

Dramatic land sales during the first half of the year were followed by a lull in demand during the succeeding months, in the wake of the summer war and later political events. Sales revenues were above the preceding year level, and a substantial sales backlog will help sustain sales revenues levels. Many projects, some of important proportions, were pursued and regional investors continued to give strong indications of interest in Beirut city center. Real estate rental activity maintained its healthy pace, sustained by demand for quality space and services

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As land bank with a considerable property portfolio, Solidere markets a wide range of un-built lots for residential, office, hotel, retail and other specialized uses. In the early years, sales mainly involved un-built lots and existing buildings sold 'as is' for renovation or development. The delivery of Solidere real estate projects led to a growing volume of sale and leasing operations involving finished products, new or preserved buildings or parts thereof.

Sale & Rental Strategy

Since 2005, the Company has been holding on to its portfolio of finished products, leasing it to generate income flows. Solidere actively supports developers and monitors the demand and supply of real estate in the city center, to the benefit of all.

In any given year, the sales recognized in the income statement consist of closed deals negotiated in that year and in preceding ones. On the other hand, the deals negotiated up to that year and not closed during the year, make up the sales backlog at year end. Aggregate sales of US\$1.37 billion have been recognized from inception to end 2006 (1,228,113 sq m of floor space), of which US\$255.2 million (225,113 sq m) in 2006.



Sales Results

Gross land sales of US\$255.2 million were recognized during the year 2006, (US\$235.3 million in 2005). Solidere has stopped selling finished products in order to build a portfolio of income-generating properties. However, Saifi Village deals closed in previous years and recognized in 2006 amount to US\$960,446 sq m representing 499 sq m of floor area (US\$1.1 million, 568 sq m in 2005).

At end 2006, the backlog of negotiated sales not closed during the year amounted to US\$1.2 billion. Also in the backlog are US\$8.5 million (5,406 sq m BUA) of finished apartments for which title transfer is awaiting occupancy permits as the lots need final parceling, plus commitments of US\$1.67 million relating to the pre-sales of units in the Beirut Souks jewelers' block, concluded a number of years ago.

Downpayments received on signed deals as at end 2006 amount to US\$154.7 million: US\$154 million from land sales and US\$0.7 million from the sale of residential space. Downpayments are treated as deferred revenues, to be recognized as part of revenues only upon sales realization.

Real Estate Leasing

Solidere's portfolio of income-generating properties includes UN House and Lot 1 Zokak El Blatt, each leased to a single institutional tenant, and a compound dedicated for embassy use. The Company also leases space in its buildings, in car parks and mooring spaces in Beirut Marina. At end 2006, the cost of leased properties was US\$169.2 million (US\$150.7 million after depreciation): US\$122.7 million in buildings, US\$42 million in land and US\$4.5 million in other assets.

Gross rental income from leased space, including parking spaces and marina berths, was US\$20.7 million, against US\$7.5 million in 2000, US\$10.2 million, US\$14.1 million and US\$15.4 million in 2001 to 2003, US\$18.6 million in 2004 and US\$20.8 million in 2005. Downpayments received on lease agreements are treated as deferred revenues and not recognized as income. Residential leases relate to new and restored flats in Saifi, Zokak El Blatt and Wadi Abou Jamil. Leased office space relates to UN House, lot 1 Zokak El Blatt and the embassy compound. Other commercial space relates to offices and shops in restored buildings, as well as shops in Saifi Village.

Sales Procedure / Payment Schemes

A sale agreement which includes pre-development and construction standards and timetables, as well as payment conditions, is signed upfront. Sales are expressed in terms of floor or built-up area (net development rights).

Property transfer is registered before the Real Estate Registrar upon signing the final sale deed, following fulfillment of technical and legal conditions, together with the mortgage contract in case of finance. Solidere pursued in 2006 its policy of offering buyers the possibility to either pay cash or defer part of the sale price payment, thus enabling them to better plan the financing of their investments.

Concomitant with the property transfer registration, the buyer / developer provides Solidere with a first-degree mortgage on the sold property, as a guarantee against any outstanding payments. A bank guarantee also provides security for proper and timely execution of all construction works.

Property Marketing

The Company has been successful in marketing its residential, commercial and institutional space, new and restored. As alternatives to a simple lease, schemes such as lease with option to buy or outright sale were offered for residential space until 2002 and 2004 respectively. Buyers could also benefit from payment facilities. From 2005, property sales or options to buy were discontinued, with only leases continuing to generate income flows.

The 136 Saifi Village apartments, totaling 30,660 sq m of floor area, had all been marketed by end 2006: 40 (7,770 sq m) leased; four (826 sq m) leased with an option to buy; 92 (22,064 sq m) sold, 57 (12,825 sq m) after exercising options to buy. Concurrently, 40 agreements totaling 9,934 sq m in floor space had been signed for restored houses or flats in Saifi. They represent 4,525 sq m of leases; 1,430 sq m of leases with options to buy and 3,979 sq m of sales, of which 2,593 sq m as a result of exercising options to buy. Lease agreements had been signed for a nursery (240 sq m) and for 31 shops (3,500 sq m), as part of Quartier des Arts.

In Zokak El Blatt, 73 apartments, with 13,937 sq m of floor space, had been the subject of agreements. They represent 11,084 sq m of leases and 2,853 sq m of sales, of which 979 sq m as a result of exercising options to buy. In Mina El Hosn, nine agreements for 3,432 sq m of residential floor space had been signed: 372 sq m as leases; 1,562 sq m as leases with options to buy; 1,498 sq m as sales, of which 409 sq m as a result of exercising options to buy.

Also at year end, the Company had five lease agreements totaling 33,630 sq m of floor space in new office buildings: UN House, lot 1 Zokak El Blatt and most of the embassy compound. In the Maarad and Foch-Allenby restored office buildings, 22 lease agreements for 11,720 sq m, as well as 19 lease agreements relating to 4,046 sq m of retail space, had been signed.

Property Management

Solidere provides complete full-time operation and maintenance for all its properties. These include the new and restored buildings, the Souks and Weygand street car parks. In UN House, electro-mechanical and civil works are provided as per an operation agreement with ESCWA. Extending its services to other property owners, Solidere signed agreements for the marketing of several third-party properties, prior to undertaking their management and maintenance.

The Company is currently offering such buildings the following services: technical maintenance, cleaning, safety, security and the maintenance of landscaped areas; marketing, lease management, including drawing up budgets, arranging insurance, collecting rents, preparing assets inventories, subscribing to utilities, tackling co-ownership issues, and paying real estate and municipal taxes. Solidere expects to derive increasing revenues from property management services in the coming years.

Future Prospects

Solidere is firmly relying on growth in its rental income as it steps up the delivery of new and restored buildings. Rental revenues are expected to be strongly boosted, upon delivery of the Beirut Souks, by far the most important Solidere real estate project and its flagship commercial development. Rentals are then expected to reach close to US\$65 million from 2009.

