(Source: Author)

6.1.1.1 Primary factor: a persistently high level of real estate demand

A "persistent demand shock" in the real estate market has been the major driver of property price formation and evolution in post-war Beirut.[1098] This is the direct repercussion of the importance of property activity to the local system of accumulation and mode of social regulation. In periods of financial and property boom and in a context of inelastic property supply, dependent as it is on the timescale of construction activity, massive resident and non-resident investment and end-user demands, boosted by considerable national financial inflow, have put real estate prices under pressure. In periods of financial and property stagnation, a sustained level of subsidized end-user demand has prevented property asset values from collapsing, even as accumulated stocks of unsold assets have generally caused a price reduction. The dependency of property asset prices on the path of investment and end-user demand highlights two specific relationships.

It first underlines the correlation between the respective trajectories of the balance of

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[1098] Nahas, 2009, p. 18

payments and property asset values: in the 2000s, record financial inflows strongly supported real estate demand and thus contributed to the rapid inflation of real estate prices. Conversely, in the 2010s, the BOP deficit significantly weakened investment demand. Real estate asset prices consequently stagnated and even slightly dipped, though not at the same pace (see later in this section). This relationship is not surprizing: the real estate literature stresses the collinearity of episodes of skyrocketing property values and externally derived or domestically produced liquidity booms.[1099] It refers for instance to the case of Hong Kong in the 1990s where a liquidity boom tied to massive flows of Chinese money propelled property prices to unprecedented levels.[1100] British scholars Alireza Dehesh and Cedric Pugh also suggest that the drivers of property price formation tend to be more exogenous in contexts and periods of macroeconomic instability, as was the case in post-1990 Lebanon.[1101] The scholarship additionally explains a concrete implication of the prevalence of macroeconomic and financial factors in the formation of land and real estate prices: the further decoupling of the use and exchange values of property. Artificial booms and busts of external money supply frequently render the exchange value of property extremely volatile and cause exuberant episodes of inflation that put assets out of reach for most end users.[1102]

The second relationship is indirect. The primacy of real estate demand to the construction of property prices highlights the role of Lebanon's pro-growth institutional environment in price formation. By facilitating the permanent availability of liquidity to the Lebanese economy and the sustained channelling of financial resources into property, policy decisions have significantly contributed to the trajectory of property prices over the past 25 years. The Paris II-generated positive liquidity and monetary shocks as well as all of the various policy instruments unpacked earlier in this thesis have boosted real estate demand and prices throughout the 2000s. In addition to creating specific pieces of legislation and concrete mechanisms facilitating the channelling of capital into the built environment, pro-growth decisions have also contributed to property price

[1099] Aalbers, M. B., & Haila, A. (2018). A conversation about land rent, financialisation and housing. *Urban Studies*, *55*(8), 1821-1835 ; Adalid R., & Detken, C. (2007). *Liquidity shocks and asset price boom/bust cycles*. (ECB Working Paper, No 732.). Retrieved from www.ecb.europa.eu/pub/pdf/scpwps/ecbwp732.pdf?2e7b6604588092af31c0c2f562edbedb (p. 24); Aveline, A. (2004a). Introduction - The overall context of the Asian financial crisis and its interaction with domestic property markets. In N. Aveline & L. Ling-Hin (Eds.). *Property markets and land policies in Northeast Asia - The case of five cities: Tokyo, Seoul, Shanghai, Taipei and Hong Kong* (pp. 8-37). Maison Franco-Japonaise / Center for Real Estate and Urban Economics, Hong Kong University. Retrieved from https://halshs.archives-ouvertes.fr/halshs-00394362/document; Dokko, J., Doyle, B. M., Kiley, M. T., Kim, J., Sherlund, S., Sim, J., & Van Den Heuvel, S. (2011). Monetary policy and the global housing bubble. *Economic Policy*, *26*(66), 237-287

[1100] Smart, A, & Lee, J. (2003a). Housing and regulation theory: domestic demand and global financialization. In R. Forrest & J. Lee (Eds.), *Housing and social change: East-west perspectives* (pp. 87-107). London, UK; New York, NYC: Routledge

[1101] Dehesh, A., & Pugh, C. (2000). Property cycles in a global economy. *Urban Studies*, *37*(13), 2581-2602

[1102] Coakley, J. (1994). The integration of property and financial markets. *Environment and Planning A: Economy and Space*, *26*(5), 697-713 inflation by fuelling the "social contagion of boom thinking."[1103] The regulation-driven expansion of housing finance initiated in the late 1990s to support real estate demand has proven particularly influential to the upward trajectory of asset values. While it stimulated the boom of property prices in the 2000s, it has even more importantly helped to avoid their bust in the 2010s as non-resident real estate demand diminished with the contraction of financial inflows. The use of stimulus packages, made possible by the BdL-led artificial money supply, to lower the cost of housing loans has also been a significant factor in the maintenance of end-user resident demand and, thus, house prices.

In sum, the Central Bank of Lebanon has specifically played a critical role in the formation and evolution of property asset values through monetary decisions that reinvigorated external money supply, as much as through its successive subsidy schemes that initiated and allowed the expansion of housing finance. This level of involvement is not surprizing: as explained, sustained property values boost GDP growth and secure financial stability and are thus are key to the regulation of Lebanon's growth regime. In fact, the role of public decisions in property price formation, particularly those made by central banks, is a recurrent interest in the financial and real estate scholarships. The latter have frequently underlined the role of public agents and policies in the triggering of episodes of property inflation and in the protection of property markets from a collapse in asset prices.[1104] 1980s Japan, for example, is an oft-cited case: the decision of the Bank of Japan to initiate the expansion of bank lending in the property sector in the aftermath of the 1985 Plaza Accord resulted in the formation of a land and real estate bubble that burst a few years later.

6.1.1.2 Secondary factors: from limited land governance to money laundering

Together with a persistently high level of real estate demand, a variety of secondary factors have also played an important role in price formation in post-war Beirut. This study places particular emphasis on three: limited land governance, poor quality of market information

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[1103] A large part of the work of US economist Robert Shiller (2012, 2016) refers to investment behavioural psychology to explain the forces that drive price formation and evolution, including in the property sector. His scholarship particularly stresses the salience of psychological biases, social contagion effects and herd mentality, i.e., the irrational components of property agents' thinking. (Shiller, R. J. (2012). *The subprime solution: How today's global financial crisis happened, and what to do about it*. Princeton, NJ: Princeton University Press, p. 41; Shiller, R. J. (2016). *Irrational exuberance*. Princeton, NJ: Princeton University Press)

[1104] Vincent Renard, personal communication, January 30, 2015; Glaeser, E. (2001). Comments and discussion. In Case, K. (2001). Real estate and the macroeconomy (pp. 146-150). *Brookings Papers on Economic Activity, 2000*(2), 119-162; Tsatsaronis, K., & Zhu, H. (2004). What drives housing price dynamics: Cross-country evidence. *BIS Quarterly review*, 65-78 and money laundering.

The limited use of land governance tools by public authorities

In many cities worldwide, land policy employs three major tools to organize the development process: planning and zoning regulations, direct market interventions and taxation. Each of these is normally a significant contributor to local property prices since it orients the economic behaviours of local agents. None has a significant presence in Lebanon, however, and the land market remains loosely regulated.[1105] In Beirut, the permissiveness of the planning and zoning frameworks defined by the 1954 master plan has contributed to the structural inflation of property prices.[1106] Moreover, the Municipality of Beirut, despite financial means totalling USD 1-1.5 billion according to some sources, rarely intervenes in the land market through its eminent domain or pre-emptive powers. In concrete terms, it does not build up land banks to direct and regulate the market: it owns, for the most part, what those in architectural and planning circles call SLOIP or space left over in planning. In Beirut, these leftover spaces (*fatleh*) usual stem from street alignment operations.[1107]

Another factor intervening in price formation and fuelling inflation in the Lebanese capital is the very limited taxation of land ownership and transactions. On the one hand, there exists no proper property tax nor is the holding of undeveloped parcels taxed. With no (dis)incentives to sell and/or build their land portfolios, many speculative investors, individual and corporate, accordingly assemble tax-free land reserves.[1108] Most wait for the best offer as they share the belief that prices will rise in the future; in doing so, they contribute to the relative scarcity of reasonably priced lots (see later in this section). Karim Ibrahim, director of sales and marketing at Jamil Ibrahim Establishment, a major Beirut-based development firm discussed in the next chapter, explains that "everybody who owns a nice piece of land […] is like someone who owns a very nice piece of jewellery" to justify such retention-based economic behaviours.[1109] On the other hand, while taxation is applied to transactions (registration fees), it is not to capital

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[1105] Fawaz, M. (2003). *Access to housing by the poor: Comparative analysis of housing performance and policy in selected MENA region countries. Lebanon report assessment of housing sector*. Washington, DC: World Bank, p. 10.
[1106] Taffin, C., Roy, F., Gonnet, L., & Nahas, C. (2010). *Real estate market activity and exposure of the financial sector in Lebanon*. Washington, DC: World Bank, Social and Economic Development Group, Middle East and North Africa Region, p. 6
[1107] Senior official of Beirut Municipality, personal communication, May 4, 2015
[1108] Fawaz, 2003, p. 10; Property developer #3, personal communication, November 21, 2014
[1109] Karim Ibrahim is cited in Vierros (2009, p. 59). (Vierros, K. (2009, June). Ashrafieh is gold. *Lebanon Opportunities*. 56-59)

gains from sales by individuals and those by firms are most often evaded through the SAL system.[1110]

Barter, bluff and opacity: distorted market information and economic behaviours

The poor quality of market information is also known for reinforcing speculative behaviours in the property sector. As is the case in most MENA countries, accurate data is scarce in Lebanon.[1111] Land and real estate markets are not transparent and remain poorly monitored: there is no official price index; no precise and updated dataset on transactions, pending sale stocks, and turnover velocity; and little estimation of demand and supply trends in the various market segments.[1112] A prominent housing professional and banker interviewed on several occasions mentioned that "everyone knows the price of each land lot and apartment […]. We do not need any experts." Most developers and bankers interviewed for this study have openly supported this view: information in the property sector is asymmetrical, i.e., based mostly on barter, bluff and opacity. Global firms specialized in property such as Jones Lang Lasalle (JLL) share this concern and list Lebanon's real estate market in the 'low transparency' category.[1113] The absence of indicators providing reliable information about scarcity and desirability in the property market, which are usually key to constructing prices, have clearly fuelled landowners' unrealistic profit expectations and the herd mentality of property professionals who, in many cases, undertake no market study to identify actual demand (e.g., unit size, location, price) (see Chapter 7).

The lack of transparency in the property sector is mostly a matter of political will: as suggested by a senior executive at the Ministry of Finance, the public administration does have the expertise and technical means to put together basic property indicators. Economist Charbel Nahas agrees and suggests that events occur as if prices, which are key market indicators to shape agent behaviours, were voluntarily misrepresented.[1114] Informational deficiency may be reduced in the near future, however, as a number of public and private actors have recently decided to

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[1110] Fawaz, 2003, p. 10

[1111] Beidas-Strom, S., Lian, C., & Maseeh, M. (2009) *The housing cycle in emerging Middle Eastern economies and its macroeconomic policy implications*. Beirut, Lebanon: International Monetary Fund, Middle East and Central Asia Department, p. 10; Fawaz, 2003, p. 8; Nahas, 2009, p. 4; Taffin et al., *op. cit*., p. 1

[1112] Hassler, O., (2011). *Housing and real estate finance in Middle East and North Africa Countries. Financial Flagship*. Washington, DC: World Bank

[1113] "Global real estate transparency index" (2014). In *Jones Lang Lasalle*. Retrieved from www.jll.com/greti/transparency/middle-east-and-north-africa

[1114] Nahas, C. (2000a). *Économie foncière et immobilière au Liban*. (Lettre d'information, No. 12). Beirut, Lebanon: CERMOC - Observatoire de Recherches sur Beyrouth et la Reconstruction (Translation by the author) construct their own data series.[1115] The Municipality of Beirut, in partnership with the Land Registry, is building a digitalized database monitoring land and real estate values at the lot level in order to better calculate building permit fees.[1116] Without going into the details of the calculation, it is worth noting that this database, whose access is limited to landowners, applies a 40 percent cutback to current market prices: for example, a lot sold for USD one million on the market is entered in the database as evaluated at USD 600,000. Municipal officials, in other words, estimate that property is locally overpriced by at least 40 percent.[1117] On the other hand, the Real Estate Developers Association - Lebanon (REDAL), a professional organization established in recent years, intends to create its own property statistical bulletin. This is also the case for the Order of Engineers and Architects, which launched a real estate price index in 2016, as well as for InfoPro Research that started a bi-annual 'Residential Real Estate Price Index' and a 'Residential Real Estate Inventory Index' the same year.[1118] It is too early to evaluate the quality and accuracy of these indicators.

Land acquisition: a frequent strategy to launder dirty money

A final contributing factor to property price formation and inflation has been the significant, albeit hardly quantifiable, amount of money of suspicious origin circulating through the land market. In the last 10 to 15 years, depositing of black money in Lebanese banks has become increasingly difficult with the mounting international pressures exerted by the United States and the European Union to fight tax evasion and the financing of terrorist groups. Holders of dirty money have thus looked for alternative sectors and schemes to launder funds and keep them away from prying eyes. The weakness of control and the opportunity to sink large amounts of capital have rapidly made land investment a choice recycling stream. "Anybody who comes here with USD 20 million can buy any piece of land in cash; the landowner then goes to an exchange dealer for a check, for a two percent interest," explains a high-profile Beirut-based banker who asked to remain anonymous. Likewise, some development firms, a local property

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[1115] Some major property companies and engineering firms such as Laceco have their own database on land and property prices. But they do not make this data public.
[1116] Senior official of Beirut Municipality, personal communication, May 4, 2015
[1117] Another interpretation is that municipal officials undervalue land to limit taxation.
[1118] Lebanon Opportunities Staff (2016, December 8). *Two real estate indices are launched by InfoPro*. Retrieved from www.businessnews.com.lb/cms/Story/StoryDetails.aspx?ItemID=5823&utm_source=feedburner&utm_medium=twitter&utm_campaign=Feed%3A+LebanonBusinessArticles+%28businessnews.com.lb+-+Twitter%29; Nash, M. (2016, January). Data deficiency syndrome: The real estate market continues to lack solid price and demand statistics. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/data-deficiency-syndrome

specialist informs me, mysteriously and suspiciously offer landowners 20 percent above market price for a lot, to maximize the amount of cash injected into the initial investment. Although they should not be exaggerated, money-laundering schemes have contributed to the rise in land prices and fuelled irrational profit expectations among landowners.

6.1.2 The Relationship Between Real Estate and Land Asset Values

In Lebanon, it is also necessary to get a better account of property asset prices to counter a widespread but misleading narrative: the finiteness of land resources is portrayed as the primary factor in Beirut's irrationally high land and real estate prices. This "collective myth" regularly rekindled by local banking and property agents suggests that land prices, determined by a combination of sustained demand and inelastic supply, shape real estate prices.[1119] We touch here upon a central question in property economics: the economic articulation of land and real estate asset values. Economists remain cautious and explain that causal relationships between land and real estate markets are sometimes hard to identify.[1120] They also suggest that variations in political-economic contexts and agents involved in the development process may affect the concrete mechanisms connecting land to real estate. Yet, the most commonly accepted view in the scholarship is that real estate prices, which primarily reflect real estate demand, first and foremost shape land prices through a set of economic and non-economic mechanisms detailed later in this section. This is also the position I adopt in this thesis in order to clarify the relationship between real estate prices and land prices in post-2000 Beirut. I demonstrate that the exuberance of property prices does not result from absolute land scarcity, although I do suggest that the Lebanese capital faces a situation of *relative* land paucity that affects development activity without directly influencing the trajectory of real estate prices.

6.1.2.1 The myth of absolute land scarcity

Whoever works or conducts urban research in Lebanon ceaselessly hears this explanation: real estate is expensive because the country is small and mountainous, and only a small proportion of land can be exploited for development. Lara Abi-Abdallah Kanj, Head of the Real Estate Department at BlomInvest Bank, said nothing less in a press article in 2017: "The cycle in

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[1119] Bourdieu, P. (2000). *Les structures sociales de l'économie*. Paris, France: Éditions du Seuil

[1120] Renard, V. (2003). Les enjeux urbains des prix fonciers et immobiliers. In J.-C Prager (Ed). *Villes et économie* (95-108). Paris, France: La Documentation française

Lebanon is quite different from any other real estate cycle on earth – it's an escalating cycle because of the scarcity of land."[1121] Antoine Chamoun shares the same view but formulates it more bluntly: "We are not a country like Canada that needs people to fill an empty territory."[1122] This land-based line of argument is even more commonplace in Beirut. For many banking and property actors such as Marwan Barakat, Head of Research at Bank Audi, property is expensive because the city is, "circumscribed by poor areas" and has "no room for expansion." As a result, "developers have to build on a limited number of lots."[1123]

Citing the finiteness of land resources to justify irrationally expensive property values is certainly not new to Lebanon; however, a former senior planning official claims that the myth was reinvigorated in the late 2000s under pressure from the property industry and landowners.[1124] One episode is particularly illustrative: in 2009, Bilal Alayli, former head of the Order of Engineers and Architects as well as current Executive Director of Laceco (a prominent architectural and engineering consultancy firm) and one of Hariri's Future Movement leaders in Beirut, announced in a famous newspaper that only 100 lots remained in Beirut.[1125] At the peak of boom years, the objective seemed to be to rush people to buy residential units: such a scarcity of supply could only push property prices even higher. While the attempt to stimulate real estate activity and increase prices did not cause any special escalation in demand, the episode is a telling illustration of the constant striving, in property circles, to mould perceptions of the state of the Beiruti land market.

To my knowledge, Beirut-based professionals and analysts have not properly, or at least publicly, deconstructed the myth of absolute land scarcity and its reliance on an inelastic supply. Yet its veracity seems easily falsifiable: any visitor walking through the city will notice a significant number of undeveloped sites, sometimes occupied by parking lots, reminiscent of US and Canadian downtown areas (see Figure 6.2 below).[1126] The same former senior planning official who denounced the manipulation of perceptions by unscrupulous property interests agrees and provides concrete data: over the 21,000-22,000 lots constituting Municipal Beirut's

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[1121] Lara Abi-Abdallah Kanj was quoted in Dziadosz (2017). (Dziadosz, A. (2017, September 11). Beirut developers look toward peace in Syria. *The Daily Star*. Retrieved from www.dailystar.com.lb/.../418883-beirut-developers-look-toward-peace-in-syria.ashx)
[1122] Antoine Chamoun, personal communication, September 30, 2014
[1123] Marwan Barakat, personal communication, April 22, 2015
[1124] Former senior planning official, personal communication, June 6, 2014
[1125] Salem, R. (2010, December). Towering profits. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/towering-profits
[1126] In some cases, a parcel may be used temporarily as a parking lot as the landlord sets out to purchase the adjacent land before merging the two.

cadastre, about 7,000 lots can to this day be considered empty.[1127] Similarly, real estate analyst Guillaume Boudisseau adds that a significant stock of prime land in the form of old and underexploited buildings, sometimes abandoned and often under rent control, is also likely to be relatively easily demolished.[1128]

Figure 6.2 – Undeveloped sites in Beirut's central neighbourhoods
(Source: Author, 2012)

The myth of land scarcity is not Lebanon-specific: it is typical of smaller countries such as Japan and Hong Kong where the economy is highly financialized and property is an essential component of the growth regime.[1129] Interestingly, the Netherlands is a counter-example traditionally used by economists to demonstrate why real estate prices are not dependent on a purported scarcity of land resources. In this small European country of 41,543 sq. km, urban land is exposed to significant pressure: 90 percent of the population lives in cities, density is high (about 400 inhabitants per sq. km), and the financial sector is an important contributor to the domestic GDP. Nevertheless, a variety of factors, including most importantly a long tradition of

[1127] Former senior planning official, personal communication, June 6, 2014 (Translation by the author)
[1128] Guillaume Boudisseau, multiple communications, 2014-2015. Economist Natacha Aveline (2000, p. 31) stated in 2000, on the basis of data communicated by a private consultancy firm, that evaluations of land availability in Municipal Beirut (outside Beirut Central District) were the following: 20 percent of lots were unbuilt and another 20 percent could be redeveloped since they accommodated low-density, damaged buildings. Interestingly, this means that land availability decreased by about 10 percent in a 10 to 15 year period, i.e., during the second property boom.
[1129] Aveline, N. (2005). *Les marchés fonciers à l'épreuve de la mondialisation: nouveaux enjeux pour la théorie économique et pour les politiques publiques* (Habilitation Thesis). Retrieved from https://tel.archives-ouvertes.fr/tel-00394000/en/; Kerr, D. (2002). The place of land in Japan's postwar development and the dynamic of the 1980s real-estate bubble and 1990s banking crisis. *Environment and Planning D, 20*(3), 345-374; Vincent Renard, personal communication, January 30, 2015; Smart, A. & Lee, J. (2003b). Financialization and the role of real estate in Hong Kong's regime of accumulation. *Economic Geography*, *79*(2), 153-171

land governance, have managed to keep land and real estate assets reasonably priced.[1130]

6.1.2.2 Residual value, multiplier effect and ratchet effect: three key economic and non-economic mechanisms

From a purely economic perspective, the major bias in the myth of absolute land scarcity is the erroneous connection inferred between land and real estate asset values. Concretely speaking, Beirut-based banking and property professionals who spread the myth imply that land prices determine real estate prices. Yet, a majority of property economists suggest the contrary and argue that real estate prices shape land prices. They identify two economic and one non-economic mechanisms to detail the relationship: the calculation of residual land value, the multiplier effect of real estate prices on land prices, and the ratchet effect of land prices. These three classic mechanisms of property economics are enlightening when they are used to make sense of the actual workings of price formation in post-2000 Beirut.

The first mechanism is the establishment of residual land value. This is accomplished by calculating the amount that can be invested in a land purchase in any particular real estate market. Developers, in other words, base their bid for land acquisition on the current real estate prices from which they deduct construction and financial costs, taxes and expected profit. The residual value is the amount of money that can be put toward the land, which is *in fine* a production cost managed in order to secure development profitability.[1131] In most professional property industries across the globe, the calculation of residual land value is an essential component of a development decision. The mechanism is therefore a critical link between real estate prices and land valuation.

The second mechanism is the multiplier effect of real estate prices on land prices during the upward swing of a property cycle, such as that of the speculative financial environment of 2000s Beirut. Property economics has long demonstrated that an increased amount of cash becomes available for land acquisition when a surge in demand boosts real estate prices. In effect, the residual value calculated by developers allocates a larger amount of money to land purchases when the value of the completed development rises and the remaining expenses remain more or less stable. This is key to an explanation of the purported 600 percent increase in Beirut's land

[1130] Vincent Renard, personal communication, January 30, 2015
[1131] Renard, 2003

prices between 2005 and 2012, even as the average price of real estate between 2003 and 2013 escalated by 210 percent.[1132] This hypertrophied effect of any temporary upswing in real estate asset prices on land asset prices also importantly inflates the price expectations of landowners in the short and middle terms.

The ratchet effect of land prices is the third and last mechanism that explains the relationship of real estate to land asset values. It refers to the downward stickiness of land values: when real estate activity and prices stagnate or slightly decrease, the price of land takes longer to deflate since it is a better value-preserver and an intermediary good with low storage costs.[1133] This non-economic mechanism, in other words, is a function of the behaviour of landowners who refuse to revise their return expectations downwards after years of hyperinflation, and keep prices high in the hope that they will pick up again.[1134] The ratchet effect on land prices is thus primarily one of "collective psychology" generally reinforced by market opacity. One of its key implications for the development process is market inertia with fewer parcels available at prices that meet cost and revenue expectations for builders and landowners in times of stagnation.[1135]

6.1.2.3 The prevalence of relative land scarcity

Accepting the principle that real estate prices determine land prices allows us to reformulate the debate on the state of the land market in Beirut and brings into view a situation of relative land scarcity. While I refute the contention that the Lebanese capital suffers from absolute, quantitative land availability, I make the case that city builders face a paucity of reasonably priced and easily constructible land resulting from agent behaviours and complex land ownership structures. This relative scarcity is certainly a constraint for development activity but it has only a secondary influence on the level of real estate prices.

In most cases, the perception of land scarcity is due to discrepancies in the economic reasoning and action of landowners and developers. In simple terms, rarity is primarily a matter of price. In times of real estate boom, development firms may have trouble finding land lots for

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[1132] InfoPro (2014). *Business Opportunities in Lebanon – Year XI. Real estate in Greater Beirut* [Data file]. Retrieved from www.databank.com.lb/docs/Real%20Estate%20Prices%20In%20Greater%20Beirut%20and%20suburbs-InfoPro%202014.pdf; Nahas, C. (2014). *Taxing land property gains in Lebanon: Tale of an ongoing experience*. Presentation at City Debates: From Property in Planning. American University of Beirut. Beirut, Lebanon. March 7-8

[1133] The absence of taxation on unbuilt properties in Lebanon makes the storage cost of land particularly low.

[1134] Haila, A. (1988). Land as a financial asset: The theory of urban rent as a mirror of economic transformation. *Antipode, 20*(2), 79-101, p. 81; Harvey, D. (1974). Class monopoly rent, finance capital and the urban revolution. *Regional Studies*. 8, 239-255; King, R. J. (1989a). Capital switching and the role of ground rent: 1 Theoretical problems. *Environment and Planning A: Economy and Space, 21*(4), 445-462, p. 448; Renard, 2003

[1135] Renard, 2003

sale at a cost matching their residual value. This is primarily a consequence of the cost-free option for landholders of sitting on their land and speculating until they obtain the exorbitant price they demand.[1136] The perception of scarcity is particularly prevalent among development actors looking for land in the most attractive areas of Municipal Beirut, especially for parcels above 4,000 sq. m.[1137] In times of real estate stagnation, the mismatch between the economic strategies of landowners and realtors is even more acute: a fairly large quantity of land lots will be for sale, but prices asked by owners, who refuse to revise their expectations downwards (i.e., ratchet effect), are too high for the builders whose activity is constrained by depressed real estate prices.

Apart from the retention and speculation-based behaviours of most landowners, the perception of land scarcity in the Lebanese capital is also reinforced by the quantity of land not directly available on the market or not easily developable. This is the result of a complex land ownership structure and of legal and technical constraints. First, although there is no public record of the respective shares of public, private and religious properties, estimates are that about 40 percent of land in Municipal Beirut is owned, not privately, but by central government agencies, local authorities, NGOs and religious communities (*waqf*).[1138] This land portfolio is generally less available for sale; yet, a number of institutional landowners provide long-term leases that allow residential or commercial development. Second, a significant number of land lots are either not buildable, i.e., below 500 sq. m., or not easily developable as many are "fought over by legal heirs, or [are] mortgaged, or violate municipality regulations, or are occupied by tenants."[1139] Some crafty property actors manage to speculate on the problematic lots through legal trickery; nevertheless, these difficulties make acquisition and development a costly and uncertain process and discourage builders whose profit depends on cost minimization and the respect of timelines.[1140]

In sum, relative land scarcity in post-war Beirut appears to be a reality that has critically constrained development activity without affecting the level of real estate prices. Unlike the form of spatial determinism that underlies the argument for the finiteness of land resources, the paucity

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1136 *Ibid*
1137 Plots above 4,000 sq. m. allow development firms to benefit from the 'grands ensembles' regulation (see later in this chapter).
1138 Fawaz, 2003, p.16; Alieh, Y. (2014b, March). Investing in Land. *Lebanon Opportunities*. 80-87, p. 87
1139 Alieh, 2014b
1140 Ziad Maalouf, CEO of Capstone Investment Group, explains: "Some investors intentionally buy shares in problematic lots. They reach a point in law called removal of prevalence, where all other shareholders are forced to sell their shares, or the investor sells his own shares at a higher price, or the land goes to a legal auction. In all cases, it's very profitable" (quoted in Alieh, 2014b, p. 87).

of reasonably priced and easily constructible land is first and foremost a social phenomenon, a repercussion of post-war Lebanon's urban political economy. It is primarily the outcome of the antagonistic economic strategies that structure and drive the activities of landholders and developers. The influence of the local political-economic environment seems particularly stark for landowners: the large amounts of money available in the Lebanese economy and the financialization of property assets, as well as the limited land governance, together go a long way toward explaining their rentier mentality and retention-based behaviours. Speculation thus concretely explains why realtors have trouble finding reasonably priced land for residential development without exposing themselves to excessive financial risk.[1141] This difficulty is a clear manifestation of the disconnect that the regulation-urbanization nexus has helped to bring about between exchange value and use value in the real estate industry, and of its adverse consequences for the development process.

6.1.3 The Hyperinflation of Property Prices: From Boom to Bubble?

Investigation of the multiple factors driving property price formation and evolution leads me to the ultimate question for which I cannot find a definitive answer: do local land and real estate prices in post-war Beirut show signs of a bubble? This question is important in view of the crucial role played by the property market in the reproduction of Lebanese capitalism. As explained in previous chapters, any collapse of property asset values is likely to endanger the country's financial and monetary stability. This nightmare scenario, explored in Chapter 9, is far from unrealistic: in the 1990s and 2000s, property bubbles fuelled by property-based regulation burst in Hong Kong, Japan and GCC countries and brought about an array of financial, economic and social disasters.[1142]

Timely identification of the warning signs of a bubble is extremely challenging.[1143] There is often very little agreement in business circles about the existence of a bubble before it actually bursts. Most agents "do not perceive themselves to be in a bubble even at the height of a bubble,"

[1141] Habib Debs, personal communication, April 14, 2014

[1142] Dujardin, M., Kelber, A., & Lalliard, A. (2015). Overvaluation in the housing market and returns on residential real estate in the euro area: Insights from data in euro per square metre. *Quarterly Selection of Articles,* Vol. 37. Paris, France: Banque de France, p. 49. For example, Smart and Lee (2003, p. 158) recall that the 1990s recession in Japan was mostly due to the collapse of land and real estate prices, which "wiped out wealth equivalent to USD 5.85 trillion."

[1143] Crowe, C., Dell'Ariccia, G., Igan, D., & Rabanal, P. (2011). *How to deal with real estate booms: Lessons from country experience* (International Monetary Fund, Working Paper, No. 11/91). Retrieved from https://econpapers.repec.org/article/eeefinsta/v_3a9_3ay_3a2013_3ai_3a3_3ap_3a300-319.htm (p. 3) state American economists Karl Case and Robert Shiller.[1144] Moreover, inquiries into this controversial question are even more challenging in Lebanon because the lack of reliable and longitudinal data blocks detailed monitoring of property prices. It is impossible, therefore, to formulate a categorical response to the question whether the evolution of asset values in Beirut's real estate market amounts to bubble dynamics.

It is possible, though, to make an educated guess. I adopt here the position of a number of Beirut-based heterodox economists that the fast-paced rise in property asset values throughout the 2000s was, in fact, an integral component of the country's growth regime; a fact that should therefore rule out the existence of a bubble.[1145] Nonetheless, I stress that the disconnect between property asset values and other financial and economic indicators in the 2010s may call into question the current soundness and the future stability of prices in the real estate market. First, however, it would help to define the context and terms of the scholarly debate.

6.1.3.1 The concern of bubble dynamics in high-level financial circles

"There is no risk of bubble, there has never been a bubble, and there will never be a bubble in Lebanon," hammers home real estate tycoon Massaad Fares.[1146] Most real estate and banking professionals I met for this research shared, at least publicly, this overconfidence in the local property market. Their line of argument is generally twofold: speculation, with investor buyers flipping condominiums, is absent since user demand drives property growth.[1147] And the prevalence of self-financed supply and demand and the robustness of the central bank's prudential framework make property-financing schemes quite safe. Yet, as demonstrated over the course of this dissertation, several of the assumptions underpinning these arguments are fallacious: investment demand is significant, debt is increasingly prevalent on both demand and supply sides, and the soundness of banking credit schemes and prudential rules is exaggerated. Further, estimations made by experts from the Municipality of Beirut, who suggest that property transactions are overvalued by about 40 percent, reinforce doubts about the soundness of asset values. By the same token, the prudent attitude of high-level financiers and central bankers, in

[1144] Case, K., & Shiller, R. (2003). Is there a bubble in the housing market? (Brookings Papers on Economic Activity, No. 2). Retrieved from www.brookings.edu/bpea-articles/is-there-a-bubble-in-the-housing-market/ (p. 301)
[1145] Charbel Nahas, multiple personal communications, 2014-2016
[1146] Massaad Fares, personal communication, October 15, 2014
[1147] Flipping activity consists in "purchasing a residential property, perhaps improving the property through cosmetic or structural changes, and attempting to rapidly resell the property for a profit" (Depken II, Hollans & Swidler, 2011, p. 50). (Depken II, C., Hollans, H., & Swidler, S. (2011). Flips, flops and foreclosures: Anatomy of a real estate bubble. *Journal of Financial Economic Policy, 3*(1), 49-65)

contrast to the confidence of most local builders and bankers, has signalled that doubts over the stability of the real estate market are not totally groundless. The velocity and intensity of real estate price appreciation, albeit encouraged, have been a recurrent source of concern for Lebanese financial authorities and the Beirut-based chapters of International Financial Institutions. Since the early 2000s, the International Monetary Fund and the World Bank have commissioned a number of public and internal reports and organized regular meetings to evaluate the extent to which the property market could pose risks to the domestic financial system.

The 2007-2010 period of escalating property inflation encouraged the IMF and the World Bank to conduct further research on real estate in Lebanon.[1148] The IMF Beirut office notably handed over a controversial report to the Banque du Liban and the Ministry of Finance, in which analysts attempted to understand the forces driving the property boom. The report, according to various informants, suspected the existence of bubble dynamics but it was confronted with the hostile reaction of the BdL and the MoF, which refused this interpretation and, more generally, denied the existence of a problem with property prices. Lebanese financial authorities, sharing the arguments of the property industry, contented that demand was real and the prudential framework for bank lending was solid. They also suggested that the undervaluation of property assets at the turn of the millennium and an absolute scarcity of land contributed to the rapid inflation of asset values. The Governor of the central bank and the Minister of Finance refused at the time to make the IMF report public and, proof that the question remains delicate, denies access to it today. I made multiple requests to the BdL, MoF and IMF to consult this document: all were systematically turned down.

The contribution of the IMF report, which had the merit of putting the model of post-2000 property growth into question, appears to be limited, however, due to a fundamental flaw. The analysts I managed to discuss it with all admitted that the study failed to rest upon a clear and shared definition of the parameters of an actual bubble and its differentiation from a well-founded strong inflation of property asset values. This shortcoming is annoying in light of the extent to which the definition of a bubble is critical to a demonstration of its proof or disproof, and to the design of policy responses in the case that it was real. But this fuzziness turns out to be common:

[1148] The World Bank, for instance, commissioned Taffin, Roy, Gonnet and Nahas' report (*op. cit.*), to which this study frequently refers.

as Karl Case and Robert Shiller suggest, "the term 'bubble' is widely used but rarely clearly defined."[1149]

6.1.3.2 Defining property bubbles: a prerequisite to any investigation

Economist Joseph Stiglitz, 2001 Nobel Laureate in Economic Sciences, offers a straightforward definition: a bubble exists when "the reason that the price is high today is only because investors believe that the selling price will be high tomorrow."[1150] Similarly, Case and Shiller refer to "a situation in which excessive public expectations of future price increases cause prices to be temporarily elevated."[1151]One can speak about a bubble, in other words, when fundamental economic factors no longer justify the prices of an asset class, and when prices, boosted by rational and/or irrational inflationary expectations, deviate "from the values that would exist under non-bubble conditions."[1152] Yet, identification of this value anomaly is not an easy task given that rapid price appreciation is not in itself conclusive evidence of a bubble: as Stiglitz contends, high prices can, at least in the short term, merely reflect returns on an asset compared to alternative vehicles.[1153] Case and Shiller also indicate that "changes in fundamentals may explain much of the increase."[1154]

The challenge of diagnosing value anomaly remains the same when focusing on property. French economist Vincent Renard proposes an initial simple definition: a property bubble can be identified when, under the impetus of a strong influx of liquidity, land and real estate prices are no longer in tune with use value and the income of local dwellers.[1155] He uses, in particular, the notion of "real estate purchasing power," whose measurement specifies the living area, in square meters, that households earning the median wage can purchase in a particular city at a particular time. Renard explains that, in most cities worldwide where prices appreciate faster than household income, the "real estate purchasing power" has constantly shrunk in recent years.[1156]

[1149] Case & Shiller, *op. cit.*, p. 299
[1150] Stiglitz, J. (1990). Symposium on bubbles. *Journal of Economic Perspectives, 4*(2), 13-18, p. 13
[1151] Case & Shiller, *op. cit.*, 299
[1152] Antipa, P., & Lecat, R. (2009). *The "housing bubble" and financial factors: Insights from a structural model of the French and Spanish residential markets* (Banque de France. Working Paper, No. 267). Retrieved from https://ideas.repec.org/p/bfr/banfra/267.html; Stiglitz, *op. cit.*, 13; Jarsulic, M. (2010). *Anatomy of a financial crisis a real estate bubble, runaway credit markets, and regulatory failure*. New York, NY: Palgrave Macmillan, p. 36; Shiller, 2012
[1153] Stiglitz, *op. cit.*, p. 13
[1154] Case & Shiller, *op. cit.*, p. 300
[1155] Vincent Renard, personal communication, January 30, 2015
[1156] Renard, V. (n. d.). *La question foncière, une clé pour agir sur les politiques du logement*. Retrieved from http://vincentrenard.eu/index.php/articles/11-la-question-fonciere-une-cle-pour-agir-sur-les-politiques-du-logement?tmpl=component&print=1&page=

This definition casts a very wide net however. It includes the property markets of most rapidly globalizing cities and many others. This is why Renard, with other analysts, goes further to identify the features of what he terms a "speculative bubble."[1157] He suggests that the phenomenon refers to the persistence of inflated land and real estate values disconnected from the evolution of other economic fundamentals (e.g., prices, GDP growth, money supply, interest rates) and of investments of comparable maturity and risk in the context of demographic stability and limited income growth.[1158]

Economists generally agree that episodes during which property asset values are disconnected from other economic fundamentals cannot last forever.[1159] Prices eventually fall, more or less abruptly, when demand declines as people "perceive that prices have stopped going up" in response to various economic and political factors, psychological feedback effects and amplification mechanisms.[1160] The economic scholarship also demonstrates how, and by which mechanisms and scenarios (e.g., loose monetary policy, excessive availability of credit), a property bust can subsequently spread to the credit system and ultimately cause a full-fledged financial crisis.[1161] Yet, as economists Carsten Detken and Frank Smets indicate: "Not all asset price booms lead to a bust and not all busts to a financial crisis."[1162] In light of this body of theory, should one conclude that real estate prices in Beirut show signs of a bubble?

6.1.3.3 Bubble dynamics in Beirut's real estate: the pros and cons

Two categories of views confront each other here. These are outlined below.

Diverging views on the rapid upward trajectory of property prices

In recent years, a number of banking sector officials have given credence to the bubble hypothesis to explain the exuberant prices in Beirut's real estate. Paolo Moscovici, Managing Director of JP Morgan Private Bank in the Middle East, and Nick MacLean, Managing Director of global real estate consultancy CB Richard Ellis in Dubai, argued in 2010 that real estate prices

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1157 Depken II, Hollans, & Swidler, *op. cit.*; Case & Shiller, *op. cit.*
1158 Renard, 2003; Beidas-Strom, Lian, & Maseeh, *op. cit.*, p. 14
1159 Case & Shiller, *op. cit.*, p. 300
1160 Case & Shiller, *op. cit.*, p. 300, 337
1161 Allen, F., & Carletti, E. (2011). What should central banks do about real estate prices? Paper presented at the conference Microfoundations for Modern Macroeconomics. Columbia University, Center on Capitalism and Society, New York, NY. November 19-20, p. 6
1162 Detken C., & Smets, F. (2004). *Asset prices booms and monetary policy* (ECB Working Paper, No. 364). Retrieved from www.ecb.europa.eu/pub/pdf/scpwps/ecbwp364.pdf?650a83b37988883461dceb8f47178e79 (p. 5)

were artificially high.[1163] In the same vein, Dan Azzi, a former Chief Executive Officer of Standard Chartered Bank, explained in 2016 that he saw in Beirut a "classic bubble […] at the beginning of a major correction."[1164] Likewise, a prominent analyst from a major Lebanese bank interviewed for this study acknowledges the existence of "micro-bubbles" in Beirut's high-end property market. Yet, he suggests that, in this "Lebanese-style bubble," in contrast with the UAE or Spain, asset values may cool off but are unlikely to collapse.

These worrisome accounts, however, have not relied on solid evidence to demonstrate that the inflationary dynamics of post-2000 Beirut's real estate values are different from a mere sustained increase in prices. Affordability indicators, as suggested in Vincent Renard's first definition of a bubble, however could provide some. In effect, research shows that the price-to-income ratio in Municipal Beirut has climbed from 31 in 2003 to 45 in 2014 (see Figure 6.3 below).[1165] This means that property price inflation has far outstripped any rise in income and led to a 45 percent reduction in the 'real estate purchasing power' of the local residents in a decade.[1166]

Definition of price-to-income ratio: average price of a residential property in USD / average annual household income in USD

Price-to-income ratio in Municipal Beirut in 2003: USD 279,000 / USD 8,930 = 31
Price-to-income ratio in Municipal Beirut in 2014: USD 868,000 / USD 19,220 = 45

Figure 6.3 – Property Price-to-income ratio in Municipal Beirut in 2003 and 2014
(Source: InfoPro, 2014; World Bank, 2016 | Calculation: Author)

In contrast, a group of economic experts led by Charbel Nahas refutes the bubble hypothesis for a series of reasons that resonate with Vincent Renard's and Case and Shiller's

[1163] Paolo Moscovici and Nick MacLean were quoted in The Daily Star (2010). (The Daily Star Staff (2010, October 7). Salameh: Real estate boom can't continue at the same pace. *The Daily Star*. Retrieved from www.dailystar.com.lb/Business/Lebanon/2010/Oct-07/59839-salameh-real-estate-boom-cant-continue-at-same-pace.ashx)

[1164] Dan Azzi was quoted in Ajami (2016). (Ajami, B. (2016, August 7). Why real estate prices in Lebanon are falling. *The Arab Weekly*. Retrieved from www.thearabweekly.com/Economy/6041/Why-real-estate-prices-in-Lebanon-are-falling)

[1165] This calculation is based on the average level of real estate prices in Municipal Beirut provided by InfoPro (2014) and applied to a 200 sq. m. unit, as well as on the World Bank's data series (2016b) on GNI per capita for a two-adult household. InfoPro estimates were published in Boudisseau (2014). (Boudisseau, G. (2014, March). Le prix moyen d'un appartement à Beyrouth est d'un million de dollars. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/23239-le-prix-moyen-dun-appartement-beyrouth-est-dun-million-de-dollars; World Bank (2016b). *GNI per capita, Atlas method (current USD)* [Data file]. Retrieved from http://databank.worldbank.org/data/reports.aspx?source=2&country=LBN&series=&period=#)

[1166] The unaffordability of Beirut's real estate, however, predates the 2000s property boom: in 2003, the price-to-income ratio was already far above five, i.e., the threshold beyond which access to housing is no longer considered to be affordable according to international standards (Hassler, *op. cit*).

definitions of 'speculative bubbles.'[1167] For Nahas, the exorbitant increase in property prices throughout the 2000s was an "integral component" of Lebanon's rentier and finance-led growth regime.[1168] Indeed, the sheer volume of externally derived financial resources entering the economy has structurally and persistently fuelled the upward trajectory of all asset values and financial aggregates in the country. In this way, the appreciation of real estate prices in Beirut seems to be in line with the evolution of other economic fundamentals, except perhaps household income that has increased less rapidly. While there is no definitive answer to the bubble question, this view has the merit of referring to clear definitions in economic theory as well as to an in-depth analysis of Lebanon's political economy. For these reasons I find it the most convincing in the debate on the nature of the inflation of post-war Beirut's property asset values.

BdL stimulus plans and suspicions of bubble-like dynamics

Lebanon's growth regime has nevertheless entered a phase of uncertainty in 2010-2011 with the balance of payments running a deficit. The sharp decrease in financial inflows has resulted in a period of slow GDP growth adversely affecting all economic sectors. The decreased volume of liquidity entering the economy, together with asset price overvaluation, has mechanically reduced real estate demand, i.e., the primary factor determining the trajectory of asset values. In spite of this, real estate prices remained elevated and began to slowly decrease only in 2014-2015. Reasons for the downward stickiness of real estate prices are multiple; they will be addressed later in this chapter. But one is particularly meaningful to the discussion on bubble dynamics: the BdL-led stimulus packages. In many ways, these have kept the real estate market afloat by sustaining a minimum level of resident demand and, thus, asset value.[1169] Nevertheless the artificial money supply has been a game changer for the property market's financing model and thus disconnected real estate prices from the evolution of other key financial and economic indicators (e.g., BOP, GDP growth), including other asset values. My question is then: to what extent could this disconnect call into question the soundness of price formation and amount to a sign of emerging bubble-like dynamics? Moreover, could the central bank's artificial

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[1167] Case & Shiller, *op. cit*.
[1168] Charbel Nahas, multiple personal communications, 2014-2016
[1169] A large majority of the 1.2 million Syrians arriving in Lebanon since 2011 have not found accommodation in the formal residential market. As such, their presence is not believed to have resulted in a significant rise in real estate demand that could justify the stickiness of real estate prices. However, as indicated in Chapter 8, Syrian refugees have probably very much contributed to the rapid price inflation in the informal housing market throughout Lebanon and especially in Greater Beirut.

support of real estate asset values jeopardize their short-to-middle-term stability by increasing their dependence on subsidized credit?

While there is again no categorical answer, the responsibility of subsidized mortgage lending in the possible emergence of a bubble-like situation, as was the case in Japan and Thailand in the 1980s and 1990s, should not be ruled out. In the context of the regulation-urbanization nexus, this question deserves special attention and requires further research in the months and years to come. Bubble or not, the BdL interventions in real estate financing have certainly increased the fragility of real estate asset values by making demand largely contingent on artificial financial resources. As a matter of fact, no one can say how artificially supported property values will evolve if the economic stagnation persists and, for whatever reason, the BdL is no longer able to support local demand, and/or home buyers or builders default on their credit. While the central bank has probably avoided a crash in property values in recent years, the increased dependence of real estate prices on mortgage-based demand may simply have postponed (and reinforced?) the risk of a violent bust.

In brief, this first section has attempted to demonstrate that Lebanon's exuberant property prices are an economic, social, fiscal and legal construct embedded in the regulation-urbanization nexus and not simply an indicator of scarcity and value. Specifically, it has unravelled the ways in which real estate asset values are shaped primarily by a persistently high level of demand and secondarily by a number of other factors including the weakness of public land governance, the poor quality of market information and the significance of money laundering. Equally importantly, this section has shown why real estate prices determine land prices and thus falsified the widespread myth that absolute land scarcity is the key contributor to exuberant property prices. It has, alternatively, underlined the fact that relative land scarcity does impose constraints on development activity in the Lebanese capital. Finally, this section has questioned whether the upward trajectory of Beirut's real estate prices exhibits bubble dynamics. Without providing a definitive answer, I have generally acknowledged that the fast-paced inflation of property asset values seems to be an integral component of Lebanon's growth regime. But I have raised concerns about the divergent trajectories of property asset values and other economic fundamentals in the 2010s. Caused by BdL-led stimulus plans, this disconnect calls into question the current soundness and the future stability of real estate prices.

6.2 Demand-Driven Property Cycles in Greater Beirut: Two Booms but no Bust?

This second section analyzes the timeline and specifics of the two post-war property cycles (1992-2002 and 2003-2016) that have restructured the Lebanese capital and its periphery. In contrast to many cities and countries worldwide where property cycles exhibit periods of boom and bust, the Lebanese property market has experienced periods of boom and stagnation but to this day has not faced a situation of sharp decline.[1170] As underlined earlier, this is mainly due to a recurrently strong level of real estate demand fuelled by BOP surpluses in times of economic boom and BdL injections of liquidity in times of stagnation. Sustained demand has consequently supported the upward trend of asset prices and construction dynamics. Specifically, the price-related anticipatory and corrective action of city builders and landowners has guided, alongside herd mentality and habit-persistence, the trajectory of property supply. To show how this is the case, I briefly review the chronology of the first cycle's boom and stagnation phases. I then unravel the second cycle in greater detail through a systematic analysis of the mechanisms linking real estate demand, asset prices and construction.[1171] In a context of poor quality market information, I first explain the data I use to document the evolution of property demand, price and supply.

6.2.1 Monitoring Property Demand, Price and Supply: A Methodological Challenge

Measuring land and real estate transactions, prices and construction activity is quite a challenge in Lebanon. Data sources are limited, fragmented and not completely reliable. Yet, analyzing the post-war trajectory of the property market without any quantitative material was inconceivable. This is why I decided to cautiously use existing data series on property transactions and prices, and to create a new indicator of construction permits. In spite of their

[1170] Economists Michael Bordo and Olivier Jeanne (2002, p. 3) interestingly suggest that "boom-bust episodes seem to be more frequent in real property prices than in stock prices, and in small countries than in large countries." (Bordo M., & Jeanne, O. (2002). *Boom –busts in asset process, economic instability, and monetary policy* (NBER Working Paper, No. 8966). Retrieved from www.nber.org/papers/w8966.pdf). See also: Agnello, L., & Schuknecht, L. (2009). *Booms and busts in housing markets: Determinants and implications*. (ECB Working Paper, No. 1071). Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.165.3616&rep=rep1&type=pdf; Englund, P., & Ioannides, Y. M. (1997). House price dynamics: An international empirical perspective. *Journal of Housing Economics, 6*(2), 119-136

[1171] In the late 2010s, Nahas (2009) and Taffin et al. (*op. cit.*) identified three phases of property activity in their analysis of post-1990 Beirut's property market. This research adds a new phase corresponding to the post-2010 period.

limitations, these three barometers generally provide a useful overview of demand, price and supply dynamics.

Real estate transactions, recorded in number and value, are a classic indicator of property demand.[1172] They provide concrete information on the general behaviours and expectations of homebuyers. In Lebanon, however, the ability of this data to reveal time-sensitive, detailed or systematic real estate demand is questionable for several reasons. First, registrations are frequently undervalued and delayed.[1173] Second, data sets do not distinguish old from new properties or actual transactions from inheritances. Moreover, it does not sort data by property category (i.e., residential, office, retail).[1174] Third, data series do not include transactions "masked [by] the sale of shares in real estate companies [i.e., transactions through SAL-based legal schemes] or relying on private contracts kept by notaries."[1175] The evaluation of real estate transactions provided in this section, accordingly, gives a general but imperfect sense of residential demand dynamics.

Available information on the evolution and distribution of land and real estate prices is piecemeal in the absence of any official price index. The data used in this research were collected and cross-referenced from several sources including InfoPro, Ramco Real Estate Advisers and my own interviews. For the most part, they cover the second property cycle since no detailed information was found for the period preceding the early 2000s. Various factors limit the accuracy of this indicator, the most important of which is perhaps the following: the property prices used in this research, as well as those in most property-related research and press articles, are primarily face values, i.e., those announced by developers.[1176] They are therefore, as discussed, likely overvalued as property actors have an interest in sharing exaggerated results and expectations. The property price data used in this study, in other words, are certainly not perfect; however, they give a general idea of local asset values as well as of their evolution over the past 15 or so years.

[1172] Data was collected from the Central Administration of Statistics and InfoPro, as well as from various publications such as Lebanon Opportunities and banks' annual reports, which all compile information released by the Land Registry. The Land Registry is a public entity under the authority of the Ministry of Finance.
[1173] A large number of buyers register properties under market value in order to reduce tax liability.
[1174] Taffin et al., *op. cit*.; Property developer #5, personal communication, November 7, 2014; Nash, M. (2016, January). Data deficiency syndrome: The real estate market continues to lack solid price and demand statistics. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/data-deficiency-syndrome
[1175] Taffin et al., *op. cit.,* p. 9
[1176] Aveline, N. (2000). *Marchés fonciers et immobiliers à Beyrouth*. (Document No. 6). Beirut, Lebanon: CERMOC- Observatoire de Recherches sur Beyrouth et la Reconstruction

As for the monitoring of the supply side of property activity, most research works and press reports in Lebanon generally use the evolution of cement deliveries. This indicator has the merit of reflecting actual construction activity at time T. Yet, it is of little help to an accurate assessment of the evolution of residential property supply because the available aggregate data includes all sorts of construction activity (e.g., public works, infrastructure), are available only at the country level, and reflect investment and development decisions taken years earlier. This is why it was necessary to engage with faculty and colleagues from the Graduate Programs in Urban Planning, Policy and Design, and the Neighbourhood Initiative (NI) at the American University of Beirut in the creation of a new construction indicator based on issued building permits. Permits granted in Municipal Beirut between 2000 and 2013 were obtained from the Beirut-branch of the Order of Engineers and Architects (OEA) and put together to create a Geographical Information System (GIS) called the Beirut Building Database (BBD).[1177]

The new indicator, recording the number of authorized projects[1178] and the volume of authorized surface area, has pros and cons. On the one hand, a study of construction dynamics through the prism of building authorizations provides, at time T, insight into the intentions of financiers to invest in, and of builders to launch, projects based on their anticipation of future real estate activity, i.e., their expectations of future demand, prices and return. Permits document development decisions and mirror, more generally, the trust of financial and property industries in the real estate market and the economic and political environment at large. This is, therefore, a very useful tool to unpack the economic and non-economic mechanisms organizing property cycles. On the other hand, the use of building permits to assess construction dynamics has three important limitations. First, collected information is not comprehensive: additional research has found that dozens of projects, which supposedly received authorization between 2000 and 2013, were mysteriously omitted from the dataset provided by the Order of Engineers and Architects. Some of these were added manually to the database, but my personal estimate is that 10 to 15 percent of issued permits remain missing.[1179] Second, permits give a sense of the property

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[1177] Suggested by Mona Fawaz, elaboration of the Beirut Building Database was primarily undertaken with my colleagues Hayat Gebara and Mona Khechen. Mohammed Saad and Dalia Chabarek also contributed to this work, which benefited from the generous financial support of the Graduate Programs in Urban Planning, Policy and Design and the Neighbourhood Initiative at the American University of Beirut.

[1178] Unlike most data series on construction permits that circulate in Lebanon, the BBD tracks the number of new authorized projects in Municipal Beirut rather than the number of issued permits. In other words, renovation permits and additions to existing buildings are removed from the database, and large projects, in the case they have received multiple permits, are only reported once.

[1179] Construction activity without formal permit does exist in low-income informal areas on the periphery; however, it is unlikely that new buildings would not receive proper authorization in Municipal Beirut. In many cases, development companies strive to obtain formal exceptions to planning regulations, but they rarely work without a building permit.

industry's anticipation, but not of the actual volume, of real estate supply since development firms may have cancelled or postponed a project for which they have received an authorization.[1180] Third, this dataset does not distinguish between residential and non-residential projects; residential construction was prevalent in post-2000 Beirut, however, and approximately 80 percent of listed projects, which include mixed-use developments, are primarily residential.

6.2.2 The First Property Cycle (1992-2002): Post-War Reconstruction and New Housing Needs

The first property cycle comprised a boom phase (1992-1996) and one of stagnation (1996-2002). It coincided, more or less, with the period of post-war reconstruction and unfolded in a political-economic context and an institutional environment in which the regulation-urbanization nexus was still at an early stage. End-user demand was the main driver of the property market; but it began to run out of steam in the second half of the 1990s. At the same time, the emergence of Solidere began to transform property activity, primarily through the spread of unprecedented levels of land and real estate prices.

6.2.2.1 First property boom (1992-1996): the impetus of post-war reconstruction

In the euphoria of recovered peace, domestic end-user demand and, to a lesser extent, early returnee investment demand propelled the number and value of real estate transactions in Beirut. The early upturn in real estate activity, encouraged by robust economic growth, began to push up real estate and land prices. A number of analysts point out, nevertheless, that the pace of inflation of asset values did not match the actual significance of real estate demand.[1181] This was, on the one hand, the result of a catching-up effect after a long period of stagnation during the war years. On the other, it also reflected the anticipation behaviours of builders, sellers and landholders, whose expectations were largely boosted by the post-war redevelopment of Beirut Central District.

Solidere was catalyzing the local property market: apart from stimulating construction activity, the downtown reconstruction megaproject was spreading exuberant price levels

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[1180] The validity of permits extends six to eight years. Giving up on a building permit is, however, uncommon since the permitting process is lengthy and costly for a development firm. The permit itself amounts to "1.3 per cent of estimated price of built land" (Fawaz, 2003, p. 19).
[1181] Tannous, B. (2004, August). Boom time: Real estate upward cycle is underway. *Lebanon Opportunities*. 54-57, p. 55; Real estate broker, personal communication, June 12, 2014; Senior official of Beirut Municipality, personal communication, May 4, 2015

throughout the Lebanese capital. It did this in two ways. First, its supply was primarily in the form of high-end real estate aimed at non-resident investment demand (see Chapter 4), in contrast to the development dynamics in the rest of the city at the time. Second, as a function of its role in the management, and augmentation of value of, its strategic land bank (4.6 million sq. m.), it rapidly and considerably raised the price charged to development companies acquiring land.[1182] Land prices within Beirut Central District jumped from USD 1,000 to 6,000 per sq. m. in a few years.[1183] What allowed Solidere to increase the cost of land to such an extent was the adoption of an *ad hoc* master plan for the city center, which considerably increased the centre's development potential (i.e., to a floor area ratio of 5.5 for most parcels).[1184]

The city centre's inflated real estate and land values then began to spill over into outlying areas and the rest of the city, especially to the western districts of Ras Beirut, Raouche and Ramlet El-Baida where prices rose by 30 to 50 percent.[1185] The CEO of one of the five largest Beirut-based banks confirms: property price inflation in Municipal Beirut clearly gained traction throughout the first mandate of then Prime Minister Rafiq Hariri (1992-1998).[1186] The upward progression of real estate demand and asset prices then led to the rapid growth of construction activity, which was further boosted by the reconstruction of infrastructure and the housing needs of displaced communities.[1187]

6.2.2.2 Property stagnation (1996-2002): depressed demand and vacant units

In the second half of the 1990s, the reduced performance of the balance of payments, sluggish economic growth, and an unstable political environment produced by the proliferation of military hostilities with Israel, diminished financial resources and knocked the confidence out of real estate investors in the Lebanese capital. Also, the near absence of housing loan schemes made it impossible for domestic demand to accommodate the inflated prices.[1188] The latter began

[1182] Nahas, 2000a; 2009, p. 20
[1183] *Ibid*
[1184] This relaxation of zoning regulations was specific to downtown Beirut, whose planning orientations became independent from the city's master plan and its already lax land-use framework.
[1185] Aveline, 2000, p. 29; Nahas, 2000a
[1186] Banker #1, personal communication, November 25, 2015
[1187] Actual construction activity, however, lagged behind the number of issued construction permits since a significant proportion of authorizations were intended to regularize constructions undertaken during the war (Taffin et al., *op. cit.,* p. 8).
[1188] Antoine Chamoun, personal communication, May 12, 2015; Hakim, S., & Andary, S. (1997). The Lebanese central bank and the treasury bills market. *Middle East Journal*, *51*(2), 230-241, p. 235

to dry up, as confirmed by a downward revision of land and real estate transactions.[1189] Real estate asset values corrected, and consequently entered a period of relative stagnation and slight price decline, which reached 10 to 20 percent in some areas and/or market segments.[1190] The real estate market, however, did not experience a bust.

In the absence of demand, vacant housing units began to accumulate: they are said to have totalled 180,000 to 250,000 in the country overall, and 60,000 to 100,000 in Greater Beirut, and represented about USD seven to eight billion of immobilized financial resources.[1191] The oversupply of residential units, alongside negative demand and price expectations, led to stagnation and decline in construction activity: builders first needed to absorb the surplus before starting new projects. Between 1996 and 2003, construction activity in Municipal Beirut amounted to a total authorized gross floor area of just 3,693,546 sq. m.[1192] The persistence of such a low level of transactions put the construction industry under intense financial pressure and pushed many amateur developers out of the market (see Chapter 7).[1193] The liquidation of existing stock took several years and it was not until 2003 that a new upward phase could be seen.

The Lebanese state essentially ended this period of virtual inactivity, preventing "a full-fledged real estate crisis."[1194] Creation of the Public Corporation for Housing and launch of its subsidized home loan programs began to support resident demand and reduce the stock of unsold assets.[1195] In a context of the relatively limited development of the regulation-urbanization nexus, the risk of a property crisis becoming a financial crisis at the time was limited. Indeed, unlike the post-2010 stagnation discussed later in this section, this one had limited bank involvement, on the supply and the demand side, which, combined with the relatively small size (and then value) of developments, significantly reduced the danger of a property bust to the financial sector's stability.[1196]

[1189] Bathiche, H. (2010a, February). Outperforming fund managers. *Lebanon Opportunities*. 60-63; Tannous, B. (2003, April). Kantari: Reaping the rewards of being the BCD's neighbour. *Lebanon Opportunities*. 52-55

[1190] Aveline, 2000, p. 29; Roger Melki, multiple personal communications, 2014-2016. The magazine Lebanon Opportunities (2007, p. 45; Tannous, 2004, p. 55), for instance, argues that prices plunged by 40-50 percent. (Lebanon Opportunities Staff (2007, April). Resiliency in the face of adversity. *Lebanon Opportunities*. 44-47, p. 45)

[1191] Aveline, 2000, p. 29; Corm, G. (2004). La situation économique du Liban et ses perspectives de développement dans la region. *Confluences Méditerranée. 2*(29), 149-159; Fawaz, 2003, p. 9; Huybrechts, E., & Verdeil, E. (2000). Beyrouth entre reconstruction et métropolisation. *Villes en Parallèle,* 32-33, 63-87; Antoine Chamoun, personal communication, May 12, 2015. The entire empty housing stock was however not for sale as it included war-damaged houses and properties belonging to non-residents (Fawaz, 2003, p. 8).

[1192] The Order of Engineers and Architects provided this estimation. In contrast to the database built for the 2003-2013 period, this total of approved gross floor area includes all types of construction such as renovations and additions.

[1193] Antoine Chamoun, personal communication, May 12, 2015; Real estate broker, personal communication, June 12, 2014

[1194] Nahas, 2009, p. 10; Taffin et al., *op. cit*, p. 8

[1195] Nahas, 2009, p. 10

[1196] Aveline, 2000, p. 31; Hakim & Andary, *op. cit.,* p. 235

6.2.3 The Second Property Cycle (2003-2016): The Impact of the Financial Turn

The second property cycle also consisted of a boom, (2003-2009) and a stagnation phase (2009-2016). But, it occurred in a very different political-economic and institutional environment: one with the concomitant rise in importance of the regulation-urbanization nexus. In the context of fast-paced financial and economic growth, the considerable flows of money into the domestic property sector sustained booming real estate demand and prices, and financed massive construction activity.

6.2.3.1 Second property boom (2003-2009): property exuberance at its zenith

After years of stagnation, a second property cycle commenced in Beirut in 2003, at a time when most property markets across the globe were also entering a boom period. This time, non-resident investors drove a rapidly growing real estate demand in the Lebanese capital. As outlined in Chapter 4, the positive liquidity and monetary shock generated by the Paris II international donor conference resulted in a tremendous amount of money seeking investment and placement opportunities in residential property as well as in tourist complexes (e.g., resorts, country clubs, hotels).[1197] Effective demand was very high throughout the 2000s, regardless of Rafiq Hariri's 2005 assassination and the 2006 July War that temporarily slowed the economy and reduced buyers' willingness to invest. The number and value of real estate transactions confirm this trend: aligned with the trajectory of the balance of payments and GDP growth, they steadily increased and then peaked in 2008-2009 (see Chart 6.1 below). Equally importantly, the rise of housing finance propelled end-user demand. The expansion of subsidized home loans specifically sustained strong demand in the suburban areas of Greater Beirut such as Baadba, Aley, Chouf, Kesrouan and Metn (see Charts 6.2 and 6.3 below), where real estate prices were generally more affordable for first-time buyers from the (upper-) middle class. In parallel, it is worth noting that between 2003 and 2008 the value of transactions escalated faster in Municipal Beirut than in suburban areas: this was probably the result of a stronger price appreciation and the increased size and generally higher standards of new constructions (see Chart 6.3 below).

[1197] Lebanon Opportunities Staff (2005, October). Real estate enters a revival phase. *Lebanon Opportunities*. p. 67

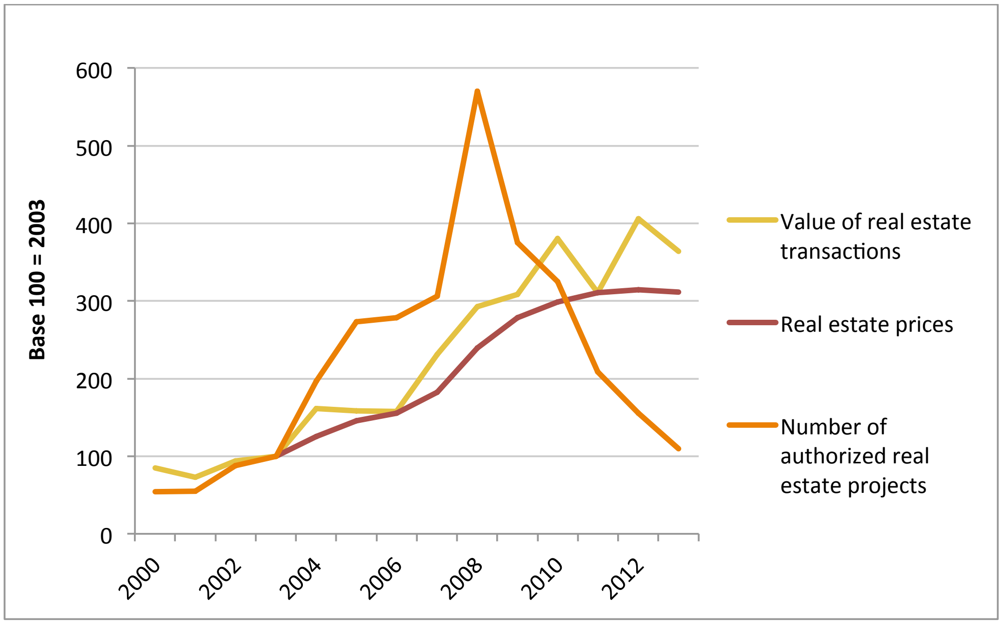

Chart 6.1 – The second property cycle in Municipal Beirut (2003-2013)
(Source: Land Registry; CAS; Bank Audi; InfoPro; OEA | Chart: Author)

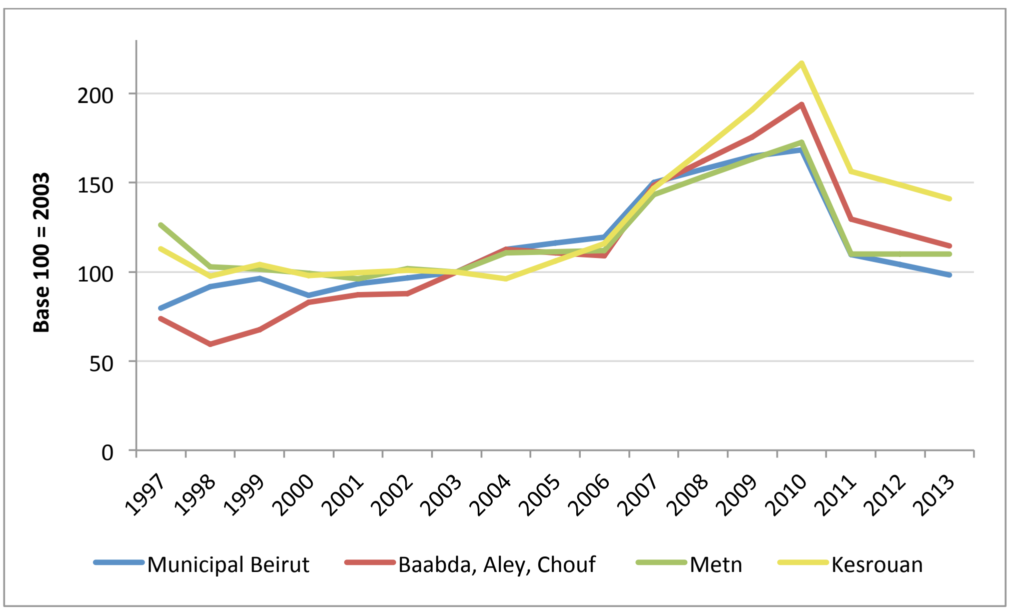

Chart 6.2 – Number of real estate transactions in Greater Beirut (1997-2013)
(Source: Land Registry; CAS; Bank Audi; InfoPro | Chart: Author)

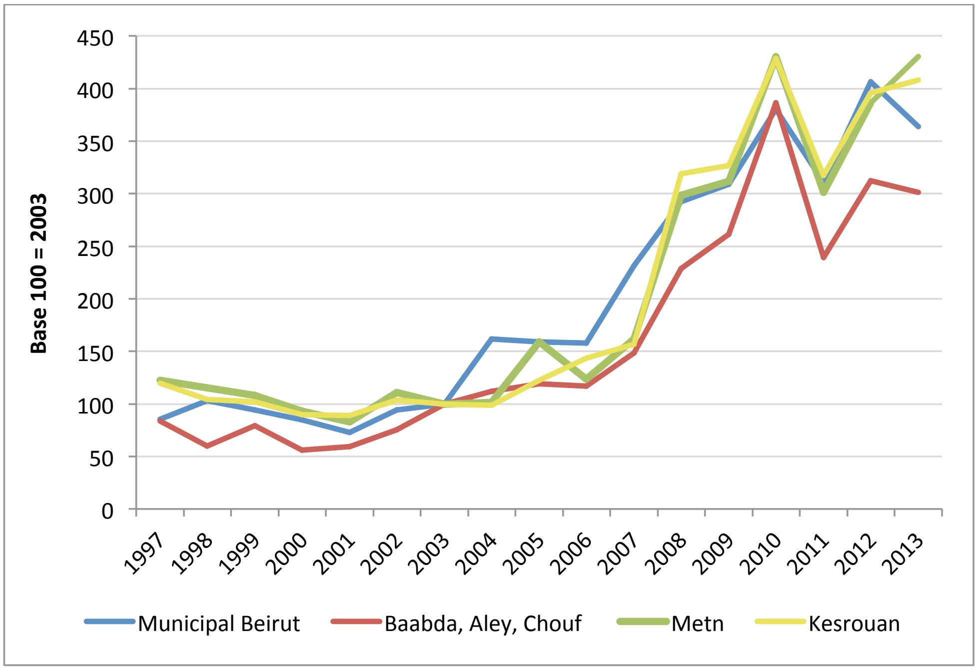

Chart 6.3 – Value of real estate transactions in Greater Beirut (1997-2013)
(Source: Land Registry; CAS; Bank Audi; InfoPro | Chart: Author)

Given the inelasticity of supply in the floor area in the short term, increased real estate demand led to the fast-paced appreciation of real estate prices. A combination of price estimates found in the press and information provided by interviewees suggests that nominal real estate prices in Municipal Beirut recorded a yearly growth of about 20 to 25 percent from 2003 to 2010, including a sharp "episode of exuberance" in 2008-2010 at a time when many property markets imploded worldwide.[1198] According to InfoPro's appraisal, price increases totalled about 190 percent between 2003 and 2010.[1199] This rapid upward trajectory importantly contributed to the attraction of land and real estate assets for investors and builders, and the contagion of 'boom thinking.' Domestic property assets, as underlined in Chapter 4, progressively offered higher returns than other, already rewarding, investment vehicles such as bank deposits and directly subscribed government securities. As Chart 6.4 shows, the price of newly built properties, boosted by inflation, escalated even faster than real estate demand between 2003 and 2009. Apart

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[1198] Data provided by a Beirut-based IFI anonymous informant and confirmed by Karim Makarem (Director of Ramco Real Estate Advisers) in Salem (2010). I borrow the term 'episode of exuberance' from Pavlidis et al. (2016). (Pavlidis, E., Yusupova, A., Paya, I., Peel, D., Martinez-Garcia, E., Mack, A., & Grossman, V. (2016). Episodes of exuberance in housing markets: In search of the smoking gun. *The Journal of Real Estate Finance and Economics, 53*(4), 419-449; Salem, R. (2010). Towering profits. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/towering-profits)
[1199] InfoPro, 2014

from the demand shock, a catch-up effect also probably played a role in fuelling this upward price spiral after years of low demand and stable prices.[1200] Further, the 40 percent appreciation of construction costs between 1997 and 2007, which was largely tied to an increase in prices of basic commodities at the international level, contributed to sustained price inflation.[1201] Additionally, a review of the details of price evolution and distribution in Municipal Beirut (Chart 6.5 below), clarifies the role of Solidere in pushing up price levels citywide.[1202]

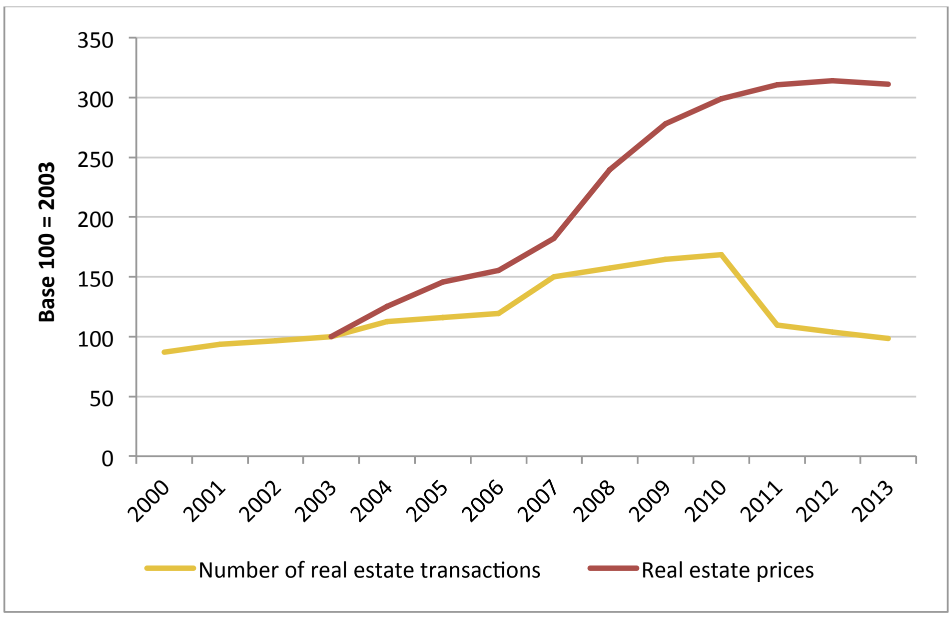

Chart 6.4 – Real estate demand and prices in Municipal Beirut (2003-2013)
(Source: Land Registry; CAS; Bank Audi; InfoPro | Chart: Author)

[1200] Bathiche, 2010a, p. 61; Roger Melki, multiple personal communications, 2014-2016
[1201] Nahas, 2009, p. 14
[1202] Namir Cortas, personal communication, September 22, 2014

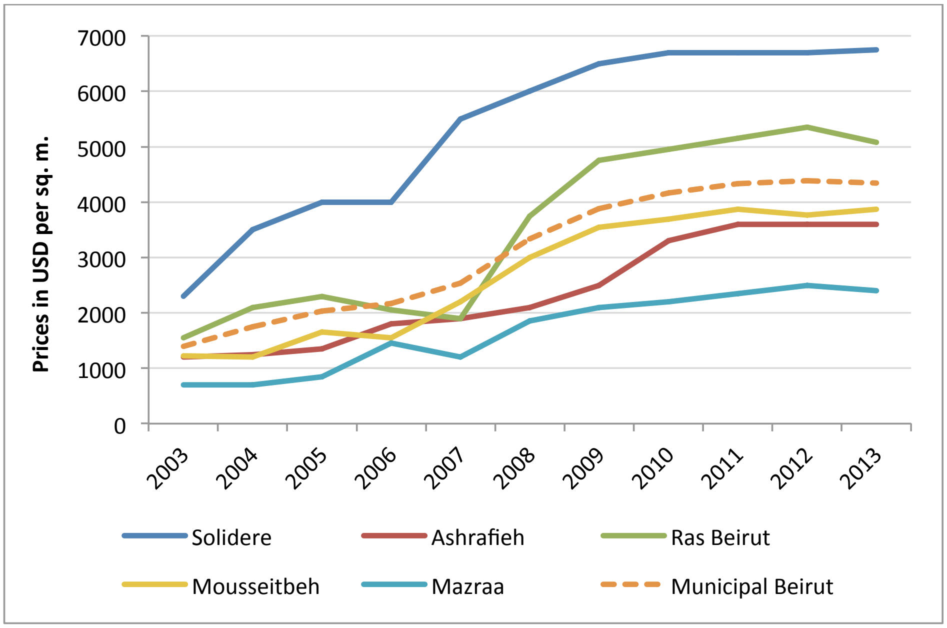

Chart 6.5 – Nominal real estate prices of newly constructed properties in Beirut (2003-2013)
(Source: InfoPro, 2014 | Chart: Author)

Chart 6.5 indicates that real estate price inflation was not uniformly distributed across municipal districts. For example, the price escalation of newly built units in Ras Beirut between 2003 and 2010 amounted to 220 percent, including a 97 percent increase in 2007-2008. In the meantime, according to InfoPro, Beirut Central District recorded an approximate price increase of 191 percent, including a 37.5 percent rise in 2006-2007.[1203] This boom in real estate value also mechanically affected land asset values: landowners asked reactively for higher land prices, which surged by about 600 percent in the central areas between 2005 and 2012.[1204] This is precisely the 'multiplier effect' of real estate prices on land prices outlined earlier in the chapter. In many ways, the mechanism relies on the herd mentality and habit-persistence of landholders who believe that the upward trend cannot but continue in the short and medium terms. In this case, poorly skilled amateur developers also contributed by purchasing parcels without performing residual value calculations.[1205] Developer Massaad Fares, head of Prime Consult and former Chairman of the Real Estate Syndicate of Lebanon, confirms this atmosphere of property speculation when he recalls the second half of the 2000s: "Everybody went crazy, nobody knew

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[1203] *Ibid*
[1204] Nahas, 2014; Roger Melki, multiple personal communications, 2014-2016
[1205] As explained by Joe Kanaan, Head of the brokerage firm Sodeco Gestion, in Alieh, Y (2014b, April). Where are property values heading? *Lebanon Opportunities*. 55-58, p. 58

what was happening […] landowners were hearing that a guy sold for this much and another for more, so they all increased their prices." [1206]

The surge in demand and price caused direct, albeit lagged, repercussions for the construction sector that "takes property prices as a signal and adjusts production accordingly."[1207] After years of low activity due to the absorption of excess supply in the late 1990s and early 2000s, individual developers and development firms, which derive their strategies from the assessment of costs and returns, soon began to engage in a multitude of projects as illustrated by data series on construction permits (see Chart 6.6 below). Research conducted jointly with Hayat Gebara and Mona Khechen with the support of the American University of Beirut reveals that a total of about 1,560 new projects received building permits in Municipal Beirut between 2000 and 2013 for an estimated total gross floor area of 9,350,186 sq. m. The bulk of construction permits were issued during the boom years: between 2003 and 2010, 1,136 projects received official authorization for an estimated total gross floor area of 7,410,575 sq. m.[1208]

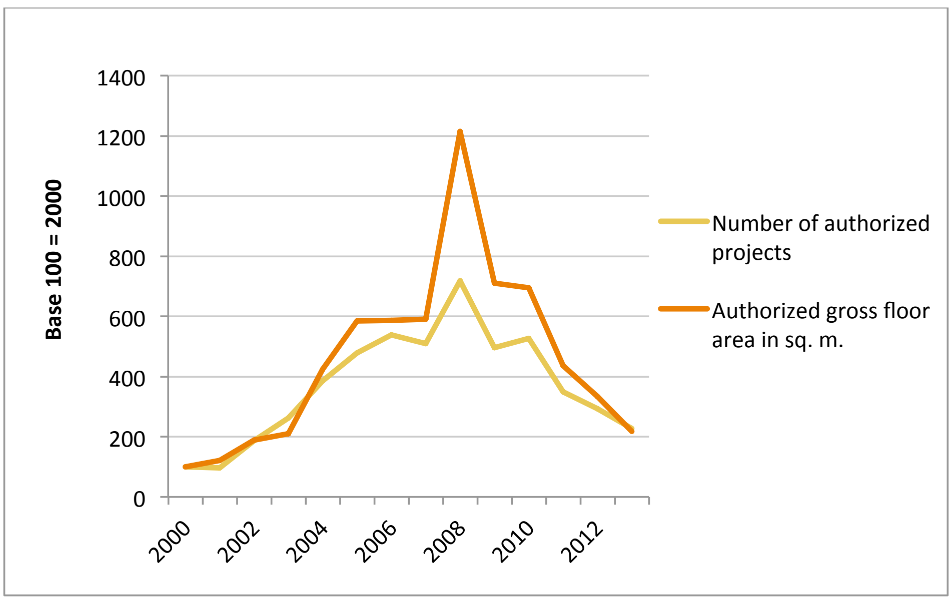

Chart 6.6 – Number of projects and gross floor area (in sq. m.) approved for development in Municipal Beirut (2003-2013)
(Source: OEA; Gebara, Khechen, & Marot, 2016a | Chart: Author)

[1206] Massaad Fares, personal communication, October 15, 2014
[1207] Crowe, Dell'Ariccia, Igan, & Rabanal, *op. cit.*, p. 6
[1208] Calculated from the data series provided by the OEA for the BBD, the total gross floor area approved for development is presumably underestimated. An alternative source of information, relying upon different data sets collected also from the OEA, indicates, for instance, a total gross floor area of 10,571,699.92 sq. m. in Municipal Beirut between 2003 and 2013. While renovation permits and additions to existing buildings are probably included in the alternative estimation, the discrepancy between the two estimates of the total authorized floor area remains puzzling.

As Nabil Sawabini, CEO of Mena Capital, explains: "Most developers knew that banking and real estate were the sectors that were about to benefit most from the substantial availability of liquidity."[1209] This type of anticipation behaviour, sustained by an eased access to capital for realtors through diversified equity sources and debt financing (see Chapter 7), moved development activity into high gear, particularly in the upscale market. For several years, builders sold out their new projects in a few weeks or months: "Anything from 20 to 30 percent of a project used to be sold off-plan before the project broke ground," recalls local broker Karim Makarem.[1210] The new 2004 Construction Law also contributed to the construction frenzy: it maximized activity and profitability by granting a 25 to 35 percent increase in floor area ratios.[1211] As Chart 6.6 indicates, the spike in gross floor area approved for development occurred between 2007 and 2009. After years of property growth and sustained confidence in the industry, the launching of multiple large developments throughout the city marked the apex, but also the end, of the second boom. Iconic projects such as Sama Beirut (Antonios Projects), Gemmayzeh Village/Place Pasteur (CGI), Abdel Wahab 618 (CGI), Carlton and La Citadelle (Jamil Ibrahim Establishment) and Sky Gate (Mena Capital), for example, all received their building permits in 2008 or 2009. It seems clear that the property industry overreacted to the upswing in demand and asset prices, however: as shown in Chart 6.1, construction activity grew much faster than did that of real estate.

6.2.3.2 Property slowdown (2010 – 2016): the feedback effect of overpriced real estate assets

In a context of reduced financial inflows and GDP growth, the years 2010 and 2011 were a tipping point for the property market. Real estate and construction activity entered a new lull. Most property and banking professionals interviewed consider its cause to be crystal-clear: the Syrian crisis had reduced the confidence of all economic agents and fuelled perceptions of instability and risk among non-resident investors. But this exclusive focus on political and macro-economic explanations turns a blind eye to a factor that has crucially accounted for sluggish market performance: the excessive prices of land and real estate. While I have previously

[1209] Nabil Sawabini, personal communication, November 19, 2014
[1210] Makarem, K. (2014, May). Bella Casa suspension: Real estate on the edge? *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/bella-casa-cancellation-real-estate-edge
[1211] Georges Khayat, personal communication, July 10, 2014

discussed the way in which real estate demand drives the trajectory of real estate prices, I explain here how the concomitant feedback effect of real estate prices on demand has depressed real estate and construction activity in recent years.

Overpriced assets dissuade buyers

After years of hyperinflation in the 2000s, the 2010s, to paraphrase Manuel Aalbers and Brett Christophers, has not seen enough effective demand for the real estate products available on the property market.[1212] On the one hand, wealthy resident and non-resident purchasers who together form investment demand have either switched to other local or international investment vehicles, or they have adopted a wait-and-see strategy by betting on a progressive price slump.[1213] A large proportion of units, on the other hand, have remained too expensive for residents who constitute end-user demand. In concrete terms, as is often the case after years of rapid property growth, real estate and land assets have become overpriced in absolute and relative terms. In the case of Beirut, however, the increased perception of risk and the distressed macroeconomic and financial environment of the 2010s have reinforced the mismatch in price expectation of between buyers and suppliers.

More specifically, real estate demand in recent years has experienced different trajectories in Municipal, and Greater, Beirut. In Municipal Beirut, the decreased interest of buyers in upmarket spaces has been the primary factor in the contraction of demand. Since 2010, the number of real estate transactions has dropped and their value has experienced contradictory variations (see Charts 6.2 and 6.3). Records of property transactions did not experience a precipitous drop, however, for several reasons. First, delayed registration of transactions carried out during the boom years probably contributed to a brief rebound in real estate activity in 2011-2012. Second, purchases made by well-off Syrians relocating to Beirut are believed to have cushioned the blow. This was probably true of the first years of the Syrian crisis, but less so in the past few years: members of the Syrian elite now allegedly prefer property investment in Cyprus and Dubai.[1214] Third, the rapid development of smaller real estate units has probably helped to contain the contraction in demand by providing more affordable supply to local buyers. Fourth,

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[1212] Aalbers, M. B., & Christophers, B. (2014). Centring housing in political economy. *Housing Theory and Society, 31*(4), 373-394, p. 377
[1213] Property transactions with foreign buyers allegedly decreased by 46.2 percent between 2009 and 2016 (El-Khoury, 2017).
[1214] Ramco (2013). *The Quarterly: Information & insight into the Lebanese real estate market (Q3-Q4)*. Retrieved from http://ramcolb.com/pdf/Q3Q4Ramcoquarterl.pdf

transactions in the land market seem to be another reason for which the number and value of sales did not crash. Land transactions are said to have formed more than half of property sales in the past few years.[1215] "Many investors are still looking to purchase land," confirms real estate expert Guillaume Boudisseau.[1216] In the end, the marked stagnation of real estate demand in Municipal Beirut has resulted in a decrease in its share of total property activity countrywide: while this ratio was 37.2 percent in 2007, it has come down to 26.2 percent in recent years.[1217]

In Greater Beirut, the evolution of real estate demand since 2010-2011 has not been much better. As shown in Charts 6.2 and 6.3, the districts of Baabda, Aley and Chouf in the east and south, as well as of Metn and Kesrouan in the north, have also recorded a slump and fluctuations in the number and value of transactions. Again, they did not collapse, but for reasons different from those identified for Municipal Beirut. The primary explanation here is that resident (upper) middle-income households, along with Lebanese expats to a lesser extent, have formed the bulk of formal demand in suburban areas.[1218] The demographic growth and increased income of this population group are believed to structurally secure a demand of about 15,000 housing units per year.[1219] Moreover, middle-income demand has first and foremost benefited from the housing loan programs subsidized by the central bank's stimulus packages.

The downward stickiness of real estate prices

In the face of reduced demand, overheated real estate prices have slightly depreciated without causing what David Harvey calls a "crisis of valuation of assets."[1220] "The real estate sector is doing well price-wise […] and there is no crisis," assessed a banker close to the Grand Serail in 2015. This trend is not surprising, says economist Vincent Renard, since asset values in opaque markets remain artificially high and erode more slowly.[1221] Real estate prices have generally remained at record levels in Municipal Beirut: in recent years, they reached an average

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[1215] Alieh, Y. (2014d, September). First signs of recovery. *Lebanon Opportunities*. 101-103, p. 102
[1216] Alami, M. (2014, January 31). Heading for a correction? *Arabian Business*. Retrieved from www.arabianbusiness.com/heading-for-correction--536794.html
[1217] Bank Audi (2015, September 23). *Lebanon real estate sector. A weakening demand in a buyer's market*. Beirut, Lebanon: Bank Audi Group Research Department. Retrieved from www.sakanmp.com/hotdeals/audi.pdf
[1218] The maximum budget of the (upper) middle-income households is about USD 400,000 according to Joe Kanaan, broker and CEO of Sodeco Gestion (as quoted in Alieh, 2014b, p. 56).
[1219] Marwan Barakat (personal communication, April 22, 2014) confirms that "Lebanon has 900,000 households that are growing by 1.5 percent a year so 15,000 households are created every year and have to find accommodation."
[1220] Harvey, D. (1985). *The urbanization of capital: Studies in the history and theory of capitalist urbanization*. Baltimore, MD: Johns Hopkins University Press, p. 12
[1221] Vincent Renard, personal communication, January 30, 2015

of USD 4,331 per sq. m. and the average sale price amounted to USD 1,091,412.[1222] In parallel, sale prices in Greater Beirut stood at USD 1,250 per sq. m. in Aramoun (south east), USD 1,400 per sq. m. in Khaldeh (south), USD 1,800 per sq. m. in Dbayeh (north) and USD 2,600 in Baabda (east).[1223]

The adaptation of real estate prices to the post-2010 demand configuration has unfolded through two steps. First, individual real estate owners and development firms, who did not want to send negative market signals, initially refrained from decreasing sale prices. Market adjustments were therefore limited primarily to a decrease in the total number and value of transactions in the early 2010s (see Charts 6.2 and 6.3). Second, after a couple of years of stagnation, sellers and development companies finally resigned themselves to reduced prices, and offered drops of five to 30 percent, according to the neighbourhood, the project's size and the number of unsold units.[1224] This trend has been followed by most realtors working in the upmarket segment in Municipal Beirut confirms Nabil Sawabini, CEO of Mena Capital, who has decreased its prices twice in recent years.[1225] Nonetheless, "no one announces it," says the tycoon, since many companies do not want to advertise the loss of "tens of millions of dollars" in profits. This price contraction has primarily occurred since 2013 and, therefore, does not appear in Chart 6.4. Recent estimations list cutbacks of four and five percent in 2014 and 2015, as well as 10 percent in 2017.[1226]

The perceptions, the financing structure and the development practices of the property industry have largely contributed to the downward stickiness of property prices. Most property professionals, on the one hand, have been convinced that stagnation is temporary and general

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[1222] Boudisseau, 2014. This stickiness, however, hides disparities: average real estate prices amounted to USD 7,647 per sq. m. in Solidere, USD 6,052 per sq. m. in Ramlet El-Baida (south west) and USD 5,573 per sq. m. in Sursock (Ashrafieh) (El-Khoury, 2014). As in the lower bracket, average real estate prices are USD 2,446 per sq. m. in Basta, USD 2,600 per sq. m. in the Museum area and USD 2981 per sq. m. in Getawi (BlomInvest Bank (2016a; El Khoury, 2014b). These estimates are based on the value of a square meter on the first floor of new buildings. (BlomInvest Bank (2016a). *In-depth review of the Lebanese real estate sector in 2015*. Beirut, Lebanon: BlomInvest Bank - Research Department. February 12. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2016/02/In-Depth-Review-of-the-Lebanese-Real-Estate-Sector-in-2015.pdf; El-Khoury, B. (2014b, June 26). Les petites surfaces, un « must » pour contourner la résistance des prix de l'immobilier. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/873505/les-petites-surfaces-un-must-pour-contourner-la-resistance-des-prix-de-limmobilier.html)

[1223] InfoPro, 2014

[1224] Mustapha Ahmad, personal communication, April 7, 2015; Nassib Ghobril, Chief Economist and Head of the Economic Research & Analysis Department at Byblos Bank, quoted in El-Khoury, 2017; Guillaume Boudisseau, multiple personal communications, 2014-2016

[1225] Nabil Sawabini, personal communication, November 19, 2014

[1226] According to Ramco Real Estate Advisers cited by L'Orient Le Jour Staff (2015) and Nash (2016). (L'Orient Le Jour Staff (2015, August 22). Un appartement neuf à Beyrouth coûte en moyenne 885 360 dollars. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/940370/un-appartement-neuf-a-beyrouth-coute-en-moyenne-885-360-dollars.html). International Monetary Fund (2018). *Lebanon: Staff concluding statement of the 2018 Article IV mission*. Retrieved from www.imf.org/en/News/Articles/2018/02/12/ms021218-lebanon-staff-concluding-statement-of-the-2018-article-iv-mission price inflation is the "natural solution in the medium term."[1227] This is here another very concrete example of the persistence of 'boom thinking.' The strategy of most development firms since the early 2010s has been to hold unsold units until the market takes off again, so they can get the original ticket price and avoid a discount.[1228] This behaviour finds its origin in the previously mentioned belief that the uncertain domestic and regional political situation accompanying the Syrian crisis is the only reason for market sluggishness. "It is not *a* factor, it is *the* factor," confirms Mazen Ibrahim, Head of Sales at Jamil Ibrahim Establishment.[1229] One of the biggest property brokers in town holds this ubiquitous opinion as well: "Prices will double the morning after the war ends in Syria." Likewise, many real estate professionals remain persuaded that the recent election of a new President of the Republic will positively affect prices. A number of development professionals are also aware of the crucial role of inflated real estate values in the country's financial stability. They are convinced that as long as the overall financial and economic environment is depressed, the central bank will continue to inject liquidity into the real estate market.

On the other hand, the property industry's financing model and development practices have also importantly restrained downward pressures on real estate prices. First, the capital structure of a number of development companies, which will be unpacked in further detail in Chapter 7, has limited their exposure to reductions in transactions, at least temporarily. Tremendous cash reserves, accumulated with the immense profits made during the boom years, has initially helped realtors to cushion the decline in demand. Further, a number of the property firms initiating projects in the second half of the 2000s managed to maintain a relative degree of financial autonomy by relying on a variety of equity channels (i.e., self-financing, partners, private equity and off-plan sales). In so doing, they had relatively free rein to slow construction works and/or sell a couple of units to finance the building rather than opt for fire sales, while they waited for brighter days.[1230] Nevertheless, the prevalence of equity financing should not be overestimated: an increased number of development firms took recourse to debt for (large) developments starting in the late 2000s and early 2010s. Bank pressure to repay loans has therefore gradually altered this type of 'wait-and-see' strategy, especially as the stagnation of real

[1227] Property developer #5, personal communication, November 7, 2014
[1228] Massaad Fares, personal communication, October 15, 2014; Georges Khayat, personal communication, July 10, 2014
[1229] Mazen Ibrahim, personal communication, November 11, 2014
[1230] Developers generally manage to cover their costs by selling the first two floors.

estate activity has persisted. A number of builders are now at risk of default, which in 2015 and 2016 led the central bank to intervene to bail them out and protect the banking sector (see Chapter 5).

Second, business constraints and strategies tied first to land acquisition and second to erroneous financial projections made during boom years have critically affected the leeway builders have to reduce their prices in order to close operations. Indeed, the projects that have been on sale in recent years have almost all been planned and initiated in the late 2000s. Misled by massive real estate demand and the large availability of financial resources, many agents overpaid for land and based their financial projections on the further escalation of demand without taking into consideration the possible impact of price inflation. Accordingly, many development professionals have found themselves in a delicate situation in recent years: they cannot afford to diminish their prices too drastically if they want to cover the initial cost of land and preserve a minimum level of profitability. Further, the link between current profit and future development activity is at the heart of the property industry's business model: many companies such as Jamil Ibrahim Establishment reinvest their profit in the purchase of new parcels to erect future projects (see Chapter 7).[1231] Development firms have no choice but to keep prices artificially high as long as they can, in other words, if they want to make enough cash to buy new lots and secure future activity.

The transformation of real estate supply

In the face of depressed real estate demand and the pressure to revise prices downwards, city builders have had to make adjustments to stay afloat while taking account of two major constraints: the accumulation of unsold units and inflated land prices.

Over-optimistic demand and price expectations during boom years and the recent cutback in real estate transactions have put Beirut's property market into a situation of overproduction: since the early 2010s, supply has exceeded demand. In some respects, the situation is similar to the late 1990s when thousands of new units remained unsold. In property economics, this is a well-known phenomenon called 'development lag:' construction projects that begin during years of intense real estate activity come to completion once the market has reversed.[1232] Sales in luxury

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[1231] Mustapha Ahmad, personal communication, April 7, 2015; Mazen Ibrahim, personal communication, November 11, 2014
[1232] Aveline, 2004a, p. 26

residential projects initiated since 2008-2009 have rapidly dropped and considerable stock has accumulated in the 2010s. Recent estimations are that thousands of newly built but overpriced condominiums are vacant in Municipal Beirut for a value totalling at least USD 3-3.5 billion.[1233] Development actors confirm this sluggish trend: in 2014, for Jamil Ibrahim Establishment, one of the largest and oldest firms operating in Municipal Beirut, 40 percent of apartments remained unsold in two of its recent iconic megaprojects, Carlton and Dômes de Sursock, and 70 percent in La Citadelle.[1234] Likewise, a senior executive from a major development company operating in East Beirut explained that the "absorptive capacity" of the market in Ashrafieh and Gemmayzeh had been reduced to 50 large units in 2014, when it had been 350 large units in 2006.[1235] In many ways, oversupply is another example of the influence of herd mentality in the property industry. According to a local property broker, "developers in Lebanon are blind followers […] they see someone start a project and want to do the same, without making any market study, just following their ideas and tastes."[1236] The CEO of a major development firm agrees and argues: "The situation of excess supply could have been avoided if the sector knew how to properly anticipate variations in demand and supply."[1237]

In parallel with the difficulty of closing current operations due to the accumulation of unsold units, the situation in post-2010 Beirut's real estate market has prevented many development companies from launching new projects. The current configuration perfectly illustrates the ratchet effect with respect the downward stickiness of land values, and the related persistence of the perception of land scarcity among property professionals. The cost of land, in a context of sluggish real estate prices, comprises 50 to 65 percent of the property's market value; since land prices take so much more time than real estate prices to drop, the increasing difficulty

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[1233] Figures provided by property tycoon Massaad Fares, who was cited in two articles published in Executive Magazine in 2015 and 2017. An InfoPro study shows that, as of June 2013, 54 percent of available units remained unsold in Beirut, including 55 percent of units in the price range above USD 4,000 per sq. m. and 40 percent of units in the price range below USD 2,000 per sq. m. (Alieh, 2013d). Similarly, a Ramco report estimates that, as part of a sample of 56 residential projects completed in 2014 in Municipal Beirut, 271 new units, representing 83,976 sq. m., remained unsold for a value close to half a billion dollars (Bank Audi, 2015). In suburban districts, the InfoPro study reveals that sales ratios are, surprisingly, even worse, since 59 percent of available units remained unsold in Aley and 55 percent in Baabda. (Alieh, Y. (2013d, October). Homes shrink to wallet-size. *Lebanon Opportunities*. 60-64; Arbid, J., & Schellen, T. (2015, June). Mismatch made in the heavens. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/development-mismatch-made-in-the-heavens; Bank Audi (2015, September 23). *Lebanon real estate sector. A weakening demand in a buyer's market*. Beirut, Lebanon: Bank Audi Group Research Department. Retrieved from www.sakanmp.com/hotdeals/audi.pdf (p. 7); Nash, M. (2017a, January). The lights are on, but no one's at home. *Executive Magazine*, Retrieved from www.executive-magazine.com/real-estate-2/the-lights-are-on-but-no-ones-at-home)

[1234] Mazen Ibrahim, personal communication, November 11, 2014

[1235] Property developer #3, personal communication, November 21, 2014

[1236] Real estate broker, personal communication, June 12, 2014 (Translation by the author)

[1237] Translation by the author

of realizing value discourages development firms from initiating projects at all.[1238] In other words, as the CEO of a major Beirut-based development company sums up: "Land cost has reached such a level in Beirut than the property industry can no longer develop products the market can absorb."[1239]

Property firms have responded with two strategies: a freeze on new construction and diversification of development activity. That construction of new projects in Municipal Beirut has dropped is confirmed by the sharp reduction in the number of issued construction permits. From 2011 to 2013, for example, only 251 projects received authorization for a total gross floor area of 1,445,111 sq. m.[1240] Municipal Beirut's share of the country's newly authorized development dropped from 18 to seven percent in a few years, confirms Marwan Barakat from Bank Audi.[1241] This does not mean, however, that construction collapsed: many projects initiated during the boom years were in progress and came to completion during the years of slowdown. But the post-2010 contraction in the number of authorized projects is now coming into effect on the ground: the total number of units delivered in Municipal Beirut dropped from 2,741 in 2014 to 993 in 2016, i.e., 176 percent.[1242] At the same time, the number of new projects also decreased, albeit more slowly, in Mount Lebanon (i.e., the districts of Kesrouan, Metn, Aley, Baabda, and Chouf): the total gross floor area approved for development diminished from 9,614,341 to 6,064,286 sq. m. between 2010 and 2013, i.e., a 37 percent drop.[1243]

Development firms have also diversified their activity.[1244] This strategy illustrates what urban political economists call capital-switching practices within the secondary circuit.[1245] In simple terms it refers to the transfer of investments between property submarkets and locations in order to ensure continuous profitable activity. The Beirut-based industry has overall opted for five diversification strategies. First, many development companies which had been concentrating

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[1238] Fawaz, 2003, p. 9-10; Vierros, K. (2009, June). Ashrafieh is gold. *Lebanon Opportunities*. 56-59, p. 57; Former senior planning official, personal communication, June 6, 2014. This proportion of land to development cost is significant in comparison to the 15 to 30 percent ratio observed in most cities that do not face a property boom or bubble situation.
[1239] Translation by the author
[1240] Gebara, Khechen, & Marot, 2016a
[1241] Marwan Barakat, personal communication, April 22, 2015
[1242] Alieh, 2014b
[1243] InfoPro (2016). *Construction permits (1997-2015) - Order of Engineers* [Data file]. Retrieved from www.databank.com.lb/doc.asp?ID=1691
[1244] "Common manifestations of over-accumulation include a glut of commodities, falling rates of profit, surplus productive capacity, unemployment, and idle money capital," explains political economist Brett Christophers (2011, p. 1349). (Christophers, B. (2011). Revisiting the urbanization of capital. *Annals of the Association of American Geographers, 101*(6), 1347-1364)
[1245] Charney, I. (2001). Three dimensions of capital switching within the real estate sector: A Canadian case study. *International Journal of Urban and Regional Research, 25*(4), 740-758; Christophers, *op. cit*.; King, R. J. (1989b). Capital switching and the role of ground rent: 3 Switching between circuits, switching between submarkets, and social change. *Environment and Planning A: Economy and Space*, *21*(7), 853-880, p. 853; Harvey, D. (1974). Class monopoly rent, finance capital and the urban revolution. *Regional Studies*. 8, 239-255 cited in King, 1989a, p. 447

on the upscale segment are now targeting Municipal Beirut's upper-middle residential market with units of 100 to 150 sq. m. They have also reconfigured existing projects by dividing unsold condominiums into smaller units. The purpose has been clear: to embrace the needs of a financially constrained resident clientele without reducing pricing standards.[1246] A property professional explains that, more than a new lifestyle trend or sociological change as argued by some local analysts, the dynamic reflects an "economic reality." The gap between ever-inflating real estate prices and the slow-growing homebuyer income has not decreased but continues to widen.[1247] The average size of newly built condominiums, therefore, purportedly dropped by 15 to 20 percent between 2009 and 2013, reducing from 300+ sq. m. to about 250 sq. m.[1248] This progressive downsizing of residential space takes time to become a norm however: only 38 percent of newly built units were below 200 sq. m. in Municipal Beirut in 2013.[1249] Second, a number of development firms have concurrently created subsidiaries to start middle-income projects where prices range from USD 300,000 to 600,000.[1250] These projects are generally developed in suburban areas where land is more affordable and most buyers eligible for subsidized loans are concentrated. Third, some Beirut-based brokers, developers and asset managers have alternatively started to offer property investment opportunities in Cyprus, Greece, Portugal, France, Germany and the UK where yields are more or less equivalent but the perceived risk is lower.[1251] Fourth, other realtors have initiated projects in the retail and office property sectors where there is a presumed shortage of stock. A study published by Ramco Real Estate Advisers has shown that office construction increased by 32 percent in Beirut between 2013 and 2016 with "37 office projects with a total office space representing 195,694 sq. m. under construction."[1252] Fifth, large development firms such as CGI and Mena Capital have, finally, engaged in land transaction and speculation by reselling parcels for a substantial profit rather than

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[1246] According to Lebanon Opportunities (2015a, p. 49), the price of studio units of 50 to 70 sq. m. in Beirut has reached USD 5,000 per sq. m. (Lebanon Opportunities Staff (2015a, January). More to come. *Lebanon Opportunities*. 48-51)
[1247] El-Khoury, 2014b
[1248] Bank Audi, 2015, p. 4; Boudisseau, 2014, p. 27
[1249] Alieh, 2013d
[1250] This is for example the case of Estates, the firm developing District-S project in downtown Beirut, which has established a new company called The Democratic Housing Corporation (TDHC) to develop two middle-market residential projects in Kesrouan and Metn. These two projects in the capital city's periphery offer residential units between USD 200,000 to 500,000 (Namir Cortas, personal communication, September 22, 2014).
[1251] Property developer #3, personal communication, November 21, 2014
[1252] BlomInvest Bank, 2016a

building on them, especially in prime locations.[1253] In parallel, they have also assembled land portfolios for future use.[1254]

In sum, this section has investigated the timeline and key characteristics of the two demand-led property cycles (1992-2002 and 2003-2016) that have transformed Beirut and its periphery. It has teased out the reasons for which property activity has gone through successive phases of boom and stagnation, but not of bust, by systematically unpacking the economic and non-economic mechanisms and agent behaviours that have linked real estate demand, asset prices and construction dynamics. In so doing, the section has paid special attention to the way in which sustained real estate demand, i.e., a key feature of the regulation-urbanization nexus, has concretely shaped the trajectory of land and real estate prices as well as the pace and features of construction activity.

6.3 Landscapes of Financialization: The Property-Led Restructuring of Municipal Beirut

This third section explores the mechanics through which the second real estate cycle and, more generally, the financial turn of property have materialized into a large-scale process of urban change in Municipal Beirut. Intense construction activity throughout the 2000s and 2010s has brought about massive spatial restructuring that has concentrated in prime locations, unfolded primarily through demolition of the existing urban fabric, and privileged the building of upmarket condominium towers. This section, in other words, lays out the concrete manifestations of the regulation-urbanization nexus in the urban space. To do so, it draws primarily on the Beirut Building Database as well as a number of maps and analyses prepared with Hayat Gebara and Mona Khechen for a joint paper published in Jadaliyya in the fall of 2016.[1255]

6.3.1 The Concentration of Construction Activity in Prime City Locations

In Beirut, the spatial distribution of real estate projects receiving building permits during the second property cycle reveals, not only the rent-maximizing rationale of financiers, but more

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[1253] Bathiche, 2010c; Massaad Fares, personal communication, October 15, 2014

[1254] Nash, M. (2014, July). Taking their time: Developers plot their next moves while the market is slow. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/developers-taking-their-time

[1255] Gebara, Khechen, & Marot, 2016a; Gebara, H., Khechen, M., & Marot, B. (2016b). Mapping new constructions in Beirut (2000-2013). *Jadaliyya*. Retrieved from www.jadaliyya.com/Details/33751/Mapping-New-Constructions-in-Beirut-2000-2013. The timeframe of the database (2000-2013) does not precisely match the second property boom (2003-2016). In spite of the slight difference, I consider the construction data series presented in this section to reliably represent the dynamics that have characterized urban production in Beirut over the past 15 years or so.

broadly, the financialization of property that has driven the material, symbolic, spatial and socio-political reorganization of cities across the globe.[1256] In the Lebanese capital, newly authorized developments are scattered throughout the city; however, the largest and most iconic projects are heavily concentrated in prime locations where land and real estate prices, disconnected from use value, are most expensive and, of course, where profit expectations are the highest.

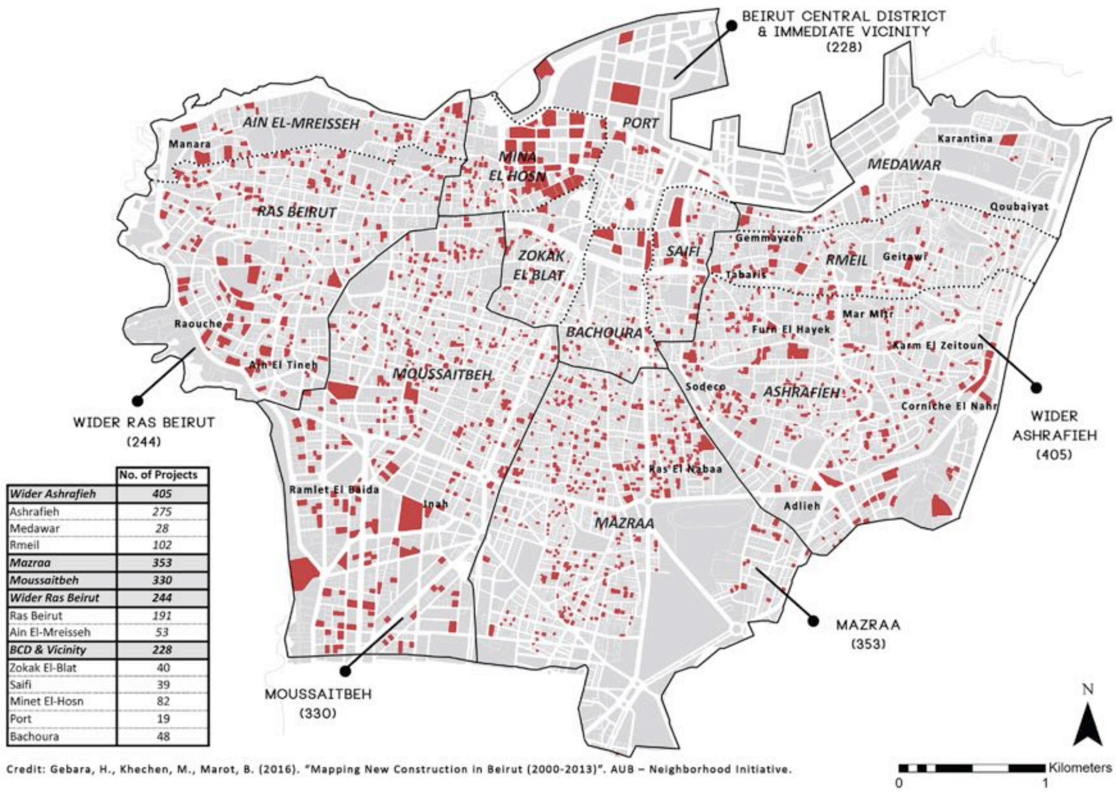
To compare the density of building permits across the city, and across its various neighbourhoods, it was first necessary to re-aggregate the spatial divisions under which they were sorted in the BBD. The original categorization posed a major problem to an analysis of spatial dynamics: it was based on the 12 official districts of Municipal Beirut, all of which are different in size and socio-economic make-up.[1257] To allow a more accurate analysis of urban change citywide, my colleagues and I decided to aggregate existing districts into those of comparable surface area and relatively consistent socio-economic profile.[1258] Our reclassification created five aggregated districts: Wider Ashrafieh (Ashrafieh, Rmeil, and Medawar), Beirut Central District and Immediate Vicinity (Saifi, Mina el-Hosn, Marfaa, Bachoura, and Zokak El-Blat), Wider Ras Beirut (Ras Beirut and Ain El-Mreisseh), Moussaitbeh and Mazraa.

Between 2000 and 2013, then, it can be seen that development activity has been intensive in all aggregated districts of Municipal Beirut, regardless of the favourability of location, type of urban fabric (i.e., densely built or not) and property ownership pattern (see Map 6.1 and Chart 6.7). Wider Ashrafieh (405 projects), Mazraa (353) and Moussaitbeh (330) are the districts where the highest numbers of authorized projects were recorded.

[1256] Rouanet, H., & Halbert, L. (2016). Leveraging finance capital: Urban change and self-empowerment of real estate developers in India. *Urban Studies, 53*(7), 1401-1423

[1257] The 12 official administrative districts of Municipal Beirut are the following: Ashrafieh, Rmeil, Medawar, Saifi, Mina el-Hosn, Marfaa, Bachoura, Zokak El-Blat, Ras Beirut, Ain El-Mreisseh, Moussaitbeh and Mazraa.

[1258] The noteworthy exception is 'Beirut Central District and Immediate Vicinity.' This aggregated district brings together areas with very mixed socio-economic profiles. A relatively small number of residents live in the Solidere-controlled, wealthy city center; in contrast, middle- and low-income groups densely populate the areas outside its perimeter: Saifi, Mina el-Hosn, Marfaa, Bachoura and Zokak El-Blat located. The major motive for bringing Beirut Central District and its immediate vicinity together was the following: the initial 12 districts under which building permits were classified did not take into consideration the creation of BCD, which spreads over these five districts without encompassing them entirely.



	No. of Projects
Wider Ashrafieh	*405*
Ashrafieh	*275*
Medawar	*28*
Rmeil	*102*
Mazraa	*353*
Moussaitbeh	*330*
Wider Ras Beirut	*244*
Ras Beirut	*191*
Ain El-Mreisseh	*53*
BCD & Vicinity	*228*
Zokak El-Blat	40
Saifi	39
Minet El-Hosn	82
Port	19
Bachoura	48

Map 6.1 – Location of authorized property projects in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016b)

When looking more specifically into distribution of the large property projects characteristic of the luxury condominium boom, the analysis of gross floor areas approved for development suggests that they have been concentrated in a more limited number of prime districts (see Chart 6.8 and Map 6.2), including some that did not rank first in terms of the number of projects. The 'hot spots' were Wider Ashrafieh (2,687,417 sq. m.) and BCD and Immediate Vicinity (2,271,532 sq. m.), as well as Moussaitbeh (1,913,870 sq. m.) and to a lesser extent Wider Ras Beirut (1,789,415 sq. m.). The location of high-density projects above 20,000 square meters is particularly striking: as shown by Map 6.2, they have been densely and evenly spread along the western coast from Ramlet El-Baida to Mina El-Hosn (BCD), as well as on the bourgeois hill of Ashrafieh.

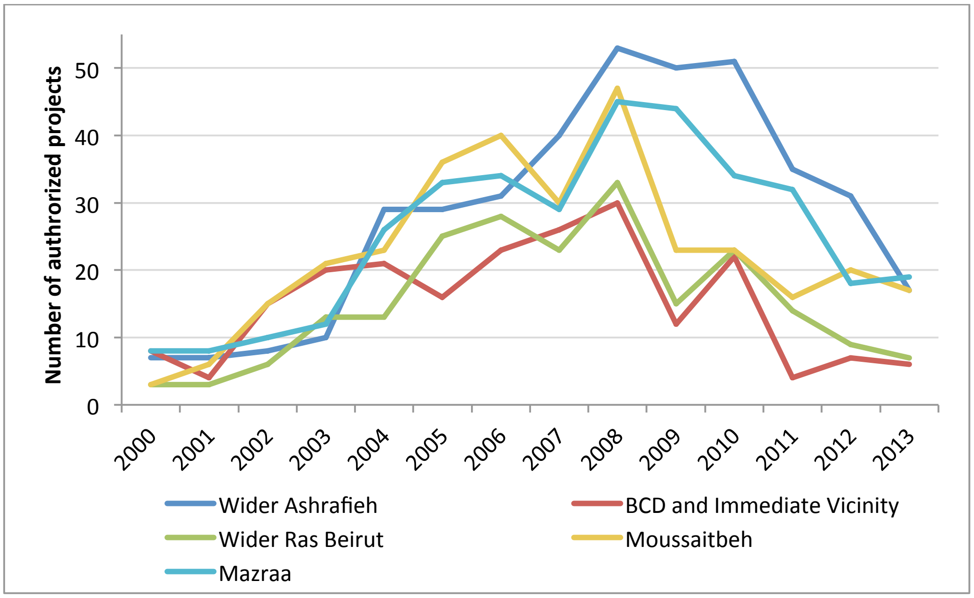


Chart 6.7 – Number of property projects authorized by district in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016a | Chart: Author)

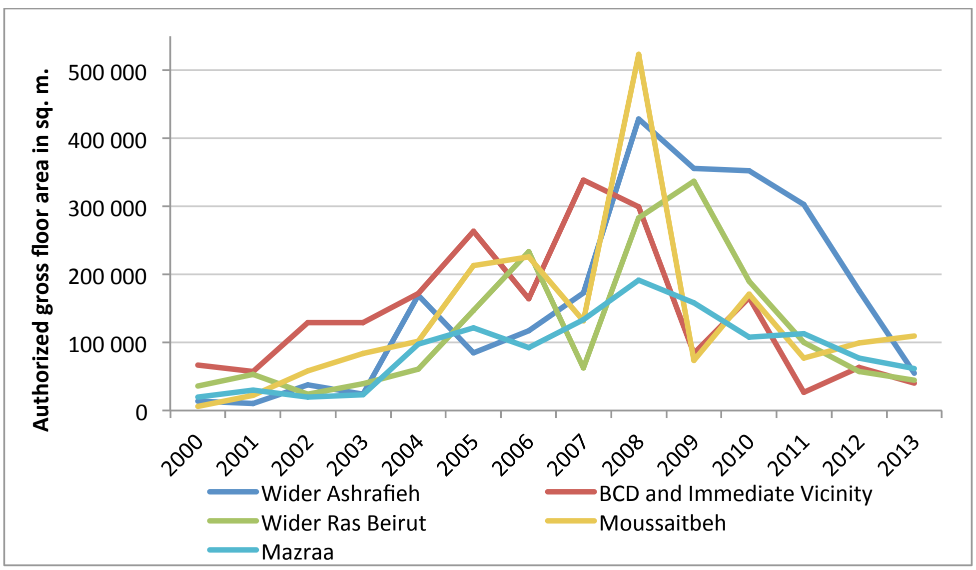
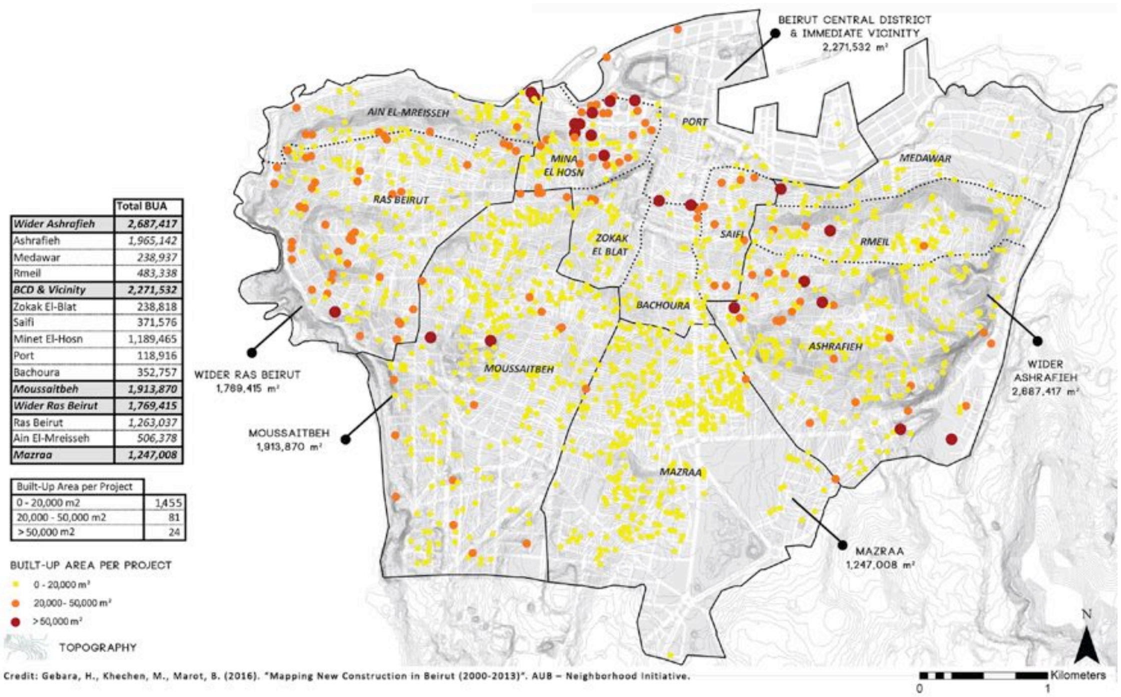
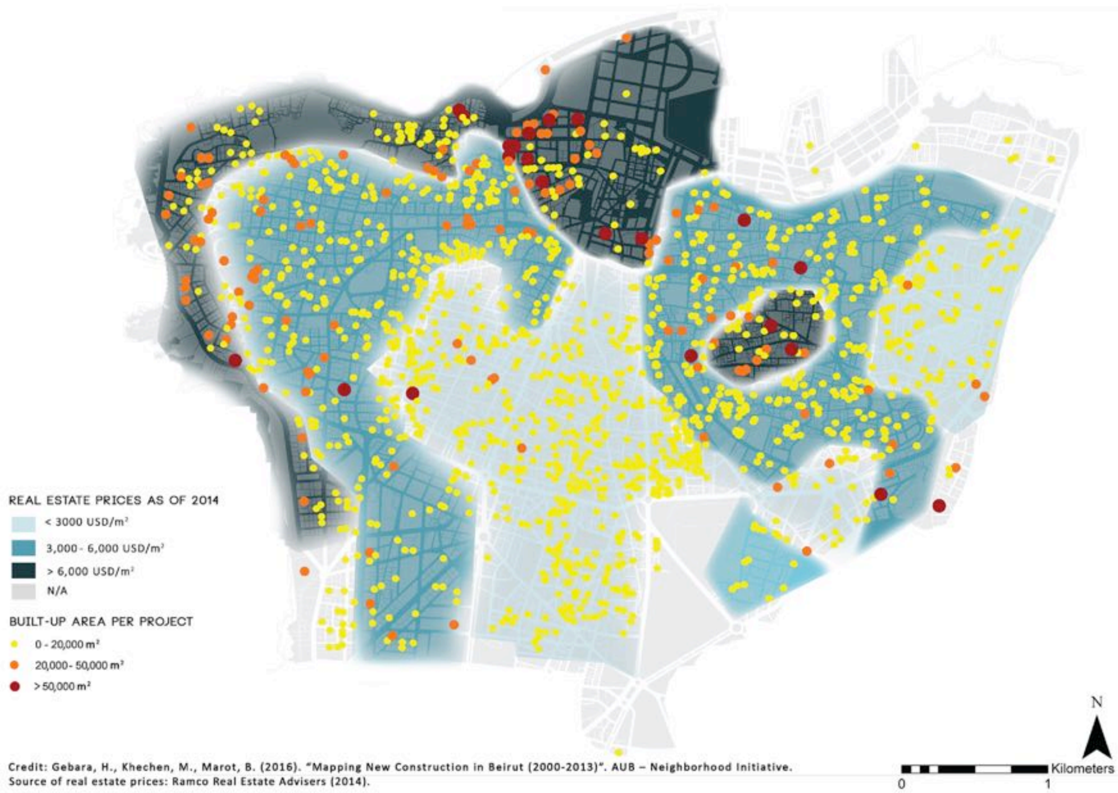


Chart 6.8 – Total gross floor area approved for development by district in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016a | Chart: Author)



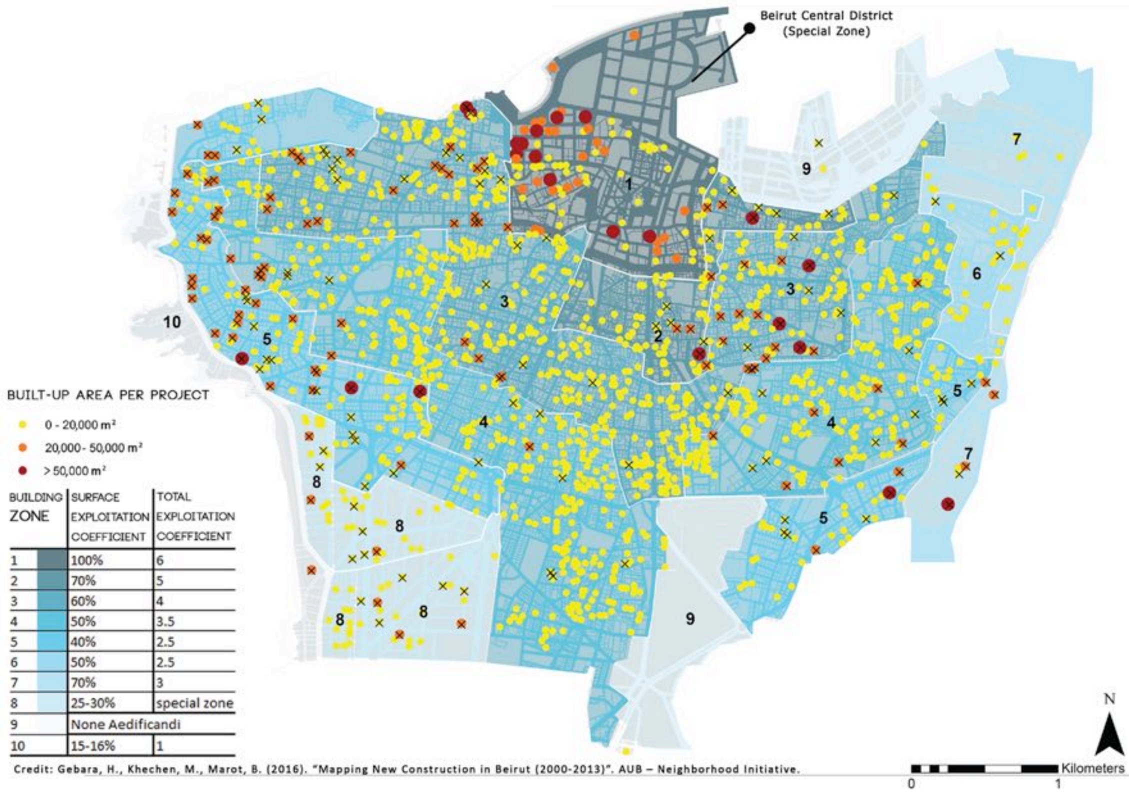
Map 6.2 – Floor area of authorized property projects in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016b)

Locational choices for large property developments are no coincidence: city builders have attempted to maximize sale prices and profit by developing their flagship projects in the waterfront areas, prestige sectors and sites of high elevation with open views where most investment demand has concentrated during the second property cycle. As such, data developed with Hayat Gebara and Mona Khechen show that real estate asset prices in post-2000 Municipal Beirut have become the city's principal form of zoning. Map 6.3 below illustrates that they have been the major driver of size and spatial distribution of real estate projects. In the absence of effective direction and constraint, real estate prices have oriented development activity and boosted floor areas. Developers have quite simply built only the largest projects possible to make the initial land investment worthwhile and optimize profitability, particularly in sectors where prices are the highest. As a further indication, Map 6.4, shows little correlation between the size of projects and local planning standards. According to our calculations, many authorized property projects appear to have bypassed initial zoning and building ordinances such as the permissible floor area ratios (FAR). This finding is not surprising: as underlined by Marieke Krijnen and Mona Fawaz, exceptions are generally the rule in Beirut's permitting process, a practice that allows developers to construct projects with limited building and planning constraints.[1259] The spatial distribution of authorized large development projects accordingly indicates that the fast-paced inflation of real estate prices, intrinsically tied to the regulation-urbanization nexus, rather than zoning and building regulation, has set the rules for transformation of the city's built environment, producing, among other things, much higher development density.



Map 6.3 – Size of authorized real estate projects in relation to property prices in Municipal Beirut (2003-2013)
(Source: Gebara, Khechen, & Marot, 2016b)

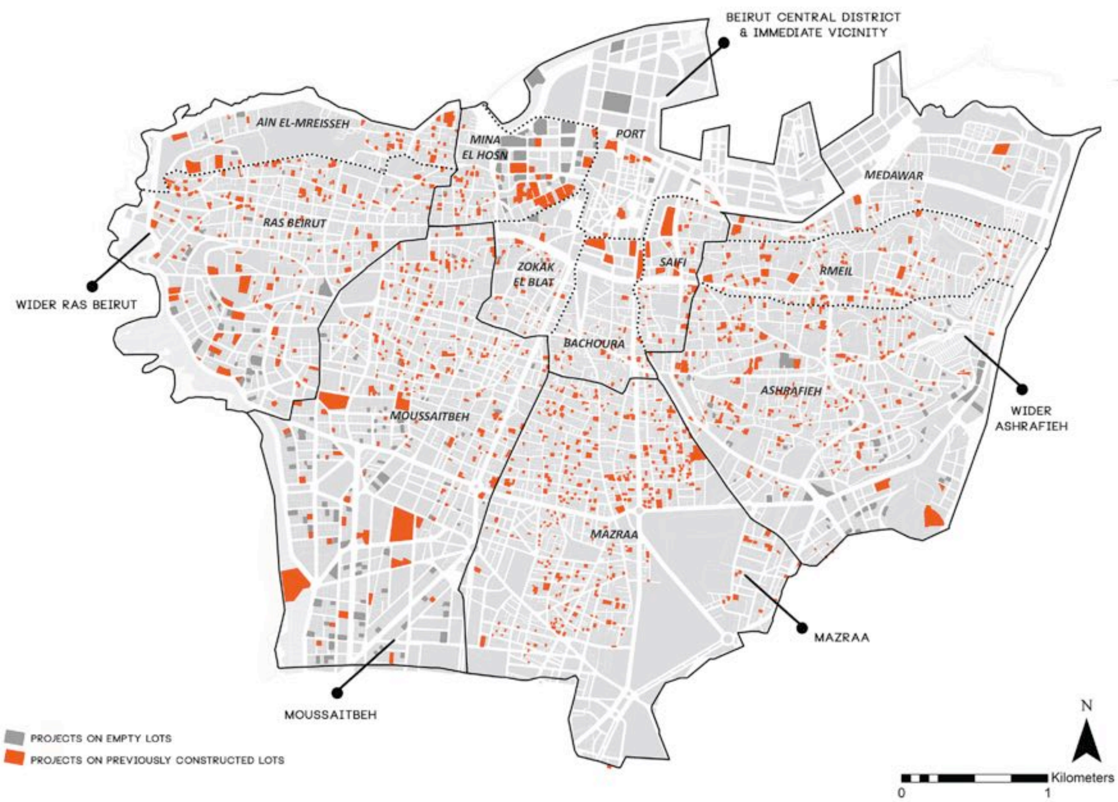
[1259] Marieke Krijnen and Mona Fawaz (2010, p. 124) explain that the permitting process for development activity in Beirut frequently relies on exceptions *vis-à-vis* building and planning regulations. Concretely speaking, many builders "bypass the relatively stringent set of regulations that limit, for example, building envelopes within a volume or define building footprints as a percentage of the lot area. (Krijnen, M., & Fawaz, M., (2010). Exception as the rule: High-end developments in neoliberal Beirut. *Built environment*. *36*(2), 245-259)



Map 6.4 – Estimate of projects obtaining exceptions in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016b)

6.3.2 The Progressive Replacement of the Existing Urban Fabric

In addition to concentrating in the most attractive city locations, construction activity during the second property cycle has significantly altered the city's existing building fabric. Research conducted with Hayat Gebara and Mona Khechen shows that approximately 78 percent of projects authorized between 2000 and 2013 were planned for developed land, i.e., parcels of land with existing buildings according to the 2004 Occupation Status Map (see Map 6.5 and Table 6.1). Put differently, this means that property-led redevelopment in Municipal Beirut has unfolded, for the most part, through demolition and reconstruction. This radical form of urbanization has concrete and well researched consequences: local communities have experienced forced displacement and their economic and social fabrics (e.g., small shops, schools, sport facilities, community centers) and heritage (e.g., Roman ruins and buildings from the Ottoman, Mandate and modern periods) have faced large-scale destruction to make way for massive luxury condominium towers and malls (e.g., ABC Ashrafieh, ABC Verdun).



Map 6.5 – Spatial distribution of authorized property projects for vacant lots and for developed lots in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016b)

Mazraa (90.7 percent), Wider Ashrafieh (82.3 percent) and Wider Ras Beirut (81.5 percent) are the districts where new construction has been overwhelmingly taken place on developed lots. The high ratios of demolition-reconstruction dynamics in historic urban areas such as Ashrafieh and Ras Beirut are not surprizing: rapid urbanization in the second half of the 20th century left those neighbourhoods with a limited stock of vacant lots for new development. In many ways, this widespread remodelling of the existing built environment is similar to the dynamics of urban change observed in the inner areas of other rapidly developing cities across the globe.

In parallel, construction on vacant land, a form of urbanization typical of newly urbanized areas, has been concentrated primarily in Moussaitbeh, particularly in the quarters of Ramlet El-

Baida and Jnah. A large number of projects have also received authorization in peripheral areas on brownfield and greenfield sites. This is the case for Adlieh and Corniche El-Nahr where the concentration of manufacturing activity along the Beirut River had long limited residential development. On a more specific note, it should be mentioned that statistics on the urbanization pattern of Beirut Central District and its Immediate Vicinity need to be viewed with caution. Information presented on Map 6.5 and Table 6.1 probably does not reflect its accurate demolition-reconstruction dynamics for a straightforward reason: in the early 1990s, Solidere razed a large proportion of the urban fabric that had survived the war in order to extend its portfolio of easily developable land, particularly in the areas of Minet El-Hosn, Marfaa and Saifi. Many lots were considered vacant in 2004 when the cadastral map serving as a basis for this evaluation was prepared.

	Projects Planned for Developed Land (In Percent)
Wider Ashrafieh	**82.3**
Ashrafieh	*73.8*
Medawar	*85.7*
Rmeil	*87.3*
Wider Ras Beirut	**81.5**
Ras Beirut	*83.8*
Ain El-Mraisseh	*79.2*
Beirut Central District and Immediate Vicinity	**70.2**
Zokak El-Blat	*85*
Saifi	*76.9*
Minet El-Hosn	*57.3*
Marfaa	*63.2*
Bachoura	*68.8*
Mazraa	**90.7**
Moussaitbeh	**66.1**
Municipal Beirut	**78.1**

Table 6.1 – Proportion of projects authorized for developed land in Municipal Beirut (2000-2013) (Source: Gebara, Khechen, & Marot, 2016a)

As mentioned, the demolition-based pattern of urbanization playing out in post-2000 Beirut is not new, and is often found in cities with a long urban history. The modernization processes undertaken during Ottoman and French rules also relied on large-scale destruction and reconstruction, notes Lebanese historian Tony Chakar.[1260] The few blocks of heritage buildings preserved and rehabilitated by Solidere in the 1990s (e.g., Weygand and Foch streets, Nijmeh square) are evidence of the urban renewal processes that had previously transformed Beirut in the 19th and 20th centuries. Architect Jad Tabet, moreover, insists that current zoning regulations, which date back to the 1954 master plan, have greatly facilitated this *tabula rasa* form of urban renewal in central neighbourhoods that were historic, socially diverse and economically vibrant. As indicated earlier, lax regulations in the central areas have fuelled a significant rent gap between current land use, dominated by pre-1954 low-rise residential buildings, and the substantial development rights granted under the 1954 zoning regulations that enable more intensive development projects. Old and low-yielding, sometimes abandoned, buildings, in other words, frequently sit on high-value, centrally located land whose development rights are generally underexploited (see Figure 6.4 below). This situation has pushed many landholders to sell to development firms that, eager to capture the profit hidden behind the differential use of land, have been willing to pay astronomical sums of money during the boom years.

[1260] Nasr, J., & Verdeil, E. (2008). The reconstructions of Beirut. In S. K. Jayyusi, R. Holod, A. Petroccioli, & A. Raymond (Eds.), *The city in the Islamic world*. Leiden, Netherlands: Brill. Tony Chakar is quoted in Fielding-Smith (2013). (Fielding-Smith, A. (2013, February 15). Beirut with the brakes on. *The Financial Times*. Retrieved from www.ft.com/cms/s/2/00547e6c-7206-11e2-89fb-00144feab49a.html#axzz43Lp1ezSW)

Figure 6.4 – Differential exploitation of land development rights in Beirut's central neighbourhoods (Source: Author, 2012)

6.3.3 Condominium Towers and the Materialization of 'Shareholder Value'

One of the striking features of Beirut's property-led restructuring during the second cycle was the rapid expansion of residential towers: i.e., of the forest of multi-million dollar condominiums. In many ways, these massive developments, used to diversify the portfolio and store and fructify the wealth of rich Lebanese and foreigners, are the local manifestation of the elite-based financialization introduced in Chapters 2 and 4. The way in which they have reordered the city's skyline and altered the life of local communities is discussed below.

6.3.3.1 Towering Beirut: a recurrent form of urban development

The construction of large-scale developments is neither specific, nor new, to Beirut. In the MENA region, the total portfolio of high-density real estate projects under preparation or execution in 2014 was worth USD 2.5 trillion.[1261] Further, the building of high-rises is not entirely unusual in Beirut, as residential towers, albeit of smaller size, sprang up in the 1970s and 80s (e.g., Murr Tower, Rezed Tower, Ahlam Tower). Years later, their number has dramatically increased. At the turn of the century, with a transfer of development rights, Solidere dedicated a large part of the city center to a cluster of residential and hotel high-rises near the marina and reclaimed waterfront.[1262] According to architect Habib Debs, the development firm envisioned this cluster as the "cherry on the cake" securing the financial structure and maximizing the profitability of the entire redevelopment project.[1263] In the 1990s, construction work in Beirut Central District began with the rehabilitation of the Foch-Allenby-Etoile and Saifi sectors as well as with the construction of the 60 ha embankment. The development of Mina El-Hosn and Zaytounay Bay (historically Saint-Georges bay), where towers were planned, began later, in the early 2000s. This second phase of downtown restructuring coincided with the take-off of the second property cycle during which considerable amounts of interest-bearing capital were streamed into property. As such, the 2000s property boom has indisputably been a milestone for the building of massive luxury condominium towers. According to the Beirut Building Database, 86 large projects, i.e. above 20,000 sq. m., received authorization between 2000 and 2013 (see Chart 6.9 below).[1264] But even this estimate is not comprehensive: at least eight high-density projects, completed or under construction, were identified as missing from the dataset. Again, the correlation between the spike in BOP surpluses, GDP growth, real estate demand, inflated real state prices and construction dynamics is striking: at least 36 large projects received construction permits in 2008 and 2009. At least 25 of these are, or will be, higher than 20 stories, including six buildings that exceed 40 stories. Unsurprisingly, such massive developments, which for the most part have been squeezed into dense urban areas, have significantly transformed the city's morphology, and symbolic and socio-cultural landscape (see Figure 6.5 below).

[1261] Citi Research quoted in Schellen (2014). (Schellen, T. (2014, April). Saudi leads the way in regional megaprojects. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/business/saudi-leads-way-regional-mega-projects)
[1262] Habib Debs, personal communication, April 14, 2014; Property developer #5, personal communication, November 7, 2014
[1263] Habib Debs, personal communication, April 14, 2014
[1264] Gebara, Khechen, & Marot, 2016a

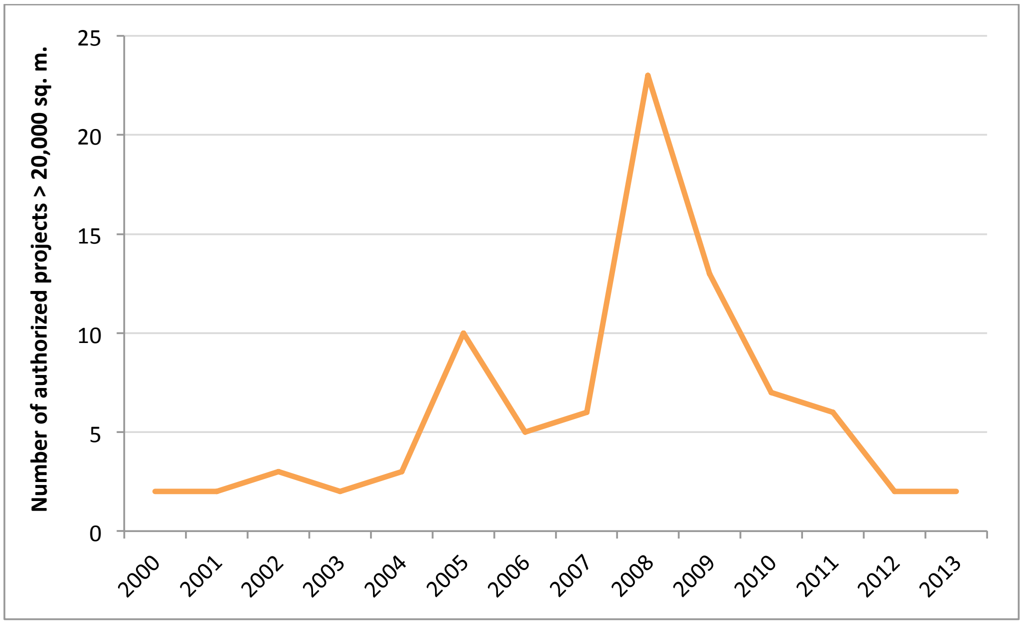


Chart 6.9 – Authorized large property projects in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016a | Chart: Author)

Figure 6.5 – The new skyline of Ashrafieh in the eastern part of Beirut
(Source: Author, 2015)

6.3.3.2 Building residential towers: the primacy of financial motivation

"I will always have some kind of recognition, people will say 'it was Massaad who built this building,'" answered Massaad Fares when I asked him why so many Beirut-based builders have undertaken the construction of large-footprint residential towers.[1265] The type of psychoanalytic, egotistic, explanation given by the local tycoon who developed the 50-story Sama Beirut tower reflects a fantasy of power widespread in elite business and political circles. Nevertheless, it is not the only reason for which gargantuan buildings have become a new construction norm in the property industry. I suggest three factors that have more fundamentally influenced developers' economic choices: the overavailability of financial resources in the Lebanese economy, the misleading pricing strategy of development firms, and the legal incentive provided by the 'grands ensembles' regulation.

The overavailability of finance capital in the Lebanese economy

Against a backdrop of the 2000s positive liquidity and monetary shocks, the difficulty of finding sufficiently large Beirut-based high yield deals for capital holders and asset managers was the first factor that pushed builders to engage in the construction of residential towers. Copious capital resources were circulating but few placement and investment opportunities were available in the domestic economy; development activity began to offer extremely attractive vehicles (see Chapters 3 and 4). In parallel, property professionals had the sense that many wealthy resident and non-resident buyers were looking for luxury property assets, and this sparked expectations of a future upward path for real estate prices and, thus, for profit. The concomitant availability of capital for development financing and potential buyers for high-end units was essentially the reason for which development companies accelerated the construction of high-rise buildings. Private equity-backed banking and non-banking actors (e.g., CGI, Mena Capital) were particularly instrumental in streaming massive initial investments into high-value and high-density projects that generated returns in line with standards observed in financial markets (see details in Chapters 4 and 7). In 2000s Beirut, the property industry's access to transnational

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[1265] Massaad Fares, personal communication, October 15, 2014 finance capital was critical to the funding of rapidly developed large-footprint residential projects as has been the case in many fast-growing metropolises in the Global North and South.[1266]

The misleading pricing strategy of development firms

The pricing strategy of a majority of realtors in Beirut's development sector was the second factor contributing to the multiplication of residential towers. Raja Makarem from Ramco Real Estate Advisers makes this strategy explicit: "If you have a ten-story building with apartments going for USD 2,000 per square meter on the tenth floor, increase the number of floors to 20 and you increase the price by USD 1,000 per square meter on the top floor."[1267] In other words, a belief has been widespread within the local property industry that since the distant sea and mountain views justify elevated prices on the upper floors, the taller a residential building, the greater can be the inflation of price.[1268] The tacit rent-maximizing rule, which has prevailed in the planning of most high-rise projects, is that prices should rise by USD 100 per sq. m. for each additional floor above the first. Developers have seen this as a way to boost returns, especially as the price of land remains fixed. Likewise, increasing the amount of gross floor area and number of units by multiplying floors was thought to allow realtors economies of scale on basic materials.

Nonetheless, theory must confront practice in the development process. In many cases, 'USD 100 per sq. m. and per floor' as an investment rule was misleading, says a prominent and experienced returnee developer.[1269] This is because it resulted in a recurrent problem: many operators could not manage to sell the units on the highest floors because even with the best views, they were overpriced.[1270] The pricing practice, which has importantly influenced the property industry's investment strategy, illustrates how the treatment of property as a purely financial asset can turn against builders and investors, as well as negatively affect the life of local communities and the future of cities.

[1266] Rouanet, H., & Halbert, L. (2016). Leveraging finance capital: Urban change and self-empowerment of real estate developers in India. *Urban Studies, 53*(7), 1401-1423, p. 1402

[1267] Raja Makarem is quoted in Bathiche (2009). (Bathiche, H. (2009). Here come the skyscrapers: Towering Beirut. *Lebanon Opportunities*. 66-69)

[1268] According to property agent Patrick Gaemmal (quoted in Bathiche, 2012, 67), the premium paid for the quality of the view is of at least 20 percent. (Bathiche, H. (2012a, July). The price of a sea view. *Lebanon Opportunities*. 66-68)

[1269] Property developer #5, personal communication, November 7, 2014

[1270] This issue occurs when development companies build a pricing strategy that starts from a loss leader price, to which they subsequently add USD 100 per sq. m. per floor. This results systemically in a considerable price difference between bottom and upper floors, which often end up above market value, particularly in periods of stagnation. To avoid overpriced upper floors, some builders have opted for a narrower price list, built from the average price, which brings about more costly lower floors.

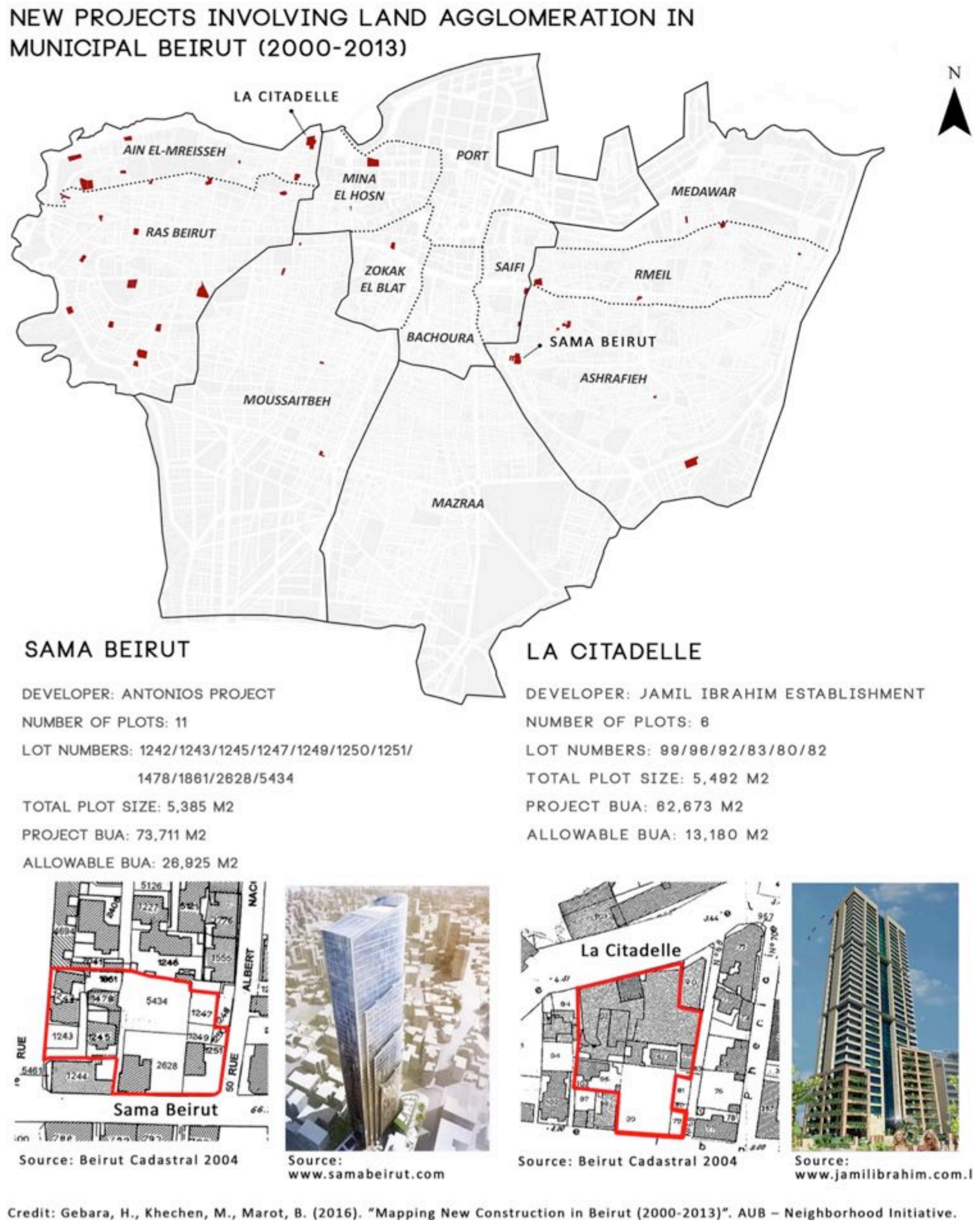
A key legal incentive: the 'grands ensembles' building regulation

The 'grands ensembles' building regulation was the third factor encouraging city builders to construct luxury residential towers. Introduced in the 1971 Construction Law and reiterated in the Article 16 of Construction Law 646/2004, this regulatory arrangement allows property firms to access an exception-based permitting process and obtain extra floor area in cases where the site to be developed is at least 4,000 sq. m.[1271] This is a concrete incentive, in other words, for development firms to acquire large lots and build massive the projects that maximize floor area and profit. Such large sites were available to Solidere as a result of post-war reparcellization, but *ad hoc* building and zoning regulations apply and make downtown a specific case. Large development sites are also available in recently urbanized areas such as Corniche El-Nahr, Jnah and Ramlet El-Baida. However, empty and reasonably priced lots of at least 4,000 sq. m. have been increasingly difficult to find in prime central and historical districts such as Ras Beirut and Ashrafieh where most investor demand for luxury real estate has concentrated. This is why builders have frequently sought to take advantage of the 'grands ensembles' arrangement by agglomerating smaller lots.

Research conducted with Hayat Gebara and Mona Khechen shows that at least 45+ large projects citywide have involved lot consolidation since the early 2000s.[1272] Two recent iconic developments, which received authorizations during the boom years illustrate this trend: Sama Beirut and La Citadelle (see Map 6.6 below). Sama Beirut, a 50-story tower located in Ashrafieh, was developed by Antonios Projects and managed by property mogul Massaad Fares. The project entailed the agglomeration of 11 parcels to constitute a 5,385 sq. m. development site. Developed by Jamil Ibrahim Establishment, La Citadelle is a 34-story building overlooking the sea in Ain El-Mreisseh (Wider Ras Beirut). The project merged six adjacent parcels for a total site area of 5,492 sq. m.

[1271] For more details on the 'grands ensembles' regulation, see Krijnen & Fawaz (*op. cit.*) and Saksouk (2015). (Saksouk, A. (2015). *Where is Law? Investigations from Beirut* (Working Paper. Neighbourhood Initiative. American University of Beirut). Retrieved from www.aub.edu.lb/Neighborhood/Documents/Abir%20NI%20Report.pdf)

[1272] We argue in our jointly conducted research (Gebara, Khechen, & Marot, 2016b) that land agglomeration strategies illustrate the agency of city builders in the production of urban space. Moreover, we suggest that this practice has at least two adverse repercussions for the property market and the city at large. Land agglomeration procedures, on the one hand, shape the economic behaviours of many landholders who, aware of the very profitable development business at play, ask for considerable amounts of cash or very advantageous financial conditions in cases where they partner with a development firm. This has been one of the reasons for which a number of parcels, which could accommodate smaller new buildings, remain undeveloped. In this way, the 'grands ensembles' regulation has encouraged land retention and reinforced the perception of land scarcity in Municipal Beirut. On the other hand, the merging of small and medium lots in central areas, as shown in the illustrations of Sama Beirut and La Citadelle, has brought about the demolition of the traditional urban fabric and the displacement of middle and low-income communities.



Map 6.6 – New property projects involving land agglomeration in Municipal Beirut (2000-2013)
(Source: Gebara, Khechen, & Marot, 2016b)

This section has, overall, investigated the process of property-led restructuring that has radically changed the organization and appearance of Municipal Beirut over the past 15 years. It has explained, in particular, why and how construction activity has concentrated in prime locations, unfolded primarily through the demolition of the existing built environment, and privileged the building of high-end condominium towers. In many respects, these physical, social and symbolic mutations of the urban fabric have made visible the financial turn of property and the regulation-urbanization nexus that gained traction during the second real estate cycle.

Conclusion

In this chapter, I investigated the tremendous influence of the regulation-urbanization nexus, i.e., the distinctive feature of Lebanon's post-war urban political economy, on the development process in Greater Beirut. I attempted to demonstrate, in particular, how the regulation-driven institutional environment of property activity analyzed in the second part of this thesis explains the process of asset price formation, the occurrence of demand-driven cycles, and the radical transformation of the built environment.

The first section unpacked why and how exuberant property prices in Lebanon are an economic, social, fiscal and legal construct resulting from a persistently high level of demand, i.e., a key feature of the nexus, and a number of secondary factors such as the weakness of public land governance, the poor quality of market information and the significance of money laundering. It offered an explanation for determination of land prices by real estate prices and thus falsified the 'collective myth' that absolute land scarcity is the critical factor in irrationally high real estate prices. It then adopted a mid-range position in the recurrent discussion on the existence of a real estate bubble in post-2000 Beirut: that while the fast-paced inflation of property asset values seems to be an integral component of Lebanon's growth regime, concerns exist about the divergent trajectories of property asset values and other economic fundamentals in the 2010s. The second section then examined the timeline and key characteristics of the two demand-led property cycles (1992-2002 and 2003-2016) that have transformed Beirut and its periphery. Through an analysis of the economic and non-economic mechanisms, and agent behaviours, linking real estate demand, asset prices and construction dynamics, it identified the reasons for which property activity has developed boom and stagnation phases but not a bust. The section also explained precisely how sustained real estate demand has directed the trajectory of land and real estate prices as well as the pace and features of construction activity in times of boom and stagnation. The third section, finally, shed light on the actual mechanisms of urban change in Municipal Beirut. Focusing on the post-2000 period, it showed that construction activity has concentrated in prime locations, unfolded for the most part through demolition of the existing built environment, and privileged the construction of capital-intensive residential towers.

In this way, this section attempted to show that the material, spatial and socio-economic transformations that have accompanied the restructuring of Beirut's built environment are the very concrete manifestation of the elite-based financialization of property analyzed earlier in this thesis.

This chapter has thus explored some of the many ways in which the regulation-urbanization nexus has, over the past quarter-century, increasingly shaped the concrete workings of the production of space in the Lebanese capital. As the following chapter attempts to demonstrate, these mutations in the development process and its outcomes have taken place alongside and interacted with the transformation of Beirut-based development agents.

Chapter 7 – The Professionalization and Financialization of the Property Industry

Property booms are periods of intense real estate and construction activity, but also of considerable reorganization for development agents. Professional practices and sources of finance evolve, and new builders emerge while existing developers frequently restructure or disappear. This global trend has not spared Beirut: during the 2000s property boom, the local property industry underwent a variety of micro-level organizational, legal, financial, behavioural and relational transformations. Embedded in the regulation-urbanization nexus, the internal reorganization and reshuffling of its institutional structures is evident particularly in the professionalization and financialization of local property actors.[1273] In the process, returnee city builders have been especially influential in bringing about change. They have established larger development companies, which have progressively spread new development standards and practices, as well as the use of sophisticated legal and financial engineering schemes to an increased proportion of the local property apparatus.

This new generation of real estate actors, who form a new urban entrepreneurial class, has also profoundly reshuffled the politics of property in post-war Beirut by readjusting the respective significance of the elite and sectarian dimensions of social relations in the management of development activity. In concrete terms, the building of social and business connections between major political and financial figures beyond sectarian affiliations has become increasingly instrumental for large property players in their accrual of economic and political agency and maximization of business activity. Multifaceted social connections have proven to be particularly key to expanding development activity citywide, influencing state policy-making, and accessing new financial resources in a polarized urban environment.

This chapter is divided intro three sections. The first introduces the larger mutations of the property industry in post-war Beirut by documenting the business trajectories of its experienced and more recent leading city builders. The second section details the professionalization and

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[1273] By professionalization, I mean the incorporation of developent activity, the acquisition of financial expertise and the industrialization of systematized development practices meeting international standards. I also include the formation of professional organizations intended to carry weight in property-related policy-making, facilitate contacts and connections between property actors, and promote the interests of the real estate industry locally and internationally. For a recent contribution to the professionalization of property industries from an international perspective, see Stevens (2016). Furthermore, in line with the works of the Critical Social Accountancy school (see Chapter 2), I refer to financialization as the strong influence of the notion of ‘shareholder value’ in the transformations of development firms’ legal arrangements, financing patterns, business strategies and corporate governance. (Stevens, S. (2016). *Developing expertise: Architecture and real estate in metropolitan America*. New Haven, CT: Yale University Press.)

financialization of property activity throughout the 2000s by the city's current leading development actors. In particular, it tracks the major transformations in legal and financial arrangements and in development practices. The third section, finally, investigates the increased integration of Beirut-based developers into elite social networks at the local and global levels and the repercussions this has for property activity.

7.1 Trajectories of City Builders in Post-War Beirut: A New Urban Entrepreneurial Class in the Making

Property developers, together with landowners, financiers, brokers and planners, are pivotal agents of spatial production. Embedded in social and institutional structures, they initiate, drive and materialize the city-building process through the management of three key resources: land, capital and labour.[1274] In Beirut, the profile of development agents has very much evolved during the two post-war property cycles. Large incorporated entities established by returnee entrepreneurs have progressively entered the field and become leading builders who have introduced new development rules, conventions and practices. In this section, I document this evolution and I illustrate the rise of a new generation of city builders by following the business trajectories of one historical player and several new actors.

7.1.1 The Dominance of Amateur Developers and Family-Owned Firms in the 1990s

Most observers of the Lebanese property market point out that, during the 1990s construction boom, the development industry was poorly structured and composed almost exclusively of 'get-rich-quick' amateurs and small-scale family firms.[1275] Economist Natacha Aveline, for instance, suggests that incorporated professional developers accounted for just five percent of the value and one percent of the volume of development activity.[1276] In Beirut, although Solidere took charge of redeveloping the city center, well-off individuals with land and

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[1274] Charney, I. (2001). Three dimensions of capital switching within the real estate sector: A Canadian case study. *International Journal of Urban and Regional Research, 25*(4), 740-758, p. 742); Haila, A. (2002). State-present capitalism: Property and development companies in Singapore. *Entreprises et Histoire, 30*(2), 63-72, p. 63; Healey, P. (1991). Models of the development process: A review. *Journal of Property Research*, *8*(3), 219-238, p. 223

[1275] Fawaz, M. (2003). *Access to housing by the poor: Comparative analysis of housing performance and policy in selected MNA region countries. Lebanon report assessment of housing sector*. Washington, DC: World Bank; Massaad Fares, personal communication, October 15, 2014; Property developer #5, personal communication, November 7, 2014

[1276] Aveline, N. (2000). *Marchés fonciers et immobiliers à Beyrouth*. Document No.6. Beirut, Lebanon: CERMOC- Observatoire de Recherches sur Beyrouth et la Reconstruction, p. 20

cash (e.g., businessmen, doctors, lawyers, architects, etc.) performed the bulk of the remaining construction activity. The inexperienced "place entrepreneurs" intended to add value to their family-inherited or recently acquired land portfolios through the development of small residential buildings.[1277] Business models frequently entailed partnerships with friends to assemble sufficient capital and share the risk, as well as to expand the social networks through which they found buyers. Unsold units were generally kept for family and profit was regularly reinvested in land acquisition.[1278] This was a *direct* form of property development: builders individually assumed the financial risk and legal accountability accompanying construction projects: no use of *ad hoc* special purpose vehicles (SPVs) here.[1279] Further, these amateur players, who relied upon personal wealth and upfront payments, rarely carried out market and financial feasibility studies to secure cash flows. They likewise had little experience with marketing methods. Their individual exposure and lack of professional skills significantly increased the risk of financial setback, however, especially as the property market showed signs of slowdown as of 1996.[1280] Unsurprisingly, the stagnation phase of the late 1990s led to the exit of most of the nonprofessional players and left the few professional developers in the game.[1281]

Along with Solidere and the amateur developers, real estate families, such as the Saabs (Jamil Saab & Co.), the Ammaches (Ammache Group) and the Achours (Achour Development), were among the few professional actors already active at this time. This was also the case with one of the most famous property firms operating in Beirut: Jamil Ibrahim Establishment. Born into a poor Shia family of eight, Jamil Ibrahim is a self-made businessman with no high school education. Over the decades, he has managed to build a family-run property empire and become one of the most emblematic real estate tycoons in Lebanon. Ibrahim made his debut in the early 1960s and kept growing: multi-million dollars towers have progressively replaced the "very simple small buildings" his firm initially constructed.[1282] In contrast to many Lebanese businessmen, Ibrahim remained in the country during the war years and continued to grow his

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[1277] Logan, J. R., & Molotch, H. L. (1987). *Urban fortunes: The political economy of place*. Berkeley, CA: University of California Press
[1278] Aveline, 2000; Property developer #5, personal communication, November 7, 2014
[1279] A special purpose vehicle is "a legal entity which has been set up for a specific, limited, purpose by another entity, the sponsoring firm. " It can "take the form of a corporation, trust, partnership, or a limited liability company" (Gorton & Souleles, 2005, p. 7). (Gorton, G., & Souleles, N. (2005). *Special purpose vehicles and securitization*. (NBER Working Paper Series, Working Paper No. 11190). Retrieved from www.nber.org/papers/w11190)
[1280] Nahas, C. (2000a). *Économie foncière et immobilière au Liban*. (Lettre d'information, No. 12). Beirut, Lebanon: CERMOC - Observatoire de Recherches sur Beyrouth et la Reconstruction
[1281] Lebanon Opportunities Staff (2005, October). Real estate enters a revival phase. *Lebanon Opportunities*. 67; Lebanon Opportunities Staff (2007, April). Resiliency in the face of adversity. *Lebanon Opportunities*. 44-47, p. 45
[1282] Mazen Ibrahim, personal communication, November 11, 2014

multiple, transectarian business and political connections (see details later in this chapter). By the end of the war, his business was thriving: it had spread from the neighbourhoods of Ras Beirut and Ramlet El-Baida, where his projects were first located (e.g., Karakol El-Druze, Verdun, Qoreitem), to the Christian area of Ashrafieh where land was cheaper.[1283] Although Jamil Ibrahim Establishment kept to its family-based model and did not take the corporate turn, its activity reached a new level of volume and value in the 2000s with the construction of an increased number of large residential projects.[1284] The firm's success is partly a function of its financing strategy: various sources have explained that a close circle of moneyed Shia businessmen helps to generate cash flow at each project's inception by buying discounted units. The company also, early on, resorted to bank financing. This is one of the reasons for its continued reinvestment of a significant portion of profit in land acquisition in Beirut and vicinity, and in the Bekaa Valley: to secure solid collaterals and build a massive and profitable land portfolio.[1285] Ibrahim has a mixed reputation among property professionals, however. While many envy his capacity to develop well-located sites, and recognize his role as a trendsetter in the local industry, others criticize the design and construction quality of his projects.[1286]

7.1.2 The Emergence of Returnee Agents as Leading City Builders in the 2000s

As the second post-war property cycle began in the first half of the 2000s, a new generation of returnee, sometimes novice, city builders entered Beirut's development sector and began to compete with the family-owned firms that had survived the late 1990s property slump.

[1283] Jamil Ibrahim initiated a famous property project (Sodeco Square) on the former demarcation line a few years after the war ended. For his projects in Ashrafieh, a predominantly Christian area of East Beirut, the developer from a Shia background probably worked through joint ventures with local landowners and businessmen in a context where, political scientist Élizabeth Picard (2005) underlines, Maronite and Greek Catholic religious authorities "continued to forbid the selling of land to *ghuraba* (West Beirut inhabitants)" and "conjured up the specter of the "islamization" of the land." (Picard, E. (2005). Trafficking, rents, and diaspora in the Lebanese War. In C. J. Arnson, & I. Wi. Zartman (Eds.). *Rethinking the economics of war: The intersection of need, creed, and greed* (pp. 27-67). Washington, DC: Woodrow Wilson Center Press)

[1284] According to the commerce registry, Jamil Ibrahim is the only owner of Jamil Ibrahim Establisment. As Mazen Ibrahim (personal communication, November 11, 2014) explains, all the firm's key positions are given to close family relatives: three of Jamil Ibrahim's sons control strategic managerial positions. In addition, unlike most recent incorporated actors that contract with third parties, the company is vertically integrated: it works in-house with its own architecture, marketing and contracting departments to minimize costs. Furthermore, Jamil Ibrahim registers most of his projects under his own name, although he has increasingly used SPVs for large projects in recent years (e.g., Carlton, La Citadelle). However, this strategy is risky according to a Beirut-based legal expert who stresses the financial risk in case of litigation.

[1285] According to Mazen Ibrahim (personal communication, November 11, 2014), his father earmarks 60 percent of the firm's generated profit for land acquisition in Beirut and 40 percent outside Beirut in regions where land value is on the rise.

[1286] For example, Jamil Ibrahim Establishment managed to run eight large residential projects (worth USD 800 million) at the same time during the peak of the second property boom (Lebanon Opportunities Staff, 2009, p. 74). (Lebanon Opportunities Staff (2009, September). 10 Trend-Setting Developers. *Lebanon Opportunities*. 79-78)

7.1.2.1 The cohabitation of two types of development actors

Two categories of builders coexisted during the second property cycle in the Lebanese capital.

First, small and medium sized amateur developers, similar to those who drove the 1990s boom, expanded and in number, represented the majority of operators. They focused on middle-income housing but also on upmarket construction with buildings that generally did not exceed 10 floors and 200 sq.m. units.[1287] In general, small and medium sized actors, who were sometimes tied to small contractor firms, repeated the mistakes of their predecessors during the first property cycle: they built in abundance without responding to targeted demands.[1288] Moreover, far from respecting the professional development canon, they paid astronomical sums for land without performing residual value calculations.[1289] Such blind speculation importantly fuelled the upsurge in land value and, when demand contracted and stocks began to amass in 2010-2011, weakened many operators.[1290] A large number of these have exited the market in recent years.

Second, the 2000s witnessed the rise in importance of "institutionalized developers undertaking large-scale, upmarket projects."[1291] Many of these new actors stepped into the ring between 2007 and 2009 to join the few professional family-run city builders. By 2009, business magazine Lebanon Opportunities estimated that large property corporations comprised five to ten percent of all players in Beirut.[1292] Likewise, property analyst Guillaume Boudisseau confirms that the number of projects they have built is limited compared to the total citywide.[1293] They are, nevertheless, large-scale, generally high-end residential towers, and have accounted for a significant proportion of newly built up area and of the financial resources invested in property. They have also been the most emblematic projects of the second post-war property boom.

[1287] Guillaume Boudisseau, multiple personal communications, 2014-2016; Yammine, S. (2009b, September). Trend setters: Institutionalized developers tower over the property market. *Lebanon Opportunities*. 66-69, p. 67. As a well-informed property broker explains, small and medium-sized amateur developers constructed projects, supplying units ranging from USD 300,000 to 600,000, in areas such as Sioufi, Fassouh, Ras El-Nabah and Mazraa.

[1288] Guillaume Boudisseau, multiple personal communications, 2014-2016

[1289] Considered the alpha and the omega of any professional property activity, residual value calculations determine the amount of capital invested in land acquisition as a function of the level of exit real estate prices (see Chapter 6). To obtain the amount of capital available for land acquisition, property professionals subtract construction costs, related fees and profit from the project's expected total earnings, which is determined by the level of real estate prices.

[1290] Guillaume Boudisseau, multiple personal communications, 2014-2016; Taffin, C., Roy, F., Gonnet, L., & Nahas, C. (2010). *Real estate market activity and exposure of the financial sector in Lebanon*. Washington, DC: World Bank, Social and Economic Development Group, Middle East and North Africa Region, p. 22

[1291] Yammine, 2009b, p. 67

[1292] Vierros, K. (2009, June). Ashrafieh is gold. *Lebanon Opportunities*. 56-59, p. 58

[1293] Guillaume Boudisseau, multiple personal communications, 2014-2016

Two main factors led to the emergence and significance of this new category of development firm. On the one hand, as we saw earlier in this study, the increased availability of capital resources in the 2000s Lebanese economy escalated both demand for, and the price of, real estate. The awakening of the property market sent a powerful signal to major financiers and businessmen that growth and a promising yield could be expected, and they began to enter into upmarket development activity. As underlined in Chapter 6, high-density real estate projects were indeed perceived as attractive sinks for large amounts of cash and sources of soaring profits. On the other hand, the increased scale of projects in Municipal Beirut entailed increased costs and risks for developers, which only a handful of well-capitalized and professional agents could afford and manage. This was especially the case in prime locations where the construction of high-end residential towers required a sizeable initial investment. Direct forms of development with personal equity and off-plan sales were then no longer sufficient to initiate and secure projects and forced builders to take recourse to advanced legal and financial engineering.[1294] In short, the amount of up-front investment and the complexity of management schemes it involved kept small and medium-sized developers out of the premium locations, where traditional family-owned firms and the new large operators concentrated to build the largest possible projects. Interestingly, returnee businessmen established a large number of the new professional development entities.

7.1.2.2 The variegated profiles of returnee developers

In the 1990s and 2000s, after years of absence, many diaspora entrepreneurs settled back in Lebanon with the ambition of rebuilding the country and the economy. A reasonable number opted for property development: the post-war strategy of financial attractiveness was fuelling growth expectations in a key economic sector that was still poorly structured and professionalized. “There were places to be taken,” notes a returnee developer.[1295] Those businessmen quickly acquired such weight in the property industry as to constitute a new urban entrepreneurial class, capable of orienting development conventions and practices. Although their personal and professional trajectories were quite different, many shared a common trait: they

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[1294] The cost of land acquisition, which has reached dozens of millions of US dollars in the past decade, has been a primary obstacle to operation in Beirut’s prime locations for small and medium-sized developers. For example, land acquisition amounted to USD 65 millions for Jamil Ibrahim Establishment’s Carlton project, which was built on a site of 7,300 sq.m. (Boudisseau, 2008). (Boudisseau, G. (2008, March). Jamil Ibrahim achète le Carlton. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/node/12889)

[1295] Property developer #5, personal communication, November 7, 2014 (Translation by the author) received their university education and gained their work experience outside Lebanon, in North America, Europe, Africa or the Middle East. International exposure crucially shaped the economic, social, cultural and symbolic forms of capital on which they relied and allowed them to introduce into the Lebanese environment new development strategies, an increased range of financing sources and an expansion of social networks locally and internationally. The international background of these new actors, in other words, very much influenced their knowhow and, therefore, their contribution to the institutional design of the Lebanese property industry.

Some of the entrepreneurs had prior business experience in property sector. This was the case for Massaad Fares (CEO of Prime Consult) who had worked in Marbella, Spain; Namir Cortas (CEO of Estates) who had had real estate activities in the UK and US; and Philippe Tabet (general manager of Har Properties) who was a former senior executive of Cogedim, a major real estate investment and development company in France. Other returnees launched their residential development activity without expertise in property but with international business experience in finance, trade or infrastructure construction in countries that ranged from the United States to Iraq, Afghanistan and Sierra Leone.

This was the case for Nabil Sawabini, for example, a private equity specialist who had long worked in the United States and the United Kingdom before returning to Lebanon as the country emerged from war.[1296] Born into a rich Beiruti family of Palestinian origin, Sawabini left in the 1970s to become a senior executive at the JP Morgan bank in New York and London, a position that lasted for nearly two decades.[1297] In the early 1990s, he had been head of the American University of Beirut Alumni Association for North America. Sawabini likes to remind visitors that it was during a meeting of the AUB Board of Trustees that political leaders such as Rafiq Hariri and Selim El-Hoss "mock[ed] [him] for not being instrumental in getting Lebanon back on its feet."[1298] In 1994, the financier finally decided to do just that, and, as a part of the first generation of business returnees, started a Beirut-based regional investment and corporate financial firm called the Middle East Capital Group (MECG). In 2003-2004, Sawabini left

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[1296] Nabil Sawabini, personal communication, November 19, 2014
[1297] As Lebanese historian and political scientist Fawwaz Traboulsi (2014) explains, Palestinian and Syrian businessmen form two key branches of the bourgeoisie in Lebanon. Many rich Palestinian families, including a high proportion of Christian Palestinians, settled in Lebanon in the late 1940s and early 1950s. (Traboulsi, F. (2014). *Social classes and political power in Lebanon*. Beirut, Beirut: Heinrich Böll Foundation)
[1298] Nabil Sawabini, personal communication, November 19, 2015

MECG and established Mena Capital to "ride the wave of real estate" and "bring quality to the equation" as "the market was right for it."[1299]

Similarly, Mustapha Ahmad, CEO of Trillium Holding and of its real estate subsidiary Trillium Development Group, made his entry into Beirut's residential property market without specific experience in development. Born and raised in Sierra Leone, Ahmad had originally worked for his family car dealership business in Africa. In the early 2000s, he left for Iraq, then occupied by US troops, where he worked for the local subcontractor (The New Millennium) of a US company (Laguna Construction Company), which itself was receiving reconstruction contracts from US government agencies.[1300] Ahmad rapidly established his own business (Mercury Development), which also landed US-funded reconstruction subcontracts (e.g., schools, hospitals, camps) in Iraq, through the Laguna Construction Company, prior to expanding to Afghanistan, Djibouti and Morocco.[1301] These US-funded contracts, however, remain sources of controversy: the US District Court of New Mexico has indicted Ahmad and senior executives from Laguna Construction Company for their presumed participation in an "alleged fraud and money laundering scheme involving millions of dollars."[1302] Ahmad finally moved to Lebanon in 2008-2009 and entered Beirut's residential property market despite the fact he had "zero background in property development."[1303] As he explains: "It was a dream to build in Beirut [….] and the market was really attractive."[1304] He partnered initially with a major local player, Achour Development, and then founded Trillium Development Group with a controversial business associate Nasser Soufan.[1305] After several years of intensive development activity in various parts

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[1299] *Ibid*

[1300] US District Court of New Mexico (2012). *Indictment for criminal case No.12-413*. Albuquerque, NM: US District Court. Retrieved from www.justice.gov/sites/default/files/usao-nm/legacy/2013/04/15/2012-03-02_kasper_indictment.pdf

[1301] The Business Year Staff (2012). Real estate & construction | Vox populi: Developers. *The Business Year*. Retrieved from www.thebusinessyear.com/lebanon-2012/home-away/vox-populi; US District Court of New Mexico, *op. cit*.

[1302] The U.S. District Court in Albuquerque, New Mexico charged Mustapha Ahmad in 2012 for "wire fraud conspiracy" and the offering and reception of "illegal kickbacks" (Sandlin, 2012; US Attorney's Office, 2012, 2016). (Sandlin, S. (2012, March 3). 3 Accused of taking Iraq funds. *Albuquerque Journal*. Retrieved from www.abqjournal.com/91749/news/3-accused-of-taking-iraq-funds.html; US Attorney's Office (2012). *Former officers of New Mexico-based defense contractor charged in fraud and money laundering schemes related to rebuilding efforts in Iraq*. Albuquerque, NM: US District Court. Retrieved from www.fbi.gov/albuquerque/press-releases/2012/former-officers-of-new-mexico-based-defense-contractor-charged-in-fraud-and-money-laundering-schemes-related-to-rebuilding-efforts-in-iraq; US Attorney's Office (2016). *Former officers of New Mexico-based defense contractor plead guilty to criminal charges relating to Iraq rebuilding efforts*. Albuquerque, NM: US District Court. Retrieved from https://www.justice.gov/usao-nm/pr/former-officers-new-mexico-based-defense-contractor-plead-guilty-criminal-charges)

[1303] Mustapha Ahmad, personal communication, April 7, 2015

[1304] *Ibid*

[1305] Nasser Soufan is the Vice-Chairman of Trillium Holding, as mentioned in an advertising video broadcast at the company headquarters in Beirut. Soufan is a close friend of Mustapha Ahmad. He accompanied Ahmad to the official launching ceremony of the firm's Trillium Hills and White Sands projects in Sierra Leone, for example, during which the President of the Republic Ernest Bai Koroma presented the two businessmen as "two illustrious sons of the soil", the "brains" behind the two property projects (Kawusu-Konte, 2014). The reputation of Mr. Soufan, however, is controversial: though open data could not be crosschecked, online research shows that his name comes up in dubious construction and property deals in South Sudan (Tut Malwal, 2009, October 20). (Kawusu-Konte, J. (2014, May 15). Trillium million dollar housing project launched in Sierra Leone. In *My Sierra Leone Online*. Retrieved from http://mysierraleoneonline.com/sl_portal/site/news/detail/2490; Tut Malwal, N. (2009, of the city, he received in 2016 the ‘Businessman of The Year’ award at the Beirut International Awards Festivals (BIAF).

The profile of property actors driving the production of space in Beirut has thus very much evolved in the past quarter century with the arrival of diaspora entrepreneurs. Against a background of the financial and economic euphoria of the 2000s, a number of these new comers jumped on the bandwagon of the second post-war property boom and established large professional development companies. By building some of the largest and most iconic projects throughout the city, the firms of returnee developers such as Massaad Fares, Nabil Sawabini and Mustapha Ahmad have been instrumental in channelling transnational capital into real estate and construction, restructuring the built environment and, more generally, influencing the property market’s institutional arrangements. This new urban entrepreneurial class has also, just as importantly, spurred standardization of new legal and financial patterns and integration of the local development industry into international political and business networks. It has thereby accelerated the corporate turn of development activity, which has gone hand in hand with the increased professionalization and financialization of city builders in the 2000s.

7.2 Incorporation, Capital Structure and Development Practices: The Mutations of the Real Estate Apparatus

In addition to attracting an increased number of diaspora and Gulf investors and buyers, many returnee builders have introduced into the property sector a set of organizational, managerial and financial skills that meet international standards. In doing so, the new players have furthered professionalization of the Beirut-based development industry in at least three important ways: the deployment of complex corporate organizations, the reshuffling of equity-debt structures, and the emergence of new development practices. By reducing the transaction costs associated with the production and exchange of real estate, these renewed rules, conventions and resources have greatly facilitated capital accumulation and circulation in the city’s built environment. They have also, significantly, helped to spread the concept of ‘shareholder value’ throughout the development industry and can thus be interpreted as another facet of the financial turn generated by post-war Lebanon’s regulation-urbanization nexus.

October 20). Read and cry: How Lebanese businessmen [deleted] South Sudan. Message posted to http://mereja.com/forum/viewtopic.php?f=2&t=36443)

7.2.1 Reducing Taxes and Sharing Risk: The Proliferation of Corporate Organizations

As in any economic sector, the organization and legal structure of property development companies very much influence the fiscal and risk liabilities presented to an entrepreneur. In the property industry, they also determine the way in which builders collect cash from their financiers and, more generally, the manner in which they undertake development activity.[1306] Unlike the direct form of development prevailing in the 1990s, the Beirut-based professional development actors of the 2000s began to engineer sophisticated corporate schemes separating the parent company from each of its development projects. By multiplying the number of special purpose vehicles, in other words, local agents began to perform an indirect form of property development in order to meet three objectives: maximize profit, escape tax obligations and share risk. While this "new stage of development of capital" has, over the past decades, unfolded worldwide, this section identifies the reasons for which and the specific ways by which it gained momentum at the turn of the century in Beirut's property sector, and more widely in the Lebanese economy.[1307]

7.2.1.1 An indirect form of property development: three major reasons behind the rapid incorporation of property agents

Corporate schemes are "the basis of most commercial and entrepreneurial activities" in market-based economies.[1308] They offer particular financial instruments and affect the "corporate debt-equity structure […] and the strategic location of assets and overhead costs."[1309] In this way, corporate structures are the "integral and indispensable component of the modern global financial landscape" and "play an essential role in the global economic system."[1310] Three major motives

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[1306] Bacha, K. (2012). *La place des réseaux dans l'immobilier beyrouthin: Étude de cas à Ras Beyrouth et à Jnah* (Unpublished Masters' Thesis). Institut d'Urbanisme de l'ALBA. Université de Balamand, Beirut, p. 46; Daher, K. (2002). *Les impôts au Liban*. Beirut, Lebanon: Librairie Antoine

[1307] Fawwaz Traboulsi, personal communication, November 5, 2014

[1308] Organisation for Economic Cooperation and Development (2011). *Behind the corporate veil: Using corporate entities for illicit purposes*. Paris, France: OECD. Retrieved from www.oecd.org/corporate/ca/43703185.pdf (p. 7)

[1309] Jansky, P., & Prats, A. (2015). International profit: Shifting out of developing countries and the role of tax havens. *DPR Development Policy Review, 33*(3), 271-292, p. 273

[1310] Atkinson, P. (2015). The use of corporate vehicles to conceal illegal assets. In Basel Institute of Governance (2015). *Tracing illegal assets: A practitioner's guide*. Basel, Switzerland: International Center for Asset Recovery. Retrieved from www.baselgovernance.org/publications/667. (p. 97) have accounted for their progressive deployment in the Lebanese property industry over the past 15 years.[1311]

First, the inflated value of projects and investments has broadened property operators' and investors' exposure to a series of fiscal and legal liabilities. Well versed in international business, returnee developers have thus rapidly adopted multiple incorporation strategies to protect their activity and assets. Second, more generally, the incorporation of local property players reflected the transformation of Lebanon's business environment: as of the early 2000s, the local business community became increasingly familiar with the corporate arrangements and tax loopholes that had been engineered during Rafiq Hariri's first mandate in the 1990s.[1312] A prominent taxation specialist, who asked to remain anonymous, notably explains that returnee financiers and entrepreneurs, who were close to government circles, played a key role in disseminating and standardizing incorporation-based business practices. Third, the fiscal reform undertaken by Prime Minister Selim El-Hoss and Minister of Finance Georges Corm in the 1999 budget was a major boost. Created during a period of slow growth, the reform's objective was to address the state's mounting budget deficit and debt by raising fiscal revenue and fighting tax evasion and avoidance.[1313] In contrast to Rafiq Hariri's lax taxation policy, this new fiscal legislation included an increase in business income tax for individuals and partners of private and family companies (from 4 to 21 percent according to the income bracket), creation of a flat business income tax for corporations and limited partnerships (15 percent), and an increase in the tax on dividends (from 5 to 10 percent).[1314] Combined with a unified income statement released a few years later by the Ministry of Finance,[1315] this major tax reform is said to have boosted the incorporation of property agents who sought to optimize their tax exposure.[1316] By the same token, the creation of a value added tax (VAT), prepared by Minister Georges Corm but introduced by his successor Fuad Siniora in 2001, is also said to have played a critical role: the number of incorporated

[1311] Reasons two and three especially stress the crucial way the action of the Lebanese government has contributed to organizing the professional conventions, norms and practices of the real estate sector through the design of regulatory and fiscal frameworks.

[1312] Pro-business schemes and tax loopholes were especially designed by Law 282/93 for corporate deals among joint-stock companies, Laws 89/1991 and 409/1995 for tax breaks given to holding companies, and Law 520/96 for fiduciary contracts.

[1313] Wierzbowski, D. (2010). *Understanding the property market in Lebanon: Social networks in the production of high-end residential space in Beirut*. (Unpublished Master's Thesis). Department of Urban Planning and Policy. American University of Beirut, Beirut, p. 45

[1314] Wierzbowski, *op. cit.*, p. 46. The premiership of Selim El-Hoss was the only period during which Rafiq Hariri was not Prime Minister between October 31, 1992 and October 21, 2004.

[1315] According to legal expert Alexa Hechaime (multiple personal communications, 2014-2016), the requirement of a unified tax return by the tax administration also contributed to the increased incorporation of economic agents who intended to split income and avoid higher taxation.

[1316] In addition to benefiting from the flat corporate tax, the legal reorganization of property businesses allowed agents to start new tax records (Gharazeddine, 2013, p. 95). (Gharazeddine, J. (2013). *Social networking and the practice of city making in Beirut: A case study*. (Masters' Unpublished research Paper). Department of Urban Planning and Policy, American University of Beirut, Beirut) entities increased by 26 percent between 2001 and 2002.[1317] Although the VAT does not apply to the real estate sales of development firms, Dominik Wierzbowski, in his master's thesis research at the American University of Beirut, suggests that it forced companies "to keep invoices of all of their sales and purchases […] in order to claim tax returns."[1318] Firms could then no longer fake their books since their real revenues were revealed through the reclaimed VAT.[1319]In addition to incorporating parent companies, then, property development actors began systematically to establish special purpose vehicles for each of their property projects. The ability to split activity and income into smaller ventures opened up access to lower taxation brackets.[1320]

Overall, the primary actors of the development industry began to engineer complex corporate schemes comprised of three categories of legal vehicle: basic Lebanese joint-stock companies, holding companies and offshore companies. These SPVs were deployed at both the parent company and the real estate project levels (see Figure 7.1 below). The use of each legal entity entails a specific set of objectives and requirements. I illustrate the business practices of the local development sector below, through a description of these corporate schemes and the SPVs that they used. Readers will come to their own conclusions as to whether Lebanese laws were respected. In any case, my objective is not to point to the licit and illicit character of one development firm or another but to underline the recent transformation of professional practices within the real estate industry at large.

[1317] Bacha, *op. cit.,* p. 47; Wierzbowski, *op. cit.*, p. 49
[1318] Wierzbowski, *op. cit.*, p. 50
[1319] *Ibid*
[1320] Jaber, F., & Al-Riyahi, I. (2014). *Comparative study: Tax systems in six Arab countries*. (Research Paper. Arab NGO Network for Development). Retrieved from www.socialwatch.org/sites/default/files/annd-2014-comparative-study-tax-system.pdf (p. 15)

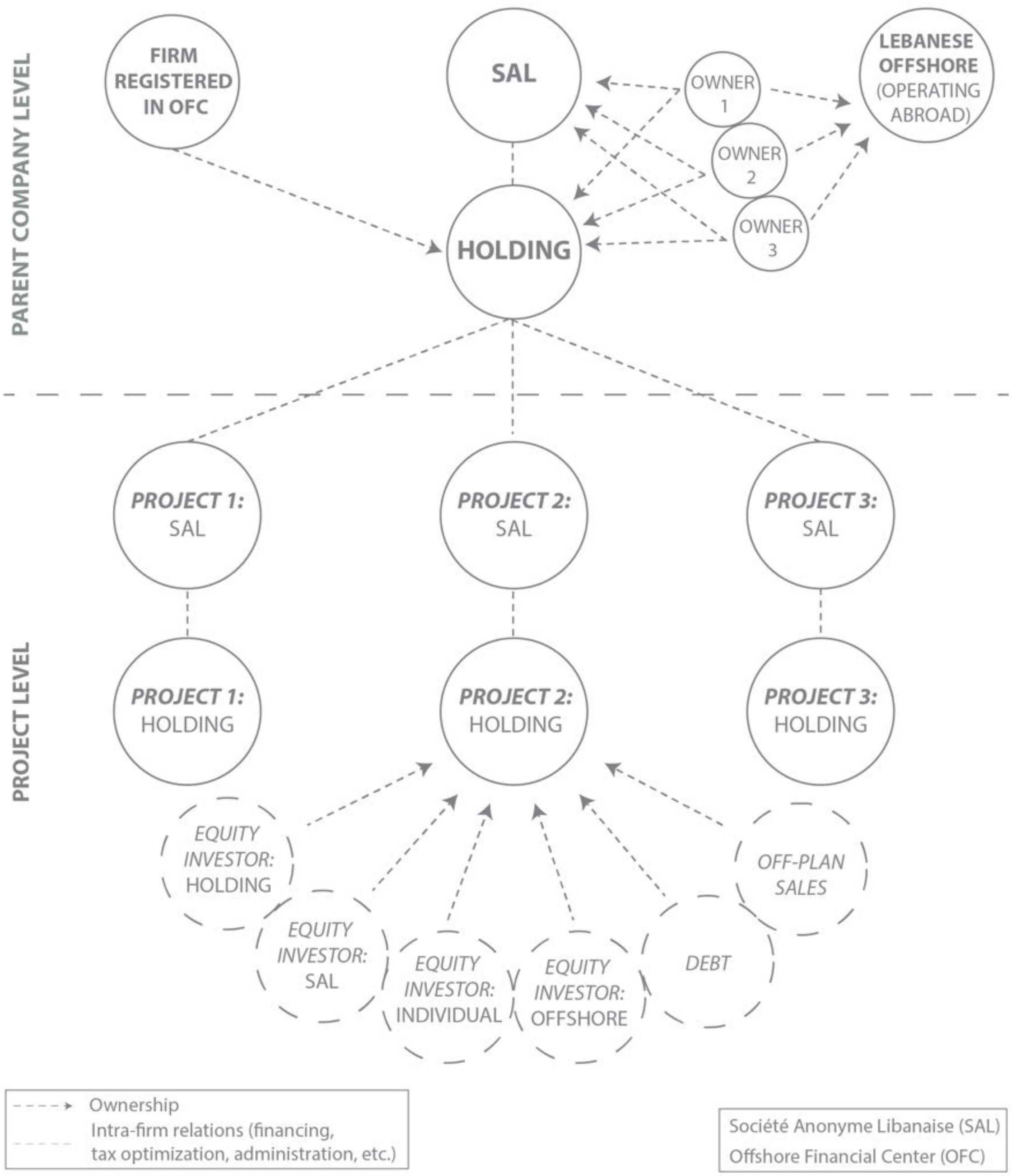

Figure 7.1 – Simplified corporate scheme deployed by the Lebanese property industry
(Source: Author)

7.2.1.2 Lebanese joint-stock company: the basic special purpose vehicle

The most basic and pervasive form of SPV is the Lebanese joint-stock company, whose acronym (SAL), as explained in Chapter 4, stands for its French denomination: Société Anonyme Libanaise. Various forms of commercial corporations exist in Lebanon; but development firms and projects are generally incorporated as joint-stock entities in which shareholders divide profits and losses over one or several property assets. Joint-stock companies allow builders to isolate the parent company from financial risk, secure a number of tax cuts for both the mother firm and its subsidiaries, and facilitate the participation of, and share the risk with, associated investors without exposing their entire asset portfolios.[1321] As importantly, SAL vehicles also facilitate asset transfer. Indeed, this form of financial and legal engineering enables the transfer of firm shares, and not the actual asset, from one owner to another without paying tax (Article 19 of Law 282/93). Loosely speaking, joint-stock companies facilitate the circulation of capital in the property sector by replacing land sales with corporate deals eliminating taxation on the proceeds of property speculation.[1322] Experts, however, question the actual benefits of this fiscal solution.[1323]

The increased number of SAL-based corporate schemes in the property sector has also been used to shield the identity of actual investors through the recurrent use of shell entities.[1324] Property players build byzantine structures by designing chains of SPVs in the shareholdings of parent companies and project-specific legal vehicles as a way of dissimulating the identity of actual owners, or at least making them harder to uncover. Although all shares owned by a legal entity or an individual person must be nominative by law, figureheads (or 'nominee shareholder') may "hold shares for the benefit and on behalf of another person" in order to obscure actual beneficiaries.[1325] As the upcoming section on fiduciary schemes will detail, bearer shares, albeit

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[1321] Investors limit their financial liability to the amount of cash injected into the SPV and thus do not expose their entire asset portfolios (Thomas & Romanet-Perroux, 2012). (Thomas, P., & Romanet-Perroux, P. (2012). *Real estate: Finance de l'immobilier*. Paris, France: Revue Banque)

[1322] Nash, M. (2015, April). Seashore, Inc. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/seashore-inc.

[1323] According to several economists and tax experts such as Roger Melki (multiple personal communications, 2014-2015), the tax optimization scheme offered by a SAL is misleading for a property agent buying a company simply for its land. While the seller avoids capital gains tax by resorting to the corporate deal, real taxation is delayed for the buyer. Indeed, once the property project is developed, the SAL will find itself paying substantial capital gains taxation due to the discrepancy between the land value registered in the firm's book, which dates back to original incorporation, and its actualized value. This delayed taxation, sometimes unanticipated by unprofessional players, is likely to affect substantially the return made by investors developing a project. Put another way, this scheme may allow realtors to avoid taxation on capital gains and registration fees in the short run; but they may pay more in the long run.

[1324] A shell company is "a non-operational company, i.e. a legal entity that has no independent operations, significant assets, ongoing business activities or employees" (Atkinson, *op. cit.*, p. 100).

[1325] Atkinson (*op. cit.*, p. 96, 99) explains that "nominee company owners and trustees might be registered as the legal owners of an asset without actually possessing the right to enjoy its benefits."

recently prohibited, are common now in Lebanon. The majority of commerce registry records consulted for this research confirms this assumption: a number of lawyers or unknown individuals show up as important shareholders in a variety of firms and projects.[1326] Such a strategy is generally used to obscure the real source of the funds and disguise the identity of the beneficial owner.

In concrete terms, a mother property company (e.g., 'Mena Capital SAL,' 'Conseil et Gestion Immobilière (CGI) SAL') generally registers each of the property assets that it owns, acquires, or develops for an associated landowner, in the name of an *ad hoc* SAL. None of these project-specific operating companies (e.g., 'Sursock Tower SAL,' '1442 Ras Beyrouth SAL') appears directly on the parent company's balance sheet. They are dissolved upon the project's completion and sale. The vast majority of projects listed in the Beirut Building Database (see Chapter 6), for example, are incorporated as *ad hoc* SALs rather than under individual names.[1327]

7.2.1.3 Holding company: the most financially strategic special purpose vehicle

The corporate organization elaborated by the new generation of city builders has increasingly included the establishment of holding companies, which reflects a major change in the form of post-war Lebanese capitalist ownership.[1328] Decree 45/1983 (modified by Laws 89/1991, 409/1995, and 772/2006) mandates the automatic incorporation of a holding company in the form of a Lebanese joint-stock company (SAL).[1329] The legislation is designed to restrict commercial activity and property ownership except for use as a head office; specifically to: (a) "owning shares or interest in existing Lebanese or foreign joint-stock companies or limited liability companies," (b) "managing companies in which it holds shares or interest," and (c) "lending to companies in which it holds shares, and guaranteeing such companies toward third parties."[1330] My empirical investigation of corporate organizations shows that builders and financiers have regularly resorted to holding entities at both parent company and project levels

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[1326] Throughout this chapter, I provide the official registration numbers, which are preceded by the '#' symbol, of all the Lebanese companies that I refer to. Detailed ownership records are available online on the commerce registry's website (http://cr.justice.gov.lb/) by entering the registration number.
[1327] Gebara, H., Khechen, M., & Marot, B. (2016b). Mapping new constructions in Beirut (2000-2013). *Jadaliyya*. Retrieved from www.jadaliyya.com/Details/33751/Mapping-New-Constructions-in-Beirut-2000-2013.
[1328] Traboulsi, 2014, p. 29
[1329] Rozelier, M. (2009, August). Dans les coulisses des holdings. *Le Commerce du Levant*. 66-70, p. 70
[1330] As of Legislative Decree 45/1983 published in Business Entities (n. d.). In *Doing Business in Lebanon*. Retrieved from http://doingbusinessinlebanon.com/en/default.asp?menuID=9&sub=18.

for three purposes: intra-firm management, tax optimization, and increased opacity in shareholding structure.

First, a large number of development agents have included a holding company in their corporate strategy for intra-firm management purposes at the parent company level (e.g., 'Achour Holding SAL,' 'Mena Capital Development Holding SAL'). Whereas the holding firm is not "necessarily at the top of the corporate organization," it allows the different joint-stock companies (SAL) created for each project to be subsumed into a single legal entity while ensuring their management and legal autonomy within the corporate group.[1331] It also provides very useful services to affiliated SPVs, whose remuneration is deducted from the holding's profits, including accounting, human resources, architecture and engineering departments, administrative assistance and management control.[1332] And it helps to minimize the negative effects of potential disputes among partners over business activity: any project-related dispute or issue will be solved at the level of the holding company.

Second, holding entities in corporate organizations are key to reducing tax liability.[1333] On the one hand, holdings barely pay taxes: subject to few fiscal contributions, they are exempt from the 15 percent corporate tax and the taxation on dividends (10 percent).[1334] This is often the reason for which a mother company owns its subsidiaries through its holding branch. Similarly, development companies with sophisticated legal schemes often establish a twin holding firm, in which equity capital is pooled and profits registered, for any SAL specifically set up for a property project.[1335] This is the case, for instance, for projects such as Urban Dreams and Abdel Wahab 618 (CGI), Mar Mikhaël Village (Capstone) and Sky Gate (Mena Capital).[1336] Investors can also use a holding entity to acquire a stake in a parent firm and its projects.[1337]

[1331] Wierzbowski, *op. cit.*, p. 49

[1332] Rozelier, 2009, p. 66

[1333] Rozelier, 2009, p. 68

[1334] Fiscal contributions include: a 10 percent tax on interests collected from loans granted to subsidiaries for a period of less than three years, a 10 percent tax on capital gains from the sale of shares detained in other SALs (if acquired within less than two years), a five percent tax on the remuneration obtained from services provided to its Lebanese subsidiaries, and a decreasing six-to-two percent flat-rate tax calculated on the total capital (plus reserves) (Rozelier, 2009, p. 68-70).

[1335] According to Decree Law 45/1983 (modified by Laws 89/1991, 409/1995, and 772/2006), holding companies, unlike SAL operating companies, are not allowed to own property assets, except the firm's headquarters, or conduct development activity.

[1336] Holding firms are the following: 'Urban Dreams Holding SAL' (#1901841), 'Abdel Wahab 618 Holding SAL' (#1900763), 'Mar Mikhael Village Holding SAL' (#1903019), and 'Signature Properties Holding SAL' (#1901312).

[1337] This is, for instance, the case of 'Marius Saradar Holding' (#740) that detains 78 percent of 'Conseil et Gestion Imoobilière (CGI) SAL' (#63294) and of 'Mercury Development Group Holding SAL' (#1902229) that detains 95 percent of 'Trillium Development Group SAL' (#1014876).

On the other hand, holdings are key to performing the treasury functions and organizing intra-firm loan arrangements that produce what is known as 'thin capitalization'[1338] procedures to reduce the declarable profits of affiliated joint-stock companies. More specifically, a project-specific holding entity can grant loans and charge interest to its SAL counterpart with cash from its own capital, a bank loan, or an advance from one of its shareholders.[1339] The holding is completely exempt from taxation on collected interest when the loan contract is above three years. This also means that the project-specific SAL counterpart adds debt to its balance sheet and, thus, reduces its taxable profit.[1340] Beirut-based development firms widely use this form of off-balance sheet financing arrangement.

Third, holding companies add another layer of opacity in corporate organizations.[1341] They are not legally required to publish their balance sheets in the Official Gazette.[1342] Although holdings cannot provide anonymity to their shareholders as can an SAL, they can, according to a developer who asked not to be named, play a key role in funnelling the capital of foreign investors into projects that have not obtained special government decrees for the purpose through legal and *de facto* fiduciary schemes (see details later in this chapter).

7.2.1.4 Offshore companies: the most opaque special purpose vehicles

Corporate organizations engineered by Beirut's development apparatus include both offshore Lebanese entities and firms registered in offshore financial centres (OFCs).[1343] With estimates ranging from one-fifth to one-half of the world's money located in offshore centers, the industry, over the past 20 years, has become increasingly central to the international financial system.[1344] OFCs, placed in the media spotlight by publication of the Panama, and then the

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[1338] 'Thin capitalisation' refers to "the situation in which a company is financed through a relatively high level of debt compared to equity." In many cases, an OECD report (2012, p. 3) explains, "tax rules typically allow a deduction for interest paid or payable in arriving at the tax measure of profit […] The higher the level of debt in a company, and thus amount of interest it pays, the lower will be its taxable profit." (Organisation for Economic Cooperation and Development (2012). *Thin capitalization legislation: A background paper for country tax administrations*. Paris, France: OECD Secretariat for Training Purposes. Retrieved from www.oecd.org/ctp/tax-global/5.%20thin_capitalization_background.pdf)
[1339] Yammine, S. (2009a, January). Taxes on investments: Interview with Jacques Saadé. *Lebanon Opportunities*. 86-87
[1340] Gorton & Souleles, *op. cit*., p. 2; Sharman, J. (2010). Offshore and the new international political economy. *Review of International Political Economy*, *17*(1), 1-19, p. 3
[1341] Traboulsi, 2014, p. 37
[1342] Business Entities (n. d.). In *Doing Business in Lebanon*. Retrieved from http://doingbusinessinlebanon.com/en/default.asp?menuID=9&sub=18
[1343] Offshore financial jurisdictions include countries (e.g., Switzerland, Cyprus, Panama, Monaco), dependent territories (e.g., Guernsey, Cayman Islands, British Virgin Islands) and subnational jurisdictional enclaves (e.g., Delaware in the US) (Clark, Lai & Wojcik, 2015, p. 243). (Clark, G. L., Lai, K. P. Y., & Wojcik, D. (2015). Editorial introduction to the special section: Deconstructing offshore finance. *Economic Geography*, *91*(3). 237–249)
[1344] Fernandez, R., Hofman, A., & Aalbers, M. B. (2016). London and New York as a safe deposit box for the transnational wealth elite. *Environment and Planning A: Economy and Space*. *48*(12), 2443-2461, p. 4; Maurer, B. (2008). Re-regulating offshore finance? *Geography Compass*, *2*(1), 155-175, p. 160

Paradise Papers, are essentially "registration centers" that provide licit financial services to wealthy non-resident individuals and corporations.[1345] In addition to granting access to independent institutional arbitrage and protecting assets from political instability, the jurisdictions are first and foremost intended to help their clients secure tax benefits, obscure beneficial ownership, and avoid the tight policy constraints of onshore jurisdictions.[1346] Moneyed individuals and corporations, relying upon intricate chains of SPVs, generally reduce their tax obligations by transferring onshore taxable resources and profitable assets to vehicles registered in offshore centers.[1347] As such, US political scientist Jason Sharman suggests that offshore channels give onshore entities the ability to "exhibit high profits for investors and low (or even negative) profits for tax authorities."[1348] Likewise, onshore firms sometimes resort to offshore circuits to re-categorize local money pulled into domestic business activity as tax-free foreign direct investment.[1349] In many cases, such licit profit shifting and reclassification strategies deprive many countries of wealth and tax revenue. Consequences are especially acute in emerging economies such as that of Lebanon where the tax base and collection are limited and public debt is considerable.[1350] In parallel, OFCs have been accused of carrying out illicit activities such as money laundering for corrupt businesses and governments as well as for terrorist groups.[1351] Two types of offshore entities can be found in the corporate organization of the Lebanese property sector: Lebanese and foreign.

The specific object of Lebanese offshore companies

Decree Law 46/1983 amended by Law 19/2008 allows Lebanese offshore companies to be incorporated in the legal form of an SAL.[1352] The Lebanese legislation restricts the object of offshore companies to a series of business activities (e.g., operations, deals, firm management) executed *outside* Lebanon or in domestic free customs areas. These SPVs, in other words, are

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[1345] Information on the Panama Papers and the Paradise Papers is available from: https://offshoreleaks.icij.org/. Services offered in OFCs range from the around-the-clock movement of assets to the settling of commercial disputes, the handling of foreign exchange between banks and corporations, and the "management of income streams from different jurisdictions without having to face double-taxation issues" (Clark, Lai, & Wojcik, *op. cit.*, p. 242; Maurer, *op. cit*, p. 159).
[1346] Atkinson, *op. cit.*, p. 98; Clark, Lai, & Wojcik, *op. cit.*, p. 241-243; Fernandez, Hofman, & Aalbers, *op. cit.,* p. 10-12; Sharman, *op. cit*, p. 2
[1347] Jansky & Prats, *op. cit.*, p. 277
[1348] Sharman, *op. cit.,* p. 6
[1349] Sharman, *op. cit.,* p. 8-9
[1350] Jansky & Prats, *op. cit.*
[1351] Clark, Lai, & Wojcik, *op. cit.*, p. 245; Financial Action Task Force (2007). *Money laundering and terrorist financing through the real estate sector*. Paris, France: FATF-GAFI, p. 12; Sharman, *op. cit.,* p. 4
[1352] Investment Development Authority of Lebanon (2013). Invest in Lebanon Guide. In *Investment Development Authority of Lebanon*. Retrieved from http://investinlebanon.gov.lb/Content/uploads/Offshore_Company.pdf

prohibited from providing services to corporations doing business locally, engaging in local commercial activity, and "earning profits, benefits or revenues from movable or immovable assets in Lebanon."[1353] Their sole purpose is to "perform treasury functions and manage intra-group debt for the same onshore parent" operating outside the country.[1354] Offshore companies barely pay taxes: they are subject only to a flat yearly tax of about USD 665.

In the legal structure of Beirut-based development corporations, offshore firms registered under Lebanese law are a part of the parent company's ecosystem and are officially intended to channel revenues to the parent firm from business activity undertaken in foreign countries. This is for instance the case with entities such as 'Mercury Development SAL (Offshore),' 'Trillium Group SAL (Offshore)' and 'Mena Capital Development SAL (Offshore).' Lebanese regulations do not allow offshore companies incorporated in Lebanon to invest locally and own real estate not needed for their activities; research shows, however, that some financiers with a stake in Beirut development projects have used offshore entities.[1355] This is the case, for instance, with 'Erdec Offshore SAL,' which is listed by the commerce registry as a shareholder of 'Abdel Wahab 618 Holding SAL' and 'Construction & Real Estate Development Co. SAL,' i.e., the SPVs established by the development firm CGI to develop two of its large projects: Abdel Wahab 618 and Gemmayze Village/Place Pasteur.[1356]

Foreign offshores companies operating in Lebanon

A number of academic and media investigations have revealed that transnational plutocratic elites widely use firms registered offshore to buy property assets in global cities such as New York and London.[1357] While it is likely that many investors acquiring high-end properties in Beirut use similar channels, this study sheds light on the recourse taken by local development companies and financiers to foreign offshore entities on the supply side of urban production.

[1353] Offshore companies incorporated in Lebanon are only permitted to earn revenues from interest on bank deposits and Lebanese government securities (Investment Development Authority of Lebanon, 2013).
[1354] Sharman, *op. cit.,* p. 19
[1355] The Decree Law 45/1983 (modified by Laws 89/1991, 409/1995, and 772/2006) allows Lebanese offshore firms to own real estate assets needed for their activities (i.e., head office) (Investment Development Authority of Lebanon, 2013).
[1356] Commerce registry references are the following: #801 for 'Erdec Offshore SAL,' #1900763 for 'Abdel Wahab 618 Holding SAL' and #1003447 for 'Construction & Real Estate Development Co. SAL.'
[1357] Fernandez, Hofman, & Aalbers, *op. cit*.; Leigh, D., Frayman, H., & Ball, J. (2012). Secrecy for sale. Who's buying Britain? Probe reveals real estate speculators hidden by offshore alchemy. In *International Consortium of Investigative Journalists*. Retrieved from www.icij.org/investigations/offshore/secret-london-real-estate-speculators/; Story, L. (2016a, January 13). U.S. will track secret buyers of luxury real estate. *The New York Times*. Retrieved from www.nytimes.com/2016/01/14/us/us-will-track-secret-buyers-of-luxury-real-estate.html; Story, L. (2016b, July 27). U.S. to expand tracking of home purchases by shell companies. *The New York Times*. Retrieved from www.nytimes.com/2016/07/28/us/us-expands-program-to-track-secret-buyers-of-luxury-real-estate.html ; Story, L., & Saul, S. (2015, February 7). Towers of secrecy. Stream of foreign wealth flows to elite New York real estate. *The New York Times*. Retrieved from www.nytimes.com/2015/02/08/nyregion/stream-of-foreign-wealth-flows-to-time-warner-condos.html

Some local development companies, probably to limit tax liability in Lebanon, use offshore locations to register firms present in their complex legal structures. This is, for instance, the case with Mena Capital whose secretive Guernsey-based company ('Mena Capital Management Ltd')[1358] controls Beirut-based 'Mena Capital Private Equity Holding SAL' and 'Mena Capital Development Holding SAL,' i.e., two of the central organisms of Mena Capital's parent company ecosystem.[1359] Some developers and financiers, additionally, are linked individually to offshore businesses. This is, for example, the case for Ziad Maalouf (former partner and senior Vice-President of Mena Capital, CEO of Capstone Investment Group),[1360] Fares Smadi (CEO of SV Properties and Construction),[1361] Maysa Berri (daughter of the Speaker of Parliament Nabih Berri and indirect shareholder in Quantum Development)[1362] and Chafic Tabet (a Lebanese businessman with a stake in the firm that owns Mena Capital's Sky Gate),[1363] all of whom were cited in the Panama Papers.

Designed primarily by the new generation of urban entrepreneurs and their lawyers, these complex corporate schemes are perfect illustrations of the professionalization of the Beirut-based development industry. Indirect property development has progressively become the norm to maximize rent, minimize tax exposure and share risk. Equally importantly, the fact that the new legal arrangements meet international business standards has concretely facilitated the deployment of the regulation-urbanization nexus by allowing the circulation of capital at low cost, liquefying real estate investment (e.g., shares issued by a SPV are financial assets) and

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[1358] The head office of 'Mena Capital Management Ltd' is registered to the address of a Guernsey-based firm ('Legis Tax Services Limited') that provides "administrative, tax advisory and compliance support services, to institutional and private clients." Retrieved from www.linkedin.com/company/legis-group.

[1359] Commerce registry references are the following: #1900778 for 'Mena Capital Private Equity Holding SAL' and #1900600 for 'Mena Capital Development Holding SAL.' Also, 'Mena Capital Development Holding SAL' controls 44.4 percent of 'Sursock Tower SAL' (#1004054), i.e., the SPV owning the project Ibrahim Sursock Residences. The presence of a foreign offshore company in the shareholding of a firm retaining real estate probably received special government authorization as defined by Decree Law 11614/69 and modified by 296/2001 and 299/2001 Amendments.

[1360] Ziad Maalouf is purportedly the intermediary of 'Levant Real Estate Agents Ltd,' a firm registered by the Panamanian law firm Mossack Fonseca in the British Virgin Islands. Retrieved from https://offshoreleaks.icij.org/nodes/12070737.

[1361] Fares Smadi is purportedly the shareholder of at least four companies incorporated by the Panamanian law firm Mossack Fonseca in the British Virgin Islands: 'Acacia Property Limited' (retrieved from https://offshoreleaks.icij.org/nodes/10100258), 'Canary Sea View Properties Limited' (retrieved from https://offshoreleaks.icij.org/nodes/10141621), '38 Acacia Road Limited' (retrieved from https://offshoreleaks.icij.org/nodes/10148657), and 'Capital Property Group Limited' (retrieved from https://offshoreleaks.icij.org/nodes/10103895).

[1362] Maysa Berri is purportedly a shareholder in 'Numbase Group Limited' (retrieved from https://offshoreleaks.icij.org/nodes/10205256), 'Numcall Limited,' 'Numtone Limited' (retrieved from https://offshoreleaks.icij.org/nodes/12168542) and 'Museit Limited' (retrieved from https://offshoreleaks.icij.org/nodes/12144684) that are also all registered by the Panamanian law firm Mossack Fonseca in the British Virgin Islands. Maysa Berri is indeed a minority shareholder of 'Enigma House SAL' (#1901897), a firm controlling 'Quantum Development SAL' (#1015456).

[1363] Chafic Tabet is a prominent Lebanese business figure and a shareholder of 'Signature Properties Holding SAL' (#1901312), the SPV managing Mena Capital's Sky Gate.

securing its profitability. Likewise, the setup of corporate organizations in the development apparatus has been a major enabling factor for the financialization of property.

7.2.2 Capital Restructuring: The Diversification of Equity Sources and the Development of Debt

"Financing is critical to the development process and, therefore, we cannot understand the industry without studying capital," notes US sociologist John Logan.[1364] In the case of Beirut, we cannot indeed apprehend the restructuring of the development apparatus during the second post-war property cycle without looking into the "reorganization of the ownership of capital."[1365] Together with incorporation (i.e., legal arrangements), new models of financing (i.e., financial arrangements) have been a primary aspect of the professionalization and financialization of development activity. These changes have importantly contributed to institutional reorganization within the property industry as well as to the emergence of new development actors and practices and of a new profile of financiers.

The diversification of financing instruments legislated on the impetus of the new city builders has generally sought to cover the increased cost of ever-larger developments, optimize return and share financial risk.[1366] To do this, the financial mix of projects has become more and more hybrid, sophisticated and connected to global financial networks. Over the past 20 years, an increased number of local development companies have worked with a cash flow that has involved off-plan sales, the pooling of capital contributions made by resident and non-resident investors, the setup of partnership agreements with landholders, and recourse to bank loans.[1367] There has been no 'one size fits all' solution, however: financial engineering solutions vary from one project to another.[1368] This section unpacks the two major changes that have transformed the financing of development activity: the diversification of equity sources and the increased use of bank debt.

1364 Logan, J. (1991). Gambling on real estate: Limited rationality in the global economy. *Sociological Perspectives, 34*(4), 391-401, p. 394

1365 Massey, D. (1978) Capital and locational change: The UK electrical engineering and electronics industries. *The Review of Radical Political Economics,* 10. 39-54, p. 39 cited in Haila, A. (1988). Land as a financial asset: The theory of urban rent as a mirror of economic transformation. *Antipode, 20*(2), 79-101, p. 91

1366 Logan, *op. cit.,* p. 399

1367 Property developer #5, personal communication, November 7, 2014

1368 Mustapha Ahmad, personal communication, April 7, 2015

7.2.2.1 The diversification of equity sources to respond to heightened financial needs

Since the 1970s, the Beirut-based development industry has relied principally upon off-plan sales and personal equity to accumulate sufficient capital to launch property projects. The increased value of initial investments in the 2000s, however, forced large builders to diversify their equity sources, notably through access to private equity financing and partnership agreements with landowners.

The traditional prevalence of off-plan sales and personal equity

Unlike many real estate firms across the globe that generate their cash flow through a mixture of equity and debt, the Lebanese development sector has traditionally used a self-financing model based on off-plan sales and personal equity.[1369] Nabil Sawabini (CEO of Mena Capital), on the customs that drove the development industry when he entered the market in the 2000s: "Developers did not traditionally focus much on the cash flow or finance aspect of the business […], it was mostly 'let's build and sell.'"[1370] It is a financial strategy that is still prevalent among small- and medium-sized actors, and it works as follows: builders create cash flow with buyers' prepayments (e.g., 20-30 percent of the total sale price) and begin construction as soon as about 25 percent of the units are sold. To secure sufficient funding, developers frequently offer a 10 to 20 percent discount during the pre-launch phase, i.e. before construction starts, to attract buyers before raising prices for clients who buy in later in the process.[1371] Further, they design payment schedules adjusted to the successive phases of construction with instalments sometimes financed by (subsidized) housing loans issued by the banks with which they have preferential agreements.[1372] The major benefit of this form of funding is that it minimizes the cost of construction loans or of external investors' contributions and therefore maximizes the builder's profit. Development firms working on larger and more expensive projects that require a more substantial initial investment have also used this financial strategy. But in the 1990s and more significantly, the 2000s, many have also found themselves forced to

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[1369] Such modes of funding were already common practice in the 1970s in Lebanon (Sadik, 1996, p. 112). (Sadik, R. (1996). *Nation building and housing policy: A comparative analysis of urban housing development in Kuwait, Jordan, and Lebanon* (Unpublished doctoral dissertation). Department of City and Regional Planning. University of California at Berkeley, Berkeley)
[1370] Nabil Sawabini, personal communication, November 19, 2014
[1371] Property developer #2, personal communication, May 5, 2015; Hadi Khalil, personal communication, March 17, 2015
[1372] Alieh, Y. (2014e, October). Marketing properties. *Lebanon Opportunities*. 88-89, p. 89

appeal to investors to amass the equity necessary to buy land and launch projects. As a prominent builder explains: "For those investors, property is a financial asset as any other, and it is our job to convince them that we can reach a predetermined level of return within a 4-5 year period."[1373] In most cases, the role of the development company's owner as anchor investor has reassured and encouraged investors and potential buyers.

Private equity financing: the attraction of international finance capital

Access to transnational capital through private equity instruments has increased the significance of external investors in the financial engineering of large residential projects and importantly transformed the local development industry. Specifically, two types of financial management services have climbed on the property development bandwagon and begun to specialize in the production of high-end residential real estate: (i) bank subsidiaries and (ii) private equity firms.

In Lebanon, major banking groups control most private equity activity (see Chapter 3).[1374] Private and investment bank departments have flourished in the post-war period by managing the assets of large depositors, including those of the banks' owners and shareholders, and by attracting the wealth of non-resident high-net-worth individuals.[1375] This activity is very lucrative: fees and commissions are charged on all financial management and advisory services.[1376] In this context, a permanent challenge for Lebanese private and investment banking actors has been the growth and diversification of the financial products on offer (e.g., bonds, stocks, private equity).[1377] As mentioned in Chapter 4, this is why, in a context of early 2000s positive liquidity and monetary shocks, bank professionals decided to include the financing of development activity in their portfolios.

Nonetheless, as indicated in Chapter 5, the central bank prohibits the direct involvement of Lebanese banks in the property sector: banks may not undertake any form of real estate brokerage operation, purchase built or un-built real estate for resale purposes, or lend money to

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1373 Property developer #5, personal communication, November 7, 2014 (Translation by the author)
1374 Charbel Nahas, multiple personal communications, 2014-2016; Rahbani, L. (2014b, December). A boost to private equity investment. *Lebanon Opportunities*. 58-66, p. 60
1375 To fall under the HNWI category, clients are expected to retain an investable assets portfolio of at least USD 500,000 to one million in Lebanon. International banks sometimes have a minimum requirement of USD five million. 'Ultra HNWIs' are clients with over USD 30 million in investable assets (Bathiche, 2011b). (Bathiche, H. (2011b, May). Private banking. Preserving and growing wealth. *Lebanon Opportunities*. 51-55)
1376 Roberts, S. (1994). Fictitious capital, fictitious spaces. In S. Corbridge, R. Martin, & N. Thrift (Eds.) (1994). *Money, power and space* (pp. 91-115). Oxford, UK; Cambridge, US: Blackwell, p. 97
1377 Bathiche, 2011a, p. 55

firms with common managers (i.e., sister subsidiaries within the same economic entity).[1378] In order to enter the property development game, then, the private and investment arms of top-tier banking groups, and independent private banking entities, have created *ad hoc* subsidiaries such as FFA Real Estate (FFA Private Bank), Conseil et Gestion Immobilière – CGI (Saradar Group / Audi Private Bank), Al-Mawarid Real Estate (Al-Mawarid Bank) and Med Properties (BankMed).[1379] Private and investment banks are indeed allowed to establish sister companies, i.e. legal entities whose books are completely separate, to provide real estate services.[1380] In this way, firms such as CGI, Al-Mawarid Real Estate and FFA Real Estate 'sponsor, structure and manage' real estate investment and development projects for which they organize financing rounds that attract clients from their mother private and investment banking departments.[1381] These bank-related development actors, in other words, charge commissions and fees to capital holders who undertake the actual investment: a strategy beneficial to both property and banking entities that belong to the same banking organization.[1382] Real estate subsidiaries, on the one hand, can easily raise investment capital for their projects. This is especially true in the Lebanese context where private bankers can convince their biggest depositors, with whom they frequently have close relationships, to make a quick buck with development activity.[1383] Private and investment banking entities, on the other hand, can enhance the placement portfolio offered to their clients. Economist Charbel Nahas suggests that the establishment of separate property subsidiaries has also given major banks' shareholders the opportunity to enter a risk-prone investment activity with some wealthy friends without disrupting the subtle equilibriums that characterize capital ownership in most Lebanese banking groups.[1384]

In many ways, Conseil et Gestion Immobilière – CGI is a telling example of the way in which the access to private equity resources accompanying the new property actors has paved the way for Beirut's capital-intensive development practices. CGI is a subsidiary of Saradar Group, a leading family-owned and well-connected banking business of regional outreach established in

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[1378] See Article 3 of Basic BdL Circular 81 of February 21, 2001.

[1379] The investment banking arms of other major Beirut-based banks such as BlomInvest Bank (Blom Bank) and BLC Invest Bank (BLC Bank) also offer property-backed vehicles in their portfolios, but without having a subsidiary specialized in real estate.

[1380] Even though the relationship between commercial and private banking is "organic," to preserve sound banking practices, the central bank forbids private and investment banks to loan or borrow money to or from their sister companies (Charbel Nahas, multiple personal communications, 2014-2016).

[1381] This is the way BlomInvest Bank describes its real estate services on its website: www.blominvestbank.com/BlomInvest/Overview3.

[1382] Speetjens, P. (2013, June). Invested development. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/real-estate-lebanon-bdl/5742

[1383] Charbel Nahas, multiple personal communications, 2014-2016

[1384] *Ibid*

the 1950s and chaired, since 1992, by Mario Saradar.[1385] In the very competitive banking environment of the 1990s, the group decided to specialize in private banking.[1386] Saradar Group created CGI in 1998 to diversify the investment portfolios offered to its rich clients with high-yielding residential real estate. The firm was clearly envisioned as "Monopoly [the board game] for millionaires and billionaires," says a local property expert, ironically. CGI rapidly became "one of the earliest institutionalized real estate development companies" in Lebanon.[1387] In 2004, the merger of Banque Saradar and Bank Audi, which produced one of the largest banking entities in Lebanon, turned out to be a milestone for CGI's investment and development activity.[1388] The company gained access to Bank Audi's considerable HWNI customer base just as the property market was about to boom, adding to Saradar's already wide network of clients in Switzerland, Qatar, Saudi Arabia, United Arab Emirates and Monaco. The strategic alliance of two heavyweights in the Lebanese banking industry allowed CGI to be particularly active during boom years by multiplying land acquisitions (e.g., Airport Mall) and large residential developments (e.g., Abdel Wahad 618, Gemmayzeh Village/Place Pasteur, Urban Dreams).[1389] Michel Georr, a financier with an architecture background, today chairs CGI.[1390]

For every single property project, CGI sets up a sophisticated scheme of corporate vehicles (i.e., SAL and holdings) capitalized by investors. Acting as parent company, CGI signs management agreements with its specifically created subsidiary for the provision of services (e.g., legal and financial engineering, project management, marketing) during all phases of a project from inception to completion. CGI essentially gets authorization to act on behalf of the SPV's boards of directors and shareholders, who are the ultimate project owners. Investors, who generally belong to Saradar Group's and Bank Audi's customer base, include Lebanese resident and non-resident businessmen as well as Arab nationals and firms (e.g., from Saudi Arabia,

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[1385] Saradar Group's advisory board includes eminent businessmen and bankers such as Carlos Ghosn, CEO of Renault-Nissan, and André Bérard, former CEO of the National Bank of Canada.

[1386] Banque Saradar, which was close to bankruptcy in the wake of the collapse of the Lebanese pound in the early 1990s, received the support of the International Finance Corporation (World Bank Group) and the National Bank of Canada that acquired a stake in the Beirut-based bank (Rizk, 2014b). (Rizk, S. (2014b, April). Le groupe Saradar investit 100 millions de dollars au Liban. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/23366-le-groupe-saradar-investit-100-millions-de-dollars-au-liban)

[1387] Lebanon Opportunities Staff, 2009, p. 73

[1388] The objective motivating the 2004 alliance between those two major Lebanese banking organizations was the following: put under the same flag Banque Saradar's know-how in private banking and capital markets and Bank Audi's experience in corporate and retail banking (Rizk, 2014b). Yet, another reshuffling of ownership between Saradar Group and Bank Audi in 2011 put CGI back under the control of Saradar. Basel III guidelines officially explained Bank Audi's partial withdrawal from CGI: the largest Lebanese bank opted to refocus on core banking activities to preserve its generally positive rating. As of 2016, Marius Saradar Holding (MSH) retained 78 percent of 'Conseil et Gestion Immobilière (CGI) SAL' (#63294) while Audi Private Bank conserved 19 percent.

[1389] CGI activities focus on purchasing land and rental property assets, developing large residential projects and on acquiring stakes in specialized funds.

[1390] Michel Georr is a graduate of the Beirut-based ESA Business School (École Supérieure des Affaires) and the Paris-based INSEAD Business School.

Syria). According to a source close to CGI, capital contributions range from USD 100,000 to 16 million. Financing rounds for large residential developments have brought together dozens of shareholders, including a few anchor investors, frequently Gulf nationals, who split their financial input between unit purchase and equity assembly to acquire the land. This cash flow strategy has generally allowed CGI to sell 30-40 percent of units in advance allowing the company to launch the project, build its reputation and attract buyers. Financial arrangements can also include bank loans. However, an informant who declined to go on record contends that this financing model has led to obscure and speculative transactions among shareholders who exchange units according to the pace of sales. The same source adds that CGI, despite the easy collection of private equity at project inception, has often encountered difficulties with selling the remaining units. A number of investors have over time consequently become dissatisfied with the ultimate return made after project closure since insufficient sales and recurrent delays regularly reduce profit. In sum, CGI exemplifies the involvement of bank subsidiaries in real estate investment and development activity and, accordingly, the way in which some major banking actors have managed to get their lion's share of the 2000s property frenzy while respecting BdL guidelines and without putting the financial sector at risk.

Together with bank-affiliated actors, the 2000s financial and property boom has also attracted a small number of private equity management firms. This is the case of Mena Capital and Capstone Investment Group, both of which manage private equity funds investing in prime residential towers.[1391] The two companies follow a model similar to that of bank subsidiaries: through their funds, they provide placement opportunities to high-net-worth individuals from whom they collect management and commission fees as well as keep a share of profit.[1392] The BdL supervises the establishment and the management of these non-banking financial firms, a form of control that, according to a number of Beirut-based actors, has helped to attract diaspora and foreign capital holders.[1393] Mena Capital's residential projects, whose estimated value reached USD 1 billion in 2012, are located principally in prime city locations such as Ras Beirut

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[1391] Established by Ziad Maalouf who co-founded Mena Capital in 2004 with Nabil Sawabini, Capstone Investment Group follows a corporate model very close to the one pioneered by Mena Capital. Private equity funds, which acquire legal status and raise cash though a holding entity, are 'Signature Properties Holding SAL' for Mena Capital and' B-One Cap Holding SAL' for Capstone Investment Group. In other words, Capstone's Ziad Maalouf explains: "We have the structure of the fund, without having to call it as a fund… because of the lack of proper fund regulations in Lebanon" (cited in Salem, 2011). (Salem, R. (2011, May). Funding's new frontier. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/fundings-new-frontier)

[1392] For example, Capstone Investment Group charges its project-specific SPVs a "management fee of eight percent of construction costs" and absorbs "20 percent of the profits above a rate of return of 10 percent" (Salem, 2011).

[1393] Bathiche, H. (2011c, September). The moneymen are gearing for fierce competition. *Lebanon Opportunities*. 50-54, p. 54

in the west (e.g., Hochar Tower, Qoreitem Gardens) and Ashrafieh in the east (e.g., Sky Gate, Ibrahim Sursock Residences).[1394] Similarly, Capstone Investment Group, which does private equity-like management without being officially listed as a financial firm by the central bank, concentrates its developments in Wider Ashrafieh (e.g., Trabaud 1804, L'Élite de Sursock, Mar Mikhael Village, and L'Héritage d'Abdel Wahab). Unlike bank-affiliated companies, private equity firms can participate directly in their property-focused investment vehicles.[1395] In parallel with the capital contributions made by their wealthy clients, Mena Capital and Capstone Investment Group have also used off-plan sales, partnership contracts with landowners and bank debt to finance their projects.[1396]

The widespread use of fiduciary schemes to accommodate foreign capital

A fundamental constrain for all banking and non-banking entities channelling private equity into the development of luxury residential projects, as well as for all property firms counting foreign investors in their funding rounds, has been the 1969 Decree Law that limits the acquisition of property assets by non-Lebanese nationals.[1397] While the capital contributions of Lebanese clients are not an issue, contributions made by foreigners remain subject to the legislation on property ownership. To maximize the accommodation of foreign funds in massive property projects regardless of legal limitations, investment and development firms have engineered legal and *de facto* fiduciary schemes. The use of straw men in the Lebanese property sector is not new; it has been a common practice for a long time. Yet, my sources suggest that the use of fiduciary strategies has multiplied in the late 2000s as a result of the government's decision to drastically reduce the number of decrees granting development project exemptions to facilitate foreign investments beyond legal quotas.

Legal fiduciary channels, on the one hand, refer to the authorization (Law 520/1996 as well as by BdL Circulars 29/1996 and 204/2009) granted to banking and non-banking financial

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[1394] Maloy, T. K. (2012, July 4). MENA Capital has faith in local real estate. *The Daily Star*. Retrieved from www.dailystar.com.lb/Business/Lebanon/2012/Jul-04/179296-mena-capital-has-faith-in-local-real-estate.ashx#axzz2yrlgtZ6n

[1395] For example, 'Mena Capital SAL' (#1003238) owns 18.23 percent of 'Signature Properties Holding SAL' (#1901312), the SPV developing Sky Gate, and Nabil Sawabini (CEO of Mena Capital) detains 99.97 percent of 'Qoreitem Tower SAL' (#1005926) the SPV developing Qoreitem Gardens.

[1396] Nabil Sawabini, CEO of Mena Capital, explains that leverage is a "bridge" and should not exceed 30 percent of total project cost (personal communication, November 19, 2014).

[1397] Decree Law 11614/69 and its related 296/2001 and 299/2001 Amendments supervise and organize the acquisition of real estate by foreigners in Lebanon. The legislation allows "foreign natural and moral persons" to acquire property assets, in form of built edifices or land, whose surface does not exceed 3.000 sq. m. For any acquisition above 3.000 sq. m., foreign investors must obtain a special decree issued by the Council of Ministers. Moreover, the total area owned by a foreign agent must not exceed: 3 percent of the total surface of the country, 3 percent of the surface of each *caza*, and 10 percent of the total surface of Municipal Beirut.

companies to offer fiduciary deposit accounts through which they can receive and manage cash from Lebanese and foreign capital holders who remain anonymous (see details in Chapter 5). These fiduciary channels are used in the financing of development activity: trustee financial entities can invest in the special purpose vehicles specifically created for property projects either through direct participation or a loan, which generally includes a very lucrative spread to the trustee's benefit. In the process, the beneficial investor has economic rights over the fiduciary account used for the transaction, but not over the property rights retained by the fiduciary agent. In other words, the settlor is the ultimate beneficiary while having no ownership rights. A source close to CGI confirms, for instance, that the firm employed such financial arrangements on several occasions.

The use of *de facto* fiduciary channels, on the other hand, is also legion in the local property industry. Many development companies use Lebanese figureheads to incorporate the funds of foreign investors into a project that failed to receive a government decree relaxing the legislation on foreign ownership. These straw men, who range from unknown individuals to bankers and well-known lawyers, illegally act as fiduciary agents.[1398] Until recently, the holding of bearer shares was not a properly regulated activity in Lebanon, even though it was explicitly forbidden when used to circumvent laws such as the 1969 Decree Law on foreign ownership. Nonetheless, a series of BdL decisions taken in the spring of 2016 and the law passed by Parliament in October 2016 in response to increased international pressure to fight tax evasion and money laundering are expected to prohibit all trustee activities.[1399]

Partnership agreements: an increasingly used solution in face of inflated land cost

The surge in partnership agreements between development agents and landowners has also helped to diversify equity channels in the property industry's financial arrangements. Striking a partnership is generally depicted as a win-win solution: on the developer side, it allows the developer to share the risk with the landowner(s) and avoid sinking a large portion of the initial

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[1398] High-level bankers from Audi Private Bank and other Audi branches are shareholders in various CGI projects. According to commerce registry records, Joseph Kesrouani (Bank Audi head of Business Development for South America & Africa) and Toufic Aouad (General Manager of Audi Private Bank) respectively own 12 and 16 percent of 'Urban Dreams Trust Holding SAL' (#1901838), i.e., the majority shareholder of the firm retaining CGI's project Urban Dreams ('Urban Dreams Holding SAL' (#1901841)). Two scenarios are possible: either the two bankers have invested in the SPV in their own names (the most likely), or they have acted as nominee owners as part of a *de facto* fiduciary scheme.

[1399] In addition to a recent law passed in Parliament, the Banque du Liban issued in 2016 a "ruling prohibiting banks and other financial institutions from carrying out transactions with companies or mutual investment funds whose ownerships are partially or fully in 'bearer shares'" (Nakhoul, 2016). (Nakhoul, S. (2016, April 8). Prepaid cards, bearer shares prohibited by central bank. In *Businessnews.com.lb*. Retrieved from www.businessnews.com.lb/cms/Story/StoryDetails.aspx?ItemID=5462) capital into land acquisition in a context of tremendous land value inflation. Moreover, it facilitates, in theory, off-plan sales as landowners are expected to bring in customers through mobilization of their networks of family and friends.[1400] On the landowner side, the beneficiary receives a percentage of the project's profit in addition to selling his/her land lot.[1401] This option, in other words, allows a landlord without sufficient financial capacity, know-how or reputation to participate in a project and obtain a slice of the property cake.[1402] Bilateral agreements, which are not new to the Lebanese property industry, have consequently multiplied over the past 10 years.[1403]

Partnership agreements materialize through either a joint venture, also considered a co-partnership entity, or an SAL-type incorporated entity, in which contributing parties pool both land and cash. The first option, regarded as "the simplest form of commercial establishment," is the most common.[1404] These private contracts are not always made public and partners are personally and jointly liable for tax and financial obligations. The association agreement sets down the division of rights, obligations and profit, on the basis of the value of the original input of each party.[1405] In doing so, the landowner receives remuneration in the form of a share of profits and/or a number of residential units. In spite of the benefits just mentioned, several property specialists I interviewed argued that a number of city builders still prefer to acquire the land themselves, to maintain control over, and sink more capital into, the project and to obviate developer-landowner litigations.

7.2.2.2 The leverage of development firms: another trait of private debt growth

In parallel with the diversification of equity sources, the increased use of bank lending has over time reorganized the development industry's financing model. As mentioned, the Lebanese property sector has long operated without or with little debt in contrast to most property industries worldwide where "bank lending is the primary source of real estate funding."[1406]

[1400] Property developer #6, personal communication, March 23, 2015
[1401] Alieh, Y. (2015, March). When land marries money: How to strike a partnership between landowners and developers. *Lebanon Opportunities*. 77-79, p. 79
[1402] Alieh, 2015, p. 77
[1403] *Ibid*
[1404] Wierzbowski, *op. cit*., p. 44
[1405] The agreement includes specific clauses on "advancing assets and funds, project and cash management and the role of each party in procurement, marketing and sales" (Alieh, 2015, p. 77).
[1406] Zhu, H (2003). *The importance of property markets for monetary policy and financial stability*. Paper presented at the IMF/BIS Conference on Real Estate Indicators and Financial Stability. Washington, DC. October 27–28, p. 16. Interestingly, construction loans stood for 10.3 percent of

Reasons explaining this limited leverage have been manifold. First, the smaller size of projects and lower cost of land has allowed builders to rely almost exclusively on personal equity and off-plan sales, which are cheaper financing solutions than debt. Second, the banking industry has been reluctant to lend to builders because the financing of construction activity was riskier and less lucrative than other asset streams (e.g., government bonds). Third, the lending rates charged by banks have, in any case, been prohibitive to many development professionals, as a concrete repercussion of the post-war monetary strategy that offered high deposit rates to attract external liquidity. In this regard, Jamil Ibrahim Establishment, a historical user of bank financing, has been a noteworthy exception.

Bank lending, which provides capital "in exchange for a relatively fixed stream of interest," began to gain ground in the Beirut's development industry, however, in the mid-2000s.[1407] The self-financing model of development, despite denials from many developers and bankers, increasingly became an anachronism from then on. Three major factors accounted for the change. First, the heightened size and cost of projects increased the capital needs of development firms, as mentioned earlier regarding the diversification of equity sources. Second, skilled property professionals had increasingly attempted to build "dynamic cash flows" in order to share the risk and maximize yield in a context where off-plans sales had begun to decelerate, access to equity (partners and private equity investors) was expensive, and lending interest rates were gradually diminishing in the aftermath of the Paris II conference.[1408] Third, the banking sector had finally taken interest in the financing of city builders: with the decreased remuneration of traditional investment vehicles and the increased amount of liquidity amassing in bank vaults, construction loans were proving to be efficient vehicles for maintenance of profitability, recycling of excess liquidity and diversification of asset portfolios.

The acceleration was particularly striking in 2008 with a jump of 37 percent in the number of approved construction loans.[1409] According to the Banque du Liban, construction loan books

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all issued credits by Lebanese banks in 1968 (Nasr, 1978, p. 4). (Nasr, S. (1978). Backdrop to Civil War: The crisis of Lebanese capitalism. *MERIP Reports*, 73. 3-13)

[1407] Rutland, T. (2010). The financialization of urban redevelopment. *Geography Compass, 4*(8), 1167-1178, p. 1172. Generally, the terms of loan packages (e.g., interest rate, loan duration, amount) depend on the bank's trust in the development firm in view of its business strategy, size and credit history. Local actors also argue that personal and business connections also unofficially play a critical role. Builders usually prefer to work with top tier banks (e.g., Bank Audi, BankMed, Blombank, Fransabank, Société Générale Banque Liban, Banque Libano-Française) that allegedly offer better rates, or with smaller banks tied to political-sectarian networks (e.g., Middle East and Africa Bank – MEAB, Lebanon & Gulf Bank). Banks generally charge interest rates of about eight percent, explains Mustafa Ahmad (CEO of Trillium Development) (personal communication, April 7, 2015).

[1408] For example, the maximum leverage for a project is officially 15 to 30 percent in CGI.

[1409] Taffin et al., *op. cit.*, p. 22

then inflated from USD 4.81 billion in 2009 (15.33 percent of all issued loans) to USD 9.12 billion in 2013 (17.35 percent of all issued loans), i.e., an 89.7 percent increase in four years. They officially totalled USD 9.99 billion, despite a slight slowdown, and totalled 18 percent of all loans by July 2015.[1410] A number of senior economic analysts interviewed suspect the real amount and ratio of construction loans to be even higher. Off the record, they believe that, in recent years, more than 30 percent of loans granted to the private sector may have gone to city builders. However, this is a piece of information I was not able to crosscheck.

As detailed in Chapter 5, the rapid involvement of the banking sector in the financing of the property industry has forced the central bank to come up with new prudential regulations. The monetary authority's main concern has been to protect local banks from the potential failure of (over)indebted firms in the event of a property crash— a scenario that plunged Dubai and Spain into severe financial crises in the late 2000s.[1411] In parallel, commercial banks have also striven to secure the financial viability of the projects for which they have provided construction loans by issuing housing loans to buyers acquiring units in the same projects.[1412] But despite the apparently sound regulations, uncertainty remains over the actual involvement of, and the risks faced by, the banking sector in the financing of development activity. In this regard, the recent BdL initiative to reorganize the debt of development firms (see Chapter 5) confirms concerns regarding the actual exposure of Lebanese banks to the industry's potential failure.

In brief, the new generation of city builders that has become so influential in Beirut's property apparatus over the past 20 years has diversified the financial instruments used to fund development activity. To cover the increased cost of projects, optimize return and share financial risk, developers have tapped private equity wealth, used partnership agreements and increasing taken advantage of bank loans.

[1410] BlomInvest Bank (2015c). *Financial intermediation in Lebanon: Spinning the economic wheel*. Beirut, Lebanon: BlomInvest Bank - Research Department. November 20. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2015/11/Financial-Intermediation-in-Lebanon-Spinning-the-Economic-Wheel1.pdf

[1411] As detailed in Chapter 5, prudential regulations require that construction loans not exceed 40 percent of a project's funding needs. They also compel banks to take the land as collateral and ask for corporate or personal guarantees from family-owned businesses. For the BdL, land acquisitions must be covered by equity rather than bank debt (Nahas, 2009, p. 15). (Nahas, C. (2009). *Identification of factors behind real estate markets activity and exposure of the financial sector in Lebanon* (Unpublished report))

[1412] Guillaume Boudisseau, multiple personal communications, 2014-2016; Rahbani, L. (2013b, June). Big loans. *Lebanon Opportunities*. 64-70

7.2.3 The Slow Spread of Professional Development Practices

The formal and informal constraints, norms and requirements accompanying these renewed tools of legal and financial engineering have unquestionably contributed, slowly but surely, to professionalization of the building process. Practices introduced include the optimization of financial feasibility and management, the predetermination of realistic financial performance, the deployment of pioneer location strategies, and the organization of marketing campaigns. To be fair, Solidere contributed to the transformation of the local development culture as early as the 1990s through its upgrade of construction and design standards and introduction of new management methods.[1413] These new precepts later spread to the rest of the industry in the 2000s, notably through the intermediary of a handful of returnee players who first developed property projects in the city center prior to expanding to other districts in Municipal Beirut.

7.2.3.1 The optimization of financial feasibility and management

In Beirut, a sizeable number of inexperienced small and medium-sized development actors continue to buy land irrespective of exit real estate market prices and to link the progress of construction work to a cash flow contingent on sales.[1414] Similarly, some developers with poor financial expertise still evaluate financial feasibility, i.e., the balance and profitability of a project, on the basis of an unrealistic level of property price inflation. Many amateur operators, by doing so, run the risk of speculating on upcoming inflation to make a profit. They appear to forget that real estate prices can reach a ceiling and that the market can rapidly decelerate or crash in such a volatile and dependent political-economic environment as that of Lebanon. It is for this reason that the deceleration of real estate demand and prices as of 2010-11 put a number of development agents in a difficult situation (see Chapter 6).[1415]

In contrast, the diversification of equity sources and expansion of bank lending have obligated an increased number of large city builders seeking investment and loans to come up with detailed financial feasibility memorandums (i.e., based on cost, revenue, risk, time, etc.) and obey strict financial monitoring. Requirements include the preparation of market studies, guarantees that deadlines will be respected from the project's outset to completion, and the

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[1413] Namir Cortas, personal communication, September 22, 2014; Yammine, 2009b, p. 68
[1414] Real estate broker, personal communication, June 12, 2014; Aveline, 2000
[1415] On many occasions, builders found themselves with units above market value after adding construction costs, taxes and financial costs to land acquisition. As a result, operators had to reduce their prices to clear stock, which sometimes jeopardized their ability to break even.

optimization of a durable and balanced cash flow. Concrete evidence of the industry's gradual professionalization also resides in the increased use of residual value methods intended to ensure better viability and profitability. In this way, most new professional players, more risk-aware, base financial projections (including profit) on stagnant, or slightly increasing, exit real estate prices.[1416] And inflation, which directly augments profitability, thus becomes "the cherry on the cake."[1417]

7.2.3.2 The predetermination of more realistic financial performances

As mentioned, it is commonplace in Beirut to see small and medium-sized development operators, as well as of some large players, target and claim inordinate levels of profit. Many developers and some analysts explain, for instance, that returns for projects developed in prime city locations could reach 100, 200 or even 300 percent during the boom years of the 2000s.[1418] Investors "expected to at least double their money in a very short period of time," indicates a specialist from the banking sector. Property experts such as economist Vincent Renard, nevertheless, find these expectations hardly credible in light of international standards.[1419] They seem to reflect, rather, the familiar ploy of local builders to attract investors through the pipe dream of extraordinary profit.

In contrast, the issue of financial performance seems more seriously addressed in large development firms relying upon multiple equity streams and bank lending. To meet their financial backers' expectations, professional developers must generally secure a yield "within a 0.5 percent margin."[1420] While the use of a number of alternative metrics (i.e., ROI, ROE, IRR) makes any estimate of average yield conditional, experts estimate that most professional players offer investors a 15 to 20 percent financial performance over four or five years.[1421] This level of return is, interestingly, in line with the remuneration bracket originally advertised by Solidere to attract investors (i.e., 15 to 20.7 percent for the period 1994-2018).[1422] Nonetheless, the yield has probably been reduced in recent years by the post-2010 ratchet effect of the continuous rise in

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[1416] Mustapha Ahmad, personal communication, April 7, 2015; Property developer #3, personal communication, November 21, 2014
[1417] Property developer #5, personal communication, November 7, 2014
[1418] Alieh, Y. (2014a, March). Investing in land. *Lebanon Opportunities*. 80-87, p. 87; Yammine, 2009b, p. 67; Hadi Khalil, personal communication, March 17, 2015
[1419] Vincent Renard, personal communication, January 30, 2015
[1420] Roger Melki, multiple personal communications, 2014-2016 (Translation by author)
[1421] Nabil Sawabini, personal communication, November 19, 2014; Property developer #1, personal communication, August 4, 2014
[1422] Mango, T. (2014). The impact of real estate construction and holding companies: A case study of Beirut's Solidere and Amman's Abdali (Doctoral dissertation). Retrieved from https://ore.exeter.ac.uk/repository/handle/10871/15999 (p. 302)

land prices while real estate prices have remained stagnant. In concrete terms, builders and financiers made less profit on property projects initiated before 2010 while projects initiated after 2010 hardly manage to make any profit at all. The recent slight cutback in real estate prices intended to clear stock has also contributed to decreasing returns. Indeed, as Charbel Nahas underlines, the profitability of development activity is highly correlated to the differential evolution of land and property prices.[1423]

Reduced financial performance in the residential real estate sector is also the reason for which builders now have trouble attracting investors. Remuneration levels in a risky environment such as Beirut have become too low, a major Beirut-based developer notes: the minimum ROE, which is 10-15 percent for residential property in London or Paris, must be 20 percent in Beirut to accommodate the risk premium. A number of firms have therefore stopped developing upmarket residential projects in Beirut and are now exploring other lucrative segments in Lebanon, and foreign markets from London to Iraq (mostly in Erbil) and Africa (e.g., Ghana, Sierra Leone), including citizenship-by-investment programs (e.g., in Portugal and Cyprus).

7.2.3.3 The deployment of pioneer strategies

Professional development actors have also restructured the market and transformed the local industry's practices by directing, in the words of US scholars John Logan and Harvey Molotch, "investments toward areas and project formats that yield the highest returns."[1424] In addition to orienting investments towards traditional prime locations, rent-maximizing practices now also include pioneer strategies that are commonplace in the international property industry. Pioneer operators aim to capture maximum rent gap by acquiring cheaper subprime land in less central but accessible locations with favourable zoning and larger lots, and developing upmarket high-density projects at the prime market price. The scholarship investigating capital-intensive modes of urbanization sees in such strategies a concrete illustration of the way in which development agents switch "investment between sectors, forms of property or geographically" as much as they alter "the relationships of a given place to other places."[1425]

[1423] Charbel Nahas, multiple personal communications, 2014-2016

[1424] Logan & Molotch, *op. cit.*, p. 279

[1425] Haila, A. (1991). Four types of investment in land and property. *International Journal of Urban and Regional Research, 15*(3), 343-365, p. 354; Logan & Molotch, *op. cit.*, p. 30

In Beirut, pioneer strategies have gained momentum with second-generation professional operators who have extended property-led (re)development dynamics to neighbourhoods such as Gemmayzeh, Corniche El-Nahr, Mar Mikhael, Sioufi, Zokak El-Blat, Tehouita, Karm El-Zeitoun and Karantina. A returnee developer with 20 years of experience in France confirms, for example, that he chose to build high-end projects in areas such as Mar Mikhael and Corniche El-Nahr in the same way as he had crafted upmarket developments in former industrial, working-class and immigrant communities in the Paris suburbs. Pioneering in less prime areas is, however, not completely new to the local development industry: first-generation player Jamil Ibrahim Establishment had already had a similar profit-maximizing strategy when it had erected projects in Ashrafieh in the early 1990s.

7.2.3.4 The organization of marketing campaigns

Novelty in the property industry is, finally, evidenced by the effort invested by development firms in marketing campaigns. Builders mount quite aggressive advertising campaigns at home and for diaspora communities abroad. They use multiple channels ranging from business magazines, billboards and television programs to social networks such as Facebook and Twitter. A telling example is the in-flight magazine of Middle East Airlines, the Lebanese flag-carrier airline, which is replete with ads boasting new Beirut-based developments.[1426] By the same token, major builders also send representatives to Africa, South America and Australia to encourage Lebanese expatriates to invest in projects and acquire homes in Beirut.[1427] In tandem, most professional players regularly hire renowned Lebanese and international architecture firms to improve architectural quality as much as to use them as marketing instruments to attract buyers and investors.[1428]

In spite of these indisputable upgrades, research shows that the challenge of professionalization remains strong in Beirut's development industry: basic notions of land and property economics and elementary instruments of sound development are still absent from the analysis and toolkit of many property and banking actors. In lieu of meticulous planning and

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[1426] Alieh, 2014e
[1427] Alieh, Y. (2013b, August). One third of sales of residences. *Lebanon Opportunities*. 59-63
[1428] Well-known Lebanese architects and architecture firms include Nabil Gholam, Bernard Khoury, Samir Khairallah, ERGA, Ateliers des Architectes Associés (AAA), Batimat Architects, Rachid Karam, Charles Halife, Ziad Akl, Youssef Haidar, and Archika. International architects operating in Beirut, mostly in Solidere-controlled city center, include Herzog & De Meuron, Fosters + Partners, Allies and Morrison Architects, Peter Marino, Arata Isozaki & Associates, Steven Holl Architects, Michael Graves & Associates, and Kohn Pedersen Fox Associates.

management, ego remains a key factor in the decision-making process leading builders to engage or not in a project. A famous local mogul once explained his business strategy to me in the following terms: “I just have a sixth sense for business, I am the king of real estate in Lebanon.” Likewise, another operator added without batting an eye: "Market research helps, but it only gives you hints. It is mostly a gut feeling."[1429] These caricatural examples are not isolated, many developers interviewed referred to personal judgement, experience and connections as the only ways to gauge the market. These deficiencies, together with limited access to accurate data on property-related variables, have played a significant role in fuelling the herd mentality and speculative practices that have influenced the development decisions and financial projections of a sizeable number of players. For example, strategic development reorientations such as the construction of smaller condominiums in recent years, although well intentioned, have not been properly research-driven. This so-called new trend has been, rather, in the words of Thomas Schellen, Executive Magazine's Editor-at-large “an opinion that formed over a period and that was reiterated”.[1430] A property analyst familiar with the local development industry finally sums up the situation: “vain people with limited or no medium-to-long term outlook” still carry much weight in the local development sector. On some occasions, the assertiveness, complacency and arrogance of certain Beirut-based developers and financiers, who touted their skills and ever-optimistic market projections, have reminded me of the discourses and behaviours documented by Michael Lewis in his book *The Big Short: Inside the Doomsday Machine*.[1431] In this fascinating account, inspiring the eponymous movie, Lewis shows that the boundless uncertainties and short-term interests of New York-based financiers and property professionals were instrumental in advancing the late 2000s US housing bubble whose burst ended in a global financial crisis.

This section has investigated the influence of returnee city builders on the professionalization and financialization of Beirut-based post-war development. Specifically, three key mutations have been emphasized: the deployment of complex corporate organizations, the reshuffling of equity-debt financial structures, and the emergence of development practices meeting international standards. Fundamentally, these transformations have altered the property

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[1429] Nabil Zard Abou Jaoude, Chairman of Renaissance holding and Managing Director of Emaar Lebanon, cited in Bathiche (2010a). (Bathiche, H. (2010a, February). Outperforming fund managers. *Lebanon Opportunities*. 60-63)
[1430] Thomas Schellen, personal communication, July 10, 2014
[1431] Lewis, M. (2010). *The big short: Inside the doomsday machine*. New York, NY: W. W. Norton & Company

sector's internal organization and institutional structures and, thus, facilitated the maximization of capital accumulation and circulation in the built environment.

7.3 Beirut's City Builders and Elite Social Networks

In post-war Lebanon, informal networks of social relations crucially govern the economy: they ease business activity and access to resources as much as they reduce risk and transaction costs.[1432] The real estate sector is no exception and successful development strategies have been traditionally dependent on the scope of city builders' connections within their sectarian constituencies. However, novelty in the 2000s property industry has lain in the increasingly important role of the elite transectarian relations built by new city builders, the spread of rent-maximizing rationales, and the heightened needs of investment capital. In this context, the final section below attempts to grasp more fully how the sectarian and elite dimensions of social relations have readjusted in the local politics of property. Without denying the sizeable influence of sectarian drivers, I suggest that the building of social and business connections beyond sectarian affiliation with political and financial elites at the national and international levels has become a prerequisite for large development actors to increase economic and political agency. In a divided urban environment such as post-1990 Beirut, these connections have been key to expansion of construction activity citywide, broadening of influence over policy-making, and to boosting of access to financial resources. I refer, particularly, in this agency-oriented investigation to the works of Michael Peter Smith[1433] and Leslie Sklair[1434] on the affect of local and transnational elite networks on city production and governance.

[1432] Coase, R. H. (1960). The problem of social cost. *The Journal of Law & Economics, 3*, 1-44; Leenders, R. (2004). Nobody having too much to answer for laissez-faire, networks, and post-war reconstruction in Lebanon. In S. E. Heydemann (Ed.), *Networks of privilege in the Middle East: The politics of economic reform revisited*. (pp. 169-200). Basingstoke, UK; Hampshire, NH: Palgrave Macmillan, p. 179-184; North, D. C. (1991). Institutions. *Journal of Economic Perspectives*, *5*(1), 97-112; Williamson, O. E. (1981). The economics of organization: The transaction cost approach. *American Journal of Sociology, 87*(3), 548-577; Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, *91*(3), 481-510

[1433] US geographer Michael Peter Smith (2001, p. 184) has developed the concept of 'transnational urbanism' in which he defines cities as "a crossroads of social relations constituted by the interactions of local, national, and transnational actors and the networks through which they operate." His scholarship offers a critique of the "'first-wave' modes of thinking about globalization" (2005, p. 236), whose neoliberal foundations and Marxian criticisms are accused of relying upon a hegemonic and structuralist analysis of urban change. Instead, Smith promotes a historicized account of global urbanization by analyzing how the building process and its agents are socially, spatially, historically and politically situated objects. (Smith, M. P. (2001). *Transnational urbanism: Locating globalization*. Malden, MA: Blackwell Publishers; Smith, M. P. (2005). Transnational urbanism revisited. *Journal of Ethnic and Migration Studies, 31*(2), 235-244)

[1434] British sociologist Leslie Sklair (2001, 2005, 2007) inquires into the features and the role of a "transnational capitalist class" (TCC) in the contemporary global economy. He sees this elite and plutocratic group, whose people, economic interests and practices cross state boundaries, at the core the "culture-ideology of consumerism" and "the machinery of global interdependence" (Harding & Blokland, 2014, p. 68). In particular, Sklair (2005) identifies "four overlapping fractions" of the TCC: corporate, state, technical and consumerist. In the property industry, the corporate sphere includes leading architecture, engineering and development firms. The state fraction includes "globalizing politicians and bureaucrats," who have the administrative mandate and power to decide what will be built (*ibid*). The technical fraction comprises leading "globalizing professionals," who provide certain services, such as financial services, in support of the building process. The consumerist fraction

7.3.1 Access to Resources, Trust and Reputation: Sectarian Localism in the Lebanese Property Sector

Localism is not the preserve of the Lebanese politics of property. It is a recurrent trait of real estate development worldwide. This trend frequently translates into the existence or the perception of historically and geographically specific 'comfort zones' for property actors, especially in the case of small and medium-sized firms.[1435] The urban scholarship sees in this phenomenon a form of "spatial literacy" bound to "previous experience and ownership of properties in specific locations."[1436] Beirut emerged from the war with this form of development specificity: localism has long been evident in 'comfort zones' based on spatialized sectarian politics. In concrete terms, property agents commonly rely on social relations within their sectarian networks to secure access to land, financing (equity and bank loans) and buyers, as much as to reduce risk for projects that tend to be concentrated in specific neighbourhoods.[1437] Previous works by Beirut-based colleagues have demonstrated, and a majority of my informants have confirmed, that formal and informal sectarian connections are key to constructing builders' reputation, trust and leadership at the neighbourhood and city levels.[1438] Along with these are the local networks of protection and patronage, which matter as well. A developer operating in the southern part of Beirut indicates that builders must have "good relationships with political parties in the area [that they] work" since those groups have the power to facilitate business and bring clients, on the one hand, or to do damage to one's reputation and stop projects, on the other.[1439]

Local dependence in the property sector also manifests through the spatial distribution of development firms that traditionally respect sectarian lines as well as market areas based on property standards and pricing. Concretely speaking, small and medium-sized development

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includes, finally, the agents "responsible for the marketing and consumption of architecture in all its manifestations" (*ibid*). Overall, Sklair conceptualizes how the TCC, whose members travel extensively between cities and countries, has invested its wealth in various continents and the way its business and political networks at the local and international levels shape urban power. (Harding, A., & Blokland, T. (2014). *Urban theory: A critical introduction to power, cities, and urbanism in the 21st century*. London, UK: Sage; Sklair, L. (2001). *The transnational capitalist class*. Malden, MA: Blackwell; Sklair, L. (2005). The transnational capitalist class and contemporary architecture in globalizing cities. *International Journal of Urban and Regional Research, 29*(3), 485-500; Sklair, L. (2007). A transnational framework for theory and research in the study of globalization. In I. Rossi (Ed.), *Frontiers of globalization research: Theoretical and methodological approaches* (pp. 94-108). New York, NY: Springer Science)

1435 Charney, *op. cit.*, p. 744, 750

1436 *Ibid*

1437 Social networks are of particular importance for Beirut-based builders whose cash flow is contingent on off-plan sales.

1438 Bacha, *op. cit.*, p. 28; Bou Akar, H. (2012). Contesting Beirut's frontiers. *City & Society, 24*(2), 150-172; Guillaume Boudisseau, multiple personal communications, 2014-2016; Fawaz, M. (2008). An unusual clique of city-makers: Social networks in the production of a neighborhood in Beirut (1950-75). *International Journal of Urban and Regional Research*, *32*(3), 565-585; Krijnen, M. (2010). *Facilitating real estate development in Beirut: A peculiar case of neoliberal public policy* (Unpublished Master's Thesis). Department of Urban Planning and Policy, American University of Beirut, Beirut; Wierzbowski, *op. cit*. Existing contributions insist on the role of formal and informal connections formed through friendship, kinship, cultural associations, schools, political parties, elite clubs, previous business deals and diaspora groups.

1439 Property developer #6, personal communication, March 23, 2015 agents from Ashrafieh, the eastern part of the city populated by Christians, and Ras Beirut, the western part populated primarily by Sunnis, have their own networks. It would be almost impossible for them to develop a project in Jnah and Bir Hassan, the southern portion populated predominantly by Shias, for example, without the help of local partners (or vice versa). In this sense, property actors traditionally compete with other locally established developers for land, financiers and clients within their zone of influence rather than with other agents operating in neighbouring communities. A noteworthy exception, however, that qualifies this pattern, is Solidere-controlled downtown. The city center, explains a local broker, although flagged as Rafiq Hariri's project, has been one of the only districts accommodating development firms with projects backed by financiers and bought by moneyed clients from diverse political-sectarian backgrounds.

In sum, sectarian networks of social relations, by regulating access to resources (mostly land and capital) and customers, and reducing risk and transaction costs, have historically structured post-war Beirut's property sector and influenced its building process. This form of local dependence has kept city builders within their 'comfort zones', rarely expanding to other areas, until the arrival of the new developers in the 2000s.

7.3.2 Developing Elite Social Relations: A Necessity to Overstep 'Comfort Zones' and Advance the Property Industry's Interests

The new urban entrepreneurial class has, over the years, accelerated the transformation of the prevailing structure of social relations in the property apparatus. Elite connections have gradually become as critical as sectarian networks to the way in which major city builders undertake development activity and build greater political and economic agency. It has become necessary for large operators to sustain interpersonal connections with local politicians, businessmen and security officials beyond sectarian affiliation for at least two reasons. Elite networks, on the one hand, allow developers to expand their area of influence and diversify their portfolios by building beyond their 'comfort zones,' i.e., in neighbourhoods of different political-sectarian constituencies. An increased number of large real estate companies have in the 2000s begun to build concomitantly in Ashrafieh, Ras Beirut, Ramlet El-Baida, Jnah and Bir Hassan. In doing so, they have gradually overstepped, but not suppressed, sect-based spatial segmentation and localism. On the other hand, development of close ties with business leaders and political figures allows major developers to advance the interests of the property industry by circulating pro-growth narratives and exercising clout over state policy-making.

To exemplify the increased significance of elite cross-sectarian social relations in the property sector, I first examine the networks of two major city builders: Jamil Ibrahim Establishment and Mena Capital. These two companies are emblematic of the two generations of professional builders that cohabitate in Beirut. As discussed, Jamil Ibrahim Establishment is one of the oldest property players while Mena Capital is one of newest, a recent property investment firm established by a returnee in the 2000s. Yet, they have deployed similar strategies in the building of solid connections throughout the Lebanese political-economic establishment. Second, I underline the way in which the establisment of a new professional organization in recent years has allowed second-generation city builders to articulate interest, build cooperation and gain greater power in the local property apparatus.

7.3.2.1 Jamil Ibrahim: a well-connected property tycoon at a distance from party politics

Jamil Ibrahim is one of the pioneer builders who stepped out of his 'comfort zone:' as mentioned earlier in this chapter, the Shia developer left his traditional area of influence to operate successively in Ras Beirut and Ashrafieh as early as the 1990s. "By being in the market for a long time, he managed to expand, people know him and his projects [...] he had the time to interact with all Muslims and Christians," a developer operating in southern Beirut explains.[1440] Mazen Ibrahim, one of Jamil's sons, corroborates: "He [his father] has always had good public relations with everyone, he was never against this or that guy, he is a businessman. He keeps people as friends and he does not get into party politics."[1441] The real estate tycoon's connections indeed span the Lebanese political spectrum from the Hariri family to Parliamentary Speaker Nabih Berri.

According to a number of informants, Jamil Ibrahim rubbed shoulders with Rafiq Hariri in the post-war era. Praising the achievements of the late Prime Minister, Mazen Ibrahim has described the similar trajectories of the two men, both self-made, from disadvantaged social backgrounds, as fuelling the respect they felt for one another.[1442] They purportedly met as the

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[1440] Hadi Khalil, personal communication, March 17, 2015
[1441] Mazen Ibrahim, personal communication, November 11, 2014
[1442] *Ibid*

developer obtained bank financing from BankMed for two projects in Ras Beirut in the 1990s. At the time, Fuad Siniora, former Prime Minister, then Minister of Finance, was CEO of the banking group, and Rafiq Hariri, its owner, Ibrahim and Hariri also happened to be in touch through their respective foundations (explained below) and they became friends. The friendship, however, was not without a business or political dimension. Ibrahim's entourage confirms that BankMed acquired many properties in the firm's portfolio. Recurrent rumours have suggested that Hariri bailed out his counterpart after the early 1990s collapse of the Lebanese pound. And well-informed sources indicate that members of Hariri family circle were partners in recent projects developed by Jamil Ibrahim. In this context, his convivial relationship with the Prime Minister and architect of the 1990s reconstruction has probably eased Ibrahim's access to land and clients in neighbourhoods such as Ashrafieh and certain areas of Ras Beirut where he had neither an extensive address book nor a long business history. Additionally, on the policy side, Mazen Ibrahim confirms that his father had been active in advising Hariri on property-related legislative work.[1443]He refers, for instance, to his father's role in the drafting of the controversial 2004 Construction Law, elaborated primarily by members of Hariri business circles. Along with Rafiq Hariri, Ibrahim's network of social relations also includes Walid Jumblatt. The famous Druze leader and MP was a frequent visitor at the family home.

Ibrahim's elite networks have also been a function of his long-time connection to Nabih Berri, the Speaker of the Lebanese Parliament and leader of the Amal movement, a former Shia militia which, in the early 1990s, became a political party. Often seen as kingmaker, Berri is a key member of the ruling troika and, therefore, one of the most influential politicians in post-war Lebanon. A bundle of rumours circulate in Beirut about the fact that he and his wife Randa are partners in Ibrahim's projects and have helped him to deal with accumulating bank debt. Such allegations are difficult to corroborate. Nevertheless, research shows multiple connections between the top-tier property tycoon and the former warlord. Ibrahim is, for instance, a shareholder of the National Broadcasting Network (NBN) Television, known to be close to Berri's Amal movement.[1444] More importantly, commerce registry records show that Nabih Berri was a founding partner of 'Jamil Ibrahim & Co' in 1979.[1445] This proximity to the Parliamentary Speaker's circles, various sources from the property and banking sectors allege, recently allowed

[1443] *Ibid*
[1444] Traboulsi, 2014, p. 96
[1445] 'Jamil Ibrahim & Co' is registered under the number #40285 at the commerce registry.

Ibrahim to lobby against, and ultimately halt, a government project that would have created a new tax on unsold property units.[1446]

Berri and Ibrahim in fact go back a long way. In 1969, they established the Association for Specialization and Scientific Guidance (ASSG), which, based in the neighbourhood of Ramlet El-Baida/Bir Hassan and chaired by Jamil Ibrahim, remains a non-profit organization that pursues educational, social and cultural goals.[1447] It also hosts condolence ceremonies for bourgeois Shia families. Beirut-based university professors explain that the foundation, known by many as Jam'iyyet Jamil Ibrahim, has been a crucial instrument in the developer’s strategy to set up an upper income Shia network and consolidate social visibility, notability and respectability within his home community and beyond. It has, in other words, built the respected social position from which Ibrahim could launch his business activities. A look at the current Board of Directors[1448] says much about the property tycoon’s use of the foundation to expand the elite connections that serve his business interests citywide. The board consists of politicians, senior civil servants and businessmen, most close to Nabih Berri, including: Wael Hamdan, Director of the Financing Unit (in charge of subsidized housing loans) at the Banque du Liban; Yassine Jaber, an influential MP and former Minister linked to Jaber Group (a transnational firm with real estate, construction, logistics and industrial activities); Adnan Mansour, former Minister and Ambassador to politically and financially strategic countries such as Iran, Luxembourg and Belgium; Jalal Bitar, the principle founder and owner of EBCO-Bitar (a Beirut-based leading engineering and building company); Abbas Fawaz, President of the African Continental Council (a major diaspora organization); and Salah Osseiran, a successful businessman with transnational activities from Saudi Arabia to Africa and the US, as well as head of the Economic Committee and board member of the Chamber of Commerce of Beirut and Mount Lebanon. It is unsurprising that such a roster would furnish Ibrahim with the social capital, and the core of the extensive network of power, needed to facilitate his real estate and lobbying activities.[1449]

[1446] Current Minister of Finance, Ali Hassan Khalil, is a member of the Amal movement.
[1447] According to ASSG’s website, the association provides university scholarships, organizes cultural forums, and offers assistance to orphans and elderly. ASSG’s website is available from the following address: www.association-ssg.org/?page_id=656.
[1448] The list of the current board is available from: www.association-ssg.org/?page_id=747.
[1449] For example, the lawyer and ASSG board member Mohammed Issa is allegedly a close business associate of Hassan Hachem, a Lebanese-French businessman who partnered with Jamil Ibrahim for his ‘La Citadelle’ project (see later in this section).

7.3.2.2 Mena Capital: elite connections in the making

More recent corporate players such as Mena Capital also take advantage of elite-philanthropist entities and networks to enlarge their political and business connections and advance individual and collective interests. To that effect, Nabil Sawabini, CEO of Mena Capital, serves as Chairman of the Entrepreneurial Development Foundation (EDF), a not-for-profit organization established in 1999 to promote “entrepreneurship among the less privileged in Lebanon’s rural areas and needy neighbourhoods of big cities.”[1450] The foundation’s Board of Directors puts together prominent Beirut-based capitalists, media tycoons and politicians of different political-sectarian constituencies, including Ramzi El Hafez, founder of InfoPro and Lebanon Opportunities; Majid Jumblatt, board member of Al-Mawarid bank, former Vice-Governor of the Banque du Liban (1985 – 1990 / 2003 – 2008), and board member of the Druze Foundation for Social Welfare; Fadi Abboud, former Minister (affiliated with President Michel Aoun’s Free Patriotic Movement) and President of the Lebanese Industrialists Association; Nayla De Freige, owner of the newspaper L’Orient Le Jour and magazine Le Commerce du Levant; Joseph Mouawad, CEO of the property firm Mouawad Investment Group; Michel Pharaon, businessman, MP and Minister of State for Planning Affairs; and Mohammed Safadi, former Minister of Finance and influential businessman. The EDF Board of Directors also shares members with Jamil Ibrahim’s foundation, such as Yassine Jaber and Salah Osseiran.

To extend the scope of the firm’s social and political networks, Nabil Sawabini has also appointed a former security official, with all the *wastas* (personal connections) that it affords, to Mena Capital’s organizational structure. General Maroun Diwan, who has 15 years experience in the Ministry of Interior’s leadership, is the in-house executive director of government relations, as well as board member and minority shareholder in most of Mena Capital’s affiliated incorporated structures. Even though connections to security officials are not new in the Beirut-based property industry, the practice is less prevalent in Lebanon than in countries such as Egypt and Pakistan where the army is known for its activity in property production.[1451]

[1450] The quotation is retrieved from Entrepreneurial Development Foundation’s website: http://edf-lebanon.org.
[1451] The father of local realtor Wissam Achour was a Colonel in the Lebanese army.

7.3.2.3 REDAL: a new professional organization to defend the property industry's interests

In parallel with their personal connections, leading city builders, mostly those from the returnee entrepreneurial class, have also attempted to articulate interest, build cooperation and gain power through the establishment of a new professional organization: the Real Estate Developers Association of Lebanon (REDAL). REDAL, which was formed by second-generation professional players (e.g., Estates, Har Properties, FFA Real Estate, Trillium Development), coexists and fights for supremacy with the Building Federation of Lebanon which brings together most of the old players (e.g., Jamil Ibrahim Establishment, Jamil Saab). As Massaad Fares, one of the moguls behind the establishment of REDAL, sums up: the objective has been to build a professional organization as influential as the Association of Banks in Lebanon to lobby the government for favourable treatment.[1452] Apart from vocally defending the common interests of the property sector, REDAL also allows developers with various profiles and trajectories to share networks and information informally. As such, it helps to build the reputation and reinforce the credibility of its members beyond their original geographical areas of influence. In many ways, this relatively new body illustrates the intent of large property players who entered Beirut's high-end real estate market in the 2000s to build cooperative relations, unlike that of the small and medium-sized players operating in sectarian strongholds who remain in a competitive mode. Overall, the establishment of REDAL reflects the movement of 'self-empowerment' observed in many property industries worldwide.[1453]

In brief, elite social connections at the city and country levels have become as critical as local sectarian networks to major city builders in their efforts to boost development activity and grow their economic and political agency. These cross-sectarian relations allow development firms to diversify their project portfolios and expand their areas of influence in a polarized urban environment, key conditions for maximization of activity and profit. Just as importantly, the same elite networks, which include a number of political figures, also allow urban entrepreneurs to promote the sector-specific interests of the property industry by circulating pro-growth narratives and exercising direct and indirect clout over policy-making.

[1452] Massaad Fares, personal communication, October 15, 2014
[1453] Rouanet, H., & Halbert, L. (2016). Leveraging finance capital: Urban change and self-empowerment of real estate developers in India. *Urban Studies, 53*(7), 1401-1423, p. 1401-1402

7.3.3 Lifting the Corporate Veil: The Multiple Connections of Real Estate Financing to National and Global Politics and Finance

The access to new equity sources, as explained in the second section, has been essential to city builders, as they have sought to cover the increased costs of high-density residential projects during the second property cycle. Just as elite social networks have been crucial to the growing development activity citywide, they have also provided property firms with access to investment capital. Opening the black box of real estate finance circuits and following these to their origins, in other words, will reveal the central role of national and international elite networks in Beirut's property industry. Moreover, documenting the profile of the financiers will also illuminate the interests at play in urban production and the power relations they create, as much as the close connection of the city and its future to key, and sometimes unexpected, actors in local and global politics and finance. This is my goal in the following section. My findings show four categories of financiers to have been particularly active in post-2000 Beirut's development industry: Lebanese political figures and their families; local business elites, the urban bourgeoisie, and sectarian associations; expatriate and foreign businessmen and firms; and dubious networks suspected of tax evasion and money laundering.

Piercing the secrecy of the property industry, and of some of its barely traceable financial channels, was not an easy task.[1454] Unpacking the architecture of corporate schemes, as was carried out earlier in this chapter, was a precondition for generating empirical evidence on the identity of financiers who invest in property through direct or indirect SPV ownership. This investigation, focusing on the leading development companies examined in this chapter, has required the tracking of money through obscure corporate organizations and financial circuits, often entangled in political-economic and sectarian relationship webs. Some of it was successful, some not.

[1454] The findings presented in this section draw on personal semi-structured interviews as well as on information retrieved from developers' websites, newspaper articles and the national commerce registry.

7.3.3.1 The perennial role of Lebanese political families

The participation of politicians and their relatives in land ownership and property financing is not new in Lebanon. However, it has gained considerable significance in the past 20 years with many political figures becoming official and/or silent partners in the capital of medium and large-sized development companies and of their projects.[1455] Unsurprisingly, this is the case of the families of late Rafiq Hariri, Nabih Berri and other powerful politicians such as Walid Jumblatt.

The Hariri family

As worthy successors to their father Rafiq, Fahd and Bahaa Hariri have significant interests in the Beirut's property industry. Fahd, the youngest, specialized in real estate after he received his degree in architecture. He owns Har Properties and is the anchor investor of the firm's projects, located primarily in Ashrafieh.[1456] Similarly, the eldest, Bahaa, listed by Forbes as the #810 richest man in the world in 2016 with an estimated personal fortune of 2.2 billion USD, is also a successful businessman operating in Beirut, Geneva and Monaco. Although he left the family-owned Saudi Oger construction firm in 2008, he is still very much involved in property development. In addition to investing in Fahd's property business,[1457] Bahaa has carved out his own real estate firm, Horizon Development, which develops major residential and commercial projects in Verdun and Ras Beirut.[1458] Importantly, Bahaa Hariri is the major player behind ABC Verdun, the giant mall that recently opened in the same area. According to the Beirut Building Database, this megaproject received a building permit for the largest square footage (150,000 sq. m.) of any project over the last 20 years in the Lebanese capital.[1459] Moreover, both Fahd and Bahaa are involved in land ownership in the coastal area of Dalieh as well as in controversial land deals with the developer Wissam Achour (Achour Development) in the Ramlet El-Baida

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[1455] See Ashkar, H. (2011). *The role of the state in initiating gentrification: The case of the neighbourhood of Achrafieh in Beirut* (Master's thesis). Retrieved from http://hishamashkar.org/node/57

[1456] Fahd Hariri is, for instance, the majority shareholder of the SPVs retaining the residential developments Allée des Arts (i.e., 'Gemmayzeh 007 SAL' (#1016247)) and Aya (i.e., 'Mar Mikhael Rmeil SARL' (#1009394)) located in Gemmayzeh and Mar Mikhaël.

[1457] Bahaa Hariri is a shareholder of the SPV retaining Aya (i.e, 'Mar Mikhael Rmeil SARL' (#1009394)) through his firm 'Irad Real Estate Development Company SAL – Iriadat Holding' (#1900191).

[1458] Horizon Development is the subsidiary of Bahaa Hariri's holding Horizon Group established in 2002. It operates in Jordan (including the project Adbali, a USD 6.6 billion mixed-use development located in Amman), Saudi Arabia and Lebanon. Projects developed in Beirut include Verdun Gardens, Staybridge Suites, Verdun 1544, Place Verdun and Raouche Residential Project.

[1459] Gebara, H., Khechen, M., & Marot, B. (2016a). *Beirut Building Database* [Geographic Information System file]. Faculty of Architecture and Engineering & Neighborhood Initiative, American University of Beirut. Retrieved from https://scholarworks.aub.edu.lb/handle/10938/10283 sector.[1460] Additionally, in Hariri circles, Nader Hariri, the son of Bahia Hariri[1461] and nephew of Rafiq Hariri, is co-founder of two transnational property companies working in downtown Beirut and environs: Millennium Development and Benchmark.[1462] As aptly described on Horizon Development's website, Rafiq Hariri's sons and nephew "build on the Hariri legacy and capitalize on [its] credibility, networks, and resources" for their activity in real estate production.[1463]

The Berri family

The Berri family is another well known for its large stake in the Lebanese property. During the civil war, Nabih Berri "formed what was termed 'the Shia Holding Company,'" through which he "came to oversee a new real estate zone in Ain El Tineh and Verdun" where the Shia diaspora in Africa and the Gulf historically concentrated its investments.[1464] It was during this dark period that the former warlord reinforced his connections with major Shia developers including Jamil Ibrahim (as discussed earlier in this chapter). Likewise, the Parliamentary Speaker at one time counted the developer Wissam Achour as one his relatives: the latter was married to one of his daughters. Apart from his second wife Randa whose name is often associated with rumours of property financing, several of Nabih Berri's sons and daughters are directly involved in property businesses. The Berri clan, for instance, is behind the company Quantum Development primarily through Bassel, Nabih and Randa Berri's son.[1465] A graduate from the American University of Beirut and Stanford University, Bassel is a good friend and partner of Mustapha Ahmad, the CEO of Trillium Development. Both share family connections in Sierra Leone. Interestingly, according to Wikileaks cables, Bassel Berri is increasingly viewed as the potential successor to his father as leader of the Amal movement.[1466] A son from Nabih Berri's prior marriage, Abdallah, whose name, according to U.S. diplomatic cables, is associated

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[1460] The Hariri family's land portfolio in this area is held primarily though 'FHI Holding' and 'Irad Investment Holding' (Nash, 2015; Wehbe, 2014). (Wehbe, M. (2014, September 5). Post-Daliyeh: Hariri family eyes Beirut's last public beach Ramlet El-Baida. *Al-Akhbar English*. Retrieved from http://english.al-akhbar.com/node/21399)

[1461] Bahia Hariri is a Lebanese MP from the Future Movement and a former Minister of Education (2008-2009). She is also the sister of late Rafiq Hariri.

[1462] Projects managed by Millennium Development include Verdun Heights, The Landmark and Park Hill Residences (all on hold). Those developed by Benchmark are Beirut Terraces and Wadi Hill Residences.

[1463] The quotation is retrieved from Horizon Development's website: www.horizon-dev.com/en/.

[1464] Traboulsi, 2014, p. 85

[1465] The Berris own 'Quantum Development SAL' (#1015456) through (a) Amal, Nabih and Randa Berri's daughter, who is an important shareholder, and (b) 'Enigma Holding House SAL' (#1901897), the majority shareholder. Bassel Berri is the majority shareholder and Maysa Berri, another daughter of Nabih and Randa Berri, a minority shareholder of 'Enigma Holding House SAL.'

[1466] Ali, M. H. (2014, May 15). Aging Lebanese politicians eye biological heirs. *Al-Arabiya English*. Retrieved from http://english.alarabiya.net/en/perspective/analysis/2014/05/15/Aging-Lebanese-warlords-eye-biological-heirs.html with corruption and fund extortion, is also allegedly connected to a number of Shia developers operating in Verdun and Bir Hassan.[1467]

Walid Jumblatt and other high-profile political figures

Similarly, other prominent political families are financially connected, more or less directly, to property players. This is the case of the Druze leader Walid Jumblatt. In addition to his alleged massive land portfolio, Jumblatt has presumed shared interests with the firm Development H through the Abu Hamza family, which has "traditionally managed the Jumblatts' wealth for at least a century."[1468] Wajdi Abu Hamza is one of three owners of AH Development, which became Development H in 2012.[1469] The same is true for recent members of the Lebanese government: Arthur Nazarian, former Minister of Energy (2014-2016) and MP of Ashrafieh (enrolled in the left-wing Tachnag Armenian party), who is also a successful businessman in the clothing industry and board member of Byblos Bank, was the second largest shareholder of CGI's Marfaa 1474 aborted project.[1470] Michel Pharaon, recent Minister of State for Planning Affairs and MP of Ashrafieh (affiliated with the March 14th alliance), who is also a businessman from a well-known Greek-Catholic family, is the principle investor of Capstone Investment Group's L'Élite de Sursock project.[1471]

7.3.3.2 The local business elite, urban bourgeoisie and sectarian associations: loyal partners in rent maximization

A number of Lebanese business elites are involved in the financial schemes of large development firms. CGI's Urban Dreams project is a good illustration, investors in which include Edmond Jreissati, the managing partner of JIG Holding, run by his father Rainier Jreissati, who is head of the Lebanese national lottery company (La Libanaise des Jeux); Martine Jabbourian, the

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[1467] Wikileaks (2016). *MGLE01- Amal succession: Berri's bitter, fruitless legacy*. Retrieved from https://wikileaks.org/plusd/cables/05BEIRUT1123_a.html. I ended up myself meeting briefly with Abdallah Berri while interviewing a realtor who happens to also be one of Ahmad's former business partners.
[1468] Choudi, F. (2013, September 24). Jumblatt sacks Abu Hamza: The last days of an accountant. *Al-Akhbar English*. Retrieved from http://english.al-akhbar.com/node/17121
[1469] See the ownership records of 'A and H Construction and Development Company SAL' (#1005455).
[1470] See the ownership structure of 'Marfaa 1474 SAL' (#1004804).
[1471] Michel Pharaon is the majority shareholder of 'B-One Cap Holding SAL' (#1902213), which owns 'Immobilière 237 Sursock SAL' (#75281), i.e., the SPV behind Capstone Investment Group's L'Elite de Sursock.

spouse of Sami Hochar, owner of Lina's restaurants; and Albert Aoun, CEO of International Fairs & Promotions, a leading exhibition and event organizer in the Middle East.[1472]

Further, the traditional urban bourgeoisie, historical landowners in the capital and throughout the country, has members who have partnered with, or sold part of their land portfolio to, large development players.[1473] The Sursocks and the Hochars have, for example, partnered with Mena Capital and provided the land in exchange for residential units and cash, for Ibrahim Sursock Residences and Hochar Tower, respectively.[1474] Similarly, the Mouawads partnered with CGI and provided the land for Abdel Wahab 618 project.[1475] The close connections between these local commercial and financial notables, the families of which frequently intermarry, facilitate their partnerships and transactions. Likewise, a number of traditional sectarian associations in need of financial resources exploit a portion of their immense stock of land by collaborating with development firms. This is, for example, the case of the Maqâsid, a powerful Beirut-based Sunni philanthropic foundation that partnered with the Arabian Civil Work Company for development of the Hill Top Residence and with M1 for Pixel Tower in Tallet El-Khayat and Mar Elias (West Beirut), respectively.[1476] In many ways, the increased number of partnerships and land transactions works to the advantage of large development actors whose assembly of vast land portfolios has been critical to the conversion of urban land into incorporated assets retained by local, expatriate and foreign investors.

[1472] They are all shareholders of 'Urban Dreams Holding SAL' (#1901841). Albert Aoun is the owner of 'Rasyn Holding SAL' (#1900321), through which he has invested in the CGI-managed SPV.

[1473] A small number of Sunni (e.g., Salam, Tabbara, Beyhum, Mneimneh, Itani, Daouk) and Christian families (e.g., Sursock, Hochar, Medawar, Mouawad, Pharaon, Corm, Bustros, Trad), who are mostly Greek Orthodox, form Beirut's traditional urban bourgeoisie.

[1474] The Sursocks are one of the oldest and most famous Levantine families who settled in Beirut in the 18th century. The family built its fortune on manufacturing, transportation, trade and landownership by operating all over the Middle East and Europe. Likewise, the Hochars, originally from Aleppo in Syria, are internationally renowned for their winemaking in the Bekaa Valley. In fact, they are key actors in the local wine industry: Serge Hochar, who passed away in 2015, was the chair of the Lebanese union of winemakers (Union Viticole du Liban).

[1475] The Mouawad family (Robert and his sons Alain, Fred and Pascal) is a top-tier actor in the global jewellery industry with a clientele ranging from "Saudi royalty to Hollywood" (Becker, 2011). According to Forbes, the Mouawads are the 4th richest family in Lebanon with a net worth of USD 1.47 billion. In addition to being a fine arts collector and property investor, Robert Mouawad is a major landowner in Beirut and across Lebanon. Robert Mouawad's land portfolio is however a source of controversy. In recent years, the Lebanese billionaire sold a large piece of land to Nazem Said Ahmad, a disreputable diamond dealer, for a large project operated by the development firm Tajco in the Chouf region. The US Office of Foreign Assets Control (OFAC) accuses Tajco, owned by the Tajjedine family, of supporting Hezbollah (US Department of the Treasury, 2010). (Becker, J. (2011, December 13). Beirut bank seen as a hub of Hezbollah's financing. *The New York Times*. Retrieved from www.nytimes.com/2011/12/14/world/middleeast/beirut-bank-seen-as-a-hub-of-hezbollahs-financing.html; US Department of the Treasury (2010). *Treasury targets Hizballah financial network*. Retrieved from www.treasury.gov/press-center/press-releases/Pages/tg997.aspx).

[1476] Established in 1878, the Maqâsid is a philanthropic association run by the Beiruti Sunni bourgeoisie. It offers education and health services (Baumann, 2012a). The foundation is known to be the patronage instrument of the Salam family — Tammam Salam was Prime Minister between 2014 and 2016 — whose leadership in the Sunni community was challenged by the rise of Rafiq Hariri in the 1990s (*ibid*). Interestingly, real estate activities are a historically important stream in the association's income. The Maqâsid was, for instance, a major property owner in the pre-war commercial city center (Baumann, 2012c, 88). (Baumann, H. (2012a). The 'new contractor bourgeoisie' in Lebanese politics: Hariri, Miqati and Faris. In A. Knudsen & M. Kerr (Eds.), *Lebanon: After the Cedar Revolution* (pp. 125-144). London, UK: Hurst; Baumann, H. (2012c). The ascent of Rafiq Hariri and Sunni philantropy. In F. Mermier & S. Mervin, S. (Eds). *Leaders et partisans au Liban* (81-106)). Beirut, Lebanon; Paris, France: Presses de l'IFPO, Karthala)

7.3.3.3 From Western Africa to Switzerland: the multiple profiles of expatriate and foreign businessmen with ties to global finance

Expatriate and foreign agents, as mentioned, play a substantial role in the political economy of urban production in Beirut. In addition to buying condominiums, many non-resident actors, whose business trajectories vary and whose connections to Lebanon are of differing intensities, are involved in the supply-side financing of real estate activity. The following examples illustrate the importance of networks based in Africa, Europe and other Arab countries to financing of the development industry and, ultimately, restructuring of the city's built environment.

Hassan Hachem: the African leaders' whisperer

Together with Rafic Charafeddine, Hassan Hachem is a partner in Jamil Ibrahim Establishment's La Citadelle, a massive residential waterfront development located in the neighbourhood of Ain El-Mreisseh (see also Chapter 6). Born in Senegal, Hachem is a Lebanese-French businessman and an architect by training who returned to Lebanon in 2007. His business activities, mostly in Western Africa (e.g., Cameroon, Democratic Republic of Congo, Ghana, Benin, Senegal), range from import/export and public works to agri-food production and property development.[1477] In Lebanon, he has invested through a series of connected holding companies in multiple real estate projects and renovated at least one heritage building in downtown Beirut in recent years.[1478] Apart from his business empire, Hachem is also known for his extensive ties to African leaders. He is, more specifically, personal, unofficial, adviser to Teodoro Obiang Nguema Mbasogo, President of Equatorial Guinea (the 3rd largest oil producer in Africa) and the continent's longest serving leader (since 1979).[1479] In addition to running an authoritarian regime,[1480] Obiang Nguema and his family are accused of corruption and misappropriation of the

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[1477] Haddad, S. (2014, December 29). Hassan Hachem: Entre le Liban et l'Afrique, un cœur en balance. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/903015/hassan-hachem-entre-le-liban-et-lafrique-un-coeur-en-balance.html

[1478] Hassan Hachem was the instigator of the Marfaa 1515 and Mina El-Hosn 1408 projects through his holding companies 'Cascade Properties Investment Holding SAL' (#1902462) and 'HM Development Holding SAL' (#1902604). Forefront Development constructed the two projects. Hachem is also involved in at least two other projects located in downtown Beirut: MEH Square and Park Palace.

[1479] BBC Staff (2014, December 23). Equatorial Guinea profile – Leaders. In *BBC*. Retrieved from www.bbc.com/news/world-africa-13317176. The Official Gazette of the Republic of Senegal portrays Hassan Hachem as the "adviser to the President of the Republic of Equatorial Guinea" (Republic of Senegal, 2004). (Republic of Senegal (2004). *Decree No. 2004-612 of April 30, 2004 (Official gazette No. 6169)*. Dakar, Senegal: General Secretariat of Government. Retrieved from www.jo.gouv.sn/spip.php?article560)

[1480] The 2015 Democracy Index by The Economist Intelligence Unit classifies Equatorial Guinea in the "authoritarian regime" category (The Economist, 2015). (The Economist (2015). *Democracy index 2015. Democracy in an age of anxiety*. London, UK: The Economist Intelligence Unit. Retrieved from www.yabiladi.com/img/content/EIU-Democracy-Index-2015.pdf) country's public wealth.[1481] In his advisory capacity, Hachem was the purported "brainchild" of Sipopo, a controversial USD 830 million luxury complex built by Obiang Nguema's regime to host the 17th summit of the African Union in 2011.[1482]

Edgar de Picciotto: the Geneva finance tycoon

Figures from global finance are also regular contributors to Beirut's property industry. This is the case with Edgar de Picciotto who, prior to his death in 2016, was the anchor investor of Mena Capital's Sky Gate.[1483] During the official opening of the 40-floor luxury project located in Ashrafieh, the wealthy banker portrayed his investment as his "contribution to the [city's] reconstruction."[1484] Picciotto, born in a Beirut-based Jewish family, has an extraordinary personal history: descendant of Italian merchants, he left Lebanon in 1948.[1485] He subsequently established and chaired Union Bancaire Privée (UBP), a Switzerland-based financial organization and world pioneer in hedge fund development and asset management.[1486] Edgar de Picciotto, who was a close friend of famed finance tycoons Georges Soros, Georges Karlweis and Edmond Safra, was long one of the most charismatic bankers in Geneva.[1487]

The crucial contribution of GCC individuals and firms

The local development sector also contains a number of Gulf individuals and firms among its leading foreign capital contributors. This is, for example, the case with Development and Management House for Investment Company (DMHI), a Saudi investment firm and the major shareholder of one of the largest projects currently under construction: CGI's Gemmayzeh

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[1481] Obiang Nguema's family is involved in multiple alleged cases of public money embezzlement and money laundering (BBC Staff, 2014). Family members are, for instance, accused of "acquiring millions of dollars of real estate in Paris and on the French Riviera and buying luxury cars" (Piel & Tilouine, 2016). (Piel, S., & Tilouine, J. (2016, May 27). « Biens mal acquis»: Les dépenses astronomiques de Teodorin Obiang. *Le Monde*. Retrieved from www.lemonde.fr/afrique/article/2016/05/27/bien-mal-acquis-les-depenses-astronomiques-de-teodorin-obiang_4927959_3212.html#KiDzdEe6Ufx075yC.99)

[1482] For more information on Sipopo, see: Smith, D. (2011, June 7). Equatorial Guinea builds luxury resort for week-long summit. *The Guardian*. Retrieved from www.theguardian.com/world/2011/jun/07/equatorial-guinea-luxury-resort-sipopo.

[1483] Surprisingly, the Lebanese-Swiss banker is not listed in the beneficial shareholding structure of 'Signature Properties Holding SAL' (#1901312), which is the SPV that accommodates financiers investing in Sky Gate. In that respect, the largest registered investor, who is not known as a rich financier or businessman, is possibly used as a middleman to accommodate Picciotto's funds.

[1484] Mena Capital (2015, October 20). *Sky Gate formal opening* [Video file]. Retrieved from www.youtube.com/watch?v=ifG_hdaIcS4

[1485] A large majority of the local Jewish community left in the second half of the 20th century as a result of the successive Arab-Israeli wars, which made their situation increasingly uncomfortable in Lebanon.

[1486] Zaki, M. (2016, March 14). Edgar de Picciotto, banquier jusqu'au dernier souffle. *La Revue Suisse de l'Économie*. Retrieved from www.bilan.ch/argent-finances-plus-de-redaction/edgar-de-picciotto-banquier-jusquau-dernier-souffle

[1487] Genier, Y. (2016, March 14). Décès d'un monument de la place financière. *Le Temps*. Retrieved from www.letemps.ch/2016/03/14/deces-un-monument-place-financiere

Village/Place Pasteur.[1488] DMHI has an investment portfolio "ranging from petrochemical, telecommunication, and information technology to real estate and healthcare," according to its website.[1489] The firm's chair is Mohammed Al-Dhoheyan, a Saudi entrepreneur with senior executive experience in various financial companies.[1490] Al-Dhoheyan also served as the Director of UBS Saudi Arabia.[1491] In terms of individual investors, Khalid Bin Abdullah Al-Melhem, General Director of Saudi Arabian Airlines, is the third largest shareholder of CGI's Gemmayzeh Village/Place Pasteur project. Wafa Al-Qatami, Deputy Chairman of the Board of Directors at the Kuwait Direct Investment Promotion Authority, is a shareholder in the same project. Investments such as these in Beirut property projects are most likely used to diversify the portfolios of Gulf firms and individuals.

7.3.3.4 From Iraq to France: dubious networks suspected of tax evasion and money laundering

In many global cities such as New York, London and Mumbai, real estate is a popular vehicle for the redirection of illicit financial flows through legal investment channels.[1492] Beirut certainly fits the pattern: to paraphrase geographer Susan Roberts, it as an important regional and global hub for laundering of fungible, fast-moving, furtive money from tax evasion and criminal activity (e.g., drug and arms trafficking, corruption).[1493] Although the phenomenon is hard to quantify, a number of financiers, sometimes using the opaque corporate veil of shell companies and nominee ownership, are suspected of investing money of unclear origin in land acquisition and development. To be clear, I do not seek to inquire into the potentially illegal origin of money at play in the illustrations below. Rather, based on the reporting of mainstream news networks and official documents, I intend to describe the networks and backgrounds of two particular business figures whose wealth of dubious origin has purportedly financed local development. Their personal trajectories show the attraction that Beirut's built environment could have for fortunes built on opaque reconstruction and security business activities undertaken in war-

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[1488] DMHI is the major shareholder of 'Construction & Real Estate Development Co. SAL' (#1003447), the CGI-managed vehicle that pooled investments for Gemmayzeh Village/Place Pasteur. The project's total cost is estimated at USD 150 million.
[1489] Information retrieved from DMHI's website: http://dmhi.telenoc.org.
[1490] Mohammad Al-Dhoheyan has also occupied managing positions with firms such as MerchantBridge & Co. Ltd and Prime Holding For Financial Investments S.A.E.
[1491] Information retrieved from Prime Group's website: www.primegroup.org/?L=view.data&chromeless=true&id=50.
[1492] Financial Action Task Force, *op. cit.*; Leigh, Frayman, & Ball, *op. cit.*; Story & Saul, *op. cit.*; Weinstein, L. (2008). Mumbai's development mafias: Globalization, organized crime and land development. *International Journal of Urban and Regional Research, 32*(1), 22-39.
[1493] Roberts, *op. cit.*, p. 92

affected countries, and/or activities tied to transnational fraud scandals that mix business, politics and diplomacy.

Mohammed Abu Darwiche: a financier enmeshed in obscure regional politics

The first financier of interest is Mohammed Abu Darwiche, a businessman from a prominent Lebanese Shia family, certain members of which have allegedly played an obscure role in regional politics.[1494] Abu Darwiche hit the headlines of Lebanese newspapers in 2004 when, as head of a private security firm hired to oversee security at the Baghdad airport in post-Saddam Hussein Iraq, he was arrested at the Beirut airport on charges of smuggling 19.5 billion in new Iraqi dinars (USD 12 million) in cash into Lebanon.[1495] The incident also involved Mazen Bsat, a prominent businessman who "owns a chain of pharmacies and a company that leases planes for charter flights;" Richard Jreissati, a former member of the Christian Lebanese Forces party; and Michel Mkattaf, a businessman married to the daughter of the former Lebanese President Amin Gemayel.[1496] The protagonists officially argued that the money was intended for purchase of equipment abroad for Iraq's Ministry of Interior.[1497] Judges terminated legal proceedings the same year and the Banque du Liban's committee to combat money laundering declared the source of the Iraqi money legal; however, suspicion over the actual origin and destination of the funds as well as over potential pressures exerted on the judges and the BdL never properly laid to rest.[1498] Mohammed Abu Darwiche is today an important real estate financier in Beirut: he had a substantial stake in Mustapha Ahmad's firm Trillium Development[1499] and owns the company Ideal Development.[1500] The controversial businessman is also an investor in at least two projects undertaken by Trillium Development.[1501]

[1494] Issam Abu Darwish, father of Mohammed, and an associate, Imad El-Hajj, were purportedly enmeshed in a pre-Gulf War II coup plot against Saddam Hussein organized by British and US intelligence agencies (Flint, 2004). (Flint, J. (2004, February 8). Baghdad leaders reveal that coup plot duped MI6. *The Guardian*. Retrieved from www.theguardian.com/world/2004/feb/08/iraq.iraq1)
[1495] Banerjee, N. (2004, January 17). The struggle for Iraq: Iraqi money; Lebanese seize plane with billions of dinars. *The New York Times*. Retrieved from www.nytimes.com/2004/01/17/world/the-struggle-for-iraq-iraqi-money-lebanese-seize-plane-with-billions-of-dinars.html; Flint, *op. cit.*
[1496] Banerjee, *op. cit.*; Raad, K. (2004, July 16). Court dismisses banking law violation case. *The Daily Star*. Retrieved from www.dailystar.com.lb/News/Lebanon-News/2004/Jul-16/4125-court-dismisses-banking-law-violation-case.ashx
[1497] Raad, *op. cit.*
[1498] *Ibid*
[1499] Through his firm 'Team 5 Holding SAL' (#1901607), Mohammed Abu Darwiche is the co-main shareholder of 'Mercury Development Group Holding SAL' (#1902229), which itself controls 'Trillium Development Group SAL' (#1014876).
[1500] Mohammed Abu Darwiche also controls 'Ideal Development Sal' (#2020511) through 'Team 5 Holding SAL' (#1901607).
[1501] Mohammed Abu Darwiche is the major investor of '1442 Ras Beyrouth SAL' (#1007668), the Trillium Development-managed SPV for the residential project Olive Residence. Moreover, he shares a controlling interest in 'Avenue Tower SAL' (#1007983), which is the purported Trillium Development-managed SPV for Isocele.

Maurice Bidermann: a French businessman with powerful friends and a hidden treasure

This French business figure, brother of the famous nightclub owner Régine, amassed his fortune in the 1980s as founder of a vast textile empire in the Sentier, a district historically known for its garment manufacturing in Paris. But his career took a turn in the 1990s: Bidermann was convicted of embezzling about USD 130 million in the transnational Elf fraud scandal[1502] in which French judicial authorities never managed to trace the hidden treasure. Further, Bidermann was subsequently accused of declaring bankruptcy and hiding his fortune to avoid paying USD 26 million compensation to the oil company and evade French tax.[1503] But the textile mogul has benefited from high-level political protection in France for many years: he is a close friend of former President Nicolas Sarkozy and of his controversial former Chief of Staff and Interior Minister Claude Guéant. A member of 'Premier Cercle,'[1504] he was a top-tier donor to the former French President's electoral campaign in 2007.[1505] But how is Maurice Bidermann connected to Beirut real estate?

Research shows that he has purportedly used companies set up in the wake of the Elf fraud case to invest in at least three large-scale CGI-managed property projects in Beirut. Indeed, the French businessman has acknowledged that he is beneficial owner of 'Erdec SAL Offshore,'[1506] which is a shareholder in Abdel Wahab 618, a three-tower project built in Ashrafieh, and in Gemmayzeh Village/Place Pasteur, a massive development located in Gemmayzeh.[1507] According to the Beirut Building Database, these two projects are among the 10

[1502] This immense fraud case, arguably one of the most important financial scandals of the 1990s, involved Elf, the then state-owned giant French oil company that later merged with Total, and many firms and individuals, including businessmen and political leaders, who received illegal commissions on big oil deals. Maurice Bidermann was known as a personal friend of Loik Le Floch-Prigent, the former CEO of Elf.

[1503] Orange, M. (2015, March 24). Le fisc s'intéresse finalement au cas Bidermann. *Mediapart*. Retrieved from www.mediapart.fr/journal/france/040315/le-fisc-sinteresse-finalement-au-cas-bidermann?onglet=full

[1504] Created by Nicolas Sarkozy in 2004, 'Premier Cercle' was a private club bringing together the 'Union pour un Mouvement Populaire' (UMP) top donors from the French and international economic, financial and political establishment. The UMP, established in 2002 by former President Jacques Chirac, was the major right political party in French prior to being renamed 'Les Républicains' in 2015.

[1505] Arfi, F., Mathieu, M., & Laske, K. (2012, September 25). Argent de l'UMP: La liste secrète. *Mediapart*. Retrieved from www.mediapart.fr/journal/france/240912/argent-de-lump-la-liste-secrete?onglet=full

[1506] Maurice Bidermann himself revealed in 2008 that he was the beneficial owner of the firm 'Erdec SAL Offshore,' incorporated under Lebanese law. He did so as a Belgian judge questioned him regarding a case of money laundering for which the French businessman was finally exonerated (Orange, 2011). Bidermann also acknowledged that the firm was established in reaction to the prosecution he was facing in the Elf fraud scandal (*ibid*). He additionally explained that 'Erdec SAL Offshore' was the holder of bank accounts registered with 'Crédit Suisse Luxembourg' (*ibid*). More generally, 'Erdec SAL Offshore' and 'Erdec SAL' appear to be the Lebanese components of a larger Erdec-entitled transnational chain of companies with branches registered in Luxembourg and France. The investigative French newspaper Mediapart (*ibid*) suggests that there is strong suspicion about the role 'Erdec' companies may have played in dissimulating Bidermann's hidden treasury and organizing his insolvency to escape from the French tax authorities.

[1507] 'Erdec SAL Offshore' is a shareholder in 'Abdel Wahab 618 Holding SAL' (#1900763) and in 'Construction & Development Co. SAL' (#1003447).

largest that have received building permits in Beirut since 2002.[1508] 'Erdec SAL Offshore' was incorporated in 1999 by the prominent Beirut-based lawyer Selim El-Meouchi[1509] and is officially owned by financial tycoon Bechara El-Khoury, Monaco's Consul in Lebanon.[1510] Similarly, the sister company 'Erdec SAL,' also incorporated by Selim El-Meouchi in 2005 and owned directly and indirectly by Bechara El-Khoury, is a major shareholder in another CGI-managed project: Marfaa 1474.[1511] However, this project was finally abandoned in the late 2000s when major archaeological ruins were discovered on site. The presence of a beneficial anchor investor such as Mr. Bidermann in the byzantine financing schemes of one of Beirut's biggest development firms, if true, illustrates the lack of concern in the local property industry about the history and profile of its financiers.

In short, this third section has explored the rebalancing of the sectarian and elite dimensions of social relations in the local politics of property. It has emphasized the increasing significance of high-level social connections in the real estate industry and the way in which they have been combined with existing sectarian networks. While the participation of elite circles in the Lebanese economy pre-dates the civil war and was reinforced by Taif political arrangements, the arrival of returnee city builders throughout the 1990s and 2000s has significantly reinforced the influence of local and transnational political and business networks in the development sector. I have specifically stressed the efficacy of social and business connections with major political and business figures beyond sectarian affiliations in enabling a number of development players to increase economic and political agency. Elite networks, indeed, allow city builders to expand their area of influence citywide and obtain access to policy-making to advance their individual and collective interests. Likewise, I have shown the instrumentality of such high-level

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[1508] Gebara, Khechen, & Marot, 2016a

[1509] Selim El-Meouchi is a well-known lawyer in Beirut. Son of a magistrate and brother-in-law of late banker Joe Saradar (Saradar Group), he is the Chairman and Senior Partner of Badri & Selim El-Meouchi Law Firm. In addition to incorporating most SPVs created by CGI, his legal office was until recently in charge of Saradar Group's litigation cases and family office. Further, El-Meouchi is an influential and well-connected legal expert: he is a member of the Association of Banks in Lebanon's Legal Committee and an advisor to the Banque du Liban. He is also a board member of CMA - CGM, CAT Holding, and Banque Misr Liban, as well as a founding member of Transparency International's Lebanese chapter whose current Executive Director is his son Badri. Selim El-Meouchi, moreover, has close connections to the financier and diplomat Cheikh Bechara El-Khoury: Badri & Selim El Meouchi Law Firm hosts the Monaco's Consul delegation in Beirut. El-Meouchi's firm has incorporated at least three of the financial tycoon's myriad of (offshore) companies: 'Erdec Offshore SAL' (#801), 'Erdec SAL' (#1004747), and 'Erdec Holding SAL' (#1900542).

[1510] Cheikh Bechara Khalil El-Khoury, grandson of President Bechara El-Khoury (1943-1952) and a graduate of McGill University, is a top-tier financier in Lebanon. He is a shareholder of Bank Audi, serves as a board member of Banque Misr Liban, and is a partner in a Swiss investment company (Primecorp Finance). This well-known business figure is also connected to global politics and has extensive influence in Francophone networks: close to the Grimaldi family, he is Monaco's Consul in Lebanon (Orange, 2011). Moreover, El-Khoury is a friend of former French President Nicolas Sarkozy and contributed to his 2007 presidential campaign as a top-tier financial donor (Arfi, Mathieu & Laske, 2012). Bechara El-Khoury is known for managing many (offshore) companies, including at least three that are involved in the Lebanese property sector: 'Erdec Offshore SAL' (#801), 'Erdec SAL' (#1004747), and 'Erdec Holding SAL' (#1900542).

[1511] 'Erdec SAL' (#1004747) is majority shareholder in 'Marfaa 1474 SAL' (#1004804). Bechara El-Khoury is the owner of 'Erdec SAL' in his own name (48.67 percent) and through 'Erdec Holding SAL' (#1900542) (51 percent).

connections at the national and transnational levels to the channelling of new but not always crystal-clear capital contributions to the inflated cost of property activity. As such, it seems reasonable to conclude that the increasing integration of city builders into elite social networks reflects, more generally, the dynamics of professionalization and financialization that have transformed the local property sector in the past 20 or so years.

Conclusion

Focusing on the post-war period in general and on the 2000s property boom in particular, this chapter documented the ways in which modifications in the development industry, i.e., in the profiles, rules, resources and practices of Beirut-based development agents, have resulted from the increasing interdependence of urbanization and regime regulation. A set of micro-level organizational, legal, financial, behavioural and relational transformations have over time led to the gradual professionalization and financialization of the property development apparatus. I addressed three important dimensions of this change. First, a new generation of returnee city builders has emerged in the 1990s and 2000s and formed what I have called a new urban entrepreneurial class, with extensive international business experience and a reduced dependency on political-sectarian networks. This class complements a small number of historical professional operators and dozens of amateur players who initiated development activity in times of property boom. Second, the new returnee agents, most of whom have established firms specialized in high-density, capital-consuming residential projects, have been instrumental in steering the property sector's internal re-organization and the reshuffling of its institutional structures. In particular, they have deployed sophisticated corporate organizations, redesigned financial engineering schemes, and introduced new development practices that meet international standards. The increased prevalence of indirect forms of development activity has essentially facilitated the further domination of "financial narratives, practices, and measurements" in the property apparatus.[1512] Third, the arrival of development actors less dependent on sectarian localism has accelerated readjustment of the elite and sectarian dimensions of social relations in the politics of property in post-war Beirut. I have specifically attempted to demonstrate that the building of social and business connections with major political and financial figures beyond

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[1512] Aalbers, M.B. (2015) Corporate financialization. In Castree, N. et al. (Eds). *The international encyclopedia of geography: People, the earth, environment, and technology*. Oxford: Wiley, p. 3, 6 sectarian affiliations at the national and transnational levels has become part and parcel of the strategy of large builders to expand development activity citywide, influence property-related policy-making, and diversify their access to financial resources.

Chapter 8 – Housing Provision in Crisis: The Dominance of Bancarized Channels and the Reinforcement of Urban Informality

Analysis of the adverse repercussions of property-led (re)development and financialized urbanism on local communities is a long-standing research interest in urban scholarship. As noted by urban political economists John Logan and Harvey Molotch, the triumph of exchange value over use value in contemporary global urbanization means not benefits but costs for people without a financial stake in land and buildings.[1513] In Lebanon, the costs of the regulation-urbanization nexus have been manifold for city dwellers. This chapter examines one of them at length: the exclusive reconfiguration of the formal system of housing provision and the resulting amplification of a protracted housing crisis, which began in the early 1970s. In many respects, the post-war financial strategy to lure external capital resources into the country's financial system has markedly reorganized the functioning and financing of the entire system of housing provision. To explain, this chapter systematically examines the prevailing channels of formal housing provision (see Figure 8.1 below) and analyzes the way in which their restructuring has been embedded in the nexus. More precisely, it explains why and how bancarized channels of homeownership have grown rapidly in importance in a society where the financial inclusion[1514] of households is limited. In parallel, rental housing has lost ground: it has become structurally unaffordable for tenants and unattractive to investors.[1515] Moreover, this study unpacks the way the exclusionary transformation of channels of housing provision has fuelled a multidimensional housing crisis, i.e., an affordability crisis, an availability crisis and a crisis of political recognition, in the absence of any holistic state strategy to shelter the urban poor. In sum, a central argument mounted throughout this chapter is that the post-war Lebanese housing situation has worsened at the same pace as the rentier and financialized character of the growth regime has intensified and the regulation-urbanization nexus has gained traction.[1516]

[1513] Logan, J. R., & Molotch, H. L. (1987). *Urban fortunes: The political economy of place*. Berkeley, CA: University of California Press, p. 279

[1514] Financial inclusion, as indicated in Chapter 1, refers to the degree of access to, and use of, formal financial services (e.g., transactions, payments, savings, credit and insurance) by low-income groups in any economy (BlomInvest Bank, 2015d). (BlomInvest Bank (2015d). *Financial inclusion: The case of Lebanon*. Beirut, Lebanon: BlomInvest Bank - Research Department. November 28. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2015/11/Financial-Inclusion-The-Case-of-Lebanon1.pdf. (p .1); "Financial Inclusion – Overview." In *Worldbank.org*. Retrieved from www.worldbank.org/en/topic/financialinclusion/overview)

[1515] By bancarized channels, I mean housing provision schemes that entail the use of financial services provided by the banking sector.

[1516] World Bank (2013). *Lebanon: Economic and social impact assessment of the Syrian conflict*. Washington, DC: Poverty Reduction and Economic Management Department Middle East and North Africa Region cited in Fawaz, M., Saghieh, N., & Nammour, K. (2014). *Housing, land and property issues in Lebanon: Implications of the Syrian refugee crisis*. Beirut, Lebanon: UN-Habitat and UNHCR, p. 18; Sadik, R. (1996). *Nation building and housing policy: A comparative analysis of urban housing development in Kuwait, Jordan, and Lebanon* (Unpublished doctoral dissertation). Department of City and Regional Planning. University of California at Berkeley, Berkeley

The chapter is divided into three sections. Section one documents the reconfiguration of homeownership channels in post-1990 Lebanon while section two investigates the unhealthy state of the rental housing sector in Beirut. Finally, section three delves into the multiple ways in which reorganization of the formal housing provision system has reinforced a perennial housing crisis and led to the accelerated expansion of urban informality.

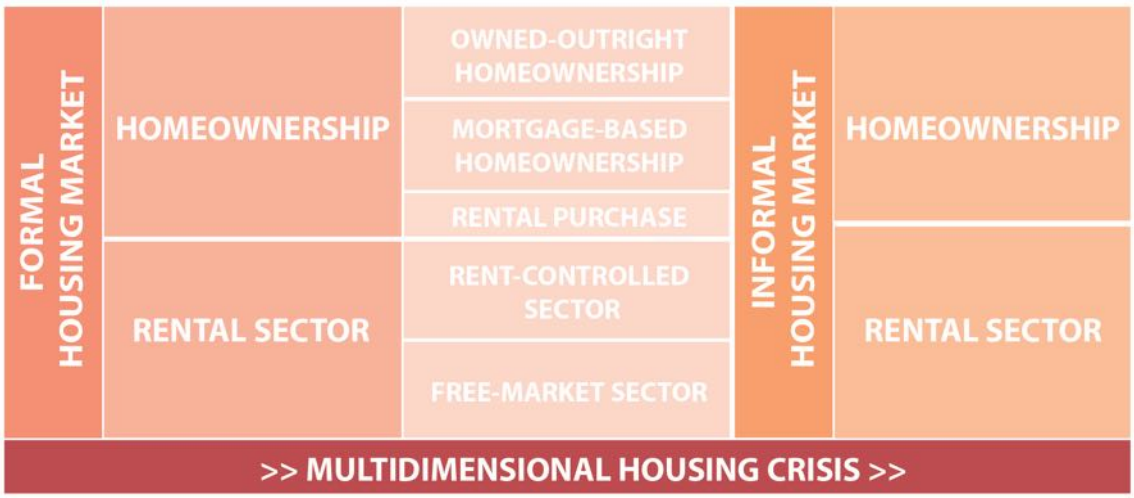

Figure 8.1 – The prevailing channels of housing provision in post-war Lebanon
(Source: Author)

8.1 Homeownership: The Prevailing but Exclusionary Channel to Formal Housing

In Lebanon, a senior housing expert from a specialized credit organization points out that "homeownership has become the only formal way to get a roof over your head."[1517] The growth of homeownership is not entirely new; however, the proliferation of subsidized housing finance over the past 20 years has made home purchase an increasingly prevalent norm for any household hoping to access formal housing in Greater Beirut. Figures monitoring the evolution of local forms of tenure confirm the longer-term trend. While in 1970, only 17 percent and 39 percent of households living in formal housing in Municipal Beirut and Mount Lebanon, respectively, were

[1517] Senior housing expert, personal communication, March 17, 2015 (Translation by the author) owners of their primary residence (48 percent at the country level), by the 2000s, fully 43 percent and 65 percent were homeowners (71 percent at the country level).[1518]

The rapid expansion of homeownership in post-war Lebanon is not a local specificity and has coincided with the larger international evolution of residential tenure: the share of owner-occupants has steadily increased over the past 40 years to a world average of 65 percent today.[1519] MENA countries are no exception with a homeownership average of 64 percent, a number, however, that hides significant variation across member countries,[1520] from "38 percent in Egypt to about or over 80 percent in [pre-war] Syria and Tunisia."[1521] In most countries, homeownership has been a key instrument for stimulation of economic growth. Moreover, it remains the largest source of wealth accumulation for households who acquire property "not just as a home [...] but as an investment, as something to put equity into and take equity from."[1522]

In Greater Beirut, homeownership as a form of tenure involves very different types of properties and profiles of purchasers. A major determinant is the type of financing involved: owned-outright homeownership is prevalent among wealthy buyers living in upmarket condominiums while bancarized homeownership is most frequently the reality for middle-income buyers. This section reviews both channels but it emphasizes the rise of bancarization by analyzing the rapid deployment of mortgage-based schemes and the project of diffusing property leasing. In many ways, the democratization of homeownership through subsidized housing finance has been crucial to reconfiguration of the Lebanese system of housing production; however, this housing solution has generally remained inaccessible to lower-middle and low-income communities because it is simply unaffordable.

8.1.1 Owned-Outright Homeownership: The Prevalence of the High-End Market in Municipal Beirut

The construction of exclusive residential developments has driven the rapid urbanization of most globalizing cities and metropolises of the Global North and South in the 1990s and

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[1518] Taffin, C., Roy, F., Gonnet, L., & Nahas, C. (2010). *Real estate market activity and exposure of the financial sector in Lebanon*. Washington, DC: World Bank, Social and Economic Development Group, Middle East and North Africa Region, p. 13. As explained in Chapter 1, Mount Lebanon includes the districts of Kesrouan, Metn, Baabda and Chouf.
[1519] Babeau, A., & Taffin, C. (2014). Introduction. *Revue d'économie financière*. *3*(115), 9-24; Barkham, R. (2012). *Real estate and globalisation*. Hoboken, NJ: Wiley-Blackwell, p. 213
[1520] Beidas-Strom, S., Lian, C., & Maseeh, M. (2009). *The housing cycle in emerging Middle Eastern economies and its macroeconomic policy implications*. Beirut, Lebanon: International Monetary Fund, Middle East and Central Asia Department, p. 4
[1521] *Ibid*
[1522] Aalbers, M. B. (2008). The financialization of home and the mortgage market crisis. *Competition & Change, 12*(2), 148-166, p. 152; Tsatsaronis, K., & Zhu, H. (2004). What drives housing price dynamics: Cross-country evidence. *BIS Quarterly review*, 65-78, p. 65

2000s.[1523] In addition to being “safety deposit boxes” for moneyed investors, these icons of elite-based financialization mobilize “city space as an arena […] for elite consumption practices.”[1524] This form of upmarket housing supply is widespread in most Middle-Eastern countries where it has very much destabilized local housing markets.[1525] It is, for example, the case for Gulf countries and Israel where luxury condominiums, sold to “millionaires who live overseas,” have inflated prices in the entire market and produced, in the end, residential “ghost towers.”[1526] In Lebanon, during the first post-war property cycle (1992-2002), the relative affordability of property prices and the near absence of housing finance made owned-outright homeownership a solution for (upper-)middle income households. But in Municipal Beirut the rapid inflation of real estate asset values and transformation of the nature of housing supply during the second property boom (2003-2009) has been a game-changer: owned-outright homeownership has increasingly become the privilege of moneyed buyers, generally non-resident, acquiring upmarket property.

8.1.1.1 The transformation of owned-outright homeownership in the 2000s

Over the past two decades, the Solidere-controlled redevelopment of Beirut Central District has played a critical role in reshuffling the features of housing production in the capital. Exclusive residential towers, whose construction was initially concentrated in the city center, have progressively become the benchmark for real state projects developed citywide in terms of standards, services and pricing.[1527] High-end residential projects have gained an increased significance in the mix of housing production in Municipal Beirut. There are no official statistics on the exact share of upmarket properties in the local market; however, several estimates circulate. During the apex of the boom years, statistics from architectural firm Erga Group suggested that “the luxury residential segment accounted for 40 percent of the market.”[1528] Dominique Wierzbowski, in his master’s thesis research at the American University of Beirut,

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[1523] Barkham, *op. cit.;* Haila, A. (2000). Real estate in global cities: Singapore and Hong Kong as property states. *Urban Studies, 37*(12), 2241-2256; Cook, A. (2010). The expatriate real estate complex: Creative destruction and the production of luxury in post-socialist Prague. *International Journal of Urban and Regional Research, 34*(3), 611-628

[1524] Brenner, N., & Theodore, N. (2002). Cities and the geographies of ‘actually existing neoliberalism?’*Antipode, 34*(2), 349-379; Fernandez, R., Hofman, A., & Aalbers, M. B. (2016). London and New York as a safe deposit box for the transnational wealth elite. *Environment and Planning A: Economy and Space*. *48*(12), 2443-2461

[1525] Beidas-Strom, Lian, & Maseeh, *op. cit*., p. 5

[1526] Goldman, M. (2015, September 21). Ghost apartments' haunt Jerusalem. *Al Monitor*. Retrieved from www.al-monitor.com/pulse/originals/2015/09/ghost-apartments-jerusalem-real-estate-market-housing-prices.html#

[1527] As explained by Georges Abou Jaoude, Chairman and CEO of FFA Real Estate, quoted in Makary (2006). (Makary, A. (2006). Solidere demand for land increasing as phase draws closer to completion. *Lebanon Opportunities*. 56-63)

[1528] Bathiche, H. (2010d, December). A Changing Product. *Lebanon Opportunities*. 76-79, p.77

estimated, alternatively, that residential units which sold for USD 4,000 per sq. m. and above amounted to 75 percent of "ongoing projects" in Municipal Beirut.[1529] Likewise, a Beirut-based banker interviewed, without venturing to give exact figures, confirms that upmarket units represented the majority of real estate production in 2010 prior to diminishing in recent years. With a cost that generally ranges from USD 3,000 to USD 10,000 per sq. m., this segment of the housing market clearly targets a wealthy resident and non-resident clientele, comprised of both investors (for the most part) and end-users, who pay cash for the greater benefit of city builders, who thereby generate a solid cash flow.[1530]

8.1.1.2 Luxury housing production: the influence of diaspora-imported lifestyles

This thesis has, throughout, stressed the radical ways in which the reinvigorated interest of wealthy investors in Beirut's prime real estate in the 2000s has shaped the trajectory of real estate demand and asset values. From a more qualitative perspective, it is also interesting to note that the norms, conventions and habits of this transnational business elite, or "transnational capitalist class" to borrow sociologist Leslie Sklair's terminology, have created standards of housing and practices of urbanity in post-war Beirut that differ dramatically from those of most local residents.[1531]

In the high-end condominium towers, apart from the facilities found internationally in most recent upmarket developments (e.g., pool, gym, CCTV cameras, maid's rooms, etc.), what is particularly noteworthy is the palatial size of units that frequently reach 350-400 sq. m.[1532] Lebanese architect Georges Khayat notes that residential floor areas, albeit generally elevated in Lebanon compared to international standards, were not that large in buildings constructed in the pre-war period.[1533] Yet, throughout the 1990s and 2000s, the arrival of wealthy diasporic non-resident buyers has substantially increased the size of upmarket dwellings.[1534] Political scientist

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[1529] Wierzbowski, D. (2010). *Understanding the property market in Lebanon: Social networks in the production of high-end residential space in Beirut*. (Unpublished Master's Thesis). Department of Urban Planning and Policy. American University of Beirut, Beirut, p. 19. Residential units sold for the price of USD 4,000 – 4,500 per sq. m. represented 35 percent of ongoing projects, and units sold for USD 5,000 and above amounted to 40 percent according to Dominique Wierzbowski's (*op. cit.,* p. 19) calculation based on the 2009-2010 edition of Lebanon Opportunities' 'Residential Real Estate Buyer's Guide.'

[1530] Krijnen, M., & Fawaz, M., (2010). Exception as the rule: High-end developments in neoliberal Beirut. *Built environment*. *36*(2), 245-259, p. 117; Georges Khayat, personal communication, July 10, 2014

[1531] Sklair, L. (2001). *The transnational capitalist class*. Malden, MA: Blackwell

[1532] In comparison, the average flat size in Hong Kong and Singapore during the early 1990s boom years was 43 sq. m. (Barkham, *op. cit*., p. 225).

[1533] Georges Khayat (personal communication, July 10, 2014) explains that, prior to the late 1990s, most buildings falling under the high-end category had dwellings of 120 to 180 sq. m. with two or three bedrooms. Larger units could be found in a limited number of prime districts such as Sursock.

[1534] Georges Khayat, personal communication, July 10, 2014

Nadim Shehadi explains: after years spent in cities such as Abidjan, Dubai and Jeddah where they lived the 'expat life,' a fair number of returnees came back to Lebanon with "a lot of money and a totally different culture (kitsch, show off, nouveaux riches, etc.)" which contributed to the proliferation of ostentatious lifestyles and consumption patterns.[1535] In the poor-quality urban environment of the Lebanese metropolis, living in or owning a large condominium in one of these tower blocks rapidly become synonymous with social advancement for returnees, and for residents whose lot improved economically during or after the war. High-end real estate, along with the proliferation of luxury cars for instance, has concretely materialized the cultural and economic capital and practices acquired abroad by the expatriates and returnees forming the post-war economic elite. Although luxury housing has been at the core of the 2000s property boom and residential towers are familiar components of Beirut's urban landscape, this channel remains a limited component of the local system of housing production.

8.1.2 Mortgage-Based Homeownership: The Reinforcement of a Middle and Upper-Middle Market

In Greater Beirut, the bulk of formal housing is produced for the middle and upper-middle market where mortgage-based homeownership has been increasingly significant to fulfillment of the needs of resident demand. Even though Lebanese mortgage-based programs were initiated essentially from scratch in the late 1990s, they have flourished since the early 2000s with more than 100,000 housing loans disbursed over the past 15 years.[1536] The setup of favourable mortgage finance conditions, examined earlier in this thesis, has largely facilitated the expansion of this channel of housing provision, which, more generally, has proven to be key to the reinforcement of a middle-income housing market in Greater Beirut.

8.1.2.1 International and regional perspectives on mortgage finance

Mortgage finance refers to long-term lending services offered by credit organizations to homebuyers. A fundamental feature of this funding scheme is the collateralization of a property, most frequently the acquired asset, as security for payment of the debt.[1537] The lender is given

[1535] Nadim Shehadi, personal communication, June 13, 2014
[1536] Antoine Chamoun, personal communication, May 12, 2015
[1537] Dennis, M.W., & Pinkowish, T. J. (2004) *Residential mortgage lending. Principles and practices* (5th Ed.). Mason, OH: Thomson South-Western cited in Aalbers, M. B. (2012). Subprime cities and the twin crises. In Aalbers, M. B. (Ed.). *Subprime cities the political economy of mortgage markets* (pp. 1-22). Chichester, West Sussex, UK; Malden, MA: Wiley-Blackwell

"contingent property rights over an asset of the debtor, and in the event of default the lender may activate those rights."[1538] This is the reason for which an essential prerequisite to the development and proper functioning of housing finance in any country is proper state enforcement of creditor and property rights.[1539] In recent decades, mortgage finance has indisputably played a nodal role in the continuing expansion of homeownership across the globe and across social groups. The growth of mortgage finance has also served the interests of the banking systems of economies for which expanding private credit has been a priority. Home loans, apart from sustaining macro-economic objectives, have become key revenue streams and sources of asset diversification for the financial sector as well as efficient tools of customer base expansion.[1540] In particular, banks have used mortgage loans to further include middle and low-income consumers within financial circuits: this is what architect and urbanist Raquel Rolnik, who is also UN Special Rapporteur on adequate housing, calls the 'socialization of credit.'[1541] To do so, banks have used two strategies: expansion of loan duration and the loosening of mortgage requirements. More than simply broadening the scope of social groups with access to homeownership, the development of mortgage-related financial instruments has also allowed households to "borrow a larger fraction of their home's value."[1542] In sum, most critical housing scholars agree that the expansion of mortgage finance has been a major trait of the financialization of property, which has helped to make housing wealth more liquid, increase the demand for real estate assets, and fuel house prices (see Chapters 2 and 4).[1543] This is why Manuel Aalbers suggests that: "The expansion of the mortgage market is not so much meant to increase homeownership, but to further the neoliberal agenda of private property, firms and growing profits."[1544]

In MENA countries, mortgage-based homeownership is relatively new and still underdeveloped. "The region lags behind other markets of comparable or lower income levels,"

[1538] Carruthers, B.G. (2005) The sociology of money and credit. In N.J. Smelser and R. Swedberg (Eds.) *The handbook of economic sociology* (2nd edition). Princeton, NJ: Princeton University Press (p. 365) quoted in Aalbers, M. B. (2012). Subprime cities and the twin crises. In Aalbers, M. B. (Ed.). *Subprime cities the political economy of mortgage markets* (pp. 1-22). Chichester, West Sussex, UK; Malden, MA: Wiley-Blackwell, p. 8

[1539] Aalbers, M. B. (2012). Subprime cities and the twin crises. In Aalbers, M. B. (Ed.). *Subprime cities the political economy of mortgage markets* (pp. 1-22). Chichester, West Sussex, UK; Malden, MA: Wiley-Blackwell, p. 8; Hassler, O., (2011). *Housing and real estate finance in Middle East and North Africa countries*. *Financial Flagship*. Washington, DC: World Bank, p. 11

[1540] Sassen, S. (2012). Expanding the terrain for global capital. In Aalbers, M. (Ed.). (2012). *Subprime cities the political economy of mortgage markets* (74-96). Chichester, West Sussex, UK; Malden, MA: Wiley-Blackwell, p. 74

[1541] Rolnik, R. (2013). Late neoliberalism: The financialization of homeownership and housing rights. *International Journal of Urban and Regional Research*, *37*(3), 1058-1066

[1542] Parker, J. A. (2001). Comments and discussions. In Case, K. (2001). Real estate and the macroeconomy (pp. 150-158). *Brookings Papers on Economic Activity, 2000*(2), 119-162, p. 156

[1543] Aalbers, M. B. (2009). The sociology and geography of mortgage markets: Reflections on the financial crisis. *International Journal of Urban and Regional Research, 33*(2), 281-290; Aalbers, 2012

[1544] Aalbers, 2009, p. 283

notes senior housing specialist Olivier Hassler.[1545] Mortgage systems were introduced in Tunisia, Jordan and Morocco in the 1980s, but they were not extended to the region as a whole until later in the 1990s.[1546] The growth of housing finance then accelerated in the 2000s in response, in a number of economies, to the influx of abundant liquidity and the peg of local currencies to the US dollar.[1547] In the MENA region, primary mortgage markets prevail which means that securitization (the secondary market) is almost absent, and providers are primarily commercial banks, and to a lesser extent state-owned banks and agencies.[1548] Non-bank financial and specialized credit entities only began to penetrate the market in the 2000s and extended the duration of mortgage loans in several countries from 15 to 30 years.[1549] The degree of maturity of mortgage markets remains heterogeneous, however: housing finance has rapidly developed in Kuwait, Morocco, Tunisia and UAE, where the state has shifted "from a provider to a regulator of mortgage lending," but it has remained limited in other countries.[1550]

8.1.2.2 A brief history of mortgage finance in Lebanon

In Lebanon, the debt financing ratio in the homeownership market, i.e. the share of real estate sales financed by a mortgage, shows a lag by international standards. According to Bank Audi, self-financing remains overwhelmingly prevalent: it totalled about 80 percent of the market in 2007-2008 and 70 percent in recent years.[1551] However, this lag should not minimize the upward trajectory of mortgage finance over the past two decades. Its gradual progression, which has paralleled the surge of property prices, has generated a paradoxical situation also found in other countries: homeownership has become more accessible but more expensive for the Lebanese population.[1552] The increased number of households accessing mortgages, thanks to subsidized programs, has notably led to a reinvigoration of the mid-level housing market in Greater Beirut, generally outside the capital where high-end owned-outright and rental submarkets continue to dominate. Overall, three periods, defined largely by the imperatives of

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[1545] Hassler, *op. cit.*, p. 3
[1546] Beidas-Strom, Lian, & Maseeh, *op. cit.*, p. 6; Baharoglu, D., Peltier, N., De Brular, L., & Bubley, R. (2005). *The Macroeconomic and sectoral performance of housing supply policies in selected MENA countries: A comparative analysis*. Washington, DC: World Bank, p. 17
[1547] Beidas-Strom, Lian, & Maseeh, *op. cit.*, p. 6
[1548] *Ibid*
[1549] Beidas-Strom, Lian, & Maseeh, *op. cit.*, p. 7
[1550] *Ibid*; Hassler, *op. cit.*, 6
[1551] Bank Audi (2015, September 23). *Lebanon real estate sector. A weakening demand in a buyer's market*. Beirut, Lebanon: Bank Audi Group Research Department. Retrieved from www.sakanmp.com/hotdeals/audi.pdf (p. 7). The report specifies that estimates are "derived from new housing loans extended and an estimated percentage of built properties out of total sales."
[1552] Aalbers, 2008, p. 158

regime regulation examined in Chapters 3 to 5, have marked the post-war expansion of mortgage-based homeownership.

The (very) limited scope of mortgage-based homeownership in the 1990s

The facilitation of mortgage-based homeownership for middle-income groups is not new: support for the "purchase of houses by instalments with medium and long-term repayment periods" was already a component of the Law of September 17, 1962.[1553] Various publicly led programs were launched in the pre-war and war periods. Yet, after years of armed conflict, the atmosphere of monetary uncertainty and risk in the early and mid-1990s impeded the reintroduction of a widespread system of mortgage finance (see Chapter 5). The domestic banking sector was generally reluctant to commit to long-term, USD or LBP-denominated housing loan programs for a number of reasons. First, the recovery strategy engaged by the Lebanese financial authorities to rebuild financial attractiveness very much shaped the nature of banks' liabilities, which were then short-term and expensive. Second, banks were afraid of currency risk and preferred to focus their asset portfolios on well-remunerated government securities. Third, the recent war-related history of displacements and squatters and a relative rule of law gave the banking sector reservations about the state's capacity to secure creditor and property rights and dispense justice in case of litigation. As a result, Lebanese banks offered LBP and USD-denominated, short to medium-term housing loans only to a very limited number of clients at a prohibitive cost. Interest rates were 10 to 14 percent in LBP and about 10 percent in USD, which were far beyond the financial means of most Lebanese residents.

A primary obstacle to the development of mortgage-based homeownership was the financial environment of post-war Lebanon, in other words, where medium-to-long term, stable and cheap financial resources, i.e., the three key preconditions for housing finance schemes, were missing. The pursuit of financial attractiveness and stability, which entailed high sovereign and deposit interest rates, mechanically prevented banks from offering reasonable interest rates on private loans. Likewise, well-remunerated deposits discouraged the creation of *ad hoc* financial products that converted resident savings into medium-to-long term affordable home financing solutions (e.g., Livret A in France). In sum, the very limited deployment of housing finance in the 1990s is a concrete example of the impact of intensification of the country's rentier and finance-

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[1553] Sadik, *op. cit.*, p. 101

led growth regime on housing provision. At the same time, as explained in Chapter 5, credit public organizations, which had provided subsidized home loans during war years, were in poor financial shape. The state-owned Housing Bank was close to bankruptcy when the war ended and was finally privatized in 1994. Likewise, the Caisse Autonome de l'Habitat, another public fund established in 1980 to support mortgage-based homeownership, suffered from a dearth of public liquidity and had a limited loan portfolio.[1554]

The first milestone (1997-1999): the PCH and the involvement of commercial banks

The first milestone in the development and democratization of mortgage-based homeownership, dating to 1997-1999, was the result of state intervention. At the time, 80 percent of households could not access housing without a loan or some other form of aid.[1555] Aware of the potential of housing finance for regime regulation, state authorities intervened and orchestrated the establishment of the Public Corporation for Housing to replace the Caisse Autonome de l'Habitat. As outlined in Chapters 3 to 5, the Central Bank of Lebanon and the Ministry of Finance began to subsidize LBP-enumerated loans to kick-start the domestic mortgage finance system. This decision was part of a broader strategic shift in the state's mission, and position on housing production. Rather than lending directly to low-income families, the state became a strategic intermediary: it incentivized commercial banks to provide mortgages in local currency with more affordable rates and longer maturity periods. In doing so, it critically restored confidence among and between lenders and borrowers.

A few years later, Lebanese retail banks, whose appetite for the mortgage market was reinforced by the proper functioning of PCH-sponsored schemes, began to diversify their loan activity. In the context of the 2000s property boom, they particularly targeted a more affluent clientele not eligible for subsidized programs, whose income was enhanced by the proliferation of double-income households and record levels of remittances. This upswing in debt financing particularly benefited the middle market supplying dwellings whose cost ranged from USD

[1554] Antoine Chamoun, personal communication, May 12, 2015. The CAH provided about 16,000 housing loans between 1980 and 1995. Its major source of financing was the tax revenue from what is known as the 'Murr floor' (Law 6/80), a special authorization that allowed builders to add an extra floor under certain conditions (Aveline, 2000, p. 26). (Aveline, N. (2000). *Marchés fonciers et immobiliers à Beyrouth*. (Document No. 6). Beirut, Lebanon: CERMOC- Observatoire de Recherches sur Beyrouth et la Reconstruction)

[1555] This estimate, communicated by the Public Corporation for Housing, is cited in Fawaz (2003, p. 8). (Fawaz, M. (2003). *Access to housing by the poor: Comparative analysis of housing performance and policy in selected MENA region countries. Lebanon report assessment of housing sector*. Washington, DC: World Bank)

200,000 to 500,000.[1556] Between 2000 and 2010, the annual number of newly registered mortgages increased by 120 percent (from 4,814 to 10,637) in Greater Beirut, i.e., Beirut and Mount Lebanon, and their total value increased by about 430 percent (from USD 590 million to USD 3,156 million) (see Charts 8.1 and 8.2 below).[1557] Baabda, Aley and Chouf areas, in the periphery, witnessed the fastest rise: newly registered mortgages surged by 162 percent in number and 987 percent in value. In Municipal Beirut during the same period, the annual number of newly registered home loans rose by 89 percent in number and 383 percent in value.[1558]

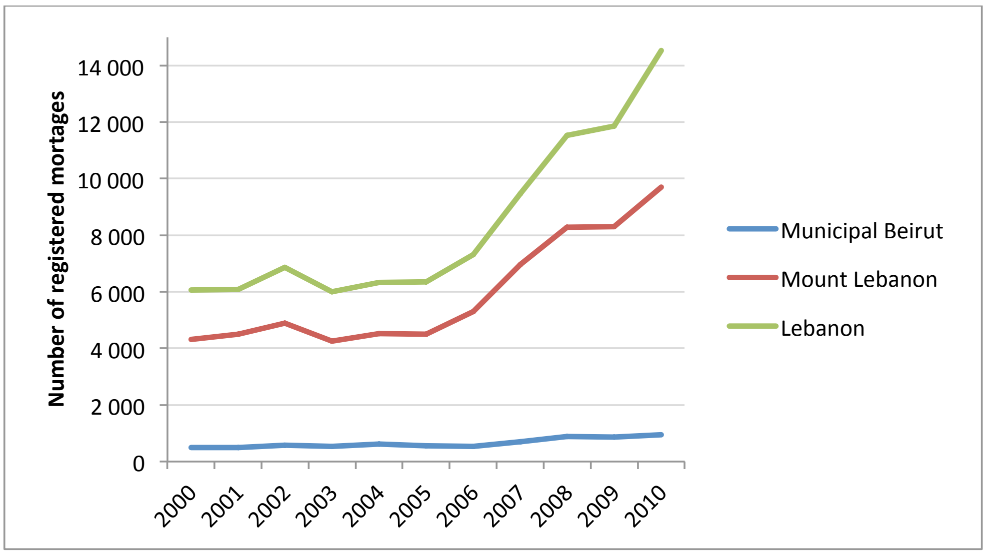

Chart 8.1 – Number of newly registered mortgages (2000-2010)
(Source: InfoPro, 2017a - General Directorate of Land Registry and Cadastre | Chart: Author)

[1556] Jaffe, J. (2009, August). The real state of the property market. *Lebanon Opportunities*. 76-82, p. 78
[1557] InfoPro (2017a). *Number of registered mortgages per mohafaza* [Data file]. Retrieved from www.databank.com.lb/doc.asp?ID=1551; InfoPro (2017b). *Value of registered mortgages per mohafaza* [Data file]. Retrieved from www.databank.com.lb/doc.asp?ID=1551 (Calculation by the author)
[1558] *Ibid*

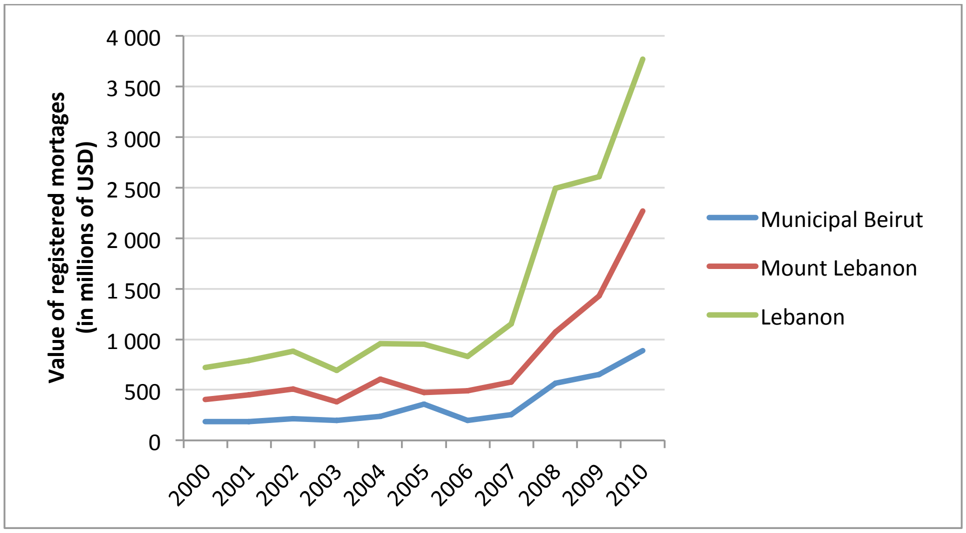

Chart 8.2 – Value of newly registered mortgages (2000-2010)
(Source: InfoPro, 2017b - General Directorate of Land Registry and Cadastre | Chart: Author)

The second milestone (2009): the expansion of subsidized homeownership

A second milestone was the deployment of mortgage finance in 2009 when the central bank allowed commercial banks to extend the use of their reserve requirements to LBP and USD-denominated home loans in PCH-sponsored programs. In the face of increased capital availability in the financial sector, the BdL expanded its policy of low-cost funding to all housing loan schemes irrespective of borrowers' socio-economic profile. It also extended the maturity date of loans despite the recurrent asset-liability mismatch, and, to keep pace with the rapid increase in housing prices, raised the ceiling on loan amounts. By reaching a more affluent clientele, the second-generation subsidy programs could meet the broader regulation objectives identified in Chapters 3 to 5, i.e., by putting mortgages on a growth curve and thus stimulating the middle and upper-middle income housing markets in Greater Beirut. The Beirut suburbs absorbed the lion's share: in 2010, 66.7 percent of the number, and 60.1 percent (USD 2,268 million) of the value, of mortgages were for properties located in Mount Lebanon.[1559] Properties in Municipal Beirut accounted for just 6.46 percent of the total number, but 23.5 percent (USD 888.1 million) of the

[1559] Source: InfoPro, 2017a, 2017b - General Directorate of Land Registry and Cadastre | Calculation: Author. In Mount Lebanon, 30.9 percent of newly registered mortgages were in Baabda, Aley, and Chouf, 21.2 percent were in Metn, and 14.6 percent were in Kesrouan. Similarly, 32.1 percent (USD 1209.8 million) of the value of newly registered mortgages was in Baabda, Aley, and Chouf, 17.1 percent (USD 645.2 million) in Metn, and 10.9 percent (USD 412.8 million) in Kesrouan.

total value of newly registered mortgages.[1560] It was of course the increased real estate prices here that were responsible for the increased size and relatively higher proportion of mortgages.

Throughout the 2010s, in a context of financial and economic slowdown and reduced property activity, the Banque du Liban released a series of housing-focused stimulus packages. As indicated earlier, these packages enhanced access to mandatory reserves: soft loans were disbursed to retail banks, which subsequently issued mortgages at a preferential rate. The BdL-set ceiling was about USD 500,000 per loan.[1561] Between December 2012 and July 2015, mortgages equivalent to USD 3.1 billion were disbursed to 23,449 beneficiaries;[1562] rising property prices pushed their average value up to USD 133,632. This in turn, according to figures provided by the Banque du Liban, pushed Lebanon's housing debt-to-income ratio from 26.82 percent in September 2011 to 29.34 percent in August 2015. The total households' debt-to-income ratio, interestingly, decreased slightly during that period from 44.59 to 43.56 percent.[1563] By the end of 2015, the total value of housing loans reached about USD 10.3 billion for a total of 109,447 beneficiaries with an average value of USD 95,042, according to statistics provided by the central bank. About 7,000 mortgages are generally issued in Lebanon every year.

8.1.2.3 The major providers of home loans

In post-war Lebanon, mortgage-based homeownership has operated through a number of different channels. Commercial banks and the Public Corporation for Housing, whose loans come, in fact, from retail banks, have secured about 90 percent of the credit supply.[1564] The Housing Bank and a series of targeted state funds (e.g., for military, judges, Internal Security Forces) and organizations affiliated with religious and political entities (e.g., Maronite and Greek-Catholic Churches, Hezbollah) have provided the rest of the affordable mortgage schemes.[1565] This research concentrates on the three principal channels: loans directly extended by commercial banks, loans sponsored by the Public Corporation for Housing, and loans

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1560 In 2000, 71 percent of the number and 56.2 percent of the value of registered mortgages were for homes in Mount Lebanon, and 8.2 percent of the number and 25.4 of the value of mortgages were for homes in Municipal Beirut.

1561 Sakr, E. (2013, February 5). Central bank package to revitalize real estate. *The Daily Star*. Retrieved from www.dailystar.com.lb/Business/Lebanon/2013/Feb-05/205032-central-bank-package-to-revitalize-real-estate.ashx; Rahbani, L. (2013, March). Borrow local, buy local. *Lebanon Opportunities*. 56-60

1562 Source: Banque du Liban (Statistics and Research Department)

1563 As Article 3bis of BdL Basic Circular 81 (2001) explains: "The total monthly instalments of all loans must not exceed 35 percent of the family income. This percentage could be raised to 45 percent if there is a housing loan, provided the monthly instalments of the housing loan do not exceed 35 percent of the family income." In Lebanon, no data is available for the housing debt-to-income ratio before 2011.

1564 Taffin et al., *op. cit.*, p. 20

1565 Fawaz, 2003, p. 28, 30; Yammine, S. (2007b, July). To each home loan its homely niche. *Lebanon Opportunities*. 55-61, p. 58

disbursed by the Housing Bank. These are ranked in order of importance with respect to the value of their loan portfolios (see Figure 8.2 below).

THREE MAJOR CHANNELS OF MORTGAGE-BASED HOUSING FINANCE		
COMMERCIAL BANKS (USD 6,5 BN)	*PUBLIC CORPORATION FOR HOUSING (USD 3,2 BN)*	*HOUSING BANK (USD 946 M)*

Figure 8.2 – The three major channels of mortgage finance in post-war Lebanon (Value of loan portfolios in USD as of 2015) (Source: Author)

Commercial banks: the focus on an upper middle-class and rich clientele

In 2015, outstanding mortgages disbursed directly by commercial banks amounted to USD 6.5 billion to 47,082 beneficiaries, with an average value of USD 138,000.[1566] In Municipal Beirut, these banks supplied 45 percent of the number (29,468) and 64.4 percent of the value (USD 4.58 billion) of outstanding home loans.[1567] Primarily targeted are upper-middle-class and affluent customers ineligible for the subsidized schemes offered by the PCH or the Housing Bank. The imposition of BdL-defined conditions and regulations on these mortgages varies. Only some banks, for example, impose loan ceilings (e.g., USD 530,680 or LBP 800 million). As detailed in Chapter 5, the central bank caps the housing debt-to-income ratio at 35 percent, and in line with 2014 regulations, mandates an initial down payment of at least 25 percent of the loan value. This latter can be revised upwards by individual to banks according to the applicant's resident or non-resident status.[1568] Repayment periods typically extend to 30 years.[1569] For LBP-denominated loans, lending interest rates, which are floating and reviewed annually, declined from 11-13 percent in the early 2000s to seven-eight percent in the late 2000s and to five-six percent in recent years for LBP-denominated loans, as a repercussion of BdL-led stimulus packages.[1570] They dropped to 4.2 percent in 2017.[1571] Rates are unlikely to drop further in

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[1566] Source: Banque du Liban (Statistics and Research Department) | Calculation: Author

[1567] Source: Banque du Liban (Statistics and Research Department) | Calculation: Author. Data on the spatial distribution of housing loans were compiled by the BdL based on the branch from which loans were disbursed, rather than the location where they are used.

[1568] Higher down payment requirements apply to non-residents in most Lebanese banks (BlomInvest Bank, 2014). (BlomInvest Bank (2014). *The Central Bank of Lebanon: New regulations for granting retail loans*. Beirut, Lebanon: BlomInvest Bank - Research Department. September 20. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2014/09/2014-09-The-Central-Bank-of-Lebanon-New-Regulations-for-Granting-Retail-Loans2.pdf)

[1569] Yammine, 2007b, p. 55

[1570] Fawaz, 2003, p. 29

[1571] Nakhoul, S. (2017, September 5). Subsidized housing loans rise with interest rate drop. *In Businessnews.com.lb*. Retrieved from www.businessnews.com.lb/cms/Story/StoryDetails.aspx?ItemID=6211 upcoming years, however, several experts predict, since the cost to banks of resources is very much contingent on the expensive Beirut Reference Rate.[1572]

In recent months, pundits such as Jihad El-Hokayem and Rosalie Berthier have denounced the normalization of "'under-cover' toxic loans" that have allowed borrowers to circumvent these regulations.[1573] Fraudulent practices are believed to include special arrangements made between buyer and seller, most generally a development company, when the buyer qualifies for a housing bank loan. The alleged trick is the following: the buyer declares an asset price inflated by 25 percent and then claims to have made a down-payment equivalent to the difference between the declared and actual prices. In doing so, the buyer manages to get a loan that covers the entire cost of the property. Development firms are suspected of sponsoring these practices by providing false certificates of down payment. Likewise, banks are accused of turning a blind eye to this risk-prone weakening of credit standards, which has led to a form of predatory lending to unqualified households.

The Public Corporation for Housing: the sponsor of (upper-) middle-market homeownership

Mortgages sponsored by the Public Corporation for Housing, also known as *Iskan* loans, are believed to "account for half the real estate market — numerically but not in value."[1574] In 2015, outstanding PCH-sponsored mortgages, which are for the most part LBP-denominated, totalled the equivalent of USD 3.192 billion to 50,857 beneficiaries.[1575] In recent years, the public entity has approved about 4,000-5,000 loan applications annually, after a peak of 6,000 loans per year between 2008 and 2010. In 2015, the average amount was USD 126,000, a 138 percent increase over 2008 when it was USD 53,000.[1576] At this point, PCH mortgages were going to borrowers based mostly outside Municipal Beirut: only 47.4 percent of the number (31,089) and

[1572] The Beirut Reference Rate is an extra Lebanon-specific risk-related rate. Added to the LIBOR rate, it is a critical condition for liquidity flow into the country.
[1573] An Nahar Staff (2016). Real estate heading toward a 'two for the price of one" freefall. *An Nahar English*. Retrieved from http://en.annahar.com/article/480592; Berthier, R. (2017b). Lebanon's toxic loans gamble. In *Synaps Network*. Retrieved from www.synaps.network/lebanese-economy-watchdog#chapter-2589704
[1574] Schellen, T. (2015a, June). A place all their own. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/a-place-all-their-own
[1575] Source: Banque du Liban (Statistics and Research Department) | Calculation: Author. Estimates, however, vary, as the Public Corporation for Housing does not have a computerized management system. For example, Rony Lahoud, General Director of the PCH, argues that the public entity guaranteed and sponsored a total of 69,543 contracts between September 14, 1999 and December 31, 2015, for a total amount of USD 4.842 billion.
[1576] Rony Lahoud, personal communication, July 20, 2016

28.6 percent of the value (about USD 2+ billion) of outstanding loans were provided to households living in the capital city.[1577]

A series of eligibility requirements apply to households interested in PCH-sponsored mortgages. The borrower must be at least 21 years old and have been a Lebanese citizen for at least 10 years, i.e., a condition that excludes the sizable Palestinian and Syrian refugee populations as well as foreign workers. The debtor must have an employment history of at least two years and be able to repay a minimum of 75 percent of the total amount before retirement age (i.e., 64 years old). Second-time buyers are eligible for PCH loans in order to make it possible for families who own a home in their village of origin to acquire a primary residence elsewhere without selling their property.[1578] The household's total income, i.e., the income of the wife and husband combined, must not exceed 10 times the minimum monthly wage (10 x USD 450 = USD 4,500), and applicants must provide pay slips.[1579] There is some uncertainty about the minimum monthly household income however: the PCH does not provide specific guidelines, but a number of banks extending PCH-sponsored loans require a minimum income from USD 495 to 660.[1580] Further, commercial banks generally ask for another 10 or 20 percent down payment in addition to that made to the PCH. The maximum loan amount rose from USD 53,000 (LBP 80 million) in the late 1990s to USD 120,000 (LBP 180 million) in 2008 and USD 180,000 (LBP 270 million) in 2011 to keep up with property inflation. And the interest rates have progressively tumbled from 9.36 percent in 1999 to 7.2 percent in 2003, six percent in 2010, 4.67 percent in 2012 and about 3.5 percent in 2017.[1581]

The specificity of PCH-sponsored mortgages lies in the tripartite loan agreements (i.e., between the borrower, the commercial bank and the PCH) whose financial engineering has been instrumental in extending loan maturity, decreasing down payment requirements and offering

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[1577] Source: Banque du Liban (Statistics and Research Department) | Calculation: Author. This amount, Rony Lahoud admits, is not sufficient to finance the purchase of property in Beirut, however, which explains why most PCH borrowers access homeownership on the periphery (Schellen, 2015b). (Schellen, T. (2015b, June). PCH: An explainer. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/pch-an-explainer)

[1578] Rony Lahoud is quoted in Hage Boutros (2015b). (Hage Boutros, P. (2015b, August 8). L'EPH garantit près de la moitié des achats de résidences principales. *L'Orient Le Jour*. Retrieved from www.lorientlejour.com/article/938597/leph-garantit-pres-de-la-moitie-des-achats-de-residences-principales.html)

[1579] Furthermore, the maximum surface area is 210 sq. m. (or 2260 sq. ft) for a maximum price of USD 350,000.

[1580] Byblos Bank, for example, requires a minimum monthly wage of USD 497 (LBP 750,000) for PCH-sponsored loan schemes while the Banque Libano-Française requires USD 663 (LBP 1,000,000).

[1581] In fact, the source of financing affects the rate charged by the PCH to borrowers. Since 2017, the interest rate has been 3.28 percent if the issuing bank uses its required reserves to finance the loan, or 3.73 percent if it takes recourse to the soft loans provided by BdL stimulus packages (Hage Boutros, 2017). (Hage Boutros, P. (2017, February 21). L'Établissement public de l'habitat baisse ses taux d'intérêt. *L'Orient le Jour*. Retrieved from www.lorientlejour.com/article/1036308/letablissement-public-de-lhabitat-baisse-ses-taux-dinteret.html) attractive interest rates regardless of the context of short-term and expensive bank resources.[1582] Two mechanisms of this sophisticated public-private partnership are specifically worth examining. The first has to do with the extension of loan maturity through the division of PCH loans into two phases of 15 years each.[1583] During phase one, the borrower pays back only the mortgage capital to the issuing bank, through monthly instalments totalling a maximum of one third of the household's total income. The PCH, in the meantime, assumes the responsibility of repaying interest to the commercial bank by drawing upon property-related government revenues (e.g., two percent of construction and building permit fees) and the 10 percent down payment paid at inception by the debtor to the public entity.[1584] At the end of phase one, in other words, both loan capital and interest are paid back to the bank, which then exits the arrangement. The bank is thus able reduce financial risk by limiting its commitment to 15 years. During phase two, the borrower repays interest, minus the initial 10 percent deposit, through monthly instalments paid to the PCH. The second key mechanism of this public-private partnership, as explained in Chapter 5, follows from the BdL decision to give banks targeted access to their reserve requirements, i.e. low-cost resources, and that is the possibility of offering lower interest rates to PCH-sponsored homebuyers.[1585] Households accessing PCH-sponsored loans are also exempt from mortgage fees and the five percent property registration fee, which is the equivalent of one year of interest. All in all, this win-win formula has allowed a more affordable total mortgage to be offered to homebuyers, who benefit from longer repayment periods at lower interest rates, while securing a comfortable profit, and limiting risk, for commercial banks.

The Housing Bank: a limited mortgage portfolio financed by alternative sources

Significant overlap exists between the mortgage programs and clientele of the Public Corporation for Housing and the Housing Bank. The Housing Bank grants subsidized home loans over a period of 30 years to upper-middle class households for a primary residence. In 2015, it

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[1582] Whereas the PCH has a protocol with 28 Lebanese banks, Credit Libanais, BLOM Bank and Byblos Bank represent nearly half of the PCH-sponsored lending activity according to Rony Lahoud (cited in Schellen, 2015b).

[1583] Rony Lahoud, personal communication, October 30, 2014; Antoine Chamoun, personal communication, May 12, 2015

[1584] Regardless of the information provided by Schellen (2015a), the 10 percent down payment collected by the PCH is not invested in financial vehicles in order to generate interest that can then be used during phase one to pay the mortgage interest to issuing banks. Collected down payments, Rony Lahoud explains, are used directly to pay interest to commercial banks (personal communication, October 30, 2014). However, investing collected down payments in financial vehicles and then using the interest generated to cover the loan interest would be a better strategy the head of PCH admits. (Schellen, T. (2015a, June). A place all their own. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/a-place-all-their-own)

[1585] The use of reserve requirements is limited to 60 percent of the total amount of the loan (Antoine Chamoun, personal communication, May 12, 2015).

had less than 7,000 clients and its total outstanding portfolio was about USD 946 million (LBP 1,425 billion) for a market share of about 12 percent. Over the years, maximum loan values gradually scaled up from USD 266,000 (LBP 400 million) to USD 533,000 (LBP 800 million) to keep up with the surge in property prices.[1586] No maximum surface area is stipulated for the acquired asset. Following decisions made by the bank's Board of Directors, monthly household income must be between USD 1,985 (LBP three million) and USD 6,615-7,940 (LBP 10-12 million) according to an internal source.[1587] The average monthly income of households borrowing from the Housing Bank is about USD 4,000 (LBP six million). Loans are in LBP, although USD-denominated schemes were offered between 1995 and 2013, and the average loan duration is 19 years. The average loan is USD 119,000 (LBP 179 million). Eligibility conditions apply: applicants must have been Lebanese citizens for at least 10 years; a 20 percent down payment is required and loans must be repaid by retirement age. The Housing Bank charges a fixed 4.5 percent interest rates to borrowers whose household revenue is less than 10 times the minimum wage, and a five percent rate when household revenue is above 10 times the minimum wage. Interest rates, however, were reduced to three percent for mortgages issued after January 1, 2017.[1588] Overall, 11 percent of the number and 14 percent of the value of the loan portfolio issued by the Housing Bank are registered in Municipal Beirut, while 72 percent and 71 percent, respectively, are registered in Mount Lebanon.[1589] Throughout the 2000s, a new objective completely in line with the regulation-urbanization nexus has reoriented the bank's strategic policy: "Create ties between Lebanese citizens working abroad and their motherland."[1590] For this purpose, mortgage programs have been opened to the Lebanese diaspora and, as of 2017, 53 percent of the Housing Bank's loan portfolio went to expatriates.

As for its financing formula, the Housing Bank does not collect deposits but relies upon various sources of funding whose cost and maturity have very much influenced loan characteristics. The bank is the recipient of a long-term soft loan issued by a Kuwaiti fund, BdL-sponsored subsidized liquidity as a component of the post-2013 stimulus packages, and loans

[1586] The maximum amount of the loan is contingent on resource costs and borrowers' income (Senior housing expert, personal communication, March 17, 2015).
[1587] Senior housing expert, personal communication, March 17, 2015
[1588] Alieh, Y. (2017, January 5). Housing Bank lowers its rates. *Lebanon Opportunities*.
[1589] In 2015, the Housing Bank supplied 7.6 percent of the number (5014) and 7.1 percent of the value (USD 504.7 million) of outstanding loans provided to households in Municipal Beirut (Source: Banque du Liban | Calculation: Author).
[1590] Senior housing expert, personal communication, March 17, 2015

provided by member banks.[1591] Importantly, it also manages the portfolio of Foreign Worker's Certificates of Deposit (as per Decree No 283 dated 30/8/1993), i.e. the USD 1,000 unremunerated deposit made by any Lebanese employer who hires a foreign worker.[1592]

8.1.2.4 The limited reach of mortgage finance in the face of low financial inclusion

The three major channels of mortgage-based homeownership have indisputably helped to reinvigorate the middle and upper-middle segments of Greater Beirut's housing market. A wider profile of middle-income families has accessed homeownership thanks to the extension of loan maturity, the decrease in down payment requirements and more affordable lending rates. In this sense, I suggest that the development of mortgage finance in Lebanon has first and foremost helped middle-class households to purchase a home in a context of radically inflated real estate values. Yet, it did not ease, or secure access to, housing for a majority of low and lower-middle-income groups. Home loans, even when subsidized and sponsored by the state, have remained to a large extent inaccessible to the poorest sections of the Lebanese society.[1593]

The central bank rightly obligates all credit organizations to impose strict control on the financial resources of all the households accessing bank financing. As mentioned, requirements include compulsory down payments, tight debt-to-income ratios and proof of minimum and stable income flows (e.g., provision of pay slips, proof of the length of employment). This prudential policy also applies to mortgages disbursed by the Housing Bank and sponsored by the Public Corporation of Housing, for which an income ceiling is also set. For example, access to a mortgage through the Housing Bank is contingent on a minimum monthly income of about USD 2,000, i.e., about four times the minimum wage. As for PCH-sponsored loans, while the required level of minimum monthly wage is unclear, borrowers who access sponsored schemes can earn up to USD 4,500, i.e., ten times the minimum wage. The positive aspect is that, unlike many

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[1591] Senior housing expert, personal communication, March 17, 2015; Yammine, S. (2007b, July). To each home loan its homely niche. *Lebanon Opportunities*. 55-61. The soft loan granted by the Kuwaiti fund amounts to USD 100 million and was renewed in November 2015.

[1592] A large number of upper-middle-class and wealthy families in Lebanon employ foreign domestic workers. However, the legal obligation to pay the Foreign Worker's Certificate of Deposit, which guarantees the end-of-contract repatriation of employees, is barely enforced: experts estimate that only 30 percent of potential deposits is collected by the Housing Bank. This is the result of specific exemptions introduced by the Ministry of Labour in the late 1990s. The loss of income to the Housing Bank is significant: internal sources suggest that the proper enforcement of Decree No. 283 would provide sufficient resources to cover the entire financial needs of the bank's current loan programs.

[1593] A report by Mona Fawaz (2003, p. 31), published before the rapid deployment of housing finance in Lebanon, indicated that PCH-sponsored loans primarily reached families of the 80th percentile of society and higher. I was not able to find more recent data on PCH-sponsored borrowers, however. In effect, Rony Lahoud (personal communication, October 30, 2014), the General Director of the PCH, affirms that the absence of computerized management has so far prevented his administration from building any reliable database about the profile of loan beneficiaries. Likewise, the PCH is not able to provide any accurate statistical information about the *mohafaza*-based distribution of sponsored loans throughout Lebanon.

mortgage markets worldwide, the Lebanese banking sector did not engage, at least officially (see earlier comments on potential "'under-cover' toxic loans"), in over-inclusive, predatory lending.[1594] But these floor and ceiling incomes, elevated with regard to Lebanon's revenue standards, also mean that, in contrast to a recurrent argument made by bankers and builders, subsidized home loans have not been not intended for low and lower-middle-income families.[1595] Households with irregular and/or insufficient income — only 42 percent of formal workers have employee status in Lebanon — as well as those working in the informal sector have been *de facto* excluded from the mortgage market.[1596] Moreover, regardless of the advancement of the Lebanese financial sector, financial inclusion has remained limited. The World Bank indicates that, in 2014, only 47 percent of Lebanese had a bank account and that the banking penetration rate dropped to 27 percent for the poorest 40 percent of the population.[1597] This means one out of two Lebanese households has been *de facto* excluded from the mortgage market. Other recent statistics on loan activity illustrates this reality: in 2014, only 34.8 percent of Lebanese adults borrowed money and only 15.6 percent borrowed money from a financial organization.[1598] In sum, the mortgage market in post-war Lebanon has remained an exclusionary channel of housing provision.

8.1.3 Rental Purchase: A New Way of Banking the Unbanked and Expanding Homeownership

Limited financial inclusion and the elevated cost of entry into the mortgage market have been obstacles to the development of broader homeownership in Lebanon. This is why, in the wider context of the regulation-urbanization nexus, Lebanese financial authorities and firms have sought to find new ways of bringing non-bankable groups into the financial system and to set up alternative mechanisms for lower-middle and middle-income household home purchase. In the process, policy efforts have focused specifically on one solution: rental purchase. This mechanism, which secures the provision of home loans to households who cannot afford an immediate down payment (e.g., poor and/or elderly and young people), is attractive to the

[1594] Berthier, 2017b
[1595] Rony Lahoud, personal communication, October 30, 2014
[1596] A World Bank report shows that the "majority of formal workers are employed in the public sector" and nearly two-third of Lebanese workers do not have access to health insurance and a pension system (Gatti et al., 2014, p. 57).
[1597] World Bank (2014). *Global financial inclusion database – Lebanon* [Data file]. Retrieved from http://databank.worldbank.org/data/reports.aspx?source=1228. A senior executive from the BdL affirms that, while only 20,000 banking accounts had access to credit in the 1990s, they are now between 500,000 and 600,000.
[1598] Cited in BlomInvest Bank, 2015d.

banking sector: it expands the scope of banking business and stimulates the real estate market. However, rental purchase may be a risk-prone activity.

8.1.3.1 Rent-to-own schemes: a first proposal held in abeyance

In Lebanon, housing specialist Antoine Chamoun explains, the concept of rental purchase gained significance in 2006: it was portrayed then as a policy solution to the persistent difficulty experienced by many households with the down payment necessary for a mortgage.[1599] The same year, the Lebanese Parliament passed a first framework law (Law 767 of November 11, 2006), which identified a series of principles and allowed issuance of decrees to implement a rent-to-own system. The primary solution discussed at the time was an *ad hoc* contractual arrangement between property owner (lessor) and user (lessee) for a maximum period of 30 years.[1600] The arrangement would work as follows: the lessor rents a property to the lessee in exchange for monthly instalments, which include the actual rent and a surplus which accumulates to form the equivalent of a down payment.[1601] After five years, when the surplus reaches the value of the down payment, the lessee chooses either to purchase the property for a price initially set into the lease, or to continue to rent the unit. This alternative method of accruing savings, analyzes economist Charbel Nahas, makes rental purchase a form of homeownership saving scheme.[1602] The 2006 Law also included another important element: it allowed the Public Corporation for Housing to sponsor medium and long-term loans to economic agents committed to acquiring and renting residential property under the rent-to-own agreement.[1603] The law, however, received no implementing decree from successive Ministers of Social Affairs and Ministers of Justice, so most of the technical arrangements needed to operationalize it (e.g., contractual arrangements, guarantee details and financial/tax incentives) remained unspecified. A major hurdle to its implementation, according to a Member of Parliament, was the package of financial and tax incentives needed to make the scheme attractive to investors. Any single tax change would be included in a new public finance bill but Parliament failed to vote on any between 2006 and

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[1599] Antoine Chamoun (personal communication, September 30, 2014) likes to remind visitors that his personal commitment to rental purchase in Lebanon stems from a discussion with colleagues in 2004 during the Réseau Habitat et Francophonie congress held in Québec.
[1600] Geagea, N. (2014). *Accessing adequate housing-current legislative framework and proposed recommendations*. Beirut, Lebanon: Lebanese Economic Association, p. 6
[1601] As Charbel Nahas (multiple personal communications, 2014-2016) explains, this type of rent-to-own financing scheme makes a distinction between the use and the amortization of the property asset.
[1602] Charbel Nahas, multiple personal communications, 2014-2016
[1603] Geagea, *op. cit.*, p. 6

2017. Moreover, the Banque du Liban expressed reservations about several aspects of the first version of rental purchase, notably the risks it entailed for the financial sector.

8.1.3.2 Bringing financial firms back in: property leasing in debate

After years of tergiversation, the 2014 reform of rent control and the concomitant debates on strategies to re-accommodate 'old tenants' revived interest in rental purchase. As indicated in Chapter 5, an *ad hoc* sub-committee of the 'Justice and Administration' committee has been established in Parliament to come up with new legislation enabling concrete financing mechanisms and contractual arrangements. From the information I was able to gather, its essential orientation has been established but a number of details are still unclear. The primary novelty in the envisioned legal and financial engineering resides in its extension of leasing contracts, authorized for movable assets in 2000, to property assets. Leasing is a form of debt issued by a financial entity that acquires the asset and includes it in its balance sheet.[1604] In this tripartite game, lessors, which would be BdL-controlled financial firms, are expected to play an intermediary role between commercial banks and buyers.[1605] Concretely, a leasing contract would allow the leasing firm (lessor) to acquire a property asset from the seller/builder to rent it out to the user and potential future buyer (lessee) in exchange for monthly instalments annually equivalent to 6.5 percent of the property's nominal value.[1606] Leasing firms are expected to register each acquired property as a special purpose vehicle financed through an arrangement whereby collected equity would form 20 percent and BdL-subsidized loans disbursed by commercial banks, the remaining 80 percent.[1607] In simple terms, the leasing firm would acquire the property asset while the lessee accumulates the equivalent of the down payment during the first five years of the contract. In the event that the lessee decides to buy the asset, the leasing firm exits the scheme and the lessee accesses a home loan from a commercial bank at a set rate of interest of 6.5 percent. Importantly, MP Samir El-Jisr, who chairs the dedicated sub-committee in Parliament, explained to L'Orient Le Jour in 2015 that rental purchasers would not be required to

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[1604] Thomas, P., & Romanet-Perroux, P. (2012). *Real estate: Finance de l'immobilier*. Paris, France: Revue Banque, p. 63
[1605] Alexa Hechaime, multiple personal communications, 2014-2016
[1606] Maalouf, A. (2015, June 19). Les députés planchent sur un projet visant à faciliter l'accès à la propriété. *L'Orient le Jour*. Retrieved from www.lorientlejour.com/article/930484/les-deputes-planchent-sur-un-projet-visant-a-faciliter-lacces-a-la-propriete.html
[1607] *Ibid*

mortgage the acquired property.[1608] The second phase, in other words, would not involve the holding of the property as collateral.

Lebanese banks could be interested in two facets of these rental-purchase schemes, whereby their commercial branches disburse loans and they establish *ad hoc* subsidiaries to provide leasing services. First, rental purchase would help commercial banks extend home loan programs to a new category of less well-off customer. In this sense, leased assets would be novel vehicles of capitalization from which banks earn income through the high spread between low-cost BdL resources and the elevated lending rate they would charge. Second, it would facilitate tax optimization: leasing reduces the amount of liquidity exposed to taxation in banks' balance sheets and the revenues from acquired assets are considered to be tax-deductible operating costs.[1609] Nonetheless, the legal engineering of these leasing schemes appears to be problematic from a prudential perspective: without taking the acquired property as collateral during the second phase (i.e., after the five-year period during which the leasing firm bears the risk), commercial banks would be exposed to a higher default risk than that which exists in the traditional mortgage system.

This first section has analyzed the way that the multiple roads to homeownership established in post-war Lebanon have played a pivotal but insufficient role in the local system of housing provision. It has shown, in the context of the regulation-urbanization nexus, that the mortgage market has experienced rapid growth, essentially under the impetus of the state-subsidized schemes examined in Chapters 3 to 5. Home loan programs have allowed middle-class households, mostly from the upper segment, to afford a higher purchase price in a period of rapid price inflation. Yet, they have not addressed the critical issue of housing supply for lower-middle and low-income urbanites, despite the recurrent project of rental purchase programs. In a country such as Lebanon which still houses a large 'financial underclass,' bancarized housing solutions have limited reach.[1610] The inaccessibility of homeownership has therefore left a sizeable number of Greater Beirut residents dependent upon the formal rental housing stock, which has also faced manifold challenges and transformations over the past quarter century.

[1608] *Ibid*

[1609] Charbel Nahas, multiple personal communications, 2014- 2016; Thomas & Romanet-Perroux, *op. cit.,* p. 63

[1610] I borrow the term 'financial underclass' from American lawyer and scholar Michele Dickerson (2014) who uses it to illustrate the way a number of US citizens, especially from Afro-American and Latino communities, cannot afford homeownership in the US. In Lebanon, financial exclusion and the difficulty of accessing homeownership is even more significant for non-Lebanese citizens such as Palestinian and Syrian refugees and foreign workers. (Dickerson, M. (2014). *Homeownership and America's financial underclass: Flawed premises, broken promises, new prescriptions*. Cambridge, UK: Cambridge University Press)

8.2 The Unhealthy State of the Rental Housing Sector

In Lebanon in general and Beirut in particular, rented apartments are for many another essential means of access to formal housing. The Lebanese capital was largely a city of tenants during the second half of the 20th century: in 1970, 77 percent of households rented their homes in Municipal Beirut (vs. 48 percent at the country level).[1611] They benefited largely from rent control, which organized the tenant-landlord relationship and ensured a relatively affordable supply. Yet, the adoption of the 1992 rental law as the country emerged from war modified the structure of the rental market: Article 159/92 liberalized all leases signed after July 1992 while Article 160/92 kept those signed before July 1992 under rent regulation. Between 1992 and 2014, then, two rental markets coexisted, one regulated and one liberalized. In 2014, as detailed in Chapter 5, a new rental law was adopted which officialised the termination of rent control and organized its phasing out. In 2004, 49 percent of households remained tenants in Municipal Beirut and 28 percent in its suburbs (vs. 23 percent at the country level).[1612]

The dual structure of the rental market in the post-war period is, surprisingly, an under-investigated aspect of Beirut-focused urban research. Likewise, the rental sector remains a largely disregarded component of the current system of formal housing provision, which has given priority to homeownership, and few policy analysts have attempted to identify conditions that would allow its reinvigoration. This second section therefore helps to fill this twofold gap by analyzing the current state of the rental sector and identifying the policy challenges that reform might entail. In so doing, I first show that post-war Beirut's rent-controlled stock, despite its key role in providing *de facto* affordable housing, was no longer sustainable. The 2014 law, driven by regulation-related objectives, has arranged its phasing out. Its controversial orientation, however, has ignored the fate of disadvantaged tenants and missed the opportunity to revive the rental sector at large. Second, I shed light on the reasons for which the liberalized rental market has been limited in size since 1992: it has been unaffordable for most households and unattractive to investors. Third, I claim that stimulating the rental sector should be a policy priority and stress that any reform should first and foremost aim at increasing rental yields without burdening the budget of low-income households.

[1611] Taffin et al., *op. cit.*, p. 13
[1612] *Ibid*

8.2.1 The Controlled Rental Sector and its 2014 Controversial Reform

Rent regulation has historically been a policy tool used in many countries, including Syria and Egypt in the MENA region, to limit rent inflation and secure affordable access to housing for city dwellers, irrespective of their financial situation. In the case of Lebanon, a review of the reasons for which, and the ways by which, rent control was prevalent for decades is of twofold interest. It helps us to understand why the costs of this pro-poor policy finally exceeded its benefits in Beirut. And it allows us to explore the ways in which the legislation that regulated the housing sector for decades still very much shapes current policy debates, as well as views and behaviours of many local agents (e.g., landlords, tenants, investors, bankers, and developers) regarding control-free rental solutions.

8.2.1.1 The history of rent control in Lebanon

In Lebanon, rental leases were frozen during the French mandate by Legislative Decree 25 of October 25, 1940. Responding to the growing social and housing crisis in the country at the time, the legislation applied to the entire rental stock. It fell under the category of what British economist Christine Whitehead calls 'first-generation rent regulation.'[1613] Its purpose was to keep rents below market value, without updating the level of rent, and to ensure tenants' security of tenure by providing the possibility of transferring leases across generations. Instituted initially as a temporary emergency measure, the cap continued after WWII when Lebanon gained its independence.

The reversals of successive governments on the scope of rent control

The removal of 'luxury buildings' from rent regulation in the Law of May 5, 1954 was the first milestone in the evolution of the rent control system.[1614] The objective was to stimulate construction and when it took effect, individuals with wealth indeed began to invest in modern apartment buildings in the hope of significant returns. In a surprise move, the Lebanese government reintegrated 'luxury buildings' into the price-controlled sector with the Law of June

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[1613] Whitehead, C. (2014). Le secteur locatif privé en Europe: Des trajectoires différentes, des tensions similaires? *Revue d'économie financière*. *3*(115), 149-164, p. 152

[1614] The meaning of 'luxury buildings' remains loose in Lebanese law. The 1961 Law referred to them as residential buildings with specific facilities such as an elevator, hot water, central heating and a concierge. These buildings represented an important share of the housing stock that was under rent control in Municipal Beirut in areas such as Ras Beirut, Ashrafieh and Verdun.

30, 1977, leaving a number of landlords with buildings that could not reach their expected profitability. This sudden reversal has, to date, remained a salient reason why landlords and investors shun rental property investment and, more generally, mistrust the state with regard to housing regulation. Later on, the collapse of the Lebanese pound in the 1980s and early 1990s was a second milestone: it shrank rental income dramatically since most rents were paid in local currency. In no time, property owners found themselves with "tenants paying a pittance and no right to evict them."[1615]

The last milestone was the 1992 rental law, which introduced the distinction between old and new rental leases. As explained in Chapter 5, proposals seeking to terminate rent control were already on the table. Yet, the government decided to extend existing price-controlled leases for a limited time, in an attempt to ease access to housing in the delicate period of post-war recovery. Article 160/92 then modernized the regulation system by increasing rental rates to compensate for the currency collapse and by pegging rent increases to those in the minimum wage.[1616] The new dual system, preserving some rents well below market value, was eventually extended 11 times between 1992 and 2012. The legal basis for rent control was terminated in 2012 when Parliament failed to vote to extend it and created, instead, a legal vacuum.[1617] The courts continued to apply Article 160/92 in cases that came before them, however, until passing of the 2014 rental law.[1618]

Data scarcity on the number of leases and the profiles of landlords and beneficiaries

Nobody knows the block-by-block location of rent-controlled leases in the Lebanese capital, and in the absence of an official record, estimations of their number at the city and country levels remain controversial. Estimates, provided by landlord and tenant organizations whose sources and method of calculation remain fuzzy, usually range from 60,000 to 180,000 leases located primarily in Municipal Beirut, and to a lesser extent, Tripoli and Saida. The estimate recently provided by the Ministry of Finance to the Parliamentary Committee in charge of the 2014 reform totalled 100,000 households nationwide, including 25,000 in administrative

[1615] Alieh, Y. (2014c, May). New rental law passed by Parliament. *Lebanon Opportunities*. 74-77
[1616] Fawaz, 2003, p. 27; Rozelier, M., & Hechaime, A. (2014a, May). Une très vieille pomme de discorde. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/23487-une-trs-vieille-pomme-de-discorde
[1617] The Lebanese Parliament did not meet between 2012 and 2014 as a result of a protracted cabinet crisis.
[1618] Rozelier, M. (2014a, June). Le sort de la loi sur les loyers entre les mains du Conseil Constitutionnel. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/23626-le-sort-de-la-loi-sur-les-loyers-entre-les-mains-du-conseil-constitutionnel

Beirut and 45,000 on its periphery.[1619] Further, the only official study to document housing conditions, which was published by the Central Administration of Statistics in 2004, provide no breakdown of old and new rental leases. It indicated simply that between 50,000 and 55,000 leases were registered in Municipal Beirut and 100,000 in Mount Lebanon. As per spatial distribution in Beirut, available statistics on forms of housing tenure indicated that renters were still a key component of the local population in historical districts such as Medawar (68 percent), Saifi (64 percent), Ashrafieh (55 percent), Bachoura (47 percent), Ras Beirut (46 percent) and Ain El-Mresseh (45 percent) where the primacy of pre-1992 buildings suggests that these areas may accommodate a large number of price-controlled leases. A 2014 AUB study on health and well-being in Ras Beirut, which indirectly explored the question of rent control, showed that 33 percent of local dwellers lived within the old rent system.[1620]

Tenants and landlords of rent-controlled properties hold a diversity of social profiles, even though no official survey provides a detailed picture of either group. Landlords, experts indicate, range from middle-class individuals who own a single apartment unit to wealthy families possessing entire apartment buildings. A number of observers of the Beirut-based property sector allege that a sizeable number of the original landlords of apartments under rent control have sold their assets to new owners, including, persistent rumours say, development firms, financiers and politicians who have opportunistically acquired undervalued buildings in districts such as Ashrafieh, Bachoura and Hamra in order to reap the profits from future redevelopment.[1621] One of the biggest and most influent Beirut-based property brokers interviewed confirms: "Many developers purchased entire buildings full of 'old rent' apartments, of course I did too."[1622] In parallel, it seems fair to argue that renters benefiting from regulated leases "follow the same income distribution as society at large" with households belonging to privileged, middle-class, and low-income groups.[1623]

[1619] According to a senior executive from the Ministry of Finance, these figures were calculated on the basis of the built-up property tax.
[1620] Kaddour, A., Myntti, C., Abdulrahim, S., Salti, N., Wick, L., & Zurayk, H. (2014). *The profile of a neighbourhood: Health and well-being in Ras Beirut*. Beirut, Lebanon: American University of Beirut. Retrieved from www.aub.edu.lb/Neighborhood/Documents/Well-Being%20Survey/neighborhoodinitiative-wellbeing-manuscript-14October2014.pdf
[1621] Charbel Nahas, multiple personal communications, 2014-2016; Legal Agenda Staff (2014, September 23). Rent control in Lebanon: Balancing ownership and housing rights. In *Legal Agenda*. Retrieved from http://english.legal-agenda.com/article.php?id=651&lang=en
[1622] Translation by the author
[1623] Fawaz, 2003, p. 28

The paradoxical role of rent control in housing provision and city-making

Rent regulation in post-war Beirut has played a paradoxical role in the organization of housing provision and the trajectory of urban development. Over the years, it has become a *de facto* affordable housing channel for thousands of households. This has been especially the case since the early 2000s as the intensive property-led (re)development of Beirut has made the city inaccessible to low and middle-income families. It has helped to preserve an increasingly rare social diversity in a number of historic communities in the face of increased pressure to transform them into exclusive areas of luxury condominium towers and malls. By doing so, the 'old rents' system in the post-1990 era was a chief mitigator of the social cost of ever-increasing real estate prices in the absence of any public strategy pertaining to reasonably priced housing.

Nonetheless, the Lebanese version of rent control was fairly criticised on a number of grounds, primarily for its indirect disruptive implications for housing provision and urban production. First, the system did not specifically target needy groups.[1624] A sizeable number of upper-middle-class and well-off families, including politicians and entrepreneurs, still lived according to the terms of an old lease even though they clearly had the financial means to find accommodation in the post-1992 liberalized market. In the meantime, most low-income households in Lebanon struggled in the informal rental market without any form of public support. Second, the rent control system shifted the financial responsibility of affordable housing from the state to private landlords. Mere citizens who invested their savings in a rental apartment found themselves obligated to carry single-handedly the burden of a policy that had become blind to the actual socio-economic situation of tenants. Third, transmission of the right to occupancy to other family members was suspected of reducing residential mobility and thus diminishing the possibility of social and sectarian diversity.[1625] Fourth, minimal rental revenue for owners, often no more than a few hundred dollars a year, created a rent gap-like situation, which had two crucial consequences, both fuelling important changes in the city's physical and social landscape. On the one hand rent control did not allow landlords to properly maintain existing buildings. This contributed to the prevalence of poor living conditions and the deterioration of the housing stock, which led to disasters such as the 2012 collapse of a residential building in the district of Fassouh. Low rental revenues, on the other hand, were an incentive for landlords to sell their

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[1624] *Ibid*
[1625] Fawaz, 2003, p. 11

property to development companies. Fifth, a minority of tenants misappropriated the system and kept their price-controlled home just for the required compensation in case of eviction, while they purchased a property elsewhere in which they lived. Finally, rent control negatively affected the free rental market and contributed to rent inflation: it made landlords reluctant to offer long leases (i.e., more than one-year) and encouraged them to set astronomical rents to counterbalance the risk of legal instability.

In sum, the Lebanese system of rent regulation did provide *de facto* affordable housing to a fair portion of low-income households until its 2014 termination. But the fairness and efficiency of its application, originally pro-poor, declined in the last decades. Its total disconnection from market prices and its blindness to the socio-economic situation of beneficiaries reduced its legitimacy in the eyes of many Beirutis, while its adverse effects on urban development became increasingly obvious. It is not the principle of rent control that is in question here: it may be a good solution to the unaffordability of rent in the Lebanese capital. But the mechanisms by which it has been functioning in Lebanon seemed to have had more costs than benefits. Reform of the system appeared to be a necessity, in other words; the orientation and policy choices adopted in the 2014 rental law, however, completely sidelined the challenge to regulate housing provision and secure affordable housing for low-income groups.

8.2.1.2 The controversial mechanisms of the 2014 reform of rent control

As outlined in Chapter 5, several attempts have been made since the 1970s to terminate rent control. Two bills were discussed during the civil war in 1977 and 1984, for example. The question also arose in 1992 during the discussions that led to the law creating the two-tier rental system that persisted until the final 2014 reform. The 2014 law validated the principle of rent control termination, phasing out the old leases over nine years, or twelve in specific cases. Its application has produced three controversial situations on the ground: an exuberant rent readjustment and liberalization, the creation of an unfunded compensation fund, and the redefinition of compensation schemes for tenants.[1626]

[1626] Marot, B. (2014). The end of rent control in Lebanon: Another boost to the 'Growth Machine?' *Jadaliyya*. Retrieved from www.jadaliyya.com/pages/index/18093/the-end-of-rent-control-in-lebanon_another-boost-t; Marot, B. (2015). Crise du logement et fin du contrôle des loyers à Beyrouth: La poursuite d'une production urbaine exclusive. *Confluences Méditerranée*. *92*(1), 101-112. Lebanese authorities reformed controlled residential leases; however, they decided to peg the raise of capped commercial rental contracts to the rate of inflation with a limit of five percent.

Rent readjustment and liberalization: irrational price levels and the problematic estimation of property value

The first controversial feature of the 2014 law is its strategy of rent readjustment and liberalization. This strategy clearly privileged the exchange value of property was over its use value, authorizing a 2,000 percent raise over an initial six-year period, and an additional three years at this rent level before full liberalization (see Figure 8.3 below).[1627] The resulting annual rent, i.e., the property rental value, would be based on a four percent return on the property's market value.[1628] This market value would be set either by owner-tenant agreement, potentially with the assistance of technical experts, or by a judiciary committee that was, in the original bill, to issue a final and binding decision.[1629]

Figure 8.3 – Timeline of rent readjustment and liberalisation in the 2014 reform of rent control (Source: Author)

This mechanism is problematic in at least two ways. First, pegging the rent increase to a currently irrational level of property asset values and applying a four percent return, compared to the two to four percent yield obtainable in the free rental market today, will almost certainly fuel rent increases unaffordable for most low- and middle-income households. From a comparative perspective, a four to five percent return is the level of yield usually observed in the free rental housing stock, i.e., not the affordable housing stock, of an expensive European capital such as Paris. This means that the newly permitted rent increases will probably eliminate any form of reasonably priced formal rental housing in Municipal Beirut. Second, reliance on mutual agreement between owner and tenant after decades of mistrust seems to be unrealistic. Evaluation of the market value of a property asset previously under rent control, in other words, is very likely to end up in an endless legal dispute handled by a judiciary committee. In this regard, the

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1627 This figure is based on personal calculations, corroborated by other analysts in Rozelier & Hechaime (2014b). (Rozelier, M., & Hechaime, A. (2014b, May). Que dit la loi sur la libéralisation des loyers? *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/23486-que-dit-la-loi-sur-la-libralisation-des-loyers-.

1628 The reform voted in April 2014 originally set a five percent return. Subsequent amendments adopted by the Parliamentary committee in charge of the reform reduced it to four percent in April 2015.

1629 The Constitutional Council, in its decision of August 2014, invalidated the judiciary committee's power to issue a final decision.

experience of Solidere-led expropriations in the early 1990s[1630] casts doubt on the possibility of fair expert-led evaluations, which in any case are an unaffordable requirement for low-income households. Similarly, the absence of an official index monitoring Beirut's land and real estate prices reinforces the risk of opacity that hovers over the decisions made by these *ad hoc* judiciary committees.

The public compensation fund: a contestable principle and a barely realistic project

The second controversial feature of the 2014 rental law is its establishment of a public compensation fund affiliated with the Ministry of Finance and managed by the Treasury. The objective is to cover all or part of the rent increase for households earning less than five times the minimum monthly wage (5 x USD 450 = USD 2,250) (see Table 8.1 below).[1631] The financial mechanism is, nonetheless, problematic on many levels. First, the fact that a comprehensive and accurate appraisal of household income in Lebanon is almost impossible to locate makes identifying eligible households a challenge. Most potential beneficiaries probably do not pay taxes and the secrecy of their transactions prevents the Ministry of Finance from accessing banking information for those with an account.[1632] Second, public funds of this kind go against all recommendations to the Lebanese government by IFIs, which recurrently call for an end to the use of clientelism-prone public structures that waste public money.[1633] Third, the 2014 law provided no clear financial engineering for a scheme whose total cost could reach USD 1 to 1.5 billion over nine years: it simply identified state money and private donations as potential resources.[1634] Moreover, Executive Magazine editors have rightly stressed that "the fund represents new expenses that can only be met by passing a new budget," an obligation that

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[1630] Solidere undertook a series of expropriations in the 1990s at the inception of the redevelopment process of Beirut Central District. Serious allegations of conflict of interest and corruption tarnished the judicial appraisal committees that were created by Solidere Law 177/1991 to set the amount of compensation paid to 100,000 + owners and tenants. Judges, remunerated by Solidere, were notably accused of undervaluing expropriated assets to the benefit of the landowner (Leenders, 2012, p. 62-63). (Leenders, R. (2012). *Spoils of truce corruption and state-building in postwar Lebanon*. Ithaca, NY: Cornell University Press)

[1631] The income cap was originally set at three times the minimum wage in the law enacted by Parliament on April 1, 2014. It was later extended to five times the minimum wage in April 2015.

[1632] Senior official of the Ministry of Finance, personal communication, May 28, 2015

[1633] The financial management of public funds is often subject to controversy in Lebanon, as illustrated by the contested practices of the Central Fund for Displaced in the 1990s (e.g., no external control, clientelist-type of sectarian management) (Leenders, 2012, p. 64-71).

[1634] A study by BlomInvest Bank (2014a, p. 8) estimates the cost of the assistance fund at USD 1.13 billion by the end of the sixth year of the transition period, including USD 963.75 million for tenants living in Beirut. (BlomInvest Bank (2014a). *The end of rent control in Lebanon: Impact analysis*. Beirut, Lebanon: BlomInvest Bank - Research Department. May 24. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2014/10/2014-05-The-End-of-Rent-Control-in-Lebanon-Impact-Analysis.pdf)

Parliament did not fulfil between 2006 and 2017.[1635] The fund has therefore remained hypothetical.[1636]

Fourth, mobilizing public money specifically for rent-burdened old tenants also contravenes a principle of equality of access to state support across low-income groups.[1637] Fifth, the law in any case identifies very restrictive eligibility requirements for households willing to benefit from financial assistance. Applicants must be Lebanese, and submit a decision on the property's market value, obtained through either an agreement with the landlord or a judiciary decision. All candidates must also provide proof of financial situation (e.g., wage slips, retirement pension). As mentioned, these criteria are baffling given the generally strained tenant-owner relations and the risk of an unfair judiciary decision. Also, applicants who work in the informal sector will not be able to document their financial situation. These very strict and, in fact, unrealistic criteria put into question the willingness of lawmakers to provide genuine solutions to the rehousing of 'old tenants' who cannot access bancarized homeownership. As emphasized in Chapter 5, a number of Beirut-based analysts believe that this fund will never be implemented, as has been the case with other funds established by the Lebanese Parliament in recent years, and is just an 'enticement' to facilitate the termination of rent control.[1638]

Household Income	Coverage by the Compensation Fund
Less than three times the minimum wage (x< USD 1,350)	Full coverage
Between three and five times the minimum wage (USD 1,350 < x < USD 2,250)	Partial and decreasing coverage
More than five times the minimum wage (x > USD 2,250)	No coverage

Table 8.1 – Coverage of rent increases by the authorized compensation fund as of May 2015 (Source: Author)

[1635] Executive Magazine Editors (2015b, July). More than spare change: Without proper appropriations, the rent law will do more harm than good. *Executive Magazine*. Retrieved from www.executive-magazine.com/opinion/leaders/rent-law-more-than-spare-change

[1636] In March 2018, the Ministry of Finance issued a decree to establish the fund. Yet, as of this writing, March 20 2018, the Ministry had not obtained the signatures of the President of the Republic and the Prime Minister for actual implementation.

[1637] Legal Agenda Staff, 2014

[1638] This was, for instance, the case with the Disability Rights Law (2000), the Environment Protection Law (2002), and more recently, the Law on the Protection of Women and Family Members Against Domestic Violence (2014).

The redefinition of compensation schemes for tenants

The third controversial feature of the 2014 rental law concerns changes in the mechanism by which compensation is awarded to tenants who leave their homes during the nine-year transition period. Existing leases for rent-controlled apartments contained a requirement that renters be indemnified, irrespective of their financial situation, in the event that the landlord repossesses their unit. The new law has redefined the compensation mechanism and identified two scenarios. First, when a tenant leaves a rent-controlled property on his/her own initiative, the state must take responsibility for the compensation through monthly allowances drawn from a compensation fund. The indemnity would cover the full rent adjustment if the tenant left during the first year of the transition period, i.e., in 2015, and would amount to the remaining rent increase when s/he leaves during years two to six. In concrete terms, the first scenario was conceptualized as a clear incentive for tenants to leave their home early in the transition process to get enough cash to find alternative housing.

Second, when a landlord unilaterally asks a tenant to leave, compensation is the landlord's responsibility, but at a lower rate than that stipulated by the previous regime, which was equivalent to 35-40 percent of the property's market value. During the first year of transition, a landlord would pay just 20 percent of the property's market value if s/he was reclaiming the property for family usage (e.g., for occupation by a family member) and 30 percent for any other reason (e.g., a real estate project involving the property's demolition). Similar to the first scenario, compensation would begin to decline after the first year of the transition period. Indemnities paid by landlords would also be halved for assets located in 'luxury buildings.' Accordingly, it seems reasonable to suggest that these renewed rules of compensation have pursued the following objectives: encourage the early departure of tenants and reduce the costs of evictions for landlords, and eventually for development firms, while preserving the solvency of households who apply for bancarized programs of homeownership.

These three key features of rent control phase out lead me to two broader observations. First, the influence of the regulation-urbanization nexus is palpable in the reform. As hypothesized in Chapter 5, measures such as the excessive rent adjustment, the accelerated and cheaper eviction of tenants, and the upholding of financial compensation are probably designed to fuel property-led restructuring, expand housing finance activity, and sustain real estate prices. Second, a close look at the mechanisms of the reform confirms that lawmakers have ignored the fate of the urban poor. Rent regulation provided affordable housing to a sizeable number of low-income households whose access to formal housing is now jeopardized. Most disadvantaged individuals and families are unlikely to afford the 2,000 percent rent increase and too poor, and/or too old, to access bancarized homeownership. By the same token, they are unlikely to find housing solutions in the liberalized rental market, which has become increasingly unaffordable. In sum, the objective of terminating controlled leases has prevailed over any intention to reinvigorate the rental market or to improve access to housing for low-income groups.

8.2.2 The Liberalized Rental Sector: Unaffordable for Dwellers, Unattractive to Investors

Rental apartments whose leases were signed after the 1992 law constitute the liberalized component of the rental market, which will remain divided until the end of the transition period. Its size is fairly limited in Beirut and this is mostly the consequence of the irrational inflation of real estate asset values throughout the 2000s. Rents are unaffordable for a majority of local dwellers and rental investments are unattractive to investors.

8.2.2.1 A free rental market unaffordable for lower-middle and low-income residents

The property frenzy of the second boom (2003-2009) and the surge of real estate asset values have strongly and adversely affected the free rental market in the Lebanese capital, which has become increasingly unaffordable for most lower-middle and low-income households. Most landlords have over the years have adopted a profit-maximizing behaviour: desirous to increase their rate of return, they have inflated rents in an irrational manner. Concretely speaking, many owners, contaminated by the widespread "boom thinking" of the 2000s, took the opportunity presented by new tenants to double the rent or the end of a three-year lease to impose a substantial rent hike.[1639] Accordingly, many occupiers had to choose between accepting the increase, negotiating it or leaving the apartment.

Unsurprisingly, finding aggregated data series to expand anecdotal evidence of the evolution of rental prices was not an easy task. The only information I was able to find comes

[1639] Shiller, R. J. (2012). *The subprime solution: How today's global financial crisis happened, and what to do about it*. Princeton, NJ: Princeton University Press from the business magazine Lebanon Opportunities (see Table 8.2 below) and illuminates a strong price augmentation in Greater Beirut. Between 2008 and 2013, i.e., during the apex of boom years and the beginning of the property stagnation period, rents increased by 66 percent in Verdun (West Beirut), 60 percent in Ain El-Mreisseh (West Beirut) and 35 percent in Ashrafieh (East Beirut). At the same time, they rose by 72 percent in Baabda (east) and 38 percent in Aramoun (south east), i.e., on the periphery. In recent years, moreover, the influx of solvent demand in Municipal Beirut, tied to the outbreak of the Syrian crisis, has put further pressure on rental prices in centrally located neighbourhoods. Rich and upper middle-income Syrian refugees, on the one hand, rented a sizeable number of apartments during the first years of the war.[1640] Foreign aid workers, on the other, have settled en masse in the capital with NGOs and development agencies most generally willing to pay the high rents disconnected to local standards.

Area	Rents in 2008 ($/m²/yr)	150 m² unit per month in 2008	Rents in 2013 ($/m²/yr)	150 m² unit per month in 2013
Aramoun	36	450	50	650
Baabda	58	750	100	1,250
Hazmieh	62	800	78	1,000
Ain el-Mreisseh	150	1,900	240	3,000
Ashrafieh	100	1,250	135	1,700
Verdun	90	1,150	150	1,900
Awkar	46	600	67	850
Broumana	45	600	80	1,000
Mansourieh	80	1,000	95	1,200
Fanar	40	500	75	950
Kfarhbab	75	950	90	1,150
Bayada	40	500	95	1,200
Deek el Mehdi	46	600	110	1,400

Table 8.2 – Evolution of rental values in Greater Beirut between 2008 and 2013
(Source: InfoPro Research[1641])

The upsurge of property asset values during the second property cycle and the recent influx of a solvent temporary demand have fuelled a growing mismatch between supply and demand in Beirut's free rental market. The rent expectations of most landlords have been increasingly disconnected from the purchasing power of the bulk of local demand, which consists of low- and middle-income households looking for affordable housing. Over the years, formal rentals in Municipal Beirut have become a niche market of transient accommodation for well-off

[1640] Bank Audi, 2015, p. 8
[1641] Cited in Alieh (2014f, p. 79). (Alieh, Y. (2014f, February). Rent prices have gone up. *Lebanon Opportunities*. 78-80)

students, moneyed refugees, young executives, foreigners and couples in the process of acquiring a home.[1642] Likewise, in suburban areas where prices are more affordable, households have also opted for rented apartments as an interim solution while accruing savings to serve as future down payment.[1643] Increased real estate prices and eased access to housing finance have indeed pushed a majority of households with a minimum level of income to choose homeownership and use rent money for mortgage payments.[1644] The attractiveness of homeownership versus rental solutions has gained even greater significance over the past few years with BdL-led stimulus packages.

8.2.2.2 The lack of attractiveness of buy-to-rent property investment

In Beirut, the unhealthy state of the free rental market is also the result of the limited provision of reasonably priced, middle-market apartments. Part of the problem comes from the supply side. First, a significant portion of recent construction, which concentrated on the upmarket segment, has not put affordable rental units on the market. Purchasers, who primarily acquire high-end units for their own occasional use and/or to diversify their asset portfolios, are rarely willing to rent out their properties; and when they do, luxury standards mean elevated rents. Second, Lebanese savers have been very reluctant to engage in buy-to-rent real estate investments, i.e., a supply channel that frequently caters the demand of lower and middle-income tenants in many other countries.[1645] Here is why.

The fear of slow and unfair arbitration in case of legal arbitration

From a legal perspective, arbitration with tenants is seen by many investors to be a slow and unfair process. Conflict settlement remains problematic in Lebanon where, according to the World Bank, the judicial system is "corrupt, inefficient and ineffective."[1646] Moreover, individual investors fear legislative instability, which may lead, many argue, to the partial or total return of rent control. The prevarication of the legislator regarding the future of rent regulation in recent decades has indeed had a considerable psychological impact on the way in which they perceive

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[1642] Taffin et al., *op. cit.*; Yammine, S. (2007c, September). Looking for an apartment? It's a renter's market. *Lebanon Opportunities*. 84-87, p. 85-86
[1643] Alieh, 2014f, p. 80
[1644] Antoine Chamoun, personal communication, May 12, 2015
[1645] Whitehead, *op. cit.*, p. 156
[1646] According to a World Bank report (2015, p. 27): "Out of 144 countries in the Global Competitiveness Index, Lebanon ranks 139 on the efficiency of legal framework in challenging regulations, 138 on judicial independence and 132 on the efficiency of legal framework in settling disputes." (World Bank (2015). *Lebanon economic monitor - The great capture*. Washington, DC: Global Practice for Macroeconomics & Fiscal Management, Middle East and North Africa Region)

rental investment. Many small capital holders, who base their economic decisions on a certain level of expected revenue, still have in mind the experience of landlords who found themselves trapped in the 1950-70s by investing in what the law termed 'luxury buildings.' One of the few MPs interested in housing issues confirms this view and believes that "Parliament did everything to create an atmosphere of mistrust about rental apartments."[1647] Many also remember the 1980s and early 1990s currency collapse and the loss of value of LBP-denominated rents. These are the reasons for which, according to a Beirut-based senior housing specialist, "landlords who dare to rent out their property cushion the risk by exaggerating asked rents."[1648] More generally, investor reluctance is judged to be common to systems where rent regulation is believed to discourage them from entering or remaining in the rental sector.[1649]

The absence of tax incentives and disincentives

From a fiscal perspective, the supply of rental apartments, in contrast with bancarized channels of homeownership, does not benefit from any system of tax incentive or disincentive. Alain Bifani, Director-General of the Ministry of Finance, admits that this lack of public initiative is "a very important problem."[1650] For example, as mentioned, there is no taxation on vacant property to encourage landlords to put their unoccupied asset onto the rental market. Likewise, the built property tax, whose base is declared or estimated rental revenue, does not apply, according to Article 15 of the September 17, 1961 Law, to empty units as long as the owner provides notification of vacancy (*choughour*).[1651] However, a project recently discussed at the Ministry of Finance seeks to limit the *choughour*-based exemption to six months for individuals and 18 months for development firms in order to encourage transactions and the provision of empty units on the rental market.[1652] Further, unlike government practice in many other countries, the Lebanese state has not offered tax incentive to ameliorate annual rental yield and, thus, improve the attractiveness of the rental sector for individual and institutional investors.

[1647] Translation by the author
[1648] Senior housing expert, personal communication, March 17, 2015 (Translation by the author)
[1649] Whitehead, *op. cit.,* p. 152
[1650] Alain Bifani, personal communication, May 4, 2015 (Translation by the author)
[1651] Hechaime, A. (2015). L'impôt sur la propriété bâtie. *La Revue Fiscale Libanaise*. 3. 14-17, p. 16
[1652] Charbel Nahas (multiple personal communications, 2014-2016) contends, nonetheless, that the efficiency of this form of taxation on vacant property might be limited by an increased number of false rental contracts.

Revenues comprised of property rentals are taxed at a rate ranging from four to 14 percent while revenues earned from bank deposits are currently taxed at a flat five percent.[1653]

Long-term maturity and limited performance

From a financial perspective, the long-term maturity and limited performance of buy-to-rent real estate investment in absolute and relative terms have made this vehicle unattractive in Lebanon's post-war growth regime, despite the increasing costs to tenants.[1654] In the face of potential financial and political instability as well as of the increased financialization of the economy, the temporality and the rationale of rental property investment, which privileges annual yield, or rental income, in the medium-to-long term over short-term capital gains, has not fitted the expectations of most local investors. As explained in Chapter 3, the dominance of a rent-shaped and get-rich-quick mentality in the post-war period has pushed most resident and non-resident capital holders to privilege short-term placements, i.e., less than a year, that offer two-digit capital gains.[1655]

Rental yields in the liberalized residential market are not enticing in absolute terms. While they amounted to a five to eight percent range in Municipal Beirut in 2008-2009, they have declined in recent years to two to four percent.[1656] In comparison, rental yields are believed to reach a "5-11 percent range for premier city centers of the UAE, Morocco, Egypt and Jordan" and average "6.1 percent for emerging markets."[1657] This low level of rental return in the Lebanese capital has resulted primarily from a growing distortion of the relationship between purchase and rental prices. Purchase prices, on the one hand, have been driven up largely by a sustained demand and sellers' appetite for immense profit (see Chapter 6). Rental prices, on the other, are highly constrained by tenants' ability to pay, i.e., by the domestic average income. This is why annual rental yields for property investors have significantly contracted: property prices have rapidly escalated while rental prices could not follow the same pace.[1658] In other words,

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[1653] Paid by landlords, the built property tax uses rental value, i.e., annual rental revenue, as the tax base.
[1654] The situation of the informal rental sector is far different: with the recent, successive waves of Syrian refugees who are generally not offered the possibility of signing an official rental lease, it turns out to be very profitable.
[1655] Jean Riachi, personal communication, November 13, 2015
[1656] Guillaume Boudisseau, multiple personal communications, 2014-2016; Bank Audi, 2015, p. 8; Lebanon Opportunities Staff (2008, April). Global property guide's annual report: Beirut prices are competitive. *Lebanon Opportunities*. 68-69; Nahas, C. (2009). *Identification of factors behind real estate markets activity and exposure of the financial sector in Lebanon* (Unpublished report), p. 15; Yammine, 2007c, p. 85. Estimations are pre-tax and exclude maintenance fees and other costs.
[1657] Bank Audi, 2015, p. 8
[1658] Moreover, the large size of newly built units in Beirut also penalizes rental profitability. Real estate experts frequently explain that 'the smaller the floor area, the bigger the yield.'

inflated purchase prices have been more responsible for the limited profitability of buy-to-rent real estate investments than have low levels of rents. Nonetheless, this very concrete, adverse consequence of property asset inflation over housing provision has remained totally unexamined by Beirut-based financiers and policy makers.

The financial performance of rental real estate is even less attractive in relative terms: yields are lower than those obtained through other major domestic investment vehicles, namely bank deposits and directly subscribed government securities. The profitability of rental real estate assets, which is contingent upon the tenants' ability to pay, cannot fall into line with these well-remunerated, more liquid and less risky financial outlets. The influence of this yield differential on economic behaviours seems especially salient for upper-middle-class savers. In many countries, especially in the Global North, the latter seek to complete their present or future retirement pension by making their accumulated savings yield a regular profit through rental investment, as well as through other financial products such as life insurance and securities, rather than through poorly remunerated bank deposits. In so doing, small investors very much sustain rental supply in local housing markets. In contrast, many upper-middle class households in Lebanon privilege well-remunerated deposits. Any Lebanese saver with USD 150,000 looking primarily for return and less for capital gain gets a better yield by making his/her savings sleep at the bank rather than by buying and renting out a real estate asset. In 2015, deposited money accrued, in nominal terms, by 3.5 percent in US dollars and six percent in Lebanese pounds, as opposed to property, which generated a net rental yield of two to four percent.[1659] Furthermore, the elevated cost of lending has discouraged savers who would need a loan to close the financing of their buy-to-rent real estate purchase.

The financing model of the property industry: another obstacle to rental supply

In parallel to the limited appetite of savers for rent-to-buy investments, the financing model of the development apparatus in Beirut has been another obstacle to the production of rental housing. Its reliance on presales and equity investors with short-term profit expectations as well as on bank loans with high financial costs and medium-term maturity have made rental development and management, which requires long-term and affordable financing, very

[1659] Some housing specialists such as Antoine Chamoun (personal communication, May 12, 2015 (Translation by the author)) maintain, nevertheless, that, "obtaining a four percent annual rental yield from a property whose value ameliorates is always better than getting a six percent interest rate at the bank from deposits whose value is eaten up by inflation."

unpopular. Moreover, building residential units for sale has been more profitable by far. Yet, the property industry's practices have begun to evolve with the post-2010 property stagnation. "Some developers that originally made units for sale are now offering them for rent due to the slowdown in the sales of medium and large-sized apartments," suggests journalist Yasmine Alieh in Lebanon Opportunities.[1660] By the same token, small property professionals might follow to "maintain a stable and permanent livelihood" in the current time of uncertainty, but most likely in the commercial sector.[1661]

8.2.3 Revitalizing the Rental Housing Market: A Policy Priority

The unaffordability of rental prices and the unattractive character of buy-to-rent investments in Beirut have resulted in a reduction in size of the formal rental sector, which should be a nodal channel of housing provision. In many ways, the 2014 termination of rent control was a missed opportunity to rethink the organization of the rental market, reinvigorate it and make it more inclusive for renters and more enticing for investors. I suggest here that revitalizing the rental sector should be a policy priority for Lebanese legislators, which should first and foremost include the stimulation of rental yields through a variety of supply and demand-side public interventions.

8.2.3.1 The rise of rental yields: a prerequisite to reinvigorating the rental market

The "development of a healthy formal rental housing sector" is a key challenge to the organization of housing provision in many countries, note housing specialists Ira Gary Peppercorn and Claude Taffin.[1662] A strong rental sector provides housing solutions to households who cannot afford homeownership. Affordable rental markets also support labour mobility and help to limit urban sprawl, which often accelerates with the growth of homeownership and the fast-paced inflation of property prices in central areas.[1663] This is why an urgent need exists for public intervention in Lebanon to develop a vibrant and probably privately managed rental sector. Policy-making could include both supply-side and demand-side incentives, which should take

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[1660] Alieh, 2014f, p. 79
[1661] *Ibid*
[1662] Peppercorn, I., & Taffin, C. (2012). *Rental housing: Lessons from international experience and policies for emerging markets*. Washington, DC : World Bank. Directions in Development – Finance, p. xvi
[1663] *Ibid*

into consideration the country's specific financial, political, legal and socio-economic environment.

Identifying a comprehensive policy toolkit to boost the rental housing market is beyond the scope of this research; however, I find it important to stress that in the very specific Lebanese context improving the rate of return of rental properties should be a prerequisite to any policy initiative. Ameliorating the financial performance of rental properties appears to be the only realistic way to bring investors back and grow rental supply, since, for the regulation-related reasons analyzed in Chapter 3, the profitability of government securities and bank deposits is unlikely to decrease. Just as importantly, any initiative to stimulate rental yields should be designed without burdening the budget of low- and middle-income households who already struggle to find reasonably priced housing in the formal market. In this regard, two levers, relying upon a series of direct and indirect financial, fiscal and legal tools, may help to increase rental yields: the reduction of production costs on the supply side, and the provision of financial support to tenants on the demand side.

8.2.3.2 The reduction of production costs on the supply side

On the production side, policy interventions could concentrate on the provision of affordable land, the access to affordable financing solutions and tax incentives. The state, municipalities and religious organizations, as underlined in Chapter 6, are major landowners in Lebanon. In Municipal Beirut, estimates are that, in the early 2000s, central government agencies owned 20 percent of all lots, the municipality eight percent, semi-public organizations seven percent, and foundations and NGOs five percent.[1664] Although all lots are certainly not suitable for construction, this ballpark assessment shows the significance of the land portfolio retained by public and semi-public organizations. A portion of this reserve could be sold or leased, at a preferential price, to development companies committed to offering buy-to-rent schemes and/or developing rental management activities focused on affordable housing. The same goes for religious organizations and affiliated entities that could provide a limited share of their immense land portfolio (*waqf*). Some religious communities already provide land for construction activity through emphyteutic leases signed with developers who construct residential buildings targeting

[1664] Fawaz, 2003, p. 16. These estimates were provided without indication of the lot sizes and locations. Mona Fawaz (*ibid*) adds that, according to the Ministry of Finance, "state land amounted to 172 lots (5 percent of all holdings) with a total surface of 744,739 sq. m., that is 4.13 percent of all properties" in the early 2000s.

first-time buyers or large commercial developments (e.g., ABC Ashrafieh). Further, planning authorities can also implement inclusionary zoning measures such as density bonuses, relaxed planning regulations, and an eased and shortened permitting process for developments including affordable rental housing.[1665]

Equally importantly, builders and property owners need medium-to-long term and affordable tools to finance the construction, acquisition and renovation of rental dwellings. Financing schemes could combine targeted subsidies, soft loans and state guarantees for private loans. For instance, the BdL lift on reserve requirements and stimulus packages could be extended to funding for the adequate production of rental housing. Proactive state financial support indeed appears to be critical in a country such as Lebanon where bank and non-bank financial resources available for construction and renovation projects remain relatively expensive. Specific supply-oriented financing programs provided by the Public Corporation of Housing and the Housing Bank are also an option, and recent news confirms that the latter has been working on this type of supply-side financing solution. Alternatively, local banks can be also incentivized to provide tax-exempted financial products intended to collect deposits and provide affordable funds to builders involved in the construction of affordable rental housing (e.g., Livret A in France).[1666] The strategies seeking to revitalize the rental market observed internationally also include tax incentives for investors and landowners such as the deductibility of the major ongoing costs (e.g., maintenance work and interest paid), economic depreciation and the "possibility of using losses to offset taxes on other types of income."[1667] Likewise, the possibility of incentives lies in the adjustment of the built property tax rate so that rental investment becomes at least as attractive as bank deposits, as well as in a limited actualization of rental values, which the Ministry of Finance is currently preparing, for landlords who rent their assets at a preferential rate.[1668]

[1665] Fawaz, M., & Sabah, M. (2015, June). Charting a path: Opening the path to affordable middle-income housing. *Executive Magazine*. Retrieved from www.executive-magazine.com/opinion/comment/charting-a-path

[1666] Livret A-like financing schemes have been discussed several times since the early 1990s but, according to a senior housing specialist who declined to go on record, the banking sector showed vigorous opposition. The creation of any new financial product is challenging in the Lebanese financial environment where deposits are highly remunerated. In other words, any new financial instrument intended to fund the production of affordable housing should combine the uneasy objectives of providing cheap financial resources to builders and proposing sufficiently high remuneration to attract savings. A solution may reside in the use of a dedicated tax (e.g., taxation on real estate capital gains, 0.5 percent contribution from Lebanon-based firms' payroll) to cover the interest rate differential between affordable lending rates offered to builders and attractive deposit rates proposed to savers. Setting up this type of instrument in the financial sector would allow the redirection of a portion of savings towards the financing of renovation and construction activity in the rental housing sector.

[1667] Peppercorn & Taffin, *op. cit.*, p. xix

[1668] Article 36 of the 1962 Law, which defines the framework of the built property tax, allows the Ministry of Finance to re-evaluate rental values every three years. But, according to a senior manager from the Ministry of Finance, re-evaluations have been regularly frozen because of political pressures.

8.2.3.3 The provision of targeted financial support to tenants on the demand side

On the demand side, policy interventions, as in many countries worldwide, could focus on direct (e.g., housing allowances) or indirect (e.g., housing vouchers) financial support to tenants from targeted low- and lower-middle income groups.[1669] The Central Fund for the Displaced, for instance, which was created by Law 190 of January 4, 1993 to finance the return of war-displaced squatters, supplied this type of funding to individuals (e.g., grants, loans, tax and fees exemptions).[1670] Similarly, the Compensation Fund planned to facilitate the eviction of old tenants, voted in Parliament as part of the 2014 reform of rent control, rests upon the same rationale. In Lebanon, however, this type of financial assistance is problematic on multiple levels. First, housing allowances and vouchers are very costly policy mechanisms that the immensely indebted Lebanese state can hardly afford. Second, state-disbursed financial assistance, as underlined earlier in this chapter, is accompanied by an elevated risk of corruption and patron-client relationships that are likely to strongly impede its efficiency. Third, as indicated in the context of the compensation mechanism introduced in the 2014 rental law, an accurate measure of household revenue is almost impossible to find in Lebanon. Financial support to tenants, direct or indirect, without an appropriate targeting of beneficiaries, would thus probably not find its way into the wallets of the low-income groups who need it the most. Finally, this form of state intervention would very likely fuel the further inflation of real estate prices, as did subsidized mortgages, in the absence of a land policy that includes fair property and capital gain taxations. This is why revitalization of the rental sector must be part of a broader urban development strategy, including the introduction of a fully developed housing policy and strong initiatives to regulate land and real estate markets. It is the only way to ensure that benefits are maximized and negative implications limited.

In this section, I have explored the aspects of social, political and financial culture that have accounted for the unhealthy state of Greater Beirut's rental housing sector since the early 1990s. The rental market should be an essential alternative to exclusive channels of homeownership; yet, it has provided affordable housing solutions to a diminishing proportion of urbanites. Specifically, I have explained that the Lebanese form of rent control, despite an indisputable role in accommodating Beirut's low-income households, has reached a point where

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[1669] Peppercorn & Taffin, *op. cit.;* Taffin et al., *op. cit.*, p. 13
[1670] Sadik, *op. cit.*, p. 144

its adverse repercussions now probably exceed its benefits. Its controversial 2014 reform, which largely ignored the fate of low-income households, was a missed opportunity to reinvigorate the rental sector at large. I have also shown that the free rental market in the Lebanese capital, after years of fast-paced property inflation, has become increasingly unaffordable for most city dwellers and unattractive to investors. Finally, I have outlined the reasons why the rental sector should be a nodal channel of housing provision in Lebanon and why any plan for its revitalization should focus primarily on an increase in rental yields.

8.3 The Protracted Housing Crisis in the Formal Sector and Its Impact on the Informal Sector

An inevitable outcome of the exclusionary character of homeownership and the scarcity of affordable rental housing has been the exacerbation of a longstanding crisis in the formal housing sector. In this third section, then, I make the case that, in the absence of any holistic housing policy, the amplification of a multidimensional housing crisis in post-1990 Lebanon is a concrete negative repercussion of the regulation-urbanization nexus. I then open avenues for future research by hypothesizing that the massive shortage of affordable housing in the formal sector has increased pressure on the informal sector, which has increasingly been forced to accommodate the urban poor.

8.3.1 The Multiple Dimensions of the Housing Crisis at Play in Greater Beirut

The rise in significance of the regulation-urbanization nexus and the ensuing transformation of the local systems of housing provision have aggravated a housing crisis that has been deepening since the early 1970s. Housing markets are tense countrywide, but pressure has been especially acute in Greater Beirut. Overall, I suggest that this crisis has three important dimensions: it is, at the same time, an affordability crisis, an availability crisis and a crisis of political recognition.

8.3.1.1 An affordability crisis: the ever-increasing housing-income disconnect

The adverse impact of inflated property prices on the housing situation is neither new nor specific to Lebanon. The scarcity of affordable housing in Greater Beirut has been felt for several decades; however, it has intensified with recent property-led booms. In fact, housing markets in most MENA countries have experienced a crisis of affordability in recent years.[1671] The problem has been particularly sharp in Algeria, Iran, Morocco and pre-war Yemen.[1672] Put simply, in these countries as in Lebanon, since income levels have not kept pace, the strong price appreciation of homes, especially in large cities, has increasingly impeded access to housing.

From a spatial perspective, the disconnect between real estate prices and the available income of domestic demand over the past two decades has been particularly critical in Municipal Beirut. As illustrated by Chart 8.3 below, the inflation of property asset prices has far outstripped any rise in income. Between 2000 and 2014, Lebanon's average household income, based on the Gross National Income (GNI) per capita, has risen 85 percent; in the meantime, Municipal Beirut's real estate prices have increased by about 200 percent.[1673] Property price inflation, in other words, has been over twice the appreciation of per capita income.[1674] The housing-income gap gained particular momentum in 2007-2008 at the peak of the second property boom when the growth of property prices reached astronomical proportions. Taffin et al., who have also stressed this trend, found that real estate prices in Beirut "are similar to those of major French cities (like Lyon and Marseilles) with a [Beiruti] per capita income that is five times lower."[1675] As a study by BlomInvest Bank revealed in 2016, the minimum price of a family unit in Municipal Beirut was about USD 300,000, as real estate prices never fall below USD 2,000 per sq. m. and floor areas are rarely under 150 sq. m.[1676] Likewise, on the periphery, prices are rarely found below USD 1,200 per sq. m. Acquiring a home, even through a mortgage, therefore, has been a privilege in a society where 66 percent of the adult population has a net worth of less than USD 10,000, a majority of jobs are low paid, the average monthly wage is about USD 1,000 and the minimum monthly wage in the formal sector is USD 450.[1677]

From a social perspective, the price-income disconnect has been problematic for most income groups living in the capital and its suburbs. In 2012, housing-related expenses totalled an

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[1671] Baharoglu, Peltier, De Brular, & Bubley, *op. cit.*, p. v
[1672] Baharoglu, Peltier, De Brular, & Bubley, *op. cit.*, p. 3; Beidas-Strom, Lian, & Maseeh, *op. cit.*, p. 4
[1673] World Bank (2016b). *GNI per capita, Atlas method (current US$)* [Data file]. Retrieved from http://databank.worldbank.org/data/reports.aspx?source=2&country=LBN&series=&period=#
[1674] The actual housing-income disconnect in Municipal Beirut may be slightly less significant than the ratio and the chart suggest since the capital is home to a larger proportion of higher-income households than the rest of the country. However, I was not able to find income statistics at the *mohafaza* level to allow me to calculate on the basis of the total population of Municipal Beirut.
[1675] Taffin et al., *op. cit.,* p. 10
[1676] BlomInvest Bank (2016a). *In-depth review of the Lebanese real estate sector in 2015*. Beirut, Lebanon: BlomInvest Bank - Research Department. February 12. Retrieved from http://blog.blominvestbank.com/wp-content/uploads/2016/02/In-Depth-Review-of-the-Lebanese-Real-Estate-Sector-in-2015.pdf (p. 4)
[1677] Dibeh, G. (2014, September). Wealth in Lebanon for whom, for what? *Executive Magazine*. Retrieved from www.executive-magazine.com/opinion/comment/wealth-lebanon; Taffin et al., *op. cit.,* p. 3

average of 36 percent and 29 percent of annual household spending for Beirut and Mount Lebanon, respectively (vs. 28.5 percent at the country level).[1678] A retired senior planning official confirms that "even the general director of a state administration, who earns about USD 2,000 per month, cannot afford to purchase or rent a three-bedroom home in Beirut."[1679] The affordability question has been even more dire for the lowest income groups — those with an annual income of USD 9,290 or less — for whom housing crises have historically been the norm, to paraphrase urban scholars David Madden and Peter Marcuse.[1680] In 2012, housing-related expenses reached 45 percent of their annual spending at the country level.[1681] I was not able to find data sorted by income group at the *mohafaza* level but for low-income groups living in Greater Beirut the portion of income dedicated to housing most likely exceeds 50 to 55 percent. Accordingly, it seems clear that the heightened price-income disconnect, which affects the large majority of urban dwellers, has first and foremost discriminated against low-income households who have increasingly been priced out of the formal market

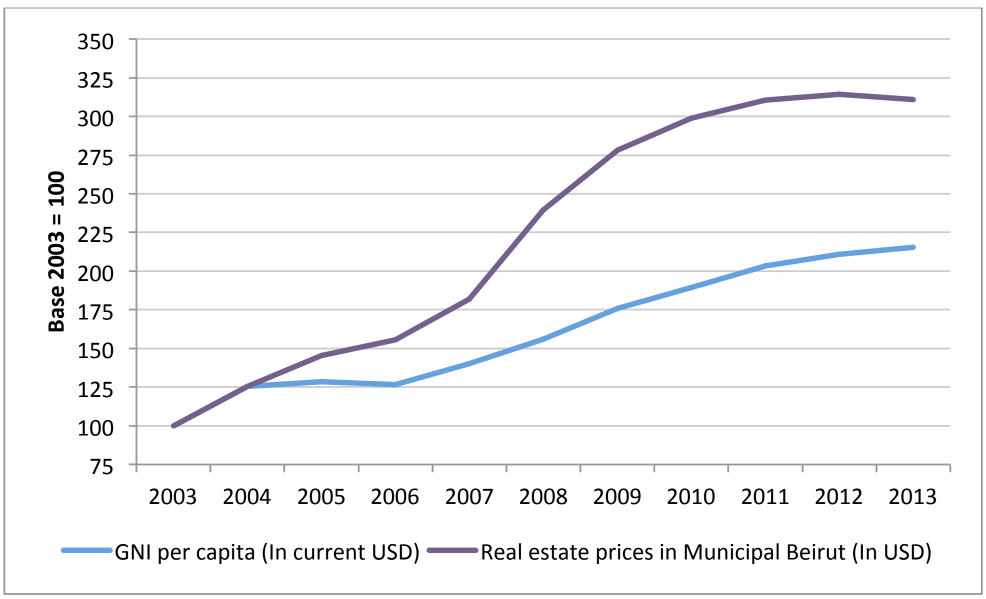

Chart 8.3 – The housing – income disconnect in Municipal Beirut (2003-2013)
(Sources: World Bank, 2016b; InfoPro, 2014 | Chart: Author)

[1678] Central Administration of Statistics (2012). *Households budget survey 2012* [Data file]. Retrieved from www.cas.gov.lb/index.php/all-publications-en. The calculation of housing-related expenses includes the cost of services such as water, heating and electricity. In the 2007 CAS survey, which was carried out before the late 2000s episode of inflation, the relative share of housing in median household expenditures was slightly lower (25.6 percent) (Fawaz, Saghieh, & Nammour, *op. cit*., p. 16).
[1679] Former senior planning official, personal communication, July 6, 2014 (Translation by the author)
[1680] Madden, D., & Marcuse, P. (2016, October 2). The permanent crisis of housing. *Jacobin Magazine*. Retrieved from www.jacobinmag.com/2016/10/housing-crisis-rent-landlords-homeless-affordability/
[1681] Central Administration of Statistics, 2012

8.3.1.2 An availability crisis: the supply vs. demand mismatch

Together with the price-income disconnect, most MENA countries have also been experiencing a crisis in availability of low-income housing.[1682] This is the case in Lebanon where, as analyzed throughout this dissertation, housing supply in terms of standards and tenure is not in line with a large portion of local demand. High-rise condominiums with palatial units targeted at the wealthy, resident and non-resident, have almost exclusively driven property supply in Beirut, while mortgage-based homeownership programs for the upper-middle and middle-income sectors have dominated in the suburbs. These drivers have produced a recurrent undersupply of formal small-scale, low-income and community-focused housing and of rental solutions. The construction of low-income housing is, in effect, not sufficiently profitable for the property industry and has been out of the scope of the state's property-led and regulation-driven vision of urban reform since the early 1990s (see Chapter 5). As a consequence, the formal sector has left unmet the bulk of the lower-middle and low-income demand.

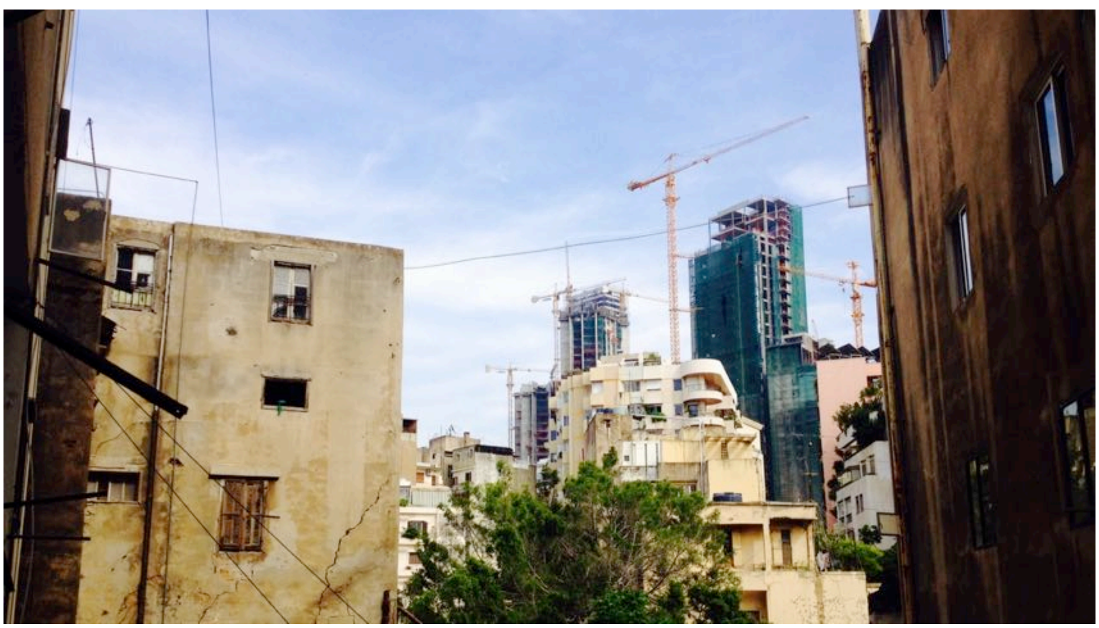

Figure 8.4 – Diversity of housing conditions in Municipal Beirut (pre-1954 buildings in the foreground) (Source: Author, 2014)

[1682] Baharoglu, Peltier, De Brular, & Bubley, *op. cit.*, p. v

Just as importantly, living conditions have remained harsh for many low-income communities in the existing overcrowded, war-damaged and ageing formal housing stock: according to the 2004 survey on housing conditions, 45 percent of living units in Municipal Beirut were in buildings erected before 1954 and 38 percent in buildings constructed between 1955 and 1978 (see Figure 8.4 above).[1683] This means that, as of the early 2000s, about 83 percent of living units were located in buildings constructed before the civil war. More recent data are not available but the statistics on demolition-based redevelopment given in Table 6.1 alone suggest that this share has been reduced throughout the 2000s. These estimates are, in any case, revealing of the conditions in which a significant number of Beirutis live; especially as a substantial, albeit hardly quantifiable, portion of the buildings in question was under rent control and therefore benefitting from limited maintenance and renovation efforts by landlords. The collapse of an old residential building in the district of Fassouh (East Beirut) in 2012, in which 27 residents were killed and 12 wounded, is a terrible but accurate illustration of the level of disrepair of a sizeable proportion of the city's ageing urban fabric. In addition, the provision of basic services remains very problematic. The same 2004 CAS survey shows that 28.7 percent of households in Beirut had weekly cuts to water service and 37.1 percent had daily cuts.[1684] In Mount Lebanon, 13.4 percent of residents had weekly cuts and 45.2 percent had daily cuts. The situation has not improved over the past decade; in fact the number and duration of cuts to water service has increased. As for power supply, outages now total three hours a day in Beirut while they sometimes reach 10 hours a day in Mount Lebanon. And, again, lower-income groups suffer the most from this irregular and unequal power generation because they cannot afford expensive private generators.[1685]

8.3.1.3 A crisis of political recognition: neoliberal beliefs prevail in elite circles

Issues of housing affordability and availability suffer further from a lack of political recognition among the ruling political and economic elites. Major business actors and political leaders simply ignore the implications of the regulation-urbanization nexus on the daily life of urban dwellers and/or play them down. This is, for instance, the case for the real estate tycoon

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[1683] Central Administration of Statistics (2004). *Main characteristics of residences*. Retrieved from www.cas.gov.lb/images/PDFs/Housing%20characteristics%202004.pdf (p. 307)); Fawaz, 2003, p. 13
[1684] Central Administration of Statistics, 2004, p. 324
[1685] Verdeil, E. (2009). Électricité et territoires: Regards sur la crise libanaise. *Revue Tiers Monde*, *198*(2), 421-436

Massaad Fares who had the following answer when I asked about the repercussions of the 2000s property boom on housing affordability: "This is life everywhere, do all the people live on the Champs-Elysées in Paris and in Manhattan in New York? Not all the population can live in the heart of the city."[1686] This reaction reflects the opinion of most bankers, property professionals and policy makers interviewed for this research: they consider the ever-worsening housing situation in Greater Beirut to be neither an issue nor a policy priority.

A large majority of elites buy the prevalent neoclassical discourse on the legitimacy of property supply and demand as determinants of the city's future. In this sense, they view the socio-spatial restructuring of Beirut as the logical outcome of natural forces, similar to the transformation of a large number of rapidly globalizing metropolises. Low- and middle-income groups will inevitably leave the city center and relocate in suburban areas where housing is more affordable. Most elites, in other words, have no objection to the current status quos. Beirut can and should be the exclusive turf of well-off populations and playground for local and transnational financiers who diversify portfolios and maximize returns by speculating in land and real estate markets. Its implications are not their concern. Such *laissez-faire* beliefs, widespread in the banking and property industries, also unsurprisingly penetrate the highest spheres of policy-making within the state (see details in Chapter 5). In the words of a senior policy adviser close to the Presidential Palace of Baabda: "I am not against the poor but we cannot go against the economy and the market's reality."[1687] And the same expert adds: "Land and housing are like *labneh*,[1688] they are commodities no different from others."

Interestingly, mentalities do slowly evolve and the 2014 reform of rent control sparked political reactions and timid debates on housing issues among local decision makers, in parallel to the rallying of an increasingly vocal civil society.[1689] An increased number of local elected officials now admit that the immense social and spatial dislocation which will follow the end of rent control is a source of concern. For example, Beirut's former Municipal Council, whose term ended in the spring of 2016, began to think through the possibility of pilot projects of affordable housing, shared between the eastern and western parts of the city, in partnership with the private

[1686] Massaad Fares, personal communication, October 15, 2014
[1687] Translation by the author
[1688] *Labneh* is a form of strained yogurt, typical of Levantine cuisine.
[1689] For instance, civil society organizations such as Public Works Studio have set up projects and organized events to raise awareness of the issues of evictions and access to housing in Beirut. Likewise, housing-related issues were brought into public debate by the Beirut Madinati slate during the municipal election of May 2016 (see Chapter 9).

sector, in order to counterbalance the termination of capped rental leases. "Building 10,000 to 20,000 units would be something logical for a city like Beirut," an informant close to former Mayor Bilal Hamad confirms.[1690] Yet, the cost of land and the difficulty of managing and maintaining public housing are seen, again, as major hurdles. This reluctance to change deeply held convictions within the elite shows that the recognition of the housing crisis as a policy priority remains a long way off in Lebanon. And one step forward can be followed by two steps back: as I complete this dissertation, the housing question remained completely absent from the campaign for the general election that took place in May 2018.

8.3.2 The Inevitable Reinforcement of the Informal Housing Sector

In many cities in the MENA region and beyond, "rapid urbanization, scarce affordable housing solutions, and a lack of public housing policies targeting the poor" have caused the growth of informal settlements, notes urban scholar Mona Fawaz.[1691] Lebanon of course is not spared: the duality of the housing market in Greater Beirut, already salient in the pre-war and war periods, became increasingly acute throughout the 1990s and 2000s as the importance of the informal sector grew. As this study concentrates on formal urban production, a detailed analysis of the qualitative and quantitative features of the surge of urban informality[1692] is beyond its scope. It deserves treatment, however. What is needed is an investigation of the specific causal links and mechanisms connecting the transformation of formal housing provision recorded here to the amplification of informal city-making.

I want to conclude this chapter by stressing the general rationale by which the regulation-urbanization nexus, which has amplified the housing crisis in the formal sector, has at the same time put the informal housing market under increased pressure. The exclusive restructuring of formal housing provision has affected the workings of the informal sector in many ways: in a domino effect, low-income households, incapable of finding affordable solutions in the formal market, move to increasingly dense informal settlements, causing prices to inflate and living

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[1690] Senior official of Beirut Municipality, personal communication, May 4, 2015

[1691] Baharoglu, Peltier, De Brular, & Bubley, *op. cit*.; Fawaz, M. (2009a). Contracts and retaliation: Securing housing exchanges in the interstice of the formal/informal Beirut (Lebanon) housing market. *Journal of Planning Education and Research*, *29*(1), 90-107, p. 92

[1692] By urban informality, I refer to the informal settlements, also called 'slums' or 'illegal neighbourhoods' in Lebanon (Clerc-Huybrechts, 2008), where "the majority of residents live in precarious economic and/or political conditions, with high levels of vulnerability, and where services and living conditions appear to be lower than other sections of the city" (Fawaz & Peillen, 2002, p. 7). As emphasized by earlier research (Clerc-Huybrechts, *op. cit*.; Fawaz & Peillen, *op. cit*., p. 7), equating informality to illegality is ineffective given that the violation of property rights as well as of building and construction codes and of zoning regulations is widespread in Lebanon, including in the formal sector. (Clerc-Huybrechts, V. (2008). *Les quartiers irréguliers de Beyrouth*. Beirut, Lebanon: Presses de l'Ifpo; Fawaz, M., & Peillen, I. (2002). *Urban slums reports: The case of Beirut, Lebanon. Understanding slums: Case studies for the 2003 Global Report on Human Settlements*. London, UK: Eartscan) conditions to deteriorate. To outline how this has been the case, I briefly review the specifics of urban informality in Beirut and the multifaceted mutations it has experienced in the post-war period.

8.3.3.1 The emergence of urban informality in pre-war and war years

The informal housing sector is considerable in Lebanon and it interestingly reflects the country's 20th century political and economic history. Overall, Mona Fawaz and Isabelle Peillen have identified three categories of informal settlement in Greater Beirut.[1693] The first encompasses the "international refugee camps" and "low-income housing areas for international refugees" that began to develop prior to the 1960s.[1694] Informal settlements first emerged in the 1920-1930s during the French mandate with the influx of Armenian and Syriac refugees in the areas of Karantina (Quarantaine), the Syriac Neighborhood and Burj Hammud (see Map 8.1 below).[1695] Similarly, the development of informal areas accommodating international refugees rapidly accelerated in the decades following 1943 Independence with the large influx of Palestinian refugees fleeing the 1948 Arab-Israeli war. This is the period when a number of Palestinian camps, such as Burj El-Barajneh and Shatila in the southern suburbs of Beirut, were established.[1696]

The second category encompasses the informal settlements created in the 1950-1960s to shelter the rural populations uprooted by endemic poverty on Lebanese periphery and attracted by the economic boom of the capital.[1697] This is the case for Karm El-Zeitoun in Municipal Beirut and Naba'a, Sabra and Ouzai in the eastern and southern suburbs. Finally, the third category refers to informal areas that grew up during the civil war to accommodate Lebanese refugees and squatters, for the most part disadvantaged Shia communities that fled Israeli invasions (1978 and 1982) and occupation (1978-2000) of South Lebanon.[1698] This is the case for Jnah beaches and Horsh El-Qateel in the southern suburbs. During the war years, sectarian-political divisions and unstable frontlines have also critically reshaped the geography of informal settlements in Greater Beirut. A large number of residents from existing slums located in the north-east industrial

[1693] Fawaz & Peillen, *op. cit*, p. 7
[1694] *Ibid*
[1695] Clerc-Huybrechts, *op. cit*
[1696] Clerc-Huybrechts, *op. cit*; Fawaz & Peillen, *op. cit.,* p. 1
[1697] *Ibid*
[1698] Fawaz & Peillen, *op. cit.,* p. 1; Fawaz, Saghieh, & Nammour, *op. cit.*, p. 17

suburbs were evicted and displaced to the southern suburbs, which belonged at the time to the western part of the capital controlled mostly by Muslim communities, Palestinian populations and left-wing groups.[1699]

Map 8.1 –Map of major informal settlements in Greater Beirut
(Source of aerial picture: Google Earth, 2017 | Map: Author)

[1699] Fawaz & Peillen, *op. cit.*, p. 1. In contrast to the very dense urban fabric that prevails today, the southern suburbs accommodated, at the time, "expensive sea-front beach resorts, empty green lots, or institutional buildings" (Fawaz & Peillen, *op. cit.*, p. 1).

8.3.3.2 The transformations of informal settlements in post-war years

The spatial expansion of informal settlements in Greater Beirut was halted in the 1990s by the termination of the civil war, several state regularization initiatives and policies for displaced communities, and the rapid urbanization of urban interstices in the metropolitan area.[1700] The impossibility of outward growth, however, has not prevented these low-income communities from experiencing fast-paced demographic growth, and this has bought about densification of the urban fabric, diversification of the housing supply and deterioration of the internal living conditions.

Again, solid data on recent demographic growth and the number of people living in slums is not easy to find. In 2003, researchers Mona Fawaz and Isabelle Peillen suggested that 300,000 individuals, equivalent to about 20 percent of the population of Greater Beirut, lived in the 24 informal settlements located in and around the capital city.[1701] Fifteen years later, the chances are high that this number has significantly increased but I could not find a more recent estimate. In parallel, the profile of dwellers of informal areas has diversified. Rural migrants, civil war displaced populations and Palestinian refugees have been joined by international migrant workers (e.g., mostly single males from Syria, Filipina, Ethiopia and Sri-Lanka) and Lebanese households who can no longer find reasonably priced accommodation in the formal housing market.[1702] Since 2011, dozens of thousands of Syrian refugees and Palestinian refugees formerly living in Syria have also settled in Greater Beirut's informal settlements.

The influx of new populations has put increased pressure on the local housing stock since the area of existing slums can no longer expand. The combination of demographic and spatial constraints has resulted in a fast-paced densification of substandard buildings (e.g., subdivided units, added floors).[1703] It has also contributed to the diversification of housing supply with the rise in importance of rental solutions: homeownership had previously been the dominant form of housing tenure regardless of the legal (or illegal) status of land ownership and construction.[1704] Rental apartments primarily accommodate recently arrived people looking for temporary

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[1700] Clerc-Huybrechts, *op. cit.*
[1701] Fawaz & Peillen, *op. cit.*, p. 29
[1702] *Ibid*
[1703] Fawaz, 2003, p. 10
[1704] Fawaz & Peillen, *op. cit.*, p. 1

housing.[1705] This has especially been the case of Syrian refugees in recent years: many have found accommodation in the rental black market and contributed to an unfettered rise in rents. According to property analyst Guillaume Boudisseau, prices have almost doubled in areas such as Naba'a and Burj Hammoud.[1706] This influx of vulnerable groups has fostered a lucrative business for unscrupulous landlords who provide low-quality housing without an official lease agreement, exposing tenants to the permanent risk of eviction and various kinds of abuse. As such, demographic pressure in Beirut's informal areas, fuelled partly by the increasing housing crisis in the formal sector, has increased housing tenure insecurity and worsened living conditions for most dwellers. Prospects are more worrisome with the phasing out of rent control. Unless the state reorients its regulation-driven management of urban issues and deploys affordable housing solutions, a fair number of lower-middle and low-income old tenants unable to pay the new rents or find alternative housing in the formal sector will have no choice but to move to the informal settlements in the coming years. In sum, I have attempted to demonstrate in this section that the restructuring of housing provision in post-war Beirut has amplified the multidimensional housing crisis prevailing in the formal market and put increased pressure on the informal market to accommodate the urban poor.

Conclusion

In this chapter, I examined how the regulation-urbanization nexus in post-1990 Lebanon, apart from reshaping the development process and its agents, has reconfigured the entire system of housing provision, both functioning and financing, and intensified a protracted housing crisis. Three key findings were emphasized. First, the exclusive restructuring of the housing market has mostly resided in the progressive deployment of bancarized homeownership, essentially through state-sponsored mortgage programs. These schemes have primarily helped upper-middle-class households to afford a higher purchase price in a period of rapid property inflation; in contrast, they have not addressed the critical issue of affordable housing supply for the lower-middle- and low-income urbanites excluded from the financial system. Second, functioning of the rental sector, which should be a key alternative to homeownership, has been on the decline for the past 25 years. Rent control, which organized landlord-tenant relationships for decades, had come to

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[1705] Ataman, J. (2015, June). Renting on Lebanon's black market. *Executive Magazine*. Retrieved from www.executive-magazine.com/business-finance/real-estate/renting-on-lebanons-black-market; Clerc-Huybrechts, *op. cit*.
[1706] Guillaume Boudisseau, multiple personal communications, 2014-2016

have more costs than benefits and was phased out by the controversial 2014 rental law. In parallel, the free rental sector has come to be unaffordable for many city dwellers and unattractive to investors in Lebanon's specific financial environment. Its reinvigoration should, however, be a top policy priority. Third, the exclusive reorganization of local housing provision has amplified a multidimensional housing crisis that has affected the country, and more particularly Greater Beirut, since the 1970s. This crisis is threefold: that of affordability, of availability, and of a lack of political recognition. In addition, I argued that the ever-increasing crisis in the formal sector, by way of domino effect, has put the informal housing sector under considerable pressure to accommodate the urban poor.

In very concrete terms, over the past quarter century, the divide has continued to grow between urban haves and have-nots in Greater Beirut. On the one hand, about a third of the population is bancarized and has sufficient income to access homeownership, often due to subsidized programs, and/or rental solutions in the formal market, albeit at the cost of burdensome financial sacrifices.[1707] On the other hand, the other two thirds of the local population, consisting of lower-middle communities and frequently unbancarized low-income groups, have increased trouble accessing formal housing. Many then turn to the informal sector, where tenure insecurity and deteriorated living conditions prevail. An important concern of urban research in recent decades has been the extent to which the housing crisis confounding many societies across the Global North and South is the outcome of contingent imbalances in local development trajectories or, a permanent feature of the urban political economy in financialized capitalism.[1708] In the case of Lebanon, I suggest that the amplification of the housing crisis in the post-war period has not been a "temporary dysfunction" to paraphrase David Madden and Peter Marcuse.[1709] Instead, it has been the consistent, predictable and systemic repercussion, or in other words, the inevitable social cost, of the ever-increasing significance of the regulation-urbanization nexus in the country's rentier and finance-led growth regime.

[1707] As underlined earlier in this chapter, 47 percent of the Lebanese population has a bank account (World Bank, 2014). Moreover, access to credit is even more restrictive: in 2014 only 34.8 percent of Lebanese adults borrowed money and 15.6 percent borrowed money from a financial organization (BlomInvest Bank, 2015d).

[1708] Aalbers, M. B. (2015b). The Great Moderation, the Great Excess and the global housing crisis. *International Journal of Housing Policy, 15*(1), 43-60; Madden & Marcuse, *op. cit*.

[1709] Here, I use the words and refer to the work of David Maden and Peter Marcuse (*op. cit*.) on the political-economic dimensions of the global housing crisis and the related difficulty of accessing affordable housing. The two urban scholars argue that the difficulty of accessing affordable housing is not the temporary malfunction of a generally sound system; instead, it is the "predictable, consistent outcome of a basic characteristic of capitalist spatial development."

Chapter 9 – Conclusion

In this thesis, I have attempted to tease out how and why the political economy of urban production in Beirut is embedded in the political economy of post-war Lebanon. This final chapter will begin with a review of its major findings, contributions and limitations. It will then move on, in section two, to the ultimate repercussions of the regulation-urbanization nexus: the transformation of social relations and mutations in the nature, structure and exercise of power in Beirut over the last two decades. Section three will conclude by laying out what I see as the grim future of 'pegged urbanization.' In a politically and financially fragile environment such as that of Lebanon, the unconventional model of city development is increasingly contested by an emerging urban social movement and threatened by the risk of a property-driven financial crisis.

9.1 Findings, Contributions and Limitations

The aim of this work was to elucidate the causes and mechanisms, identify the agents, and assess the multiple implications of the baffling property frenzy that, against all odds, has channelled so much money into real estate and construction and unleashed a large-scale restructuring process in post-war Beirut. This first section summarizes its major findings, contributions and limitations.

9.1.1 Findings

Within Beirut, mainstream explanations frequently feature self-adjusting property market forces, sectarianism, and state absence as determinants of the rationales, mechanisms and actors driving city development. This thesis has worked to disprove this view by illuminating the critical importance of property to the sustainability of the local growth regime. The deliberate amplification during reconstruction years of its rentier and finance-driven nature is argued to be responsible for the large-scale process of property-led redevelopment that has been reorganizing the Lebanese capital, physically and socially, since the early 1990s. I have substantiated my argument by deconstructing the circle of mutual dependence and interaction between urban production, on one hand, and the short-term reproduction of national capitalism, on the other. Laid bare has been the pivotal role of the growth of real estate and construction activity, and the three-digit inflation of property asset prices, in the structuring and stabilizing of post-war Lebanon's political economy. My ambition has been to reposition city development in general and the buoyancy of the real estate sector in particular as social phenomena driven primarily by concerns for economic growth and financial and monetary stability. To graphically illustrate the financial relationships uncovered, I proposed the middle-level construct of 'pegged urbanization,' in which the property market, through its financing, is the peg that binds city-making to capitalist regulation. This institutional perspective on the production of space has entailed a two-step analysis that has successively revealed the details of what I have called the regulation-urbanization nexus. It has also made possible an assessment of the repercussions of this nexus for the nature and organization of urban development, housing provision, social relations, and the nature and structure of urban power.

My case study of Beirut was divided into three parts. Part One outlined the conceptual foundations and challenges of 'pegged urbanization'; Part Two documented and analyzed the rationale and architecture of the regulation-urbanization nexus. Here I identified the major characteristics and challenges of local capitalism and pointed to the way in which its facilitation by local authorities has transformed the property market into a meso-level institution of regulation. In doing so, I isolated the policy interventions of a legislative, organizational and monetary nature, generally masterminded by the central bank, which have critically shaped the rules, resources and agents of the property market. I suggested that they have made real estate and construction activity, and housing prices, both a *consequence* and an *instrument of regulation*. As importantly, I identified the ways in which the feedback loop connecting urbanization and regime regulation has led to the further financialization of land and real estate assets and, consequently, to the ever-increasing intertwinement of the property and financial sectors.

In Part Three, I brought to light the considerable implications of this state-sponsored regulation-urbanization nexus for the concrete mechanics, agents and outcomes of spatial production in Beirut. I emphasized its impact on the features of the development process as it orients the workings of property price formation, the trajectory of property cycles, and the specifics of physical and social urban transformation. As importantly, I analyzed the contribution of the nexus to the emergence of a new generation of returnee city builders whose renewed standards, practices and networks have brought about the further financialization and professionalization of the development industry. I then unpacked the ways in which the growing interplay of urbanization and regulation has dramatically reshuffled the organization of formal housing provision and amplified a multidimensional housing crisis by consecrating the priorization of bancarized homeownership and weakening the rental sector. Finally, in this conclusion, I complete my analysis of the nexus' repercussions by examining how 'pegged urbanization' transforms social relations and highlights the multidimensional character of power in post-war Lebanon. I specifically make the case that it exacerbates existing social inequality as much as it relies on elite consensus and cooperation in the exertion of urban power.

9.1.2 Contributions

As indicated in my introduction, investigation of Beirut's 'pegged urbanization' has allowed me to make three sets of contributions.

Primarily of an empirical and analytical nature, the first set enhances our understanding of the political economy of property-led (re)development in the Lebanese capital through the identification of a regulation-urbanization nexus. My institutional study of the baffling attractiveness and vitality of the property market has brought to light a series of under-researched dimensions, misconceptions and policy perspectives that explain to a large extent the scope, intensity, agents and features of the city-building model under study. It did so through a detailed analysis of the ever-intensifying finance-property interplay and its implications for development activity and housing production as well as of the key role of the national state and the salience of elite interests in urban affairs. Each counterbalances a number of false conceptions dominating discourses on, and analyses of, Beirut's property market and urban politics. As such, this thesis is likely to provide useful material for public and policy debates on future urban interventions in the Lebanese capital as well as for scholars and practitioners undertaking research and work in Southern metropolises facing similar financialization dynamics and/or reconstruction challenges.

The second set of contributions is more theoretical: it attempts to expand the existing city and social science scholarships by demonstrating the heuristic power and traveling capacity of the Northern political economy literature in the unpacking and theorization of increasingly financialized urban development processes in the Global South. First, my analysis of the macro-, meso- and micro-dynamics of 'pegged urbanization' specifically highlighted the tremendous conceptual and methodological input of regulation theory, and, more generally, of institutional approaches, in urban research. Second, it demonstrated that the study of 'growth politics from above' by urban political economists should combine with the exploration of the dynamics 'from below' by post-colonial thinkers to better capture the plurality and complexity of urban processes in Southern metropolises. To show the efficacy of this twofold approach to urban studies, this research particularly emphasized the investigation of property activity in social regulation strategies and the related financialization of land and real estate assets. Third, I documented what some might see as the unexpected usefulness of applying these political economy research streams to a conflict-affected economy and society of the Global South: the strenthening and expansion of a field of knowledge elaborated almost exclusively in the North. My Beirut case study underlined the multiple roads to the financialization of property observed in the South, which may differ from those discussed in the existing Northern-centric literature and vary according to the country-specific characteristics of financial and economic systems. I explained, moreover, that the implications of property-based regulation and the financialization of urban production are even more problematic in Southern urban environments. Inflationary dynamics and the priorization of bancarized homeownership almost certainly have a more disturbing impact on access to housing in societies where financial exclusion is commonplace and public housing systems are largely insufficient or absent. The increased entwining of the financial and property sectors also exposes local economies and communities to the risk of property-driven financial crises (see later in this chapter).

The last set of contributions emphasizes the plurality of factors that shape spatial production in divided cities embedded in transnational circuits of people and capital. Overall, the thesis attempted to reposition building processes in politically fragile environments as social phenomena not circumscribed by territorial domination, competition and expansionism. Sectarian/ethnic and political-economic explanations work together to account for the making and organization of conflict-shattered cities and hence the nature, structures and practices of power. Three findings appear to be particularly meaningful for international development practitioners and for scholarship on the contested city. First, the rebuilding of the fundamentals of a domestic economy, financial and monetary system and governing arrangements undertaken at the time a country emerges from war will define the objectives and features of its future urban production. Second, growth politics such as those in Beirut illuminate a face of power widely ignored in the divided cities literature: elites assemble power and govern cities in conflict-shattered societies through the social production of urbanization as much as through coercion, patronage and territorial control. As shown later in this chapter, the cooperation of rival elites in urban affairs hinges on a broad consensus on the need for more capital storage and circulation in property and the use of city-making to stabilize local capitalism. Third, existing scholarly arguments that portray national and local authorities in conflict-ridden cities as rational agents using urban policy and planning for domination or peace-building can be qualified by the ability of states such as Lebanon to mobilize shared interests in the institutional design of urban production. The case of Beirut demonstrates the ability of the state to be an arena for elite interest aggregation in which city-related public decisions are consensually adopted to sustain economic growth and financial and monetary stability and to secure a number of property-related rent-seeking mechanisms.

9.1.3 Limitations

Overall, I have identified two types of limitation that could reduce the significance of these empirical, analytical and conceptual findings and contributions. First, my position as a foreign researcher who barely speaks Arabic probably posed a limitation to my field research in Beirut, but was also an asset in other ways. I had relatively limited access to non-Anglophone and non-Francophone informants and sources of information, which prevented me from gaining a full view of stakeholders and their opinions. Further, I had no access to respondents outside educated and internationally connected circles, which prevented me from getting a sense of popular, non-expert perceptions of ongoing urban transformations and elite politics in Beirut. A second and more significant limitation, however, lay in the monographic character of my study: a cross-city and cross-country comparison would have allowed me to test the robustness of my conceptual proposition of 'pegged urbanization' outside Lebanon. Yet, this flaw can be an opportunity for future research: comparative analysis of urban growth politics should be conducted in other financializing environments of the Global South, including other divided cities, to confirm, qualify or disprove my Beirut-based institutional interpretation of urban production.

9.2 The Transformations of Social Relations and Urban Power in Post-War Lebanon

In many ways, the study of 'pegged urbanization' shows how much the embeddedness of urbanization in the reproduction of Lebanese capitalism transforms prevailing social relations and reveals the multidimensional nature, structure and exercise of urban power in post-war Beirut.

My argument here is twofold. First, I contend that 'pegged urbanization' is an elite political project that helps to exacerbate vertical inequality and to make regime stability a hegemonic endeavour by way of the formation of a new property-owning upper middle class. Second, I emphasize that the growth of real estate and construction activity and the inflation of property asset prices are both objects and sources of elite consensus and cooperation. These then, alongside communal coercion, territorial control and patronage become prerequisites for the social production of the particular form of governance of the Lebanese metropolis.

9.2.1 Heightened Vertical Inequality and Reshuffled Social Relations through the Formation of a Property-Owning Class

Land and real estate are frequently influential factors in the (trans)formation of social structures and relations as well as of hierarchies of power. This is the case of post-1990 Lebanon, where the centrality of property to local capitalism and its regulation has brought about salient social reconfigurations. I specifically emphasize how the regulation-urbanization nexus, apart from reshuffling the capital city's population through evictions and creation of unaffordable housing, has sharpened wealth disparities and generated the emergence of a new property-owning upper-middle class.

9.2.1.1 Property, a major factor of unequal wealth and income distribution

The regulation-urbanization nexus is a powerful engine of vertical inequality. In many respects, the surge in land and real estate asset values has, over the last quarter century, consolidated the power of dominant social groups through the exacerbation of existing inequalities in wealth and income. As indicated in Chapter 8, the escalation of property prices has widened the gap between households who directly or indirectly own land and real estate assets and those who cannot afford homeownership. The former, especially the rentier class, have been the primary beneficiaries of inflated realty prices, the effect of which on middle-class homeownership was partially compensated by plans to expand and increase the affordability of housing finance schemes for those buyers. The latter, who can barely manage to find affordable housing solutions in the formal or informal sector, were left out of the picture. This situation supports the accusation, lodged by many scholars, that financialization dynamics benefit "the owners of capital and some sections of the upper middle classes, while the vast majority of people struggles to survive."[1710] In effect, property-owning groups in post-1990 Lebanon have seen their wealth grow significantly through the inflation of capital asset values and the escalation of equity-earning revenues (e.g., rents, profit from direct stakes in development projects, dividends on real estate-related equities, etc.) in the wider context of an increasingly asymmetrical capital-wage relationship (see Chapter 3). As such, property in the post-war period, alongside public debt, has been a major rentier source of wealth accumulation for well-off groups.

This reinforces the findings of Facundo Alvaredo, Lydia Assouad and Thomas Piketty that portray the Middle East as the most unequal region in the world against the backdrop of a global upsurge of socio-economic disparity.[1711] In the case of Lebanon, there is little doubt, following Piketty's 'R>G' theory on the production of inequality (see Chapter 2), that since the early 1990s returns on property-related investments have inflated much faster than growth of the GDP.[1712] The regulation-urbanization nexus has almost certainly contributed to a boosting of 'R', which has resulted in sharpened disparities in wealth and income and the aggravation of the housing crisis (see Chapter 8). The critical role of urban production in the further exacerbation of socio-economic gaps and the polarization of social relations in Lebanon should not be taken lightly. The history of its post-independence inequality, and social science scholarship in general, show the significant influence of vertical and horizontal inequalities on political behaviours, and the negative impacts they can have on social and political stability.

9.2.1.2 The emergence of a property-owning upper middle class

A distinction should be drawn, among the short-term beneficiaries of the nexus, between the capitalist elite and traditional land-owning bourgeoisie, on one hand, and the (upper-)middle-class groups owning property for the first time, on the other. The rise of this new category of property owners epitomizes mass-based financialization and merits special attention as the concrete consequence of public policies specifically intended to generalize homeownership. In line with research on the affects on class formation of the increasing interweaving of property and

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[1710] Becker, J., Jäger, J., Leubolt, B., & Weissenbacher, R. (2010). Peripheral financialization and vulnerability to crisis: A regulationist perspective. *Competition & Change, 14*(3-4), 225-247, p. 234

[1711] Alvaredo, F., Assouad, L., & Piketty, T. (2017). *Measuring inequality in the Middle East 1990-2016: The world's most unequal region*? (WID. Word Working Paper Series. No. 15). Retrieved from http://wid.world/document/alvaredoassouadpiketty-middleeast-widworldwp201715/

[1712] Thomas Piketty (2014) contends that disparities in wealth and income distribution increase in a country when the net rate of investment return (R) grows faster than GDP growth (G). Generally, 'R' and 'G' are considered social constructions shaped by social struggles and institutions. (Piketty, T. (2014). *Capital in the twenty-first century*. Cambridge, MA: The Belknap Press of Harvard University Press) finance, I suggest that increased homeownership in the Lebanese upper middle class expands the population base with an economic interest in the stability of the post-war growth regime.[1713] Indeed, homebuyers find themselves in a paradoxical situation where their propertied self-interest is bound to the persistence of a vicious cycle of property-based accumulation and regulation that forced the price of their mortgaged property up to an unreasonable level. Households, in other words, become asset managers captive of their home loans: any crisis entailing a property price collapse can lead them to bankruptcy, a potential scenario for which the 2008 US subprime crisis is a powerful precedent. The interests of rentier groups and property-owning upper-middle classes are then no longer contradictory, which makes the latter "much more inclined to accept anti-crisis policies that privilege the financial sector." [1714] Accordingly, bancarized homeownership, apart from recycling the financial sector's excess liquidity, appears to be a powerful form of social control. Its spread of 'shareholder value' among newly property-owning groups creates financial, social and political behaviours that are expected to be conservative and respectful of the existing social order. In fact, this form of control is more evidence of the extent to which Lebanon's 'pegged urbanization' is first and foremost a hegemonic and elite political project rooted in deeply unequal (property) relations.[1715]

9.2.2 Who Governs and How is Power Exerted in Post-War Beirut?

Who governs and how power is exerted are issues with a long tradition in the research on urban politics. In Lebanon, one can argue that the nature, structure and practice of urban power reflect the post-Taif consociational environment of power- and rent-sharing. Power dynamics at the city level are in effect very much in line with those driving elite politics at the level of the state. More specifically, I suggest that widespread consensus and cooperation exists among local elites for upholding policies of property growth and inflation, i.e., the drivers of 'pegged urbanization.' I also make the case that elite cooperation, materialized in a loose coalition governing through the national state, is a prerequisite for social production. In many ways, this

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[1713] Buckley, M., & Hanieh, A. (2014). Diversification by urbanization: Tracing the property-finance nexus in Dubai and the Gulf. *International Journal of Urban and Regional Research*, *38*(1), 155-175

[1714] Becker et al., *op. cit.*, p. 231. Regulation economist Robert Boyer conceptualized this convergence of interests in patrimonial regimes of accumulation (Clévenot, 2006, p. 172). (Clévenot, M. (2006). *Financiarisation, régime d'accumulation et mode de régulation. Peut-on appliquer le "modèle" américain à l'économie française?* (Unpublished doctoral dissertation). Retrieved from https://tel.archives-ouvertes.fr/tel-00120886/document)

[1715] British scholar Michael Dunford (1990, p. 308) refers to a hegemonic project as a "political, institutional, and moral strategy which is economically conditioned and relevant but whose domain is civil society as a whole and not just the economic sphere." (Dunford, M. (1990). Theories of regulation. *Environment and Planning D*, *8*(3), 297-321) relational form of power has become as critical as sectarian coercion, territorial control, and patronage as a form of elite governance of post-war Beirut.

9.2.2.1 Property, an intra-elite consensus and cooperation builder

Urban scholars have long investigated the realm of pro-growth governance in North American and European cities (see the brief reviews of regime and network governance theories in Chapter 2).[1716] They particularly stress the shared interest in heightened capital accumulation in the built environment and the consensual orientation which facilitates cooperation and consensus among public actors and business people who, no matter how divided they might be on other issues, build growth coalitions to elaborate development strategies and undertake lucrative real estate projects. It seems reasonable to contend that a similar coalition exists in post-1990 Beirut, where the various Lebanese elites, mostly wheeler-dealer sectarian leaders, the traditional land-owning bourgeoisie, and returnee businessmen and financial oligarchs (also known as the 'new contractor bourgeoisie'[1717]), loosely aggregate their interests. They do so directly through state entities and/or indirectly through powerful lobbies such as the Economic Committees, in order to boost property activity and asset prices. In line with the division of power and spoils institutionalized by the Taif Agreement, the state, as investigated in Chapter 5, is indeed a prime arena for interest aggregation when it comes to property issues. The centrality of the national state in urban growth politics is, in a way, a Lebanese specificity when compared with other Southern and Northern metropolises, where provincial and local governments play a much more significant role — although the fate of primate cities frequently draws attention from the central state. The far-reaching involvement of the national state in Beirut's urban affairs is probably a function of the centralization of the Lebanese government, the country's small size, the macrocephaly of the capital city, and the centrality of urban production to regime regulation. It is also, of course, a function of the actual individual interests of elite state members (e.g., Members of Parliament, Ministries, etc.) and their business associates in the local land and real estate markets. It is worth underlining, however, that, as analyzed throughout this study, the generally

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[1716] Harding, A., & Blokland, T. (2014). *Urban theory: A critical introduction to power, cities, and urbanism in the 21st century*. London, UK: Sage; Logan, J. R., & Molotch, H. L. (1987). *Urban fortunes: The political economy of place*. Berkeley, CA: University of California Press; Molotch, H. (1993b). The political economy of growth machines. *Journal of Urban Affairs, 15*(1), 29-53; Pierre, J. (1999). Models of urban governance: The institutional dimension of urban politics. *Urban Affairs Review, 34*(3), 372-396; Stone, C. (1989). *Regime politics*. Lawrence, KS: University Press of Kansas

[1717] Baumann, H. (2012a). The 'new contractor bourgeoisie' in Lebanese politics: Hariri, Miqati and Faris. In A. Knudsen, & M. Kerr (Eds.). *Lebanon: After the Cedar Revolution* (pp. 125-144). London, UK: Hurst limited level of state institutional capacity and the further interconnectedness of the financial and property sectors have made the BdL the most influential public agent in the loose coalition at play. The pivotal role of the Governor of the central bank and of a handful of high-profile (central) bankers, who all hold "informational power" by being acutely aware of the growth regime's strengths and weaknesses, reflects, in many ways, the ever-increasing responsibility of financial elites in the social construction of the property market and, more broadly, of urban production, as is the case in many countries across the globe.[1718]

In light of the consociational character of Lebanese elite politics, elite cooperation and consensus in urban affairs is not surprizing. Cross-sectarian agreement existed in pre-war and war years on the importance of GDP growth and the primacy of business at any cost, as well as on the crucial role of the banking sector in stabilizing the country's political coalitions (see Chapter 1).[1719] It seems reasonable to suggest, then, that land and real estate, in which elite agents have multiple common and/or convergent stakes, have joined banking and trade as the new fields of elite cooperation and integration. In a wider theoretical perspective, this finding demonstrates the ways in which the management of property activity and asset prices can provide an arena for consensus and cooperation among elite groups in contested cities and societies where divisions are of a different nature and, in many cases, more structural than in those countries experiencing civil peace on which the urban scholarship on growth politics and regimes has been elaborated so far.

9.2.2.2 Social production as a critical form of power

Inspired by urban regime theory, I see the widespread elite consensus and cooperation on property issues as a product of the access it provides to the ruling class to the 'two faces of power' used to acquire and stabilize its governance of post-war Beirut.[1720] On the one hand, it derives power from the sectarian coercion, territorial control and patronage that a number of groups impose on communities (*power over*). Sectarian leaders, with the potential assistance of

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[1718] Lorrain, D. (2011). La main discrète: La finance globale dans la ville. *Revue française de science politique, 61*(6), 1097-1122

[1719] Chaaban, J., & Gebara, K. (2007) *Development in a polarized society: Looking at economic and social development in Lebanon through a different lens*. (Abaad. 11, Lebanese Center for Policy Studies (in Arabic)). Retrieved from http://jadchaaban.com/wp-content/uploads/2015/06/Development-in-a-Polarized-Society.pdf; Moore, C. H. (1987). Prisoners' financial dilemmas: A consociational future for Lebanon? *The American Political Science Review*, *81*(1), 201-218; Picard, E. (2005). Trafficking, rents, and diaspora in the Lebanese War. In C. J. Arnson, & I. Wi. Zartman (Eds.). *Rethinking the economics of war: The intersection of need, creed, and greed* (pp. 27-67). Washington, DC: Woodrow Wilson Center Press

[1720] Bachrach, P., & Baratz, M. S. (1962). Two faces of power. *The American Political Science Review*, *56*(4), 947-952; Mossberger, K., & Stoker, G. (2001). The evolution of urban regime theory: The challenge of conceptualization. *Urban Affairs Review, 36*(6), 810-835; Stone, *op. cit*.

other categories of elites, hold power over a series of political-sectarian strongholds in the divided geography of the Lebanese metropolis. This aspect of urban politics has been widely underlined in the literature on divided cities. On the other hand, and this is one of the current study's contributions, local elites also accrue power through the setting of policy agendas, coalition-building and cooperation, political and economic resource mobilization, and institution building within the social space of city-making. This second conception of power is understood as "social production capacity" (*power to*):[1721] urban political economists remind us that whoever controls the politics of production controls the city.[1722] A precondition to elites' acquisition and assembly of this form of power has been the transformation of the national state into an arena of financial and property interest aggregation whose ultimate purpose is to secure the growth regime's stability and to advance the interests of individual and collective businesses.[1723] In particular, state policy instruments, the rational and technical tools of social production, have played a key role in actualizing this agenda and, thus, in structuring the coalition's power relations and securing elite social hegemony (see Chapter 5).[1724] This is the basis for my argument that elite politics very much matter in post-war Beirut. Of course, a situation where state entities and instruments are "increasingly beholden to the interests of a narrow class of financiers and entrepreneurs" is not specific to Lebanon: it has existed for years in other regional capital cities opened to transnational circuits of capital and people such as Cairo, pre-war Damascus, and Istanbul.[1725] Nevertheless, a major difference lies in the fact that pro-growth development in these cities generally forms part of a set of neo-patrimonial practices undertaken by a single presiding autocratic.

The various forms of power in play here stress the ways in which urban production, in a number of rapidly globalizing contested cities such as Beirut, is a matter of both competition and cooperation. Elites compete to protect, and sometimes expand, their political-sectarian and/or ethnic turfs as much as they cooperate to maximize the built environment's exchange value and to bolster property activity. Yet, development experts and analysts too often ignore this latter

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[1721] Stone, C. (1993). Urban regimes and the capacity to govern: A political economy approach. *Journal of Urban Affairs, 15*(1), 1-28, p. 15
[1722] Harding & Blokland, *op. cit*., p. 93
[1723] In a way, the transformation of the national state into an arena of financial and property interest aggregation can be also interpreted as an effect of the elite's "power to."
[1724] Lascoumes, P., & Le Galès, P. (2005). Introduction: L'action publique saisie par les instruments. In P. Lascoumes & P. Le Galès (Eds.). *Gouverner par les instruments* (pp. 11-44). Paris, France: Presses de Sciences Po
[1725] Lovering, J. & Turkmen, H. (2011). Bulldozer neo-liberalism in Istanbul: The state-led construction of property markets, and the displacement of the urban poor. *International Planning Studies*, *16*(1), 73-96; Mitchell, T. (1999). No factories, no problems: The logic of neo-liberalism in Egypt. *Review of African Political Economy, 26*(82), 455-468

dimension. It remains a fundamental blind spot for any scholar seeking to understand urbanization trajectories, or for any practitioner or decision-maker undertaking planning and development initiatives in such fragile urban environments. As importantly, this finding brings to light the agency of local actors in the production of space in Beirut and in most conflict-affected metropolises where class and religious/ethnic drivers are not mutually exclusive.

9.3 The Future of 'Pegged Urbanization' in Question

Regardless of the widespread consensus and cooperation it has sparked among local political and economic elites, the prospects for Lebanon's 'pegged urbanization', more than 25 years into peacetime, seem grim. Its structural deficiencies and vulnerabilities are increasingly obvious. And an emerging urban social movement in hand with a property-generated financial crisis threatens to destabilize the controversial system of urban production.

9.3.1 An Urban Social Movement in the Making

Alongside elite consensus and cooperation, a bottom-up mobilization transcending political-sectarian affiliations has recently emergence in post-war Beirut to denounce the persistent crises of 'collective consumption.'[1726] Substantial inequality exists amongst urban dwellers: water and electricity supplies are rationed; public transportation is underdeveloped; public education, cultural and health infrastructures are in decay; and affordable housing is increasingly deficient. This uneven access to basic resources should theoretically lay the groundwork for massive social action. Yet, for many years, the citizenry, marked by the painful experience of civil strife, remained relatively passive and found alternative services through private firms and/or sectarian associations. The rise in recent years of new collective actors mobilizing to breaking the untenable status quo, however, has begun to make a difference. In particular, the trash crisis, which began in the summer of 2015, has accelerated the rallying of social agents on urban issues. For the first time, thousands of Beirutis connected calls for the state to solve the trash problem to larger demands for political, economic and social change and took

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[1726] 'Collective consumption' is a concept coined by Spanish sociologist Manuel Castells (1977). It refers to basic urban facilities such as housing, schools, transport, hospitals, etc. In Castells' neo-Marxian thought, such 'collective means of consumption,' planned and/or provided by the state, are key to the persistence of the capitalist system since they are "necessary for the reproduction of the labour force and/or the reproduction of social relations" (Castells, *op. cit*., p. 461). In particular, the neo-Marxian urban literature suggests that they critically "dampen and regulate the conflicts inevitably generated by capitalist urbanization" (Mollenkopf, 1992, p. 239). (Castells, M. (1977). *The urban question: A Marxist approach*. Cambridge, MA: MIT Press; Mollenkopf, J. (1992). How to study urban political power. In R. LeGates, R. & F. Stout (Eds.). *The city reader* (pp. 235-243). London, UK; New York, NY: Routledge) to the streets to protest. In the same way, the popular campaign and unexpectedly strong electoral performance of the civil society slate Beirut Madinati (Beirut My City) in the May 2016 municipal election provided more evidence that the impacts of the country's postwar, elite-controlled, development project will not be widely tolerated.

It can be argued that these two complementary forms of collective action — one focused on street protest, and the other on policy design — have shaped an emerging urban social movement[1727] in the Lebanese capital, as also suggested by Beirut-based scholar Mona Harb and my US colleague Deen Sharp.[1728] While I have sought to demonstrate throughout this study that Beirut is not simply a container for post-war Lebanon's prevailing capitalist structures and social relations, I suggest that neither is it simply an arena for social and/or political mobilizations themselves, unconnected to the range of salient urban issues. The very claims of the new collective social agents are tied intrinsically to the scarcity and/or deficiency of 'collective consumption' that could have compensated for, and made socially acceptable, the structurally unequal distribution of urban resources and power, as well as the dominance of exchange value in the way the capital city has been redeveloped. Following Manuel Castells' conceptual approach, it can be argued that this is a failure of management on the part of the ruling elites. Compensation for the negative externalities of the regulation-urbanization nexus could have secured the reproduction of the post-1990 political and economic regime at large.[1729] This failure is probably the result of the particular political configuration of post-war Lebanese capitalism, where leaders

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[1727] In his seminal books *The Urban Question* (1977) and *The City and the Grassroots* (1983), Manuel Castells introduced the concept of urban social movement as a neo-Marxian theorization of conflictive urban transformation and power struggle against a background of structural contradictions and domination in post-industrial capitalism. In fact, the concept has both a generic and a restrictive usage. Its original, restrictive, usage, outlined by Castells in 'The Urban Question,' is as the ultimate form of collective action, in contrast to simpler forms such as participation and protest, taken to bring about "fundamental changes in power at urban and societal levels" (Pickvance, 2003, p. 103). Simply put, this original definition connects economic and urban change to collective social action (Fainstein & Fainstein, 1985). Its generic use, which prevails in contemporary urban studies, is less normative and refers to any citizen action with "demands for collective consumption, cultural identity, and political self-determination," irrespective of its actual or expected effect at the urban and political levels (Andretta, Piazza, & Subirats, 2015; Mayer & Boudreau, 2012; Pickvance, *op.cit*.; Schuurman & Van Naerssen, 2013). Generally, the scholarship underlines the embeddedness of urban social movements in city and/or country-specific political, socio-economic and cultural contexts. Local features, in effect, greatly influence mobilization agendas, action repertoires, organizational patterns, and the potential repressive and/or cooptative initiatives taken by the ruling class, as well as the mobilization's actual outcomes. (Andretta, M., Piazza, G., & Subirats, A. (2015). Urban dynamics and social movements. In D. Della Porta & M. Diani (Eds). *The Oxford Handbook of social movements*. Oxford, UK: Oxford University Press; Castells, M. (1983). *The city and the grassroots: A cross-cultural theory of urban social movements*. Berkeley, CA: University of California Press; Fainstein, S., & Fainstein, N. (1985). Economic restructuring and the rise of urban social movements. *Urban Affairs Review*. *21*(2), 187-206; Mayer, M., & Boudreau, J.-A. (2012). Social movements in urban politics: Trends in research and practice. In K. Mossberger, S. Clarke, & P. Peter (Eds). *The Oxford Handbook of urban politics*. Oxford, UK: Oxford University Press; Pickvance, C. (2003). From urban social movements to urban movements: A review and introduction to a symposium on urban movements. *International Journal of Urban and Regional Research, 27*(1), 102-109; Schuurman, F., & Van Naerssen, T. (Eds.). (2013). *Urban social movements in the Third World*. New York, NY: Routledge)

[1728] I share this argument with Mona Harb (2016) and Deen Sharp (2016) who have previously written about the emergence of an embryonic urban social movement in Beirut. (Harb, M. (2016). *Cities and political change: How young activists in Beirut bred an urban social movement*. (IAI-Power2Youth. Working Paper No. 20). Retrieved from www.iai.it/sites/default/files/p2y_20.pdf; Sharp, D. (2016, September 27). Beirut Madinati: Another future is possible. In *Middle East Institute*. Retrieved from www.mei.edu/content/map/beirut-madinati-another-future-possible)

[1729] Likewise, regulation economist Michel Aglietta (1998, p. 44) has explained how regulation should keep the maximization of capital accumulation within limits that are compatible with social cohesion to better ensure regime reproduction. (Aglietta, M. (1998). Capitalism at the turn of the century: Regulation theory and the challenge of social change. *New Left Review*. 232, 41–90) gain short term political and financial benefits from deficiencies in collective consumption (e.g., the supply of electricity): these deficiencies leave room for patronage practices and income generation thanks to the control leaders exert over alternative resources (e.g., power generators). But the emergence of an urban social movement denouncing the status quo and linking everyday city issues to larger political and economic grievances challenges the sustainability of such elite behaviours in the medium term. Contestation seems indeed to pursue a transformative agenda: in the streets and in the ballot boxes, a growing number of citizens has mobilized against the elite, hegemonic and deeply unequal political project at the heart of the Taif Accords and the post-war mode of development. The claims of this emerging Beirut-based urban social movement, in other words, are very much connected to the political-economic environment and the institutional framework of post-war Lebanon. Yet, its ability to disrupt the elite consensus, cohesion and solidarity and, *in fine*, adjust the city's development trajectory and the country's political-economic forces is far from certain, as the ruling class, more united than ever, shows strong signs of resilience.

A thorough discussion of the formation of this urban social movement and of its resources, networks and agents is beyond the scope of this chapter. But some of its defining features, and emerging forms of agency for social change in Beirut and beyond, which may stimulate future research, are briefly discussed below.

9.3.1.1 A vibrant civil society but limited social movements in post-war Lebanon

Lebanese and French scholars Marie-Noëlle Abi Yaghi and Myriam Catusse argue that the citizenry of post-war Lebanon has shown an outstanding capacity for political mobilization but little ability to rally around social claims.[1730] Political scientist Paul W. T. Kingston agrees: Lebanese civil society, "historically one of the most dynamic within the Middle East region," has experienced rapid development in the past two decades with the formation of a vibrant community of non-confessionally-oriented NGOs and associations.[1731] These groups are currently very active and vocal in a number of social, economic, cultural, legal and political realms alongside the politically and confessionally affiliated networks employing patronage strategies.

[1730] Abi Yaghi, M. N., & Catusse, M. (2011). ´Non à l'État holding, oui l'État providence:' Logiques et contraintes des mobilisations sociales dans le Liban de l'après-guerre. *Revue Tiers Monde*, 5, 67-93, p. 67

[1731] Kingston, P. (2013). *Reproducing sectarianism: Advocacy networks and the politics of civil society in postwar Lebanon*. Albany, NY: State University of New York Press

Such civil society initiatives fit the social science definition of new social movements, those committed to social change rather than economic revolution. These movements push for such reforms as civil marriage, civil liberties, political secularism, women's rights, foreign workers rights, heritage protection, environmental protection, etc. This is the case in Lebanon, for NGOs such as Legal Agenda, Nahnoo, Lebanon Support, Lebanese Economic Association, AUB Secular Club, Save Beirut Heritage, etc.

The pre-war period had a vibrant civil society and, in fact, a long history of collective mobilization, but the civil war seemed to have dampened much of this. Until recently, post-war Lebanon had experienced just a few cross-sectarian social protests, but these included three noteworthy episodes.[1732] First, the General Confederation of Lebanese Trade Unions took the lead in a collective mobilization in the mid-1990s to denounce the absence of any social dimension in the reconstruction policies. Second, in the latter half of the 2000s, a new attempt at collective action emerged in the aftermath of Paris III to denounce its austerity measures. Third, public-sector workers went on strike and demonstrated in the streets of Beirut in 2013 to demand a salary hike. In all cases, the Lebanese political elites resorted to sectarian discourse to deflect public scrutiny or discredit the movement.[1733] They also systematically used infiltration, the cooptation of leaders, direct interference in internal elections, bans on strikes and demonstrations, and violent repression to crush mobilization and prevent the formation of a powerful cross-sectarian social movement 'from below.'[1734]

As importantly, and closer to the urban question, post-war protests of various types and significance often took place in Beirut to oppose projects in property and infrastructure development. They began in the 1990s with the mobilization of high-profile economists, planners and architects who struggled to offer alternatives to the exclusive downtown megaproject designed and authorized by political and business elites under the guise of Solidere. Later on, popular protest targeted Elyssar, the failed redevelopment initiative of southern Beirut. These targeted actions increased in number in the mid-2000s with the second property boom that saw the construction of massive developments throughout the city. Recent grassroots initiatives included 'This Sea is Mine' art/research performance and the Dalieh Campaign to protect the

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[1732] Abi Yaghi & Catusse, *op. cit.;* Baumann, H. (2016). Social protest and the political economy of sectarianism in Lebanon. *Global Discourse, 6*(4), 634-649, p. 634
[1733] Baumann, 2016
[1734] Baumann, 2016; Kingston, *op. cit.*

city's coast from real estate projects, an online campaign to oppose construction of the Fouad Boutros Highway in Ashrafieh, legal action taken by Save Beirut Heritage to save multiple heritage buildings, and multiple demonstrations aimed at opening Horsh Beirut, the city's largest urban park closed since the end of the civil war. The project-based nature of these mobilizations allowed most a degree of relative success. At the same time, the structural failure of the state to provide for 'collective consumption' set off no significant social action beyond the occasional demonstration in the capital city's suburbs against the ever-increasing number and duration of power cuts. One of the latest illustrations of the difficulty in mobilizing civil society, beyond the resistance to specific property and infrastructure projects, is the disproportionally weak mobilization of tenants against the termination of rent regulation in 2014.

9.3.1.2 The 2015 garbage crisis: a milestone for collective social action

But things changed, virtually overnight, in the summer of 2015: the trash crisis that erupted in Beirut has been a forceful catalyst for social action on urban issues, and protesters began to link their daily grievances to a denunciation of the unequal political-economic system driving post-war Lebanon. It all started with a deadlock over the renewal of a waste collection and disposal contract. Garbage collection was halted and mountains of rotting rubbish began to pile up, leaving the capital city with a foul odour and obvious sanitation risks. Quite unexpectedly, this very concrete failure to provide a basic service triggered powerful street protests led by the aptly named 'You Stink' movement (*Tol3et Re7etkom*), a grassroots organization steered mostly by 'non political' members of civil society and leftist activists.[1735] Thousands of Beirutis from a broad spectrum of sectarian and social groups rallied and organized sit-ins, which pushed the Lebanese government to close off downtown Beirut, a symbolically gated island where most official buildings are located, with concrete blocks and barbed wire.

The movement rapidly became the site of larger social and political struggle with demands ranging from an end to political sectarianism to the denunciation of widespread corruption in public resource management and the incompetence and lack of accountability of decision-makers. In fact, these evils were all portrayed as underlying causes for the failure of

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[1735] Sharp, *op. cit.*

basic service delivery such as garbage collection and disposal.[1736] According to Lebanese intellectual Elias Khoury, the 2015 demonstrations in which all political leaders were vilified, with the notable exception of Hezbollah leader's Hassan Nasrallah (due mostly to fears of retaliation), symbolized the end of a recurrent system of blackmail in which the ruling elite raised the specter of civil tension to discourage massive social action.[1737] But the elite's response was not long in coming: demonstrators faced violent police repression and assault by young thugs reportedly sent by high-profile political leaders. Internal divisions on objectives and tactics within 'You Stink' also weakened the social movement, which ultimately lost its capacity for mobilization, despite the absence of any sustainable solution for garbage collection and disposal. The unprecedented social mobilization, beyond its apparent failure, sparked hope and frustration in civil society and paved the way for the constitution of two grassroots slates of candidates in the 2016 Beirut municipal election.

9.3.1.3 Beirut Madinati: a social mobilization based on a transformative policy agenda

Months after the protests generated by the garbage crisis, the two slates running for the May 2016 municipal election sought to capitalize on the singular and unprecedented social mobilization: Muwatinat wa Muwatinoun fi Dawla (Citizens Within a State) and Beirut Madinati (Beirut My City).[1738] Both slates participated in an election that traditionally consecrates "a carefully crafted coalition of traditional Beiruti families and national parties along with a confessional parity between Christians and Muslims."[1739] This tradition was eventually respected: Laiha Al Biyarita (the Beiruti List), which brought together all major political parties from the March 14th and 8th alliances, won all 24 seats on city council, winner-take-all with Jamal Itani elected as the new Mayor. In many respects, the slate of successful coalition candidates transcending political-sectarian cleavages, and the profile of the new Mayor who was previously head of the Hariri-controlled Council for Development and Reconstruction and CEO of Solidere,

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[1736] Attalah, S. (2015, September 7). Garbage crisis exposes arrogance and conflict among the political elite of Lebanon. *Jadaliyya*. Retrieved from hwww.jadaliyya.com/pages/index/22583/garbage-crisis-exposes-arrogance-and-conflict-amon

[1737] Barthe, B. (2015, September 12). "Au Liban, le chantage à la guerre civile ne marche plus" [Interview with Elias Khoury]. *Le Monde*. Retrieved from www.lemonde.fr/proche-orient/article/2015/09/10/culture-idees-au-liban-lutter-contre-le-discours-confessionnel-c-est-ranimer-la-flamme-de-la-culture-et-de-l-innovation_4751556_3218.html

[1738] Dot-Pouillard, N. (2016). Un plafond de verre confessionnel au Liban. *Orient XXI*. Retrieved from http://orientxxi.info/magazine/un-plafond-de-verre-confessionnel-au-liban. Economist and former Minister Charbel Nahas heads Muwatinat wa Muwatinoun fi Dawla and was the party's chief candidate for the 2016 municipal election in Beirut.

[1739] Kairouz, J. (2016, May 5). Beirut Madinati: The institutional rise of Lebanese civil society. *An Nahar*. Retrieved from https://en.annahar.com/article/372357-beirut-madinati-the-institutional-rise-of-lebanese-civil-society perfectly illustrate this study's argument on elite consensus and cooperation in Beirut governance. The election results indisputably confirmed the deep-seated power of the post-Taif ruling class and the solid anchoring of its clientelist networks. Laiha Al Biyarita benefited from the fear that social mobilization arouses in elite circles. During the campaign, the slate received strong support from most traditional political leaders such as Michel Aoun (former head of the Christian Free Patriotic Movement and current President of the Republic), Nabih Berri (head of the Shia Amal Movement and Parliament Speaker) and Saad Hariri (head of the mostly Sunni Future Movement and current Prime Minister) who, at the same time, ironically, confronted each other over the organization of the presidential election and the formation of government, in addition to fiercely disagreeing on regional politics and a series of domestic issues.

In spite of this, Beirut Madinati's trajectory and policy agenda marked a noteworthy turn in local politics. Established just a few months prior to the election, this civil society movement built a multi-confessional, collegial and intergenerational slate respecting male-female parity and bringing together NGO activists, university professors, urban professionals, artists and technocrats sharing a common progressive ambition but not necessarily the same politics. It put issues of 'collective consumption' and use value at the center of a political project based on transparency, probity and the public interest. The movement came up with solutions for the provision of affordable housing, sustainable mobility, the restructuring of public space and better waste management, to name just a few. In general it reinforced the primacy of collective power in the social re-appropriation of urban development and management.[1740] In many ways, this "programmatic and professional campaign" built on the dashed hope of the thousands of urban dwellers who took to the streets during the 2015 garbage crisis and turned them into a political opportunity and a motivation for political battle.[1741] With 40 percent of the vote but no seats, Beirut Madinati achieved an unexpectedly positive result that illustrates the growing mobilization for social and political change within the Lebanese metropolis. Nevertheless, the vote's very polarized social geography underlined the movement's difficulty in reaching low-income and lower-middle class areas and groups.

Eighteen months after the election, the legacy of the 'You Stink' movement and the future of Beirut Madinati are unclear. The traditional political structures managed to efficiently tamp

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[1740] Harvey, D. (2008). The right to the city. *New Left Review*. 53. September-October
[1741] Sharp, *op. cit.*

down the two collective forms of social mobilization. Today, there is uncertainty about Beirut Madinati's ambition and ability to turn the electoral capital it accumulated during the 2016 municipal election into a country-level coalition and transformative political agenda capable of overcoming the oligarchic structuration of power. In any case, the emerging urban social movement will have managed to build, in Beirut's citizenry, a collective consciousness of the possibility of change. In particular, in the words of Manuel Castells, it will have succeeded in introducing an alternative "urban meaning" to the post-war model of 'pegged urbanization' by putting the city's liveability, sustainability, affordability and decentralized participatory democracy at the center of popular and policy debates.[1742]

9.3.2 Dancing on a Volcano: The Threat of a Property-Driven Financial Crisis

In the near future, the most critical threat to Beirut's 'pegged urbanization', and to Lebanon's post-war mode of development, seems to lie in the risk of a property crash morphing into a financial crisis, the social, economic and political repercussions of which would be devastating. I do not want to end this study on an exaggeratedly alarmist note; but in light of the financial disasters unleashed worldwide by the collapse of property bubbles, a worst-case scenario should be taken into serious consideration. The scholarship shows that more than two thirds of "major banking distress episodes" have historically been provoked by "boom-bust cycles in property prices."[1743] Examples of property crashes morphing into financial catastrophes are legion in the Global South (e.g., Thailand, Indonesia, UAE, Hong Kong) and the Global North (e.g., Spain, Japan, Sweden, Norway). Residential property was again recently "at the center of the worst financial crisis in the history of modern capitalism since the 1930s Depression" when the US crisis of subprime housing loans triggered the 2008 world financial crisis.[1744] This is why social scientists Rodrigo Fernandez and Manuel Aalbers suggest that "housing is not only central to the reproduction of the current highly financialized system […] but it also is its weak link."[1745]

[1742] Castells, 1983

[1743] Crowe, C., Dell'Ariccia, G., Igan, D., & Rabanal, P. (2011). *How to deal with real estate booms: Lessons from country experience* (International Monetary Fund, Working Paper, No. 11/91). Retrieved from https://econpapers.repec.org/article/eeefinsta/v_3a9_3ay_3a2013_3ai_3a3_3ap_3a300-319.htm. (p. 5)

[1744] Schwartz, H., & Seabrooke, L. (2009b). Conclusion: residential capitalism and the international political economy. In H. M. Schwartz & L. Seabrooke (Eds). (2009). *The politics of housing booms and busts*. Basingstoke, UK; New York, UK: Palgrave Macmillan, p. 225

[1745] Fernandez, R., & Aalbers, M. B. (2017). Housing and capital in the 21st century: Realigning housing studies and political economy. *Housing, Theory, and Society*. *34*(3), p. 6

9.3.2.1 The Lebanese model of 'pegged urbanization' at a crossroads

"We've always sat on the edge of a volcano, but it's been worse in the past five years," said the CEO of a major Beirut-based development company interviewed back in 2015. The architect Georges Khayat shares this view and expects "the price of one square meter [of residential property] in ten years will be lower than today."[1746] In plain language, the property sector is in a period of growing uncertainty after years of "irrational exuberance" in the 2000s.[1747] The idea that a financial crisis, engendered or accelerated by the collapse of real estate asset prices, is in the making is gaining ground among a number of analysts.[1748] In fact, this concern has proliferated since the mid-2010s, as the financial context has become generally more fragile. Experts are worried about the structural risk of financial crisis produced by the BdL's unsustainably high remuneration of Certificates of Deposits and reinforced speculatively by the potential for acute political and economic instability (e.g., mounting tensions between Iran and Saudi Arabia).[1749]

For years, the central bank and other financial actors have used the various monetary interventions and regulatory measures analyzed in this study to avoid a crash as they sustained the growth of property activity and maximized asset prices, for purposes of regulation. But after years of economic downturn and real estate market imbalance, the Lebanese model of 'pegged urbanization' is now at a crossroads. Real estate sales are slow, the stock of unsold units is at an unprecedented high, the quantity of newly built units is limited, and the BdL seems to be short of policy options. All eyes are now anxiously on the price trajectory of artificially overvalued property assets for which a correction seems unavoidable. Price decline is already a reality, even though BdL containment initiatives have attempted to forestall its onset, after the market turned in 2009-2010 and caused strong downward price stickiness in recent years (see Chapter 6). There is little question that this downward trend will continue in the short run as prospects for the growth of construction and real estate activity are bleak in a generally uncertain regional and domestic political economic context. There is, nevertheless, uncertainty about the future pace and

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[1746] Georges Khayat, personal communication, July 10, 2014 (Translation by the author)
[1747] Shiller, R. J. (2016). *Irrational exuberance*. Princeton, NJ: Princeton University Press
[1748] An Nahar Staff (2016). Real estate heading toward a 'two for the price of one" freefall. *An Nahar English*. Retrieved from http://en.annahar.com/article/480592; Nash, M. (2017b, July). The real estate bubble has burst. *Executive Magazine*. Retrieved from www.executive-magazine.com/real-estate-2/the-real-estate-bubble-has-burst. This is especially the case with publications posted on the Real Estate in Lebanon Facebook page and with a number of contributions made by Lebanese economist Jihad El-Hokayem and Synaps researcher Rosalie Berthier.
[1749] Gaspard, T. (2017). *Financial crisis in Lebanon*. (Konrad Adenauer Stiftung – Maison du Futur. Policy Paper No. 12). Retrieved from www.kas.de/wf/en/33.49929

magnitude of this deflation. It could follow two different scenarios: real estate prices will either continue their slow decline on an inflation-adjusted path until they reach equilibrium and the next cycle begins, securing a soft landing for property and financial agents. Or property prices will crash and precipitate the fall of the entire market. For now, the former scenario prevails and the property sector is adapting to a progressive reduction in values. But for how long?

9.3.2.2 The 'politics of the likely crash' of property asset values

A sudden deflation of home values might be hard to lay out in detail but it is a realistic scenario. A maxim of property scholarship for investigation of the "politics of the likely crash" is to look back at what fuelled the boom in order to anticipate what may drive the bust.[1750] Let us then review the specifics of property financing in post-2000 Beirut for the sources of a potential property crash and the various scenarios through which it may unfold.

The threat of exogenous and endogenous shocks on real estate demand

As explained earlier (Chapters 4 and 6), the political economy of property, and the formation of real estate prices and cycles in post-war Lebanon, have been highly dependent on the pace of international capital inflows (e.g., deposits, remittances, FDIs), the injection of liquidity by the central bank, and the absolute and relative profitability of property assets. These three elements have strongly shaped the velocity and volume of real estate demand, through both outright and mortgaged homeownership in upmarket and middle-class market segments. They have also determined the trajectory of property prices in times of boom and slowdown. As such, any event or decision lowering the money supply, the country's financial stability, or the attractiveness and soundness of the property sector has the potential, first to reduce non-resident and resident real estate demand and then to quickly contaminate asset prices and the construction industry. Put with more nuance, any unexpected shock weighing negatively on the amount of capital resources, return expectations, or risk perceptions to the Lebanese economy in general and to the property market in particular is likely to influence individual and collective economic

[1750] Crowe, Dell'Ariccia, Igan, & Rabanal, *op. cit.*; Dagher, J., & Fu, N. (2017). What fuels the boom drives the bust: Regulation and the mortgage crisis. *The Economic Journal, 127*(602), 996-1024; Watson, M. (2009). Boom and crash: The politics of individual subject creation in the most recent British house price bubble. In H. M. Schwartz & L. Seabrooke (Eds). (2009). *The politics of housing booms and busts*. Basingstoke, UK; New York, NY: Palgrave Macmillan, p. 55

behaviours (e.g., failures to purchase, massive sales, defaults) which may precipitate, in the end, a crash in real estate values and the destabilization of the property sector at large.

Shocks can be exogenous and/or endogenous and of an economic or extra-economic nature. Exogenous shocks include any major geopolitical event (e.g., diplomatic tensions among/with GCC countries, regional war) and any economic or financial development (e.g., a sharp drop in oil prices, a currency attack) capable of damaging the country's balance of payments and the level and value of capital resources held in the financial sector. Endogenous shocks refer to any domestic event with the same effect: political (e.g., civil violence, coup), monetary or financial (e.g., an inability to maintain the currency peg, a surge in sovereign debt, a sharp increase in sovereign rates, a credit crunch caused by a sudden rise in interest rates and/or the tightening of lending standards, a bank bankruptcy or liquidity crisis), nationwide economic (e.g., sharp contraction of GDP growth), or any rumour about the impending occurrence of any of these events in the present context of imperfect business information and widespread financial opacity.

The interrelated risks of a credit crisis and of a property value collapse

Exposure of property demand, and of the property market in general, to these exogenous and endogenous shocks is not new: it is a product of the rentier and finance-led character of the Lebanese growth regime. But the transformation of property financing during the second boom has widened and reorganized the risk factors for the property market, removing a crucial protective barrier between the real estate and banking sectors. Contagion is now not only possible but likely in the event of a negative shock. This fundamental change is a result of the fast-paced growth of bank lending in the funding of both demand and supply, which has made the domestic credit system a critical channel between the real estate and banking sectors for the transmission and amplification of booms and busts. In simple terms, the massive use of credit, which I have investigated at length here, has accentuated the vulnerability of the property market by exposing it to credit risk as much as it exposes the financial sector to a sudden drop in property asset values. In this regard, any of the adverse events listed above is now more likely to precipitate a national crisis, as problems within the credit system and with retention of property value now fuel one another. Any sharp increase in the delinquency rate of housing and construction loans is, in effect, capable of triggering a rapid downward adjustment of property prices. Just as importantly, any severe drop in property asset values is likely to jeopardize credit system stability. As such, the various scenarios of crisis contagion, which may involve both the demand and supply sides of the property market, should be seriously considered.

On the homebuyer side, two scenarios seem possible. In the first, a credit crisis leads to a property crash. In the event of an economic recession or a protracted drop in remittances, which could result, for instance, from the further decline of oil prices or a major political/economic crisis in or with the Gulf, the sharp reduction in household income would make payment of home loan instalments impossible for resident and non-resident borrowers. In the absence of refinancing schemes that would allow postponement of loan repayment, large numbers of borrowers would go for distress sales or default and see their homes seized. This scenario is all the more plausible in that many of the most vulnerable mortgagees probably do not meet the macro-prudential criteria defined by the BdL.[1751] These would be particularly exposed to any drop in income. Waves of distress sales and mortgage delinquencies would then lead to a massive influx of supply on the property market, which would provoke a further distortion of demand and result in the free-fall of real estate asset values.[1752]

In scenario two, a sharp reduction in property values brings about a credit crisis, most probably through the portfolios of "'under-cover' toxic loans" mentioned in Chapters 5 and 8.[1753] If house prices began to fall below the nominal value of home loans in response to a continued shortage of resident and non-resident demand, borrowers may decide not to meet repayment obligations. As Rosalie Berthier has insightfully analyzed, any solvent or insolvent homebuyer who acquired a property with no down payment by way of a fraudulent loan scheme has indeed "no incentives to repay the sum in full […] especially if he or she is still in the early stages of agreed instalments."[1754] In other words, homebuyers with negative equity, especially those who took a loan in recent years when the market was especially high, would have a clear interest in defaulting and abandoning the related property in order to make a better deal in a deflating

[1751] Charbel Nahas (multiple personal communications, 2014-2016) asserts that most banks do no manage to get a detailed overview of borrower income when processing loan applications. Year-to-year income is rarely stable for most workers outside the public sector and a few major companies such as banks. This is one of the reasons for which loan applicants frequently provide banks with false income certificates inflating actual salaries to secure eligibility and maximize loan ceilings. Lebanese banks are suspected of overextending credit by turning a blind eye to borrowers' actual capacity to repay debt. The deep-seated perception of ever-increasing property asset values and the existential necessity to recycle liquidity and sustain property prices probably encourage such practices.
[1752] The massive foreclosure of property collaterals tied to non-performing loans is expected to force banks to put a large portion of their recovered real estate portfolios on sale. This will relieve their balance sheets by compensating for losses induced by the absence of repayments.
[1753] Berthier, R. (2017b). Lebanon's toxic loans gamble. In *Synaps Network*. Retrieved from www.synaps.network/lebanese-economy-watchdog#chapter-2589704
[1754] *Ibid*

market.[1755] If such a scenario were to come about, distress sales and mortgage delinquencies would also accelerate the initial downward movement in asset prices.

On the producer side, any of the hazards that depress actual property demand and the anticipation of future demand is also likely to spark a property value crash by destabilizing the property industry. The cash flows of development firms are fragile in a context of protracted slow sales, large stocks of unsold homes, and slightly declining prices, and any further decline in real estate activity may leave realtors with no choice but to liquidate stocks and close operations and/or to default on their construction loans. If this scenario were to become a reality, both distress sales and defaults would have negative effect on price levels across the entire market. As importantly, the bankruptcy of any major property firm, apart from putting banks under pressure to liquidate seized units, would certainly send a negative signal to all market agents and reinforce the sharp downward price adjustment.[1756] This is, for example, what happened with the fall of overleveraged property firms in Spain in 2008. The elevated risk of delinquency on construction loans is the reason why, as analyzed in Chapter 5, the BdL successively deployed schemes to help development companies liquidate their inventory and restructure their debt without putting unsold units directly on the market (i.e., Circulars 135/2015 and 427/2016). In doing so, the primary objective of the central bank, apart from bailing out development firms, was to preserve real estate values and protect the banking sector, itself presumed to have seized the opportunity to "rate substandard loans (renegotiated with borrowers unable to pay) as normal" and, thus, preserve "the healthy appearance of their balance sheets."[1757] Nonetheless, the establishment of specialized real estate companies to carry unsold units is just a strategy to gain time. These leveraged firms will probably confront the same untenable financial situation sooner or later given that a rapid recovery of Beirut's real estate activity is unlikely as long as property assets are artificially overvalued and the economic outlook remains dire. Just as importantly, the funds themselves are also exposed to any negative shock in real estate demand and any sudden drop in property asset values.

[1755] *Ibid*

[1756] Nash, M. (2017a, January). The lights are on, but no one's at home. *Executive Magazine*, Retrieved from www.executive-magazine.com/real-estate-2/the-lights-are-on-but-no-ones-at-home

[1757] Berthier, R. (2017a). Abracada... broke Lebanon's banking on magic. In *Synaps Network*. Retrieved from www.synaps.network/abracada-broke

'Disaster myopia' and alarming symptoms

As of the summer of 2018, a small number of economists and policy analysts evoke these scenarios and warn of a possible crisis. In contrast, most high-profile Beirut-based bankers, central bankers and developers interviewed seem to show 'disaster myopia,' unless they are simply delivering a reassuring public message to avoid irrational banking and property panic.[1758] Psychological effects are indeed instrumental in shaping economic behaviours and triggering crises.[1759] To justify their overall confidence, most property and banking professionals refer to the BdL's prudential regulations forbidding credit overextension, the limited significance of property in total banking assets (e.g., officially not more than 10 percent), the absence of a secondary mortgage market, increased credit availability, low default rates, and the diversified sources and geographical origins of remittances. Nonetheless, such reassurances cannot be relied upon too heavily as opacity reigns and a substantial gap may exist between official and actual business practices in the Lebanese financial and property sectors. The significance of property-related loans in banking assets and the real quality of loan books, for instance, are unclear, if not doubtful.

Further, a mounting number of BdL decisions raise the alarm on the real risks run by the property and banking sectors. The central bank took a couple of very telling decisions in recent years — all analyzed in this study — that display a sense of apprehension and prudence. In 2014, the Banque du Liban organized impairment tests and required banks to raise collective loss provisions against their outstanding commercial and retail loan portfolios (Intermediate Circulars 376/2014 and 383/2014). In 2015 and 2016, it issued circulars (135/2015 and 427/2016) that help development firms to restructure their debt. Also, the Lebanese financial authority allowed banks to record restructured debts off balance sheet and extended from five to 20 years the period during which they are allowed to keep seized property assets. While such initiatives allow (central) bankers to make reassuring statements and claim that the situation is under control, they are also evidence of the actual risks weighing on the Lebanese financial sector.

In parallel, a series of indicators and observations look like 'weak signals' fuelling the fear of an impending catastrophe. First, the rate of decline of real estate prices in Beirut is

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[1758] Herring, R., & Wachter, S. (1999). *Real estate booms and banking busts: An international perspective*. (The Wharton School Research Paper No. 99-27). Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2546407
[1759] Shiller, 2016

believed to have speeded up in recent months. Second, as explained in Chapter 5, uncertainty exists about the actual level of delinquency rates for housing loans: the IMF underlines the fact that the *reported* ratio by commercial banks is low (i.e., 1.6 percent); yet, various financial experts I met suggest that this ratio could be much higher and close to breaking point.[1760] Third, the chance of a renewal of massive financial inflows is limited in the short run by the downward trend of oil prices and the region's political tensions. The recent Qatar – Saudi Arabia crisis has lately been accompanied by a Lebanon – Saudi Arabia dispute born from the Saudi attempt to make Saad Hariri resign from Premiership in the fall of 2017. Fourth, against the backdrop of a dollarized financial system, the hike in interest rate by the US Federal Reserve, already begun and perhaps amplified in the future, is likely to negatively affect lending interest rates in both LBP and USD.

9.3.2.3 The risk of a system-threatening financial crisis

The occurrence of a credit crisis and a property crash in Lebanon would almost certainly generate a full-fledged financial crisis with dreadful fallout for the banking sector, the domestic economy, and most households. At the end of the day, there is a fair chance that such a financial disaster would lead to a restructuring of the post-war model of Lebanese capitalism and possibly also of the elite political consensus, reinforcing, in turn, the country's sectarianism.

Financial and economic destabilization

The domestic banking sector, despite its presumed myopia concerning short-term risks, is generally very aware of its own vulnerability which mirrors the intrinsic fragility of the finance-biased growth regime and the state's weak political and financial capacity to respond to financial instability. "We cannot afford a misdemeanour as the Americans did […] if it happens, we will collapse and it will be irrevocable," says the CEO of a major Beirut-based bank. In the case of a real estate collapse and credit crisis, the reduced value of credit collaterals and foreclosed assets on bank sheets would almost certainly destabilize the domestic banking sector. The sharp drop in the value of property-connected assets, in other words, would put the banking industry under severe stress by forcing it to recapitalize in order to meet the international banking standards

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[1760] International Monetary Fund (2017). *Lebanon financial stability assessment*. Washington, DC: Country Report No. 17/21. Retrieved from www.imf.org/~/media/Files/Publications/.../2017/cr1719.pdf. (p. 11) defined by the Basel Accords.[1761] Lebanese banking entities, unlike North American and European banks in the aftermath of the 2008 crisis, will not be able to count on the state to bail them out. They will have to find fresh liquidity on their own. Moreover, the very high concentration of, and connections among, domestic Beirut-based bank holdings are additional sources of vulnerability in the event of a crisis: any bank failure would weaken confidence in the sector as a whole and could unleash a domino effect through the ripple of emotional contagion. Likewise, property-driven financial instability would also dampen depositor and investor confidence, which could trigger capital flight and put the currency peg and, thus, the country's monetary stability at risk. Just as critically, a widespread fall in asset prices would have far-reaching negative consequences in a country where equity-based income is significant. Such a financial tremor would ultimately propagate and inflict serious damage on the non-financial side of the economy. It could create a recessionary environment with attendant reduction of national wealth, massive unemployment and limited consumption. This, in turn, would further worsen the state's fiscal crisis by severely reducing fiscal revenues and, possibly, leading to state failure.

A series of potentially disruptive social and political implications

The literature on political economy has shown that financial crises and economic downturns can be positively transformative and can also revive old tensions at the micro- and macro-levels of households and societies.[1762] In Lebanon, where civil peace is fragile, it is fair to say that the repercussions of a property-driven financial crisis on domestic social structures and political stability remain largely unpredictable.

In any case, the social implications of financial hardship would certainly be devastating for middle class over-mortgaged owner-occupiers who accessed property with limited equity. A large number of households, who generally accessed homeownership through subsidized programs designed primarily for regulation purposes, would find themselves trapped by negative equity or see their homes foreclosed while owing considerable amounts of money to local banks. In concrete terms, dozens of thousands of over-indebted Lebanese families, also directly hit by economic recession, would be evicted by banks and struggle to find new homes inside the protracted housing crisis described in Chapter 8. In contrast, well-off resident and non-resident

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[1761] Berthier, 2017b

[1762] Shiller, R. J. (2012). *The subprime solution: How today's global financial crisis happened, and what to do about it*. Princeton, NJ: Princeton University Press investors in the upmarket segment who owned devalued assets would only have to summon their patience and ride the long road back to pre-crisis equity values. If a property-generated financial storm were to break, then, wealth disparities and the polarization of social relations may just reach an unprecedented level in Lebanon and may alter the political behaviours of evicted and/or over-indebted households from the middle class.

In an optimistic scenario, such a financial disaster and social crisis would be positively transformative: it would spark a popular movement for economic, social and political change. Middle-income groups might feel resentment and loose interest in defending a political-economic system and a deeply unequal social order that they once trusted but that led them to over-indebtedness and social downgrading. They may, as a result, support an initiative and/or join a mobilization similar to the emerging urban social movement I discussed above. In a pessimistic scenario, an episode of financial and social stress could revive long-simmering tensions and divisions. Ruined households could turn towards their own sectarian communities to access housing and basic needs, which would allow political-sectarian leaders to reinforce their influence through further patronage practices, social coercion and territorial control. This, in turn, would undermine the significance of the social reproduction of power in Lebanon as well as in the governance of Beirut. Consensus and cooperation may lose ground among elite members in the face of unprecedented financial, economic and social turmoil and the reduced significance of common class interests.

It is clear, from this discussion, that the implications of a property-driven financial crisis in Lebanon perfectly illustrate the intrinsic contradictions of its 'pegged urbanization' as much as they do the destabilizing power and the specific forms of vulnerability it represents for cities and societies of the Global South. As I write the closing lines of this dissertation in the summer of 2018, Lebanese financial authorities have managed to 'reschedule' this crisis, to borrow David Harvey's term. But for how long? Similar to catastrophic earthquakes and floods, the actual question does not seem to be whether a systemic crisis will happen but when. While Beirut's built environment is today a space of regulation, the occurrence of such a disaster would turn the city into a space of crisis and add Lebanon to the list of countries where an overreliance on real estate and construction activity in accumulation and regulation strategies led inexorably to financial, economic, social and political instability.[1763]

9.4 Towards a New Urban Agenda: The Existential Need for Short and Long-Term Policy Reforms

I could not conclude this thesis without joining my voice to those of the many Lebanese and foreign researchers, analysts, practitioners and activists who call for short and long term policy reforms in the realm of urban production. Urban environmental quality in Beirut is noticeably deteriorating, the housing situation is critical and a property-driven financial crisis might just plunge the city and the country into chaos. In the short term, avoiding a property crash should be the top policy priority. Lebanese authorities and international sponsors should secure the soft landing of real estate prices, restructure the outstanding bad debt of homebuyers and development firms, and limit any further growth of bank credit in property financing. Yet, those containment measures may be not sufficient to avert a disaster if a major economic or extra-economic shock were to occur in the near future.

In parallel, the vulnerability and the adverse socio-economic and political implications of 'pegged urbanization' should lead Lebanese public and business actors, with the support of the civil society, to question and redefine the position of property in the country's system of accumulation and mode of social regulation. The current model conveys values, norms, habits and social relations that shape an individualistic and short-sighted vision of city development dominated by the financialization of property assets and the perpetual maximization of their exchange value. In doing so, the policy orientation adopted at the end of the war has deprived large segments of the Lebanese population, mostly in Beirut, of their right to housing and, more generally, of their right to the city. This is the reason why, a generation later, there is urgent need for a change in mentality among Lebanese elites and citizens to rebalance perceptions of property so that it becomes primarily a matter of housing provision and only secondarily a form of rentier wealth accumulation. A key challenge, in other words, is to reinstate the primacy of use value over exchange value in the way the citizenry and decision makers perceive the built environment and its production. Such a change in mentality seems, in many respects, a fundamental

[1763] Forrest, R., & Lee, J. (2003). Concluding observations. In R. Forrest, & J. Lee (Eds.). *Housing and social change: East-west perspectives* (pp. 264-267). London, UK; New York, NY: Routledge, p. 267; Smart, A. & Lee, J. (2003b). Financialization and the role of real estate in Hong Kong's regime of accumulation. *Economic Geography*, *79*(2), 153-171, p. 169

prerequisite to construction of a new model of urban development in the Lebanese metropolis in which the production of affordable housing, the provision of basic urban services, and the planning of a liveable urban environment are policy priorities.

Nevertheless, the centrality of property to the stabilization and reproduction of today's growth regime means that any major change in the perception and policy framework of urban production can hardly become a reality without reorienting the Lebanese model of capitalism at large. In this regard, any drive for structural reform faces two major obstacles. First, as analyzed here, the ongoing risk of short-term financial instability fuels path dependency in the design of all important monetary and financial decisions. This sword of Damocles annihilates almost any possibility of debate on the crisis-prone and deeply unequal nature of the current regime. This is illustrated by the controversy opposing the central bank to Lebanese economist Toufic Gaspard in the fall of 2017. Second, any meaningful readjustment of local capitalism does not seem attainable without putting into question the Taif-inherited political system with which it is largely intertwined.[1764] Needless to say, the possibility of seeing the ruling elite accept a reshuffling of the current organization and balance of power is highly improbable. Consequently, any radical re-orientation of the current growth regime and of the role of property in it seems infeasible in the near future. Policy efforts should therefore follow an incremental approach and seek to put into place an alternative urbanization framework based on pro-active planning, fair property taxation and inclusive housing policies. This is for instance the strategy of emerging political initiatives such as Muwatinat wa Muwatinoun fi Dawla and Beirut Madinati aimed at bringing about concrete change in the life of urbanites. Yet, the window of opportunity for this re-orientation of urban production is limited: offshore oil exploitation is taking shape in Lebanon and the financial windfall it may create in the middle term is already whetting the appetite of landowners and city builders. In many ways, the prospect of property growth and inflation fuelled by a positive liquidity shock is likely to obliterate the thin political space for change recently opened up by the threat of a property-generated financial disaster and a growing awareness of the harmful effects of uncontrolled development. If this offshore oil frenzy were to occur within the current city-making framework, there is little doubt that real estate speculation would renew the disfiguration and destruction of the Lebanese metropolis.

[1764] Charbel Nahas cited in Al-Attar (2017). (Al-Attar, S. (2017, June). Riad Salamé: L'ingénieur du système. *Le Commerce du Levant*. Retrieved from www.lecommercedulevant.com/article/27421-riad-salam-lingnieur-du-systme)

List of Interviewees

1. Interviewees who agreed to be identified:

Mustapha Ahmad, CEO, Trillium Development, April 7, 2015.

Elie Assaf, lawyer, April 16, 2014.

Dr. Abdallah Attieh, economist, former advisor to Prime Minister Selim El-Hoss (1998-2000) and Deputy Prime Minister Issam Fares (2000-2005), former member of the Banking Commission of the Banque du Liban (1990-1995 and 2005-2010), April 27, 2015.

Dr. Ghassan Ayache, Chairman and General Manager of Cedrus Invest Bank, former Vice-Governor of Banque du Liban (1990-1993), November 20, 2015.

Dr. Marwan Barakat, Assistant General Manager, Group Chief Economist and Head of Research, Audi Bank Group, April 22, 2015.

Nadine Bekdache, graphic designer and urbanist, Public Works Studio, multiple communications, 2014-2015.

Mohammed Beydoun, former Minister of Housing and Cooperatives (1990-1992), May 8, 2015.

Alain Bifani, Director-General, Ministry of Finance, May 4, 2015.

Dr. Guillaume Boudisseau, real estate consultant, Ramco Real Estate Advisers, multiple communications, 2014-2015.

Antoine Chamoun, General Manager of Bank of Beirut Invest, former Head of the Public Corporation of Housing, former General Director of the Cooperatives at the Ministry of Cooperatives and Housing, September 30, 2014 and May 12, 2015.

Khaled Chehab, former President of the Order of Engineers and Architects (Beirut branch), August 1, 2014.

Namir Cortas, CEO, Estates, head of the Real Estate Development Association Lebanon (REDAL), September 22, 2014.

Karim Daher, lawyer, HBD-T Law Firm, Lecturer at Université Saint-Joseph, Beirut, March 24 and April 20, 2015.

Habib Debs, architect and urban planner, URBI Architecture and Urban Planning, April 14, 2014.

Walid Eido, real estate consultant, November 21, 2014.

Antoine El-Hajj, Head of Administrative Affairs Division and former Secretary of the 'Administration and Justice' Committee, Parliament of Lebanon, October 14, 2014.

Samir El-Jisr, Member of Parliament – Future Movement, former Minister of Justice (2000-2003) and Education (2003-2004), lawyer, November 18, 2014 and May 27, 2015.

Dr. Youssef El-Khalil, Director of Financial Operations Department, Banque du Liban, November 20, 2014 and May 19, 2015.

Dr. Farid El-Khazen, Member of Parliament, Change and Reform Bloc, Professor of Political Science at the American University of Beirut, October 28, 2014.

Massaad Fares, CEO, Prime Consult, Secretary of the Real Estate Development Association Lebanon (REDAL) and former Head of the Real Estate Syndicate of Lebanon (REAL), October 28, 2014.

Elias Gaspard, lawyer, May 13, 2015.

Nadim Gemayel, Member of Parliament, Phalanges Party, son of former Lebanese President Bachir Gemayel, November 14, 2014.

Michel Georr, CEO, Conseil et Gestion Immobilière (CGI), November 20, 2015.

Dr. Nassib Ghobril, Chief Economist and Head of the Economic Research & Analysis Department, Byblos Bank Group, August 12, 2014.

Mazen Halawi, Head of Subsidized Loans and Financing Programs Divisions, Financing Unit, Banque du Liban, October 7, 2014.

Alexa Hechaime, legal expert and Lecturer at Université Saint-Joseph, Beirut, multiple communications, 2014- 2016.

Mazen Ibrahim, senior executive, Jamil Ibrahim Establishment, son of Jamil Ibrahim, November 11, 2014.

Dr. Marwan Iskandar, economist and consultant, Vice-Chairman of Pharaon and Chiha Bank, November 25, 2015.

Thomas Jacobs, Resident Representative, International Finance Corporation (World Bank Group), November 27, 2014.

Shadi Karam, banker, economic advisor to former Prime Minister Tammam Salam and former President of Republic Michel Sleiman, May 7, 2015.

Hadi Khalil, CEO, One Invest, March 17, 2015.

Georges Khayat, architect, Atelier des Architectes Associés (AAA), July 10, 2014.

Rony Lahoud, Chairman – General Manager, Public Corporation for Housing, October 30, 2014.

Roger Melki, economist and consultant, Lecturer at Université Saint-Joseph, Beirut, former advisor to various Ministers of Finance, multiple communications, 2014-2016.

Simon Mouawad, General Manager, Lebanese Parliament, October 30, 2014.

Ghassan Moukheiber, Member of Parliament, Change and Reform Bloc, October 3, 2014 and March 27, 2015.

André Nader, lawyer, Nader Law Office, legal adviser to the Chamber of Commerce, Industry and Agriculture of Beirut, April 16, 2015.

Dr. Charbel Nahas, economist and engineer, former Minister of Telecommunications (2009-2011) and Labour (2011-2012), multiple communications, 2014-2016.

Ibrahim Najjar, lawyer, Ibrahim Najjar Law Firm, former Minister of Justice (2008-2011), May 15 and September 26, 2014.

Victor Najjarian, CEO, Care Group Invest Holding, March 31, 2015.

Najla Nakhle, Head of Office, International Monetary Fund, February 17, 2015.

Raja Noujaim, engineer and activist, May 29, 2014.

Dr. Vincent Renard, economist, Director of Research at the French National Center for Scientific Research (CNRS), January 30, 2015.

Jean Riachi, CEO, FFA Private Bank, November 13, 2015.

Rabih Sabra, Director General, Chamber of Commerce, Industry, and Agriculture of Beirut, May 14, 2015.

Nizar Saghieh, lawyer, Head of Legal Agenda, multiple communications, 2014-2015.

Marwan Sakr, lawyer, Saas Law Firm, April 11, 2014.

Abir Saksouk, architect and urban planner, Public Works Studio, May 21, 2014.

Dr. Bassel Salloukh, Professor of Political Science at the Lebanese American University, Beirut, November 19, 2014.

Thomas Schellen, Editor-at-Large, Executive Magazine, July 10, 2014.

Maurice Sehnaoui, CEO, BLC Bank, May 6 and 13, 2015.

Dr. Nadim Shehadi, Director of The Fares Center for Eastern Mediterranean Studies at the Fletcher School of Law and Diplomacy at Tufts University, Associate Fellow at the Chatham House, June 13, 2014.

Bahige Tabbarah, lawyer, former Minister of Justice (1992-1998 and 2003-2004), September 14, 2014.

Fawwaz Traboulsi, Professor of History and Political Science, American University of Beirut, November 5 and 25, 2014

Aram Yeretzian, CEO, Lebanon Green Building Council, July 22, 2014.

Joseph Zoghaib, President, Landlords Organization of Lebanon, May 10, 2014 and May 2, 2015.

2. Anonymous interviewees:

Activist, Committee for the Defense of Renters, November 15, 2014.

Banker #1, CEO, major Beirut-based bank, November 25, 2015.

Banker #2, CEO, major Beirut-based bank, November 24, 2015.

Banker #3, research analyst, major Beirut-based bank, August 11, 2016.

Banker #4, senior executive, Beirut-based bank, July 13, 2016.

Former senior official of Beirut *Mohafazat*. May 12, 2015.

Former senior planning official, June 6, 2014.

Journalist #1, March 27, 2015.

Journalist #2, June 28, 2014.

Lawyer #1, April 30, 2015.

Lawyer #2, April 14, 2014.

Lebanese economist #1, multiple communications, 2014-2015.

Lebanese economist #2, April 10, 2014.

Legal expert, June 21, 2014.

Member of Parliament, April 29, 2015.

Property developer #1, General Manager, major Beirut-based development firm, August 4, 2014.

Property developer #2, Communication Officer, major Beirut-based development firm, May 5, 2015.

Property developer #3, General Manager, major Beirut-based development firm, November 21, 2014.

Property developer #4, April 19, 2014.

Property developer #5, General Manager, major Beirut-based development firm, November 7, 2014.

Property developer #6, CEO, Beirut-based development firm, March 23, 2015.

Real estate broker, CEO, major Beirut-based property management firm, June 12, 2014.

Representative of the Association of Lebanese Banks, April 24, 2015.

Senior housing expert, March 17 and April 15, 2015.

Senior official of Banque du Liban #1, November 28, 2015.

Senior official of Banque du Liban #2, November 28, 2015.

Senior official of Beirut Municipality, May 4, 2015.

Senior official of the Investment Development Authority of Lebanon, November 24, 2014.

Senior official of the Lebanese Presidency #1, November 26, 2014.

Senior official of the Lebanese Presidency #2, February 27, 2015.

Senior official of the Lebanese Parliament, May 26, 2015.

Senior official of the Ministry of Finance, May 28, 2015.

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