AMERICAN UNIVERSITY OF BEIRUT

HOUSING PRODUCTION IN THE SUBURBS OF BEIRUT
A DEVELOPER'S STORY
THE CASE OF MK REAL ESTATE

by
MIKHAEL GEORGE DAHER

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MIKHAEL GEORGE DAHER

Approved by:

Dr. Mona Fawaz, Professor — Advisor
Department of Architecture and Design

for
Dr. Issam Srour, Associate Professor — Member of Committee
Department of Civil and Environmental Engineering

for
Dr. Serge Yazigi, Adjunct Professor — Member of Committee
Department of Architecture and Design

Date of thesis defense: June 16, 2020

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AN ABSTRACT OF THE THESIS OF

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Urban planning research has converged on the centrality of social networks in supporting the production and exchange of housing. Smith (1999) described housing networks as critical in securing the basic ingredients of housing such as land, building materials, or construction permits. The concept of networks was further expanded to highlight their central role in contextual social fields where they could be turned as effective social (Fawaz, 2009) or political (Zhang, 2010) capitals, empowering individuals to control and manage the building development and exchange industries.

Building on these approaches, my thesis, develops an ethnographic study of one development company operating in Beirut's suburbs. The thesis investigates the processes of building development that empower one small-scale trader to establish himself over two decades as a leading development agency in the city. The thesis argues that the success of the development agency rests on the visible and invisible social networks which the agency's owner cultivated carefully, connecting him to well established individuals in the areas where he operated, granting him access to land and permits, but also empowering him to negotiate better deals and make higher profits. My thesis further shows that the company's primary strategy to socialize all business relations allowed it to secure housing ingredients, reach better deals, overcome territorial boundaries and restrictions on building in specific areas, and sometimes receive cover for the illegal building activities (e.g., adding floors, expanding basements) it resorted to in order to maximize profit and mitigate problems. Despite these advantages, the thesis shows that social networks operate at a cost, forcing the developer into sometimes disadvantageous exchanges of favors and/or worse deals. It also shows that reliance on networks created an opaque market where inexperienced clients and investors were at a severe disadvantage in the transactions they conducted.
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The thesis findings are significant in providing empirical insights about the role and functioning of social networks in supporting the housing industry in Beirut's suburbs. They also provide important insights for how to mitigate the disadvantages of these modes of operation.

This research methodology built on my experience working as at the development agency for two years (2018 and 2019). Most of the data and analysis are collected through a participant observer's approach.

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CHAPTER 1

INTRODUCTION

1.1. Problem statement

Over the past two decades, developers as a group have gained attention in the analysis of the production of urban spaces and their planning (Fainstein 1995). Indeed, these actors have been shown to play a central role in the making of cities, often trumping the influence of public agencies and regulatory bodies. This is because the rising financialization of land and the central role played by real-estate development in national economies around the globe has grown fast, making land and development a central component of these economies (Harvey 2004). In Lebanon where public agencies are notoriously weak, the role of developers in the making and expansion of cities has historically been very strong (Krijnen and Fawaz 2010). Despite some important research on the topic, we still have to understand better the ways in which developers operate.

This thesis studied one real estate company, [MK Real Estate][1], an agency that developed 19 projects over the last thirty years in Beirut and its suburbs. All the buildings [MK Real Estate] has produced are registered, fully sold, and perceived as operating within the formal, legal sector. It would seem as if the developer follows the

[1] The name MK is a pseudonym used to protect the identity of the development company and its operations.

typical sequence of building development: securing land, permitting, securing finance, building, selling, and inhabiting. Yet in reality, the sequence of building production is much more complicated than it appears. In addition, every step of the process involves a high number of negotiated informal transactions that are deployed to reduce risk, facilitate transactions, and increase profit. These ‘negotiations’ are at the core of the production of residential space in today’s Beirut, providing us with valuable insights about the way the city is actually built.

After three decades of successful work, [MK Real Estate] is facing a crisis. The agency has been severely impacted by the ongoing financial stagnation in Lebanon. Indeed, the prolonged stoppage of the Public Corporation for Housing (PCH) loans, which reduced greatly the flow of capital, left the developer short on liquidity. In addition, the coping mechanisms he adopted to address the slow-down of the financial flow exacerbated the complications he faced in completing the development projects he had initiated at the beginning of the crisis in 2015. Yet, the developer seems to still be afloat. He continues to build, buy, and sell, albeit at a much slower pace than earlier years. Other developers operating in the same region have however gone bankrupt. What explains this relative success? More generally, what can we learn about and from the development agency's practices that can inform our understand of housing development and exchange in Beirut's suburbs? How can these lessons inform planning policies in Greater Beirut? This thesis aims to present elements that respond to these questions.

1.2. Research Question

Developer's practices affect greatly the built environment in Lebanon, the livelihoods of people looking for affordable housing, and the lives these people will eventually conduct in them. These practices, in turn, are strongly affected by the conditions in which they are deployed. This thesis will provide insights towards the organization of the real estate industry and the production of housing in Beirut's suburban context. Those insights will be provided through six main questions that this thesis will attempt to answer:

1. What are the ingredients of real estate production and how did MK Real Estate access them?

2. How does MK Real Estate work along and use social, economic and political networks and operationalize them into the process of construction?

3. What are boundaries of the ‘visible formal’ and ‘invisible informal’ in their operation and how do they intersect?

4. How do they operate in the highly uncertain environment of Beirut’s suburbs maintain their development operations despite the acute financial crisis?

5. How have they managed to mitigate the dwindling financial conditions of their customers and the reduction of the PCH loans?

6. What can we learn from the practices of developers if we want to improve the organization of housing production in Lebanon?

1.3. Thesis Argument

The thesis is built around a set of arguments centered around the importance of social networks in the organization and transformation of the housing market. These are:

1. Social networks play a critical role in the organization of the building process in Beirut's suburbs.
2. Informal relations that run through social networks empowered MK Real Estate to expand its business, increase profit, and secure *favors* that allowed it to violate the limits imposed on the business by legal and sectarian/political constraints. It hence provides *protection* and *cover* for illegal and/or "undesirable" activities.
3. The company deployed an array of informal arrangements with contractors and employees to lower costs, and with clients and contractors to provide financing
4. The heavy reliance on social networks and informal relations in the organization of the market produces a relatively opaque market that fails to protect transacting

actors, putting both [inexperienced] partners and clients as victims in the process of building development.

1.4. Thesis significance

The thesis' significance lies in improving our understanding of land and housing markets in Beirut. By decoding and clarifying invisible processes that underlie housing production, all pointing out to the real influence of social and political networks in housing production, the thesis provides planners and policy makers with valuable insights on the processes of spatial production. These processes include multiple formal and informal exchanges as well as the modalities through which they intersect. This thesis findings also point to areas and actions that are exploitive of clients. The thesis recommendations help inform strategies to increase the protection of clients and help formulate mechanisms and regulations that can aid in doing so.

1.5. Literature review

I conducted a large literature review in order to inform the theoretical background for this research and develop an adequate methodology for the study. My literature review covers three important entry-points relevant to the research:

(a) 'Social Networks' and their influence on the production of housing,

(b) Political capital and how it integrates into the production of housing,

(c) Examples of developers' practices.

1.4.1. Theoretical origins of 'networks' and their influence on the production of housing

Numerous studies have theorized the production of housing by focusing on housing market exchanges, privileging an economic maximizing rationale (whether that being Marxist, Liberal or Neo-Liberal). I argue that while profit maximization strategies explain some of the imperatives of housing production, many other factors influence the process of housing production, playing sometimes a more powerful role than economic calculations. To ground this point, I look at two studies that have explored the role of social networks in housing. Smith (2002) provides one of the first theoretical frameworks to study the production of housing from the entry points of 'social networks'. Fawaz (2009) extends this analysis by showing the implications of these networks on the operations of housing markets.

Describing the main theoretical debates about housing acquisition as having reached an impasse, Smith (2002) argued for the necessity to find new theoretical pathways to guide housing policy debates, particularly in relation to the provision of low-income housing (Smith, 1999; Jenkins & Smith, 2001). Building on the interest in institutional analysis of the early 2000s, Smith suggested that empirical mappings of housing processes should be conducted, while accounting for "the fundamental importance of contextual factors such as political economy, institutions and culture" (Smith, 2002, p. 84). To Smith, network analysis should be grounded in what Healey (1997, p. 35) described as a "relational view of social life, which focuses on people actively and interactively constructing their worlds, both materially and in the meanings that they make". Two key influences define this approach to institutions. The first is the theory of structuration (Giddens', 1984, 1990), which stresses that social life abides by the web of relations in which it is embedded. The second is Habermas' (1984) theory of communicative action, which stresses that political communities interact in public arenas in a constructive manner.

What are network systems? Over the past decades, social networks have occupied the social sciences as scholars unraveled their role in politics, healthcare, or market studies (Granovetter, 1985). Against a representation of the market as a seamless field where supply and demand operate transparently, several scholars have found markets to be profoundly reliant on the personal relations that sustain the interactions of transacting parties (Fligstein & Dauter, 2006).

By recovering the debate on social networks in housing, Smith effectively links these two theoretical approaches to earlier studies of self-help housing, particularly the work of John Turner (1996) and Turner and Fitcher (1972) who described housing production as embedded in a 'web of relations' and consequently analyzed processes of housing production as 'network systems'. Similarly, Fiori and Ramirez (1992) described the importance of 'spaces of negotiation' that complement networks and enable exchanges. These authors argued that "resources are found, allocated, distributed and/or transferred through two mechanisms: networks and spaces of negotiation" (Smith, 2002, p. 84). Smith defines a housing network as a "group of people or institutions (actors) who exchange resources (e.g. land, money, materials, labor) that go into the production of housing" (Smith, 2002, p. 85). This network can function on a professional or social basis, and it aims to produce housing. Given the importance of networks, any breaks or blockages in the network will hinder the process of housing production. Networks are vital for housing production because, without them, neither clients nor producers have the capability to build (Turner & Fitcher, 1972).

Smith provides the theoretical backing to the importance of networks in housing production, but does not delve into the networks themselves, how are they established, how do they operate, how are they effective and are they transformed. This is where Fawaz (2008) extends the theorization of housing networks critically. Fawaz first unraveled the effects of social networks and their influence on who gets to play a role in the housing market, who can be a developer, and who can secure better deals (and how). Fawaz also looks at the effects of time and context upon the functioning of networks. In doing so, Fawaz builds on Bourdieu's methodological approach of conceptualizing social networks as social capitals located within specific social fields (Bourdieu and Wacquant, 1992). Here, social field is defined as the environment where social networks are developed and deployed. As for social capital, it is the translation of the accumulated networks into actual power derived from the access provided by networks. Bourdieu defines social capital as more than mere access to resources. He further argues that the accumulation of capital repositions one into a higher place in the social hierarchy which "improves his/her control over this field and his/her ability to alter its rules in his/her favor" (Bourdieu, 1980; 1986).

Fawaz applied these concepts to the study of actors in the housing market. Looking at developers in the informal settlement of Hayy el Sellom, Fawaz argued that the ability of developers to participate in a network "lies greatly on one's ability to accumulate the necessary capital" (Fawaz, 2008, p. 570) which can include economic, cultural, political and social capitals (Fawaz, 2002, p. 571). Fawaz drew on the methodological approach developed by Pierre Bourdieu and diverged from the framework of new-institutional economics because the latter sums up the activities of social institutions as tools that reduce transaction costs (first as "conduits facilitating access to the resources needed to produce or purchase housing" (Fawaz, 2008, p. 569), second as "institutions that sustain the exchange of land/or housing products" (Fawaz, 2008, p. 569) and explains 'informal' activities of developers as ways to increase profit (DeSoto, 2000; Razzaz, 1998; Berner, 2001a; 2001b). According to Fawaz, this falls short in describing the real situation which includes a "myriad of historically and geographically specific factors (e.g. social institutions and practices, macro-economic and political factors, attitude of the state) that make up the social context of housing production" (Fawaz , 2008, p. 566), while the former looks at social networks as "hierarchical and complex relations that are geographically and historically situated, and that result from and alter the strategies of the actors who participate in their production and depend on them to sustain their practices" (Fawaz, 2008, p. 566).

Fawaz's research also confirmed the essential role of social networks when it comes to a developer's ability to access necessary "housing ingredients and market securities" (Fawaz, 2008, p. 566) that they need in order to produce housing. Moreover, the same networks are used by developers to reposition themselves within social hierarchies and consequently extend their control over the process of housing production. Ultimately, Fawaz showed that developers are responsible for the production and nurturing of the same social structures that they abide by, and finally, it is the amount and distribution of social and political capitals that dictate the division of power in the social networks, which in return determines who will be able to participate as a developer and profit from the housing market.

1.4.2. Political Capital and Developer Practices:

Interest in social networks and their role in the operations of the real-estate machine as gained traction among urban researchers. A recent study of political networks was conducted by Zhang (2010) who uncovered the mechanism underlying the real estate machine in a locality of China. The researcher focused on the role of political capital in facilitating developers' activities and labor by mapping the interactions of public and private actors involved in the housing market (e.g. government officials, developers, planners, mortgage lenders, sales and advertising staff, construction laborers, interior remodeling workers and clients). Zhang argued that these actors compose the social sphere of the housing market in which social, political and economic networks are activated, and accessed proportionally to one's relevant capital. Zhang hence demonstrates the importance of networks and capitals that shape them, and she goes on to provide examples and accounts on how they function.

A comparative analysis between the study of Zhang and the study of Fawaz shows that the functioning of social and political networks in China is very similar to Lebanon (in the way that they provide access to services and benefits relevant to how much capital a participant has). These studies however differ in the way they translate into material transactions and benefits for people who can access them because of the different historical, economic and political contexts in which they operate. For example, having access to a political network in Lebanon can provide a developer with protection if he/she violates the building law. In China however, law is strictly applied, and developers cannot break the law. Instead, having access to political networks can provide developers with better and cheaper access to land (given the government's big control over land allocation in China). Such access would be of course irrelevant in

Lebanon where the government owns very little land and doesn't control urban production.

1.4.3. Conclusion

Based on these case studies, I formulated a strong hypothesis about the central role of social networks in the production of housing. According to this hypothesis, actors (nods) are connected through social and political links, and transactions along those links happen through negotiations (which include market transactions, clientelism, bribery, personal skills and so on). As for the ability to negotiate, it lies greatly in one's political and social capitals. Those networks are very malleable and can be shaped and reshaped by the same actors who function through them, and the ability to change a network also lies in the amount of capital actors have.

CHAPTER 2

METHODOLOGY

In order to answer my research question, which addresses the relation between social and political networks on the one hand, and the functioning of the real estate sector on the other, I developed a case study of in-depth analysis of one single real-estate company operating in Beirut's far southern suburbs. It was a case I was very familiar with because I had worked for two yours in the company, as I will explain below. The chapter is divided in two sections. In the first section, I outline my approach to the analysis of the case study. To this end, I draw on the literature review to develop an analytical framework through which I analyze the development company. In the second section, I explain the data gathering approach, which relied essentially on the participant approach methodology.

2.1. Analytical Approach

In order to develop a framework for studying the development company, I analyzed in depth the methodological approaches of the three case studies that I covered in the Literature Review Section:

2.1.1. Mapping Networks

In order to unravel the role of social networks in the production of housing, or what he called "housing networks", Smith (2002) devised a method that would allow for an empirical analysis of housing networks. Smith proposed to map (i) actors, (ii) the linkages that connect them to each other, and (iii) "housing ingredients". This method proposed to study five factors:

1. The social, economic and political context in which (housing) networks are deployed
2. The resources that flow through the networks. These resources include:

a. Resources used individually by each household to build and maintain their dwelling, and they include: (i) land, (ii) finance, (iii) labor, and (iv) material and technology.

b. Resources used collectively or public goods including: (i) infrastructure: roads, street/lanes, water supply, sewerage and electricity supply and (ii) social equipment: open spaces/parks, playgrounds, community halls, schools, health centers and so on

3. The links that are established within the networks. These include:

a. Direct resource flows, including: (i) contract, (ii) purchase, (iii) donation.

b. Leads to resource flows, including: (i) Formal application, (ii) Lobbying, (iii) Negotiation.

4. The actors linked through the network, these include all people or organizations involved in the transfer of resources needed to produce housing, Smith identified eight: (i) Households, (ii) CBOs, (iii) Local authorities, (iv)

Parastatals, (v) Central government, (vi) International agencies, (vii) Private enterprises (viii) NGOs.

5. Network types (horizontal/vertical): Networks could be *vertical* if they connect individuals to formal organizations, and they can be horizontal if they connect individuals to other individuals or informally connecting them to the state or the private sector.

Smith chose five different settlements in low-income areas, and they cover a range of policy initiatives that were enacted in the same period relevant to the study of the housing market in Costa Rica that he investigated. Data was gathered through in-depth household interviews that were based on storytelling and participatory appraisal methods. The data gathered was “descriptive and illustrative” (Smith 2002, p. 86) rather than representative. The primary material for analysis was the household’s’ perceptions, and conclusions were compared to other sources of data to substitute for possible poor information. In each of these settlements, Smith conducted his housing network analysis.

2.1.2. Longitudinal Methodological Approaches

Fawaz (2004, 2008, 2009) conducted a longitudinal ethnographic and documentary research that explored the development of the neighborhood of Hayy el-Sellom in Beirut over a period of 25 years (1950-75), the research documented the transformations of the channels of housing production in the district through:

(1) Mapping "the trajectories of the land and housing developers who participated in the production of this neighborhood, looking specifically at the role that social networks played in the process" (Fawaz 2008, p. 566) and its transformation into capital that allows in every historical moment one group of developers to position itself as "the developer", depending on relations with the political class, political parties, banks, and more.

(2) Mapping the changing role of law and the public actors enacting the law in the neighborhood, the formal and informal transactions that organize housing sales;

(3) Mapping the changing position of “clients” or newcomers to the neighborhood, as they negotiate access to shelter in the neighborhood.

Fawaz conducted over a hundred open-ended interviews mainly with residents, developers, and their families. In addition, she interviewed actors from the public sector and collected documents and archival data, such as building permits and lot subdivisions. Fawaz then moved on to synthesize the data and describe the changing positions of developers and clients in their ability to produce/access housing over time.

Fawaz choose a case study that is adequate for the study of social networks and land markets, because the settlement was “produced over several phases during which different blends of formal and informal arrangements were put in place” (Fawaz 2008,

p. 568), and because the settlement did not experience drastic changes and because it resembles many of the informal settlement developments in other developing counties.

2.1.3. Ethnographic Research

Zhang (2010) used ethnographic research (researcher's observations and interviews) to elaborate on the shift from "the domination of state-owned enterprises in construction to the coexistence of state-owned, semiprivate, private, and foreign-owned firms" (Zhang 2010, p. 52). She did so by unraveling and describing the new "powerful pro-growth coalition between developers and local government officials" (Zhang 2010, p. 53). In the same study, Zhang explored how developers were accessing and benefitting from building coalitions, mapped the kinds of networks developers were accessing in order to enter and thrive in the housing market, and investigated how they were managing their real estate companies to secure profit.

2.1.4. Bringing the Analytical Framework Together

The three methods outlined above converge into a single method to approach researching the development sector through the entry point of housing networks. The thesis will rely on Smith's network anatomy to articulate a method to organize and classify data gathering. I specifically focus on the four elements of the housing production process, namely actors, resources, links, and type of networks. In addition, by extending what is meant by housing networks to account for social structures, links to political parties, state actors, and other influential agents, I enrich my approach on the basis of the work developed by Fawaz and Zhang's methods, leading to a more thorough and adapted reading of housing networks centered around the strong persona of the developer. In the next section, I focus on each of the ingredients of housing production, that is land, finance, materials, and labor.

- Land

Smith found that access to land witnessed a sequential “shift from ‘formal’ land provision by parastatals to ‘informal’ land allocation by community leaders” (Smith 2002, p. 91). This shift however did not erase households’ perception of the central government as the ultimate land provider. Smith did not elaborate on the process on how parastatals allocated land, nor how community leaders got access to land and power to resell it, however, both types of land were described and explained by Fawaz and Zhang.

The case Fawaz (2008) studied is very similar, she found that even with the existence of a governmental land registry office controlling ‘formal’ land division and sales, land allocation and division was controlled ‘informally’ by a community leader. Fawaz (2008) further found that the earliest development of Beirut’s largest ‘informal’ settlement (Hayy el Sellom) was based on the social capital, social networks and activities of a single developer/community leader (Abu Raymond), who relied on social network as a form of capital he used to manage a land market. He acquired land, subdivided it, and arranged to sell it to rural migrants. The study found that the developer was also able to forge personal relations with a prominent migrant figure, which also translated as further social capital, and he used this capital to become the dominant personality that everyone must deal with in order to buy land and then build a house in this neighborhood.

In the case of the Chinese city studied by Zhang, in a context where land regime is highly controlled by the government, access to land was directly proportional to how much political capital a developer could claim, which translated into access to government officials that control land allocation.

In studying informal relations, all three researchers found that state agencies played a critical role in any form of building development. Zhang showed that political capital stems from how much the developer could benefit public officials in return of accessing the land they provided him/her for investment or alternatively, the personal relations a developer could leverage with individuals who work in the government. Smith also noted that even with the complete control of community leaders over land allocation, people still perceived land to fall under the control of the central government. Similarly, Fawaz expanded on the effect of this perception, her study showing that Abu Raymond tried to imitate governmental procedures of land division and registry, and people felt much more secure and comfortable when they saw such procedures, which provided them with a sense of legality and security, which made them resort more to him. In return, Fawaz showed that the appearance of state coverage provided Abu Raymond with social capital that he used to further expand his control over the development of the settlement.

Still thinking about the role of the State, both Smith and Fawaz point to the negative role of municipalities in their reaction towards informal land allocations. Smith found that municipal authorities rejected moves to establish ‘formal’ low-income settlements within their boundaries, and Fawaz found that the municipality was not welcoming to the new wave of migration and did not facilitate their transition (through new zoning laws), instead they enforced new laws that specified the minimum area of lot divisions to be much higher than what the developer and migrants needed and applied.

- Finance

Smith found that funding came from household's own resources, parastatals and the private sector, and noticed a shift in funding from the latter to the former. This move was not successful because the relation with the parastatal was more convenient since they were easier to negotiate with and private sector agents had a huge record of going bankrupt, which lead to suspension of works and interruptions in loan repayments. Although loans were given out on the precondition of having a job, that was not the case, and the failure of the private sector could be attributed to the high rate of loans given 'informally' to people in squatter settlements. The central government did not involve in funding and Smith attributes this to lack of Municipalities responsibility and resources in this field.

In China, the central government had a huge role in financing the acquisition of housing and controlling the process of building them. They passed laws that enabled subsidized housing loans, and kept loan rates under control, they were also the ones to allocate lands for construction and they did so based on the political capital of the recipient, developers who had access to the government had the biggest advantage, since this provided them with cheap and good lands for construction, while other developers had to buy worse land for much higher prices. As for developer's access to finance, it primarily rested on social relations (including borrowing from relatives and workmates) or on access to loans, and loans are given out only for companies with good records and enough collaterals. Only in rare cases can loans be given out to people with social capital that translates into personal relationships with bank CEOs.

As for the case of Fawaz, the process of financing was based on personal resources (of buyers), in addition to social networks that brought in other migrants (thus keeping and increasing the flow of capital) and provided securities for the developer, since he had relations with prominent figures from the migrant (client) community and they in return assured the delivery of payments.

- Materials and technology

Smith shows that the main supplier of material is the private sector through market exchange, and the other major source is informal horizontal networks, those networks include communities who sought to acquire housing collectively, this form of social networks provides greater access to materials than individual households on parastatal lists. Smith also notes that materials acquired through horizontal networks are mainly lightweight materials used to construct shacks, but other kinds of solid material (such as concrete and building blocks) are monopolized by people he did not mention. There is a similar trend in the case of Fawaz when the son of the developer started to bring in construction material into the settlement, he provided buyers with benefits that he could secure due to his father's power, knowing that those benefits were necessary for anyone who wanted to build there.

- Labor

Smith reports that the main source of labor, other than the members of the household themselves was accessed through social networks, and that included unskilled labor and professional contractors.

As for the Labor in China, the nature of the housing market is very different, in the case study of Zhang construction was done by developers and then sold to middle/upper-income households, for so the initial construction was left to developers who sought to lower the cost of production by hiring sub-contractors who in return took advantage of the huge wave of rural migrant young men feeding the real estate machine with very cheap and abundant labor. In the second stage of construction which included house remodeling, people looked for good contractors through their social networks, especially if they had a relative or a friend which had done a successful interior remodeling.

In the case of Fawaz, early construction including labor was done by inhabitants themselves during the early phases, but when the developer’s hold over housing production increased, construction and labor had to pass through the main developer, otherwise conflicts would arise. Given the developers' relations with the local police, it was very difficult for land buyers to contest this monopoly.

- Conclusion

Building on this framework, my thesis will analyze the map of networks, nodes and actors built around one development agency and unravel the lessons that can be derived from the experiences of this company for a better understanding and regulation of the housing market.

2.2. Data Gathering:

Between 2018 and 2019, I worked at MK Development company in several roles. At the time, I began to realize the importance of the insights I was gathering and the echoes it had with discussions of the building development industry in the academic work we were covering at the University. Having settled on the idea of conducting my thesis by deriving lessons from the company where I worked, I secured permission from the principle and continued my work as a participant observer. Through this access, I documented daily my observations, keeping a small record of what I was learning. In addition, I was allowed to collect information about one of the sites in which the company was working. The analysis of my personal record and the documents provided by the company, in addition to multiple informal discussions with the company's principle, form the thrust of my method.

2.2.1. Data Gathering Approach: Participant Observation as a Strategy

Participant observation is a qualitative ethnographic method of data collection. The term "observation" is defined as the "systematic description of events, behaviors and artifacts in the social setting chosen for study" (Marshall and Rossman,1989, p.79), via the five senses, providing a 'written photograph' of the situation under examination (Kawulich, 2005). LeCompte (1999) defines participant observation as "the process of learning through exposure to or involvement in the day-to-day or routine activities of participants in the researcher setting" (p.91).

Anthropologists use participant observation for fieldwork. This includes active looking, informal interviewing, recording field notes, improving memory, and questionnaires. This research approach allows researchers, through observation and participation, to blend unobtrusively with the research targets and to learn firsthand about the activities of the individuals within their natural setting and to preserve the integrity of the findings (Kawulich, 2005). According to Kawulich (2005), ethnography is most effective when observing the study group in a setting that allows the researcher to explore the subjects within their “organized routines of behavior” (Kawulich 2005, section 4) by again, being an active “part” of the group under study (Kawulich, 2005).

Participant observation includes three methods:

1. Descriptive observation: The researcher observes anything and everything. Assumes knowing nothing (Kawulich, 2005).

2. Focused observation: In this process, there is an emphasis on observation paired with interviews. The findings of the interviews determine and guide what is to be observed by the researcher (Kawulich, 2005).

3. Selective observation: Considered the most systematic of all. In this process, the researcher focuses on a variety of activities to delineate the differences in them (Kawulich, 2005).

There are important advantages to the participant observation method. The Participant Observation allows the researcher to form a holistic understanding of the phenomena being studied by acquiring a better understanding of the context under study. The validity of the findings can be supported by pairing them with interviews, document analysis, questionnaires and surveys (any form of quantitative method) (Kawulich, 2005). This method is particularly useful in answering descriptive research questions, generating or even testing a certain hypothesis and in building theory (Kawulich, 2005). It provides the researcher with access to the ‘backstage culture’

(DeMunck and Sobo, 1998) and allows for more detailed description of "behaviors, intentions, situations, and events as understood by one's informants", in addition to exposure of unscheduled events (Kawulich 2005, section 13).

However, participant observation can be problematic is the key informant(s) used in the study doesn't account for the vantage point from which s/he observes the company (Kawulich, 2005). If the informants are marginal participants or community leaders, or are participants like the researcher himself, there may be problems related to the representation and interpretation of events (Kawulich, 2005). In addition, data collected by the researcher could be based on the researcher's individual interest in a setting or behavior, instead of being representative of what actually happens (Kawulich, 2005). A suggested solution for this issue is choosing participants that are considered competent in the topic being studied (Kawulich, 2005), my tasks and previous experience with the company (as an architect, not a researcher and with no previous intention to start this research) provided me with clear accounts of critical actors and elements that are to be included in this research, I will also tend to contextualize using systematic observation procedures that would direct who and what is observed when and where, so as to provide a more quantitative observation (Kawulich, 2005).

2.2.2. My Journey as a Participant Observer

When I first started working with the company, I began as a descriptive observer, since it was my first professional work experience. I did not have a fixed position, nor did I take the position of anyone else. My first month was an introductory phase to the work. This meant that I did not cross any employees nor did I pose any threat to their functioning, which secured me a welcomed presence with a very low profile and this facilitated my integration with the company and getting to know its actual mechanics, but I still had little access to closed meetings and internal issues.

A month later, I was given two tasks. The first, as a planner, to help manage and fix issues within the functioning of the company itself. The second was to supervise design and construction. This was very similar to the process of focused observation, since my work included numerous meetings (very similar to an interview) that was stemmed from the need to understand underlying mechanisms of the functioning of the company in order to provide solutions.

This integration with the company helped me devise a selective observation that will be composed of the different sections that make this thesis up.

Throughout my work I acted as a participant observer, and documented the company's operations as a planner, architect and site engineer.

I worked with the company from 2018 until the end of 2019. My work encompassed:

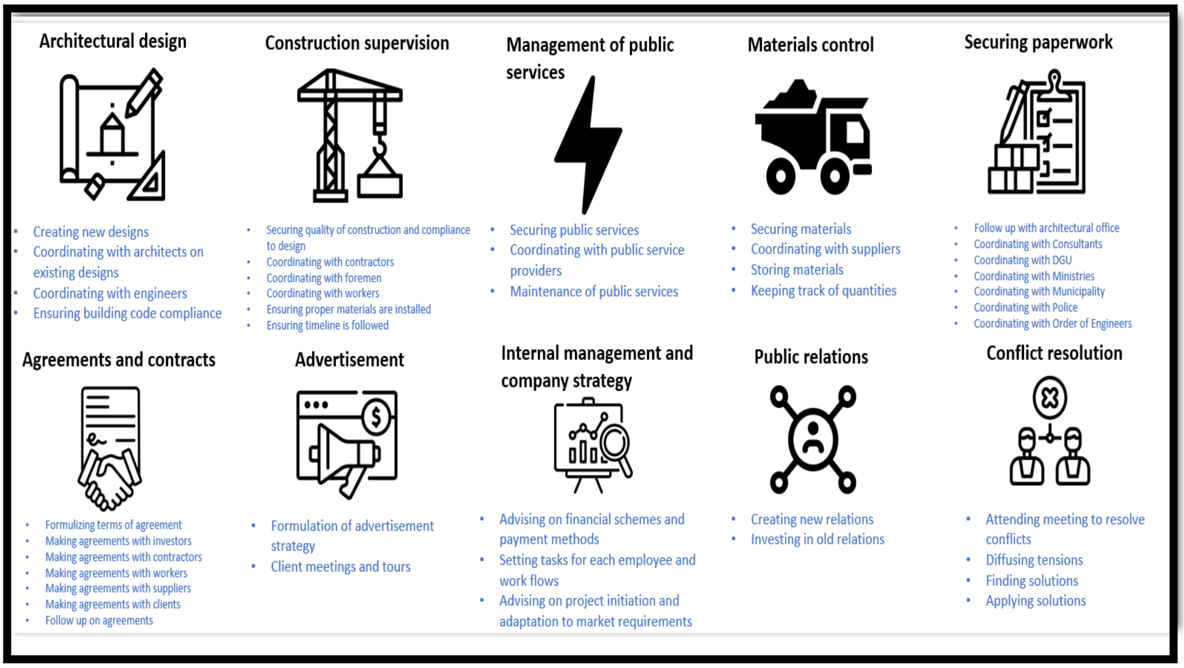

Figure 1: Scope of work with MK Real Estate

The company is small, and all employees are close to each other and collaborate tightly in their work. This creates an open environment. For example, as an architect I sit with salesmen and clients when they are making a deal, many of the employees are present when contractors are being hired, and many issues happening with the company take place and are resolved in front of many employees. This kind of open environment, in addition to my personal tasks provided me with an encompassing and detailed account of the functioning of this real estate company.

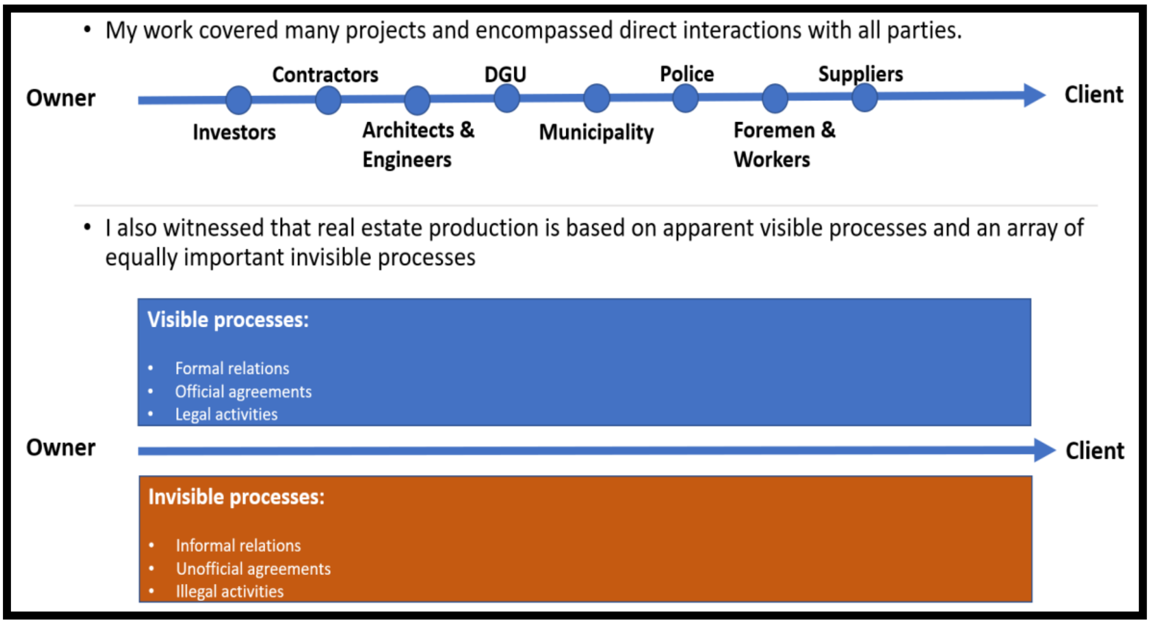

Figure 2: Scope of work with MK Real Estate, visible and invisible processes

Given the high level of informality[1] in which operations are conducted, the company’s functioning is now bound to social, political, and economic networks, and relevant capitals determine the outcomes of interactions. This work environment is best studied under an observation method, since such methods provide researchers with ways to determine who interacts with who and how participants communicate with each other (Kawulich, 2005; Schmuck, 1997).

Given the nature of my position in the company, I was already a participant observer when I decided to shift my thesis topic to studying the Company. I spent long hours at work, which facilitated my involvement as a researcher in sensitive activities, reduced incidence of ‘reactivity’, and provided me with a better understanding of what was happening[2] (Bernard, 1994). DeWalt and DeWalt (2002) believe that "the goal for

[2] In the current housing crisis, the company functions under severe cash flows, clientelist environment, corrupt/weak application of law (including building law, zoning, courts, police stations), absence of implementing and protecting worker’s rights, Syrian refugee crisis, personal interactions rather than

design of research using participant observation as a method is to develop a holistic understanding of the phenomena under study that is as objective and accurate as possible given the limitations of the method" (p.92). Thus, participant observation helps researchers understand how things are organized and prioritized, how people interrelate,

formal/legal contracts (although present the measure of their application is determined greatly by the outcomes of personal interactions) and what are the ’cultural’/functional parameters, what do participants deem to be important in leadership, politics and social interactions (Schensul, Schensul, and LeCompte, 1999). In addition to direct observation, I analyzed documents (that cover the full profile of a project) and archival data to support the observations and add to the validity of the study (Kawulich, 2005).

2.3. Conclusion

Participant observation was used to gather information about the company. This information was structured into a body derived from Smith’s method and analyzed using Fawaz’s and Zhang’s approaches.

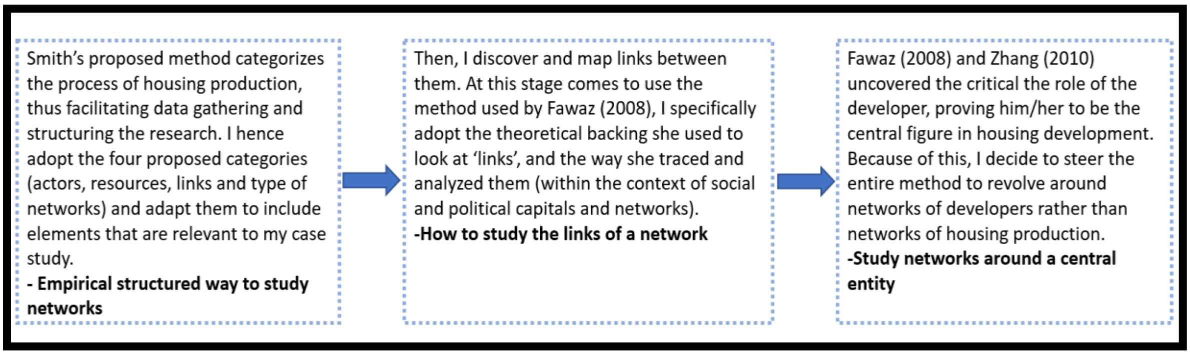

Figure 3: Development of analytical approach

The following diagram represents my adaptation of Smith's (2002) method. It shows the different categories of this thesis, and how are they structured in order to provide a detailed image of the functioning of the developer and how does he/she produce housing. The links between (developer - resources - actors) will be studied, thus unraveling the role of political and social networks.

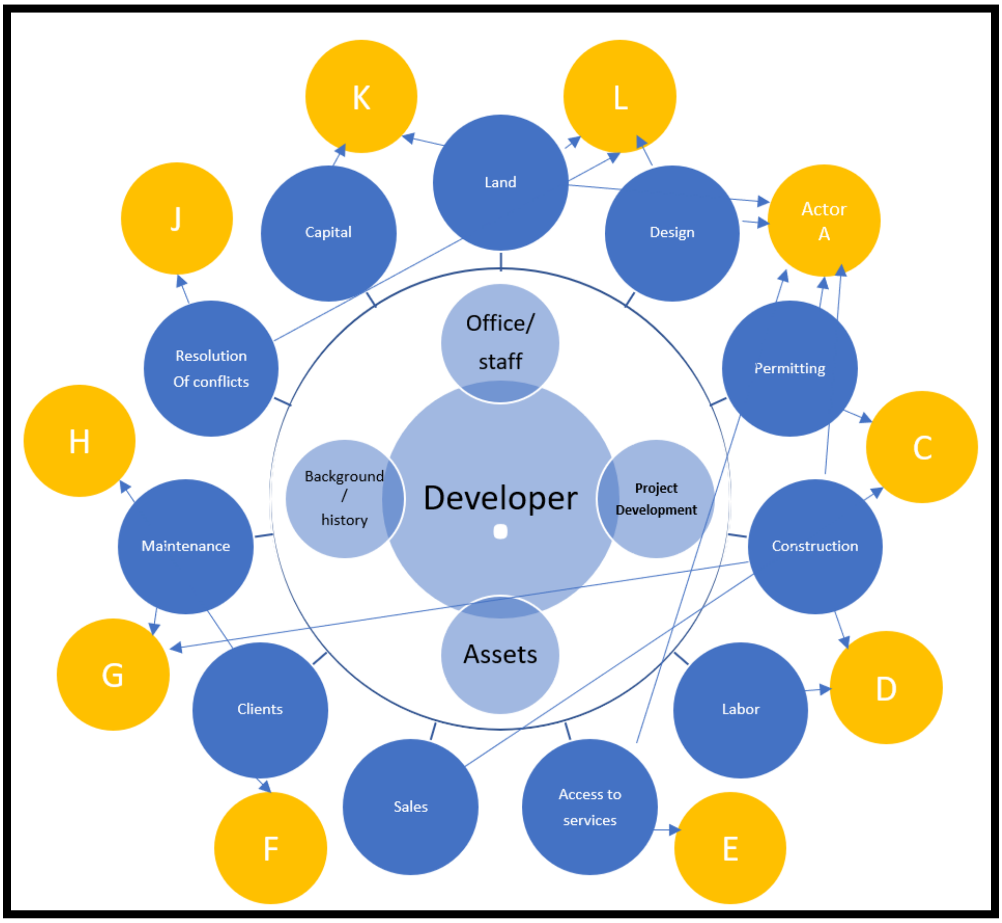

Figure 4: Diagram of network analysis.

CHAPTER 3

A COMPANY PROFILE: HISTORY AND BACKGROUND, PROFILING THE COMPANY'S PROJECTS

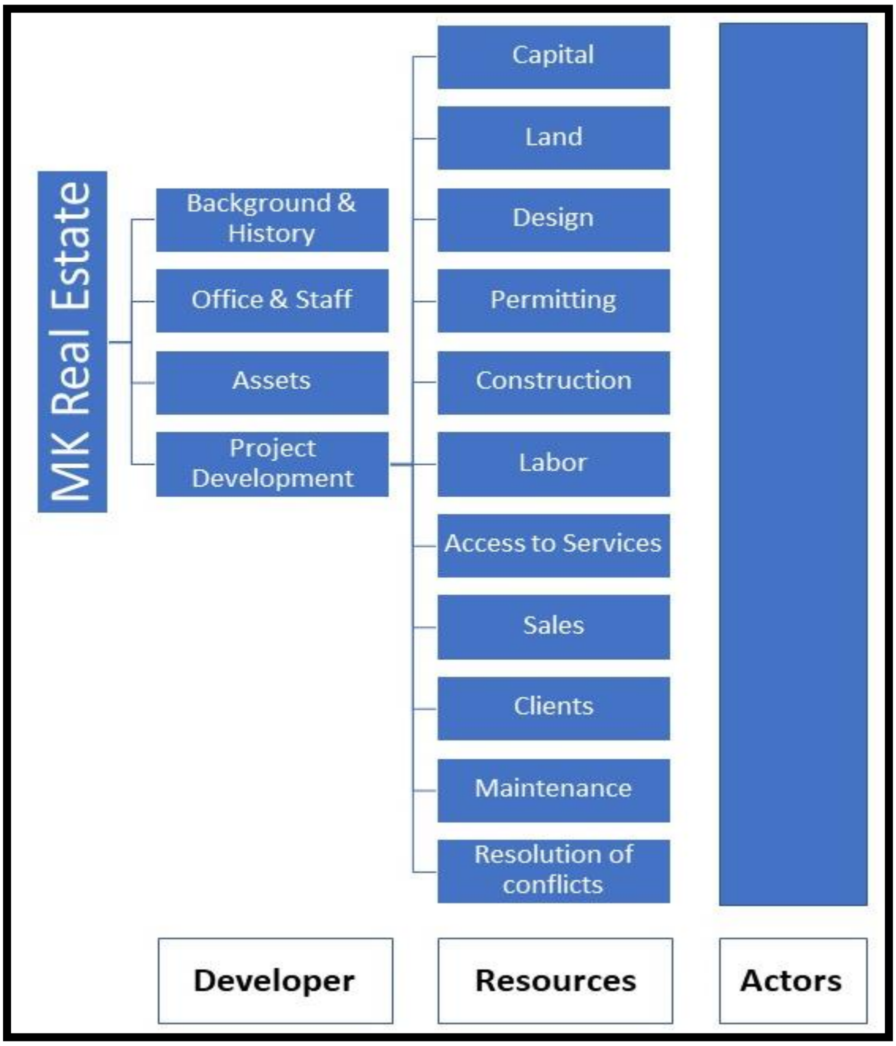

Figure 5: Profiling the company

This chapter profiles the studied company through the history of its establishment and organization. MK Real Estate in one of the largest agencies in Noumara. The family business is owned and run by a man in his sixties and his three sons. We will call the developer Hassan Masri in this research, for the purpose of anonymity. The personal profile of the developer is especially important to the research because he is the one who developed the company's strategy and is still doing so.

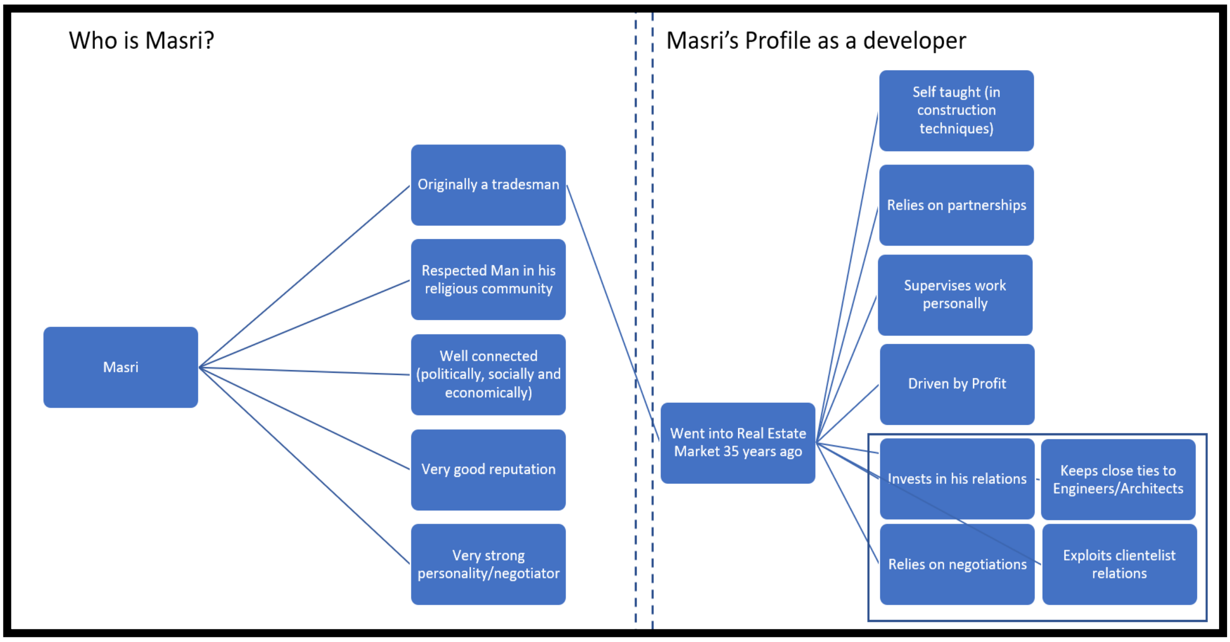

Figure 6: The developer's profile

The company occupies a full floor in a residential building within the locality, at the center of a town we will call Noumara for the purpose of protecting the identity of the actors. It is composed of six sections: a reception, sales office (including a salesperson and an employee who is responsible for negotiating financial schemes with clients and facilitating bank loans), financial department, engineering department, archives and an office for him (Masri) and an office for his son. Since its first establishment, the company has developed a total of nine projects, two in Beirut and seven in Noumara, but the developer was active well before he established the company (he had built three projects in Beirut and seven in Noumara). In order to recount the history of the company, the chapter will work chronologically through its development and the projects it has undertaken, starting by the profile of the developer and moving to his development experiences. The chapter identifies four main phases of the operations of the company.

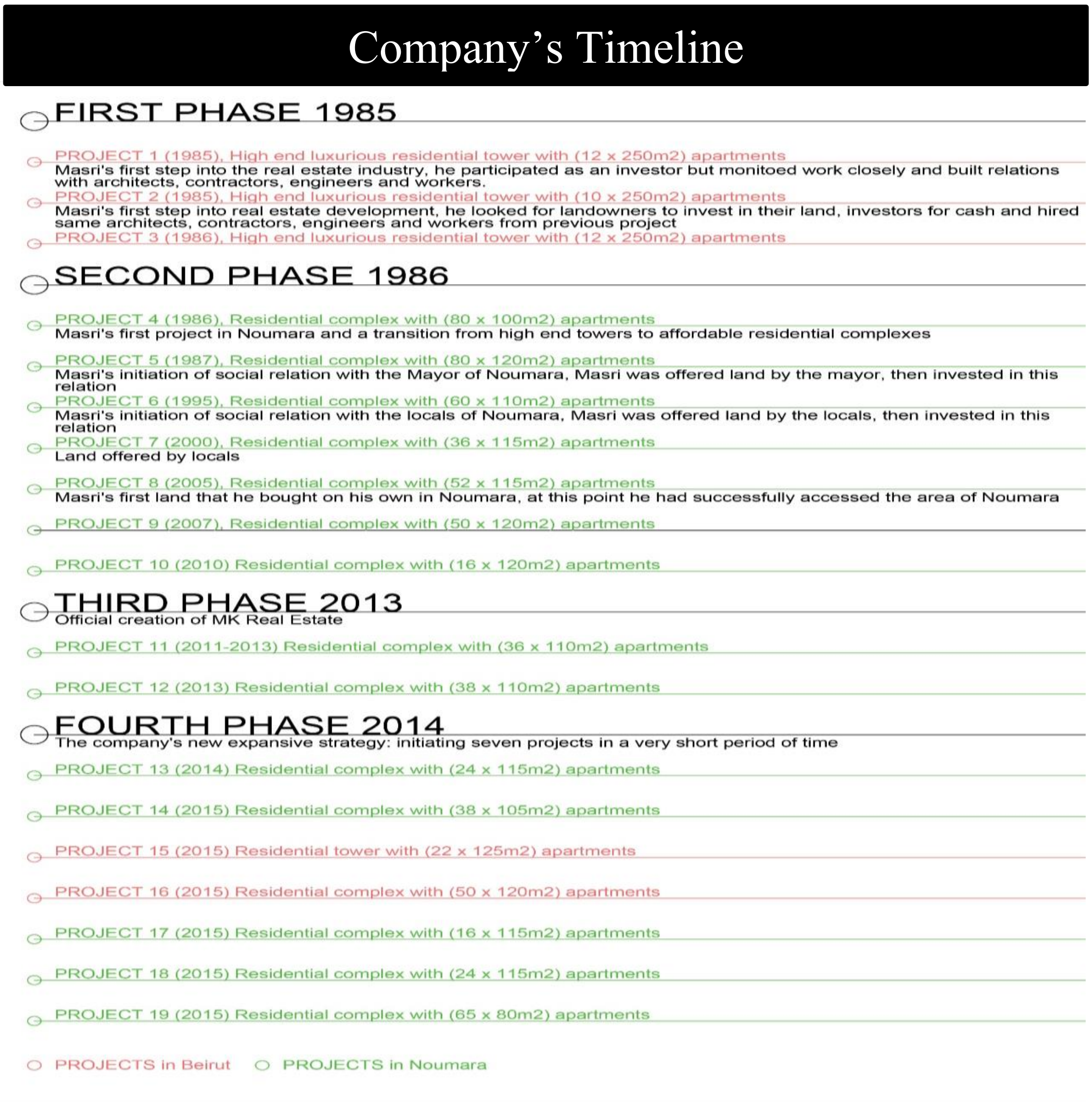

Figure 7: Company's timeline

3.1. First Phase (1985)

This phase marked Masri's move from the trade business into the real estate market then into real estate production.

- First project (1985)

Masri's family is from Beirut. He never went to college. Instead, Masri started working early as a tradesman, selling silk fabrics to support himself. In 1985, emboldened by having accumulated some savings and attracted to possible profit, Masri started on his first real-estate project in Beirut. The project was undertaken by an established developer who was working in partnership with a landowner, as it typical at the time. The two partners were looking for a financier when they stumbled on Masri. The typical arrangement at the time was to distribute contributions equitably between the three partners, the owner would provide land, 33%, developer would undertake all construction work and bring in materials 33%, and the financer would provide money 33%. Profit was also to be distributed in the same way, one third for each of the partners. Masri heard about the project through his personal social networks. He didn't have enough money to participate as the sole financer, but he tapped on friends and partners and secured the needed amount to come in as a coalition of financiers.

Once he joined the project, Masri spent most of his time on site trying to learn construction, observing every step of the process. First, he observed the work of contractors, workers, engineers and developers, and the relationships between them, Masri also made sure to make good relations to all of them, because he knew how to benefit his work from such relations. At the end he was fully involved and greatly experienced in all aspects of construction and management. Speaking about this experience, Masri often repeats that this kind of attitude proved to be critical, because the construction industry contains many details that can only be learned through involvement and experience, such as the relationship with contractors and its influence upon the quality of construction, problem mitigation and separating good from bad work. This kind of experience can only be acquired through direct and prolonged involvement with all participants, and closeup observation of all kinds of construction procedures and details.

The first project was finished and sold, Masri evaluated positively the experience as a real-estate investment. He decided to quit the trade business and to establish an unregistered real-estate business. The business was small and remained a one-man show, solely managed by Masri. He called it after his last name. Now acquainted to real estate mechanics, he began looking for landowners to whom he could offer a partnership: he would build the land and provide them with a certain percentage of the profit.

- Second Project (1985)

The company's second project was also in Beirut. The project was secured through personal networks. The company was able to find a landowner that wanted to invest in his land and the profit was shared 50/50. This time, Masri did all construction works, he hired contractors, architects, engineers and workers from the first project and personally supervised work. He did not have enough money to finance construction, for so, he tapped into his social networks, calling on other tradesmen he knew from his previous work, and thus secured money from them in return of a percentage in profit.

- Third Project (1986)

Using the same mechanisms above and resorting to the same financers, Masri constructed a third project in Beirut. The apartments built in Beirut were large apartments (averaging 250m^2), one per floor, which catered for only a specific group of people who can pay big amounts.

3.2. Second Phase (1986)

This phase marked the transition from developing luxurious housing in Beirut into developing affordable housing in Noumara, and the beginning of establishing social relations with the Mayor of Noumara and locals and facilitating the company's access to function in Noumara.

- Fourth Project: first in Noumara (1986)

Masri noticed that there was a huge market demand for smaller apartments, specifically by young Beiruti couples who are looking for affordable housing. The owner wanted to switch the trajectory of his business to start building residential complexes rather than single residential buildings. The reason that was announced for this switch is to help young Beiruti couples get married, especially that marriage required an apartment. The businessman claimed that religious obligations required him to help young (Sect 2) people get married by helping them acquire affordable housing.

It is hard to tell how much of the motivation was truly the religious obligation, given that the high market demand and huge profitability of such projects[3]. Either way, the

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[3] Which became famous and in demand during the Lebanese civil war, especially that they provided services such as private electric generators and private water wells, and security in the form of gated communities and same sect and class (including educated – working – same religious sect) neighbors.

decision was made to move to a lower end, large scale development, and the business began working on its first gated residential complex.

Masri began looking for affordable land outside the municipal boundaries of Beirut because he cannot provide affordable housing in Beirut due to the very high price of land which will automatically skyrocket the price of each sqm regardless of the quality of construction. He explored several peripheral areas of Beirut, including Dibbiyeh, but he wanted a location closer to Beirut, because he wanted to be able to sell easier and knew that a project closer to Beirut will be sold much easier and for a higher price. The business's goal was to profit, thus it adopted strategies that maximize profit and minimize cost, and they did so in a way to minimize risk, for so, the business operated within the upper limits of affordable housing including price and quality. For this reason, finding affordable land that could be sold easily was one of the main tasks of the company. The company eventually secured land through a realtor who was introduced to the business through its already established social and economic networks. The realtor found a property in Noumara, they found the price and location very suitable and agreed to buy the land and use it to construct the company's first residential complex outside of Beirut.

The land was around 6,000m^2 and allowed the business to build 80 (90-105m^2) apartments, each apartment had 2 bedrooms, a kitchen, a salon/living room, 2 bathrooms (1 master), and 1-2 balconies. This layout (including rooms and areas) persisted with the business (for 35 years) until its most recent project in which the size of apartments was reduced to 60-80 sqm[4].

[4] This decision is a reaction to the current general economic stagnation and the stoppage of the PCH, those two factors rendered the company's clientele and a big percentage of people looking for affordable

The business did not have enough money to initiate such project, for so, it looked for investors, and was able to secure them through the Masri's connections to other tradesmen and previous partners. After securing finance, the business hired contractors it previously worked with and construction was going well. But at some

housing unable to buy the apartments that were previously designated for them (such as the 90-105m^2 apartments the company built.

point, the investors decided to pull out and leave the Masri alone. At this point the business was already halfway through construction and did not want to quit. The business was unable to find investors in time and resorted to a bank loan. The owner did not want to take any loans from banks because of religious reasons because loans are considered as usury which is prohibited in Islam. But he was forced to.

The business was able to finish construction on time and was able to sell apartments very quickly to clients from Beirut. The business reached clients through its social and political networks in Beirut, and the reputation of the owner as a prominent figure in the religious sphere provided him with great social capital that manifested as people trusting him and preferring to buy from him.

Apartment sales rested on a first large down payment consisting of 20-30% of the total price. The rest of the payments would be made in installments. Many clients were pressuring the development company to allow them to inhabit the apartment before all payments are over. The company eventually gave in: it needed to build a good reputation, and it was its first experience in such projects. The development company did not however hand over official title deeds for the apartments. Once they had moved in, many clients stopped however making their monthly payments. Stranded for payments, the Company began to face problems with the bank. To solve the problem, the company created a fictional scenario: they informed homeowners that the bank was coming to confiscate the entire project due to payment defaults. The Company went as far as to publish the news in a local newspaper. Clients thought that their apartments would be lost and resumed to pay their monthly payments. From there on, the developer became very strict not to let anyone move to an apartment unless the entire amount is paid[5].

[5] This remained a policy for the business until recently, because after the crisis and the stoppage of the PCH, people were unable to pay the entire amount, this, in addition to many other developers switching to lease to own contracts is driving all clients away and is making the company rethink its policy with clients.

- Fifth Project: second in Noumara (1987)

While the business was working on its first project in Noumara, the owner received an offer from the Mayor of Noumara to buy one of his privately-owned lands. Masri accepted and initiated his 5th project, the second in Noumara (also 80 (120sqm) apartments). This was the first step into creating a good relationship with the Mayor and through him, with other prominent (Sect 1) families. He also began to hire local contractors and buy materials from local sellers. The developer had realized that he needed to forge solid social networks with the local business community. This was part of the strategy adopted to be able to work in Noumara.

The business was successful and profited greatly. After the mayor offered land, many other locals did this too, and Masri bought lands from them and this allowed him to buy land on his own in Noumara. He repeated the same steps to construct five more residential complexes in the same area (project 6 in 1995, project 7 in 2000, project 8 in 2005, project 9 in 2007 and project 10 in 2010). The business would always have a project under construction, a project under development and a project that is being finished/delivered at the same time.

3.3. Third phase (2013): Official creation of MK Real Estate

In 2013 Masri opened an official real estate company (AK Real Estate) in Noumara. He wanted the family operation to include three of his children and he hence involved them in all tasks of the company. The new company is composed of 6 sections including a reception, sales office including a salesperson and an employee who is responsible for negotiating financial schemes with clients and facilitating bank loans, financial department, engineering department, archives and an office for him (Masri) and an office for his son.

- MK Real Estate: Initial strategy

Masri still ran the company through his personal office. He negotiated and finalized deals with clients, contractors, foremen, partners and officials. In 2013, the company ran well and completed two projects in Noumara using the following strategy:

(i) partnerships (to secure land), (ii) direct supervision of construction and close relations with workers and foremen (the company did not resort to construction companies and rewarded work to contractors, and personally supervised the work of foremen) (iii) the company hired foreign/rural foremen which worked for much less, secured cheaper labor, worked harder and costed less (in terms of insurance and safety procedures), (iiii) the company trained foremen and developed their skills, this provided fewer foremen experienced in a wider array of construction activities, which meant less foremen and more workers (equaling to a greater reduction in cost because a worker is paid much less than a foremen). More importantly, the owner secured a good personal relationship with the Municipality of Noumara and did so through (i) his strong negotiation and social skills, (ii) awarding them with construction works (which they sometimes took themselves or gave to other (Sect 1) families in the area) (iii) clientelist services he offered them through his prominent political and social relations in Beirut. This in return provided him with access to land that is mostly owned by (Sect 1) people, and facilitated his construction work since it could have been easily stopped by (Sect 1) there. This web of relations that he was able to establish provided him with trust and acceptance that he used to build freely in Noumara.

The real estate boom that took place in Lebanon benefited the company greatly[6]. The company work was very successful and planned for more projects.

The company's reputation was still intact throughout its first ten projects because Masri strived to provide good (middle quality) housing and monitored the

[6] Masri sold 100 sqm apartments in his first project for USD 35,000, later he sold the same (size and quality) apartments in neighboring locations for USD 120,000

quality of his construction himself. And regardless of the informal measures that he used; he did not compromise quality. However, beginning with his 11^{th} project, Masri monitored his construction less, and was more focused on making new deals to expand his company. He left construction supervision to employees. Those employees were inadequate and subsequently the company began providing problematic projects with lowered quality, but Masri was still selling his projects as (high-end middle-class housing) and pricing the apartments accordingly, even a little higher than the average price of similar construction.

- MK Real Estate: client relations

The company did not like to function through banks, prior to the PCH it always tailored deals with clients. Masri in his early projects took a first big payment (20-30%) of the entire amount, then took the rest in installments. But that was prior to the PCH, because as soon as housing loans became available, Masri instantly took advantage of this and changed his financial schemes to accommodate the fast-paced profit of PCH loans. He still kept the initial large down payment but split the rest into a relatively small amount (received in monthly payments) which he would agree on with the client and receive the rest of the amount as soon as the client sorted things out with the bank. The company dedicated an employee to help clients secure housing loans. The reason which made him keep part of the monthly payment is that he usually sold apartments before the completion of construction, and the money from the housing loans was only given when construction had reached a certain mark. During that time the company would have received no money at all, for so, it kept the initial payment and monthly payments, and used this money to keep up its operations.

At all times, the most preferable deal was to cash in the entire amount instantly or through big but few payments, and the company was able to reach so by lowering the price in return of big payments. The owner was famous for his leniency and tolerance when clients defaulted, this further boosted his social capital amongst people seeking housing. He did so charitably and because he was able to sustain a certain percentage of deferred payments since his income was more than enough to cover his activities and still make profits. After the introduction of the PCH, Masri changed his financial schemes and resorted to the fast profit of PCH loans.

3.4. Fourth Phase (2014 - 2020): New strategy

In 2014, the company wanted to take advantage of the fast paced and guaranteed profit resulting from the PCH loans, where the company would receive an instant amount (price of the apartment) and the client would arrange paying this amount gradually with the PCH. The owner saw a great opportunity in this mechanism and wanted to exploit it. Therefore, after building its 9^{th} project in Noumara, the company decided to expand and build seven projects at the same time (two buildings in Beirut and five projects in Noumara, the smallest including 36 (110-120m^2) apartments and the largest including 70 (80m^2) apartments)

The company did not have enough capital to start the projects on its own, for so the owner accessed his personal networks. The company relied on partnerships and negotiations through which (i) it received instant cash from investors and promised to return back the amount with an extra percentage in an agreed timespan, (ii) it hired contractors and convinced them to start work before receiving payments, (iii) it bought materials and promised to pay back later and (iiii) it hired workers and promised them monthly salaries. This indebted the company greatly, but it counted on the instant cash that it would receive from the PCH, and this made it want to speed up construction (costing more) because it could only secure the PCH money at the completion of a certain percentage of construction.

This plan backfired because its timing was unlucky with two reasons related to the financial crisis. The first is the sudden and prolonged severe reduction and complication of the PCH loans in 2015. In addition, the general economic stagnation in Lebanon, connected as it was to the dwindling flow of capital that had fed the built environment from the Arab Gulf, exacerbated the financial shortage. Measures taken by company to increase profit and speed up the process of construction exacerbated the problem: Masri had greatly increased debt and widened the number of people involved in the construction.

The company tried to devise many solutions to the problem including: (i) new financial schemes with clients (e.g., One big payment then monthly payments, but made people sign that they would switch to PCH when possible or one big payment then lease to own) (ii) new types of deals with contractors and engineers (work for apartment instead of cash), (iii) the owner is accessing his social networks to receive loans.

Yet another problem arose when many of the previous (cash based) contractors stopped work, and this delayed delivery dates, which caused issues with clients, problems with lenders and problems with Banks (because of returned checks). Masri is mostly left with his negotiation skills, networks and little available cash to survive the current crisis.

3.4. Case Study: Project C12

In this thesis, I investigate the case study of Project C12 in order to provide an empirical example of the functioning of the company: (i) how did the company initiate the project (ii) how did the company secure capital (iii) what was the agreement with the investor (iv) how did the company work out the design and permitting process (v) what are the building code violations, why are they done, how do they benefit the company and what are the informal activities done to provide cover for violations (vi) what are the deals made with contractors to provide materials and construction works (vii) BOQ and cost calculation (viii) how did the company advertise the project (ix) how did the company sell the project and what are the agreements with clients.

Project C12 was initiated in 2015 as part of the company's new expansion strategy, which intensified the company's earlier, more conservative strategy. Prior to 2015, building activities were always limited to three projects at the same time: one project being prepared in the pipeline (e.g., secure land, design, permitting), another being constructed, and a third being sold at the same time. This expansion indicates that the company was limited at that time by the amount of capital and assets that could only cover three operations simultaneously.

The new strategy partly induced by the financial flow of PCH and other subsidized loans had the company construct 7 projects simultaneously. Once the decision was taken to expand operations, the company began to take more and more project until it was developing seven projects simultaneously. At the time, the company was being approached by individuals who wanted to invest in developing their land and others who wanted to sell their lands. The Company's owner decided not to turn down opportunities as much as he could: he partnered with those who wanted to invest and accepted to buy lands he planned to build.

The company did not have the capital, nor the assets, nor the capacity (including staff and technique) to supervise seven projects at the same time. The company owner was aware of this limitation, but he thought that he would be able to mitigate the challenges the same way he had overcome the hurdles of the previous projects. To him, the problem appeared as only a multiplication of the previous hurdles he had faced: a bigger scale would require him to find investors for capital and convince them with the prospects of short term and easy profit, then hire contractors and pay them as they finish tasks. He was confident that the liquidity he had could help him pay his way out of the problems that would emerge, as he had done earlier. This calculation did not account however for the possibility of a market collapse and the interruption of the publicly subsidized loans. He did not have a backup plan for this scale of problems, nor did he have the capacity to react to them.

The project under study in this chapter is one of the seven projects undertaken as the company was expanding. By going step by step through the project steps, the thesis unravels the mechanisms through which the developer worked and the multiple mitigation strategies and adaptations he devised to overcome the difficulties as they arose.

As seen in the literature review of the thesis and throughout the company's timeline, social, economic and political networks have played a critical role in managing the operations of the developer, highlighting their critical role in the context of Lebanon's real estate machine. The following chapter argues that the regular observable strategy of real estate production is underlined by an array of formal and informal processes that are resolved through negotiations, and that those processes function within social, economic and political networks.

CHAPTER 4

SOCIAL NETWORKS AS THE INFRASTRUCTURE OF HOUSING PRODUCTION

In this chapter, I trace the central role played by social networks in the organization of housing production and exchange. I begin the chapter by defining and outlining the central role played by social networks. I will show that rather than inherited assets, social networks are the product of the investment that the lead developer in MK Real Estate cultivated over the years. I then move to describe how these networks shaped the organization of the business. Not only do social networks secure the developer access to the basic ingredients of building production (e.g., land, legal papers, materials, construction, client) and exchange of housing (e.g., security, risk reduction), they also act as the main institutional support that organizes the long-term operations of this company. They also empowered the company to reach better deals with all the other participants of this development business. Thus, I will show that the company used the network of social relations to pressure other participants in the real-estate transaction to provide it with *better deals* and *more flexibility*. These favors include a negotiated price reduction, an extension of the terms of agreement, or the forward provision of money or materials while delaying payments. Furthermore, socializing relationships facilitated informalizing relationships with actors, meaning that the developer can now access an array of informal arrangements in addition to the formal ones. Those arrangements are especially useful when the developer cannot fulfill a formal agreement or contract and he wants to reach an alternative agreement without being perceived as having violated his deal. Finally, socializing relationships provide the developer with trust. Once trust is established, the company capitalizes on it to negotiate terms that are favorable to it, they provide the company with freedom to function as it sees fit, and it relieves it of all responsibility towards any problems that would arise from the way it functions. To demonstrate these points, the chapter traces each of the steps of housing production through the case study of one building in which these networks were deployed.

4.1. Social Networks as a Strategy of Operation

By social networks, I refer, in line with my literature review (Chapter 1), to the thick web of relations that connect a developer to other individuals who influence the production of housing. These actors include landowners, realtors, public sector actors (e.g., mayor, notary public), professionals (e.g., architects, lawyers, engineers), material suppliers, contractors, workers, clients, and advertisers.

4.1.1. Cultivating of networks

Networks are the outcome of a deliberate strategy devised by the company's owner, stemming from his experience as a tradesman and his personal take on how business should be run. The developer's strategy was to convert business relations (including all relations related to real estate production, such as relations with Municipality and the DGU) into social ones. He adapted the strategy for every actor. For example, he invited rich investors to dinner in luxurious restaurants, bought workers lahmeh b'aajine, invited (Sect 2) clients to a religious celebration, and regularly attended social events (e.g., weddings, funerals) in the areas where he worked.

Starting with his first project in 1985, Masri learned about the importance of social relations for the organization of his business. In our numerous interactions, he would explain how connections to landowners, developers, engineers, contractors, workers, municipal and governmental agents, and members of the police force were critical to secure the success of a construction project. He also learned that having a strong network, or access to an already established network is something that requires a lot of constant investment. Even when networks are inherited, they must be constantly maintained and strengthened. Masri learned how to develop, sustain, and improve these relations. He explains that such relations include both formal and informal interactions, and that both have great influence on the construction process. He also realized that law enforcement is weak, and that instead public agencies also adopted informal rules that are critical for the success of any development project and the working of the real-estate machine. Thus, Masri strived to establish informal relations with all participants in the real estate machine and he invested in strengthening these relations[7].

[7] This kind of investment proved the most critical for the success and profitability of his practice and is also proving that it is the factor that it is the most determinant factor that is allowing his company to survive the current crisis.

It is important to note that investing in such relations can be very costly. It can also backfire if the developer is not experienced enough to equalize and positively balance off his/her investment in such relations. For example, the developer can be lenient when clients cannot afford to pay on time (in order to invest in the company's customer relations) but can only afford to do so as long as it does not hinder his capital flow and consequently hinder his construction, especially that time is exponentially costly in the construction industry. Through his various projects, Masri learned how to properly invest and profit from such relations, and he gradually turned this experience into a real-estate network that included all parties involved in real-estate production.

The developer must cultivate relations with politically and socially influential actors so that his/her involvement with different actors remains un-exploitive, especially within the widespread clientelist environment of Lebanon. For example, a contractor might default with a developer who is not politically backed, because in this case, the developer will most likely be unable to threaten with a lawsuit, something he could easily do if he is politically well established. As a man well networked within (Sect 2) religious organizations in Beirut, Masri already held strong relations with prominent public figures, but he also invested greatly with any prominent figure that would affect his work, such as the Mayor of Noumara once he began to work in this locality.

4.1.2. Flexible mode of operation

To enter the business, Masri applied all the lessons he learned observing his first professional partner. Most importantly, he kept a high level of flexibility in his management of the company, reactive and adaptive to contextual changes in order to persist and profit. Initially, Masri didn't burden his operations with any official contract or fixed partnership. During its first projects, and when the company was still participating as a small partner, it frequently sought the help of architects, but the development agency never hired them officially. Instead, the head of the company personally contacted them, inviting them to conduct freelance work in parallel to their official employment. Some of these architects worked in well-established companies, as in Dar Al-Handassah, and Masri felt he could trust their work given the reputation of the company. He also noted that their involvement in reputable companies gave the project legitimacy because it secured credibility by setting up an imaginary relation between the development project and projects designed by established agencies. The owner also felt safer to work with people from within his network, because he trusted their work more, he was able to negotiate with them more and was able to use his social and religious capitals as tools of indirect pressure, and he could learn from them the 'secrets of the trade'.

During its second phase (1986), the business continued to operate informally in order to reduce operation costs. Hence, Masri continued to hire architects informally, as freelancers, encouraging them to maintain their day employment, yet inviting them to develop plans and sign official documents for his company, hence allowing him to operate. Informality in this case is not a synonym to illegality. Rather, it is a method of flexible contracting that is legal, but it is in the way that the deal is portrayed, as in hiring someone who is not fully dedicated for work, and this was used to lower the costs of architectural services. For so, the company initiated many of the contracts with engineers as works of consultancy or as personal favors (and in return they would provide money as a favor), especially that the architect is already working, and this would be an opportunity of him/her to earn extra easy money.

The company invested greatly in developing relations with architects. The company's owner would invite these architects to social events, such as dinners and weddings. Masri also invited them to his house for social visits and meals. The company would also pay them more (in some cases) only to ensure that they are satisfied and helped them on the personal level when needed by connecting them to people who can help or lend them money.

Such actions improved the relationship between the company and the architect, and this constant investment switched the work/economic relationship into a personal/social one, where the latter provides greater benefit to the company, especially given Mr. Masri's ability to exploit this kind of relation. For example, once the relationship is established, the company would start asking for favors from the architect, such as checking the work of another architect also working with the company, providing technical feedback for other construction activities such as structural and mechanical plans by encouraging the architect to access his personal professional network of other engineers, changing plans and fixing them for free and resolving conflicts easier. The above actions greatly reduced direct engineering costs for the company and indirect costs by ensuring better quality work (because of established trust) and less errors.

This kind of relationship remained the standard for the company as long as it was the best thing to do to keep its projects running and profiting, and when this was not the best way the company quickly changed its relationship with engineers. In another case, when the head of the company had enough experience in engineering, and when company expanded its operations and became fully registered, and when it was not forced to hire a certain engineer, the company hired full time engineers as staff and paid them much less than they would pay an engineer working for Dar-Al Handasa, this way the company would make them carry on all engineering tasks (such as signatures and design) but for a regular salary and not the standard price (2-5% of the entire cost of the project).

Socialized relations also affected the formal contract made between MK Real Estate and other parties. The process of negotiating the terms of a contract including the solutions to problems that arise during construction rely greatly on the reputation and record of the developer. In the case of MK Real Estate, the company from its early beginnings took a path of investing in its reputation and in its relationship with contractors, this was due the owner's background as a tradesman, where his experience in trading taught him how to bargain and taught him about the influence of reputation upon bargaining and how to invest in his reputation and use this investment to tip the scales in his favor. The owner was also well informed about the effect of social relations upon business ones, and how do good relations provide him with the best prices and best quality of work. That is why the owner was keen to invest and create good relations with all parties that he dealt with, and always made sure the contractors from the first project (then all contractors that the company worked with) were satisfied. The first way the company invested in those relations was through converting business relations into personal ones, the second way was by sure that all contractors are well paid, to the point that in some cases he would pay them more than the agreed amount. This generosity and this kind of relationship made contractors want to work with the company, it also established a relationship of trust where contractors would give off secrets of the trade and provide the developer with access to their networks[8], provide the company with quality work and for a good price, but most importantly, this investment provided the company with capital that it later used in its negotiations with the same contractors,

[8] Informing the company on the best materials and where to get it, how to detect cheating, how to identify the good work from the bad work, inform and introduce the company to good contractors and bad ones.

where the company would bring up its good record as an assurance, or bring up its previous favors to compensate for any ‘harsh’ terms they are enforcing in their new contracts.

It is important to note that investing in work relations is very costly, because in addition to methods mentioned earlier, the company invested in its relations with contractors by facilitating their work. This facilitation was primarily done by supplying them with cash[9], and since the company was profiting a lot, they had no problem paying

[9] Demanded by contractors to get extra materials, better materials, and to pay for other activities that

those additional payments. However, the company found out that many contractors were actually stealing materials from company, which was done directly when the contractor would make a deal with the site supervisor[10] where they would ask for

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would improve the quality of work.

[10] It is noteworthy to mention that the site supervisor who was caught stealing is still working for the company, and the reason is that the company cannot fire him because he is the person responsible for all

materials that they do not need, then they would split those materials and use/sell them outside, and indirectly when contractors are responsible for getting the material, where

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informal activities of the company, and firing him could endanger the company. For so, the owner made him stay, but shamed him for doing so and was able to mitigate the situation through his social skills, and by monitoring his work closely, and by gradually ridding him from work little by little so that he quits peacefully.

they would demand extra material that is not needed (because they profit from materials too) and use it, such as adding more steel to concrete slabs. The company also found out that many contractors who asked for a higher price to provide better-quality did not actually deliver the quality that they promised. For so, and in addition to the current economic crisis, the company changed contracts and treatment of contractors to include stricter terms. The company capitalized on its former relation to enforce those terms, however, this capitalization is currently reaching its limits, because many of the contractors are struggling with the new terms and many stopped working with the company. Today, the company is making deals with new contractors while still using its previous reputation, and enforcing its terms because contractors need work.

Relations with architects and/or contractors were also the entry way to forge more important networks for the company with influential actors in an area where it is hoping to build. For example, when Masri began building in Noumara, he knew he had to work with local architects in order to gain the permission to build, and hence smooth the process of building permitting.

In all cases, investing in work relationships and turning them into personal/social ones became a norm for the company, and was replicated with contractors, clients, governmental officials, and business partners. I note, in line with Bourdieu (1998), that it is very limiting to solely explain this social investment as a profit maximizing measure or as a method to integrate into the clientelist environment of Lebanon. While there is surely a *business mind* in this networking, one should also include other personal factors, such as a social inclination as well as religious beliefs, including the personal fulfilment received from doing (limited) favors or helping others. In addition, one should factor in the personality and mentality of an actor who prefers to deal with issues on a personal basis rather than legal ones. “Mentality” here perhaps refers to a learned strategy devised by the actor operating in a context of weak public institutions, corrupt application of law, costly and time demanding legal measures, and general economic stagnation that is affecting everyone or the normative and cultural relations in Lebanon, but it is also the outcome of a highly socialized context where people prefer to operate at the margin of the law, in socialized environments where they thrive and profit.

4.1.3. Array of networks

To speak of social networks doesn't however limit the developer to a single cluster or group. Rather, one sees an array of rationales and belongings, each deployed in its context and specific moment. And what determines which rationale exists has to do greatly with the background of the subject and his/her relationship with the company. For example the company demonstrates its 'religious' obligation to help house (Sect 2) young men who are aiming to get married and live a decent life, and demonstrates its 'moral' obligation to stand with (Sect 1) contractors and be lenient with them when they are late because of a personal tragedy or general economic stagnation, and demonstrates its 'social' obligation towards young Beiruti men/women of whom are personally acquainted or through a relative to the head of the company or an employee, and demonstrates its ‘political’ obligation towards the head of the municipality at public events.

However, it is very difficult for an outsider to identify which kind of rationale is used because they all manifest nearly the same, where most interactions taking place with most participants (e.g., clients, contractors) are turned into social and personal relations rather than only a business transaction. They do differ when it comes to the advantages received and interactions that happen with each participant. For example, a friendly relationship with the local architect may happen through a weekly dinner at an expensive restaurant in downtown, and would result in speeding up the permitting process and improving the design, and a friendly relationship with a contractor may happen through a weekly lunch on site, and would result in securing better materials and much less errors in construction. The head of the company may also invite (Sect 2) clients to a Mawlid (a religious celebration), and in return get access to more (Sect 2) clients. The company would also tolerate defaulted payments or lower the price of an apartment for the sake of a person that they know, and in return that person would advertise the generosity of the company and provide it with good reputation. Another example is for the owner of the company to go to (Sect 1) funerals and give condolences to prominent (Sect 1) families but only after the company began operating in Noumara, a (Sect 1) area. The company would also award contracting to (Sect 1) as a favor to a prominent (Sect 1) figure or a governmental employee working in the Local Planning Authority where all official papers regarding the company's projects are handled, and in return the company's work in (Sect 1) areas would be facilitated and they would have more access to land.

Masri didn't hesitate to also use religious or sectarian networks if they were profitable to his business. Although he is personally not strictly observant, nor is he affiliated to any political parties, Masri knew he could capitalize on his "(Sect 2)" card to attract clients. He thus used five adjacent projects he built in Noumara to put forward the imagination of a "(Sect 2) community", the main religious group purchasing his apartments. The moto was successful as a sales strategy that attracted (Sect 2) clients from Beirut, particularly when he built a mosque in one of his projects, which was fully acknowledged and respected by the local (Sect 1) population, including the sectarian party office whom Masri provided with a water well which he dug in one of his projects, the party then used it to distribute water and profit from.

It is important to note that building networks is a sequential process that needs constant investment. As evident in the company's functioning, the projects were not built at once. Rather, the project developed in a sequential process. The sequence began when the owner acquired his first land through a realtor, and the next land was purchased through the mediation of the Mayor of the town. That was the first opportunity for Masri to create a new social network in Noumara. Masri immediately took the offer and took advantage of his new relationship with the Mayor to gain the trust of locals and subsequently was able to facilitate his work in Noumara.

This kind of capital investment and the transformation of work relations into personal ones proved to be most critical after the recent housing and economic crisis, especially when it came to conflict resolution, and when the company lacked the flow of cash. Social capital also facilitated resumption of work, even with the delayed and lowered payments, and many other vital solutions which were offered to the company because of personal relations and as a return of favor. Many relations persisted and yielded numerous benefits to the company. However, others were simply severed, especially when they could no longer receive any indirect benefits/favors from the company. The same goes to the company itself where it stopped contacting previous acquaintances or asking them for favors because it can offer nothing in return.

In sum, the company relies heavily on the integration of formal and informal relations. To explore this reliance further, I dive in the next section into the processes and negotiations through which housing ingredients are secured.

4.2. Ingredients of Real Estate Production: Access and Negotiations

This section looks at the ingredients of real estate production and focuses on the formal and informal contractual processes, arrangements and negotiations that compose the companies' strategy. The ingredients are: (i) building development (ii) financing the process (iii) project advertisement and sale. As explained in the methods gathering section, the chapter builds on my two years of observation of the company in addition to numerous informal discussions I had with the company lead and other visitors to the office.

4.2.1. Building Development

- Land

Land is probably the most critical factor in real estate production. This is because land in Lebanon is very expensive. The cost of land affects greatly small to middle developers, because even with the very high amount of profit from real estate, most of those developers do not have the initial capital required to buy land and build the project. The second reason is that land is a determinant factor when it comes to the potential profitability of a project, because land[11] determines clientele. Land also

[11] The location (proximity to city, political governance and sectarian control) and type of project (gated

determines the quality and type of the project, where the high price of land is usually paired with high quality construction, and the exploitation factor determines the size and type of the building. The topography and elevation of land are also critical because steeply sloped land is much more expensive to build, and thus less desirable, while land

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community, residential tower…) determine who are the people that will be interested in living there.

with open views is desirable because it is coveted by clients. Such factors combined with the marketing strategy and reputation of the developer to determine the salability of a project and thus the amount of profit yielded. Thus, many developers, including MK Real Estate look for ways to find good land and mitigate its very high price.

There are primarily two ways to put land prices under control. The first strategy consists of partnering with landowners who want to invest in their land. In this case, the heavy burden of paying the cost of land is relieved. It is however important to note that partnering with landowners is less desirable in the suburbs, because it is less profitable since a partner entails a distribution of profits, and in most contracts of real estate production, anything that is not sold directly through cash becomes more expensive. For example, a landowner might accept to sell his land for 2 million dollars in cash but would price it for 2.5 million if he agrees to partner with a developer, and that is the case with everyone else including all contractors. Consequently, well-established or wealthy developers thrive in the real-estate market, while new developers find it hard to succeed unless they are aware of all of the ‘other solutions’ and informal measures that can be done to initiate a project and increase the profit. One of the 'other solutions' is for the developer to negotiate the percentage of profit sharing between him/her and the landowner, and the terms of agreement between them, which includes the timeline of project completion and method[12] of delivery. Those factors can directly

[12] Landowners can receive apartments, or cash when they are sold

profit the developer when he is able to convince the landowner with a lower percentage[13], or indirectly by agreeing to a longer deadline of project completion because building slower can be cheaper, or if they agree to split cash after the

[13] Negotiating the percentage happens within a specific range because this percentage is a standard in the real estate world (25-35%/65-75% and 50%/50%).

apartments are sold, the company can sell all of its allocated apartments before selling ones allocated to the landowner, and thus receive faster and guaranteed profit.

The percentage or profit sharing is mainly decided by the average price of land in comparison to the potential profit that can be reaped from the project. The process of determining each amount is the subject of long negotiations, especially on the part of the developer, because prices of land are easily known and accessed, while profitability depends on many different factors on which the developer speculates. These factors include: the developer's reputation (e.g., the quality of construction he delivers, delivery dates and access to clients), the type and areas of housing demanded by the housing market, the general economic situation, and the method of profit distribution). An experienced, well established developer with a good reputation can always go for a better percentage in return of guaranteeing to generate a larger sum of profit.

The second way the company mitigates the high price of land is by looking for "good opportunities",[14] land offered for a cheaper price than its actual cost .[15] A good opportunity can be secured when the company has a good "reputation", which will draw

[14] In Arabic, developers refer to "a catch"

[15] A lower cost can be caused by the landowner's urgent need for money, or because of a legal issue concerning the land that renders it unbuildable, or if there is a general lowering of land prices due to whatever reason.

landowners and realtors to offer land. When business with the developer is profitable, mayors and other public actors can also all become “realtors” facilitating a transaction. In this case, reputation relies on the size and amount of already developed projects[16], the sales record of the developer including the company’s access to clients and success

[16] big lands need big developers, and people want to work with a developer that has built before because they trust more that he/she will be able to build the project and provide them with guaranteed profit

record when it comes to selling, the current financial state of the developer[17]. The second way the company learns about ‘good opportunities’ is through big networks where news circulates fluidly. The third way is through political, economic, market and

[17] Financial state tells if the developer has the money to build the project. While working with the company, I noticed that they made a great effort to show that the company is doing financially well, while the reality was completely the opposite and the company had no cash at all. The reason behind this was to keep drawing landowners, investors and realtors.

overall experience, which manifests in the company's ability to predict changes in real estate market and its ability to take advantage by knowing where and when to look for cheaper lands.

As a mid-size company, MK Real Estate prioritizes land and as soon as it is secured, it considers that the project will be done. That is evident in the company's method of naming its projects. To maintain name recognition, the Company chose to name all his projects with similar names, numbering (C8, C9, C10, C11, C12, C13, C14) according to the order in which land was acquired. The naming strategy reflects the strategy and development approach of the company, which prioritizes securing land as a pre-requisite to developing a project. This rationale had to do greatly with the way the company did business, because in many of its early projects, it did not have the money required to build a project, but at soon as it acquired land, it was able to build through partnerships and other kinds of deals. To illustrate this further, I turn to the case study introduced earlier, showing how things worked out in relation to access to land in the studied project.

• Example case study, Project C12: Securing Land
Project C12 was already being developed by the landowner, a man from South Lebanon, when the company came on board. Incentivized by potential profits, Mr. Hadi,

until then the owner of a small accounting company, had decided to venture in real-estate development. He had already hired an architect, secured a project design, and had the construction permits issued. MK Real Estate thus came into a project where the landowner had secured the first steps but lacked the money to finance construction.

Mr. Masri told me that Mr. Hadi was drawn to him because of his reputation[18], which is partly true, because back then, the company had already built ten successful

[18] He was known as a "powerful developer" in the area, having completed ten projects, built a mosque, and developed a well for the local political party.

projects in Noumara and was considered one of the most important development agencies in that area. When C12 was being developed, MK Real Estate still had its good reputation. Another reason would be that Mr. Hadi's land is located right next to five of the company's projects.

It is most likely that the two reasons above were good reasons that convinced Mr. Hadi to approach MK Real Estate to partner for his project. It is also likely that these reasons were used by the company when it negotiated the deal with him. However, Mr. Hadi heard about Mr. Masri through the realtor he had hired to help him locate a partner. Mr. Hadi did not have the capital to construct his project and he therefore hired a local realtor to help him find a developer who would do so. This practice is relatively common.

Realtors are middle-men in the developer-landowner transaction. They are individuals from the area who scan empty lands and approach owners for investment opportunities. They look to connect developers to landowners and benefit from the transaction. In most cases, realtors are hired by inexperienced landowners. They take up a project and offer it to developers and will bargain to get the best deal possible for the person who hired them. They benefit by earning a negotiated percentage of the profit made by the deal, typically through the person who hired them to secure a partner. In some cases, the realtor stays on and works not only as a middleman, but also as an advisor to the investor.

Realtors are generally critical actors in the network of a real-estate developer, and they affect his success. This is because, as noted above, land is the priciest component of real estate production, and the deal that relates to it is critical. A developer who claims solid networks with realtors will see the latter bring him information about good deal but also help him negotiate a better deal with a landowner. Indeed, the realtor is hired by the landowner and should in principle bring his client a good deal, but his position and long-term relation with developers means that is not always the case. A developer who has good relations with a realtor can use this relation to let the realtor (by also giving him a percentage of the deal) influence and convince the investor to accept a lower percentage by confirming- even if it is incorrect- that the proposed deal is appropriate, and hence convince the landowner to accept the developers' terms (e.g., share of profit, timeline of construction).

As an experienced company, MK Real Estate, does not normally rely on a realtor. Masri is well connected, has access to land through his relations to locals and established networks, and does not want to share part of the profit with someone that he does not need. Thus, when it is offered a project, the company limits the realtors' involvement and handles the direct relationship/negotiation with the client without the involvement of any middleman. This was the case in C12, Masri was quick to compensate and get the realtor out.

- Information about the market: Figuring out how to price the housing product

Pricing is a complex step that the company initiates immediately after it secures land. By pricing, I mean the forecasting of all construction costs, including permitting, securing building materials, building, and maintaining the site. The company needs to predict the cost of each of these steps so it can predict profit and consequently how it will share it with other partners. Indeed, the developer explained to me that if a project was priced for less than its actual cost, money will come short, construction is delayed, and the project might fail. Determining the cost accurately relies on the experience of the developer, and in this case, a developer's experience is first evident in determining the quality of the project, which is based on the location, price of land, and the targeted clientele.

Costing includes identifying the most affordable strategy for implementing the project, especially that any estimate is based on an array of fluid factors, including numerous contextual factors that are outside the control of the development team such as weather, political conditions, and other unforeseen factors.

In order to determine the most adequate amount, the developer must have general knowledge of construction costs[19]. This knowledge gives a preliminary estimate for the entire cost of the project, and it includes knowing the average price of

[19] Which are usually standard and known to all developers, such as the daily rate of USD 20 for a worker that begins working at 7am and finishes at 5pm with a lunch break of 60 minutes, or the cost of USD 120 per meter for an average kitchen cabinet and USD 250 per cubic meter of concrete.

construction materials, the average cost of contractors (based on the quality of construction), the cost of legal paperwork and permitting, the cost of design and architectural fees, the cost of services needed including electricity and water, the cost of labor, and the amount of informal payments and bribes.

Knowledge also includes the “cost” of navigating the project in a specific territory. It includes, as I outline below in the building process, the exchanges incurred to protect permissions through “feeding” the network: employing local companies and/or agencies connected to influential actors, hiring local labor, and other restrictions that the developer must balance.

In addition, to succeed in containing the price, a developer needs sufficient knowledge of how he can negotiate the quality and duration of the construction tasks in ways that can reduce his costs when he needs it, as in the current crisis. This means that the developer needs to be aware of the details and specifics of each step of the construction process, including available materials in the market and how they can be negotiated, a knowledge that can only be attained through direct and prolonged exposure to the construction market or through good relations with experienced contractors who are willing to help. This “knowledge of the market” provides a developer with access to service providers, contractors, traders, workers, engineers, architects, police, governmental employees who offer the required services on time and for the best price. This access is critical to the success of the developer because the pricing of services (even though in many cases standard) is still subject to negotiations, since every service provider is expected to negotiate a higher price for the quality of his/her service or/and the time of its completion. Only experience and a solid knowledge of the market provide a developer with the upper hand in this kind of negotiation and will ensure getting the best service for the best cost.

In the next step, I dive into the pricing mechanisms including the following aspects: (1) engineering and permitting costs, (2) site preparation (3) local labor and commitments (4) addressing problems in the process of construction (5) materials: secondary (6) cleaning (7) materials: primary. Each of these is developed below demonstrating the critical role of socialized relations and its consequent influence on pricing through the negotiation power that it provides to the developer which he will use to lower costs.

4.2.2. Ingredients of Construction

- Engineering and permitting costs

The first step to price a project is to estimate engineering and permitting costs. These costs are combined because one architect is usually hired to process all permits and legal papers required to build the project. “Engineering” refers to the design of the project and forms another basis for pricing project since it will determine construction costs. Design includes the preliminary size of the project, which will give an approximation of meters squared, which will be combined with the selected quality of construction to calculate an early estimate for the cost of the project. For example, the standard of commercial construction ranges from USD 400-700 per m^2. The company intervenes a lot in the process of design, because the owner cultivates very good relations with architects. The company receives the initial design and then introduces its modifications. Those modifications are introduced to decrease the cost, increase the profit and the salability of the project. The company does not interfere with anything that has to do with structure, nor the building code, but it may change the layout of the plans and the details of the facades. For example, the company would reshuffle the internal plans (instead of 3 apartments they would make them 4, depending on the market), the company would lower the size of openings because glass to more expensive, and it would replace stone cladding with regular pain to lower cost. Architects in many cases object such changes but are pressured by the owner and end up agreeing on them if they do not violate the building code nor expose the architect to any risk. Architects, for instance, would refuse to reduce the number of columns). Having good relations with the architect is critical in commercial construction, because a good developer might change the plans frequently to keep up with market changes, and this requires a change in permit that is to be done by the architect. In such instances, architects can ask for extra payments, but in the case of the company under study, it was consistently able to carry on those changes without additional costs.

After agreeing on the preliminary design comes the process of permitting, which begins with the building permit. It is worth remembering that the building permit is obtained from the Municipality, which means that a deployment of social networks and good relations with this local authority is imperative, a step typically secured in a new territory by hiring “local” architects, close to the Municipality while, on the long run, the company acquires sufficient direct relations with a Municipality to be able to negotiate decisions.

- Site preparation

Like permitting and design, site preparation is a blend of technical knowledge and exchange of favors through which the developer can rely on his networks and strengthen them.

Site preparation includes the removal of trees and excavations. There are three things to consider regarding this process. The first is the significance of this step in the process of construction, this step cannot be delayed nor replaced, and it must be done before anything else, therefore must be attended to before other issues. The second issue has to do with Noumara, since the head of the Municipality owns a drilling company, no one is allowed to excavate anything in Noumara without going through his company. Given his power and influence over the area, the company cannot negotiate with him, and must accept the price that he sets, but it is known that he settles for market price. The company cannot default with his payments, because if it ruins its relationship with him, then it will risk stopping its entire operations in Noumara. Therefore, the Mayor must always be satisfied. Masri was keen from the beginning to establish good relations with the Mayor and other prominent (Sect 1) figures. This provided the company with some ability to negotiate with the Mayor, and the good relationship between them sometimes led to some leniency in payments, but the company always made sure not to prolong delays and prioritized its payments to the Mayor. The third reason has to do with the mountainous topography of Noumara, which provided many steep sloped lands which sell for less than the regular land, which was very convenient for the company, because it bought land cheaper, but had to pay a significant amount to make it buildable.

Of course, not all lands are steep, but when this kind of land exists, excavation pricing becomes more important.

- Local labor and commitments

The second most important factor of pricing (also relevant to Noumara) is local contractors, and that is for two reasons. The first is that local (Sect 1) contractors are forced upon the developer. That is because as soon as the developer begins preparing permits to construct, the Municipality will know about the project, and the Noumara Municipality greatly supports its locals. Local Durzi contractors will approach the Mayor and inform him that they are looking for work, and what skills they have. This allows the Municipality to demand of developers that they hire them as a favor, and this favor cannot be rejected, because if it is, the local population will simply shut the project down. The second reason is that the company cannot negotiate with locals and must accept to pay them the price that they ask for, which is mostly higher than the average. However, after the recent crisis, the company was unable to keep up with its due payments, and locals became dissatisfied, but they understood the situation especially with the good relationship that they had with the company, and the company's respect for them. Consequently, they recently allowed the company to hire people from outside the area, but they still force the company to buy materials from them.

- Addressing Problems in the process of construction

Another item that goes into pricing the project construction are unforeseen expenses that arise during construction. Even though the company attempts to reduce through planning and safety measures, costly mistakes will happen, and they might be caused by the negligence of a contractor, weather, political conditions, temporary violence, and problems in materials and many other factors. Therefore, the company mitigates such issues before they even happen, and they do so by negotiating deals that will provide future securities by deciding on the procedures that will be done when a future error occurs and who is responsible for them. The company always pressures contractors to take as much responsibility as they can without increasing the price of the initial service, and they do so through the strong skills of the owner (Masri), who exploits market mechanics and competition between service providers to negotiate the terms that are best for the company. For example, the company can ask a contractor to take responsibility for any errors that might happen because they are providing him/her work which they can give to anyone else and for a cheaper price, at the same time they would assure the contractor by telling him that such errors rarely happen, and that this term is nearly insignificant but that is the way the company runs its business, and might even use the company's history and reputation to strengthen their argument. An experienced contractor will negotiate back, but if he/she is in need he will accept. Getting the best deal greatly relies on the experience of the developer because it will allow him/her to predict what errors might occur, at the same convince the provider to take responsibility for them. This experience can only be learned gradually, for so, the company's flexible attitude and the owner's progressive approach, in addition to the vast amount of projects allowed the company to reach a point where it can always get the best deal possible with service providers, and that is one of the company's strongest assets.

The company includes two more terms that greatly lowers the price of a project, those terms deviate from the standard deal between the developer and the contractor and they include materials and cleaning.

- Materials: secondary

The consensus in the construction industry is that the developer provides the building materials to be used by contractors. However, as we can see, knowledge of the developer and his ability to renegotiate deals during the building process is constantly at play, especially when changing circumstances render the long-term prospects of collaborations and profit less likely, pushing a developer to look for what he can immediately gain.

Building materials include primary construction materials (e.g., tiles, ceramics, pipes, glass, aluminum, steel) and secondary construction materials (e.g., cement, glue, silicon sticks and all sorts of materials that are used up in the process of construction). The company initially provided those materials, and they did so because it is the best way to ensure the quality of construction, especially that primary materials determine the quality and beauty of construction, while secondary materials bind different pieces of the building, and their quality is critical in determining the performance of the project since they are responsible for preventing water leakages, keeping things in place, beautifying construction details and preserving the building as it is. However, after the crisis, the company faced major challenges with the provision of secondary materials, due to their very high cost. In one of the projects, these high costs stemmed from a contractor's negligence and his excessive use of materials, where it was suspected that some fraud may have happened. It is said that the project supervisor was corrupt, and he had allowed such excesses to happen in return of personal favors and profit from the contractors. Others further claim that the supervisor may have been stealing some of the material himself. As long as the money was flowing, the company's management remained unaware of this problem. When the money dried out, however, questions were raised and eventually, trust was broken between the main developer on the one hand, and the engineers, supervisors, and contractors on the other. In addition, the financial crisis and lack of money made the owner decide to force contractors to bring those materials and therefore compromise the overall quality of construction if they are to use low quality materials.

Forcing contractors to provide materials without increasing the cost is a very difficult task and was accomplished by two means. The first was through negotiations, where the developer would plead and reduce the stake by arguing that the value of those materials is ‘nothing’ compared to the entire amount of the contractual agreement. The claim was sensible since every contractor was faced with a single site while the company had to come up with cash for seven. These arguments were strengthened by the fact that both developers and contractors know that contractors will lose a lot of their profit if the site was to drag. Thus, in the cases when the Developer was not to provide the materials, the contractor would lose. This was in fact a strategy the developer did resort to, without formally informing the contractor. Instead, the supervisors would claim delays from the materials' providers, issues with delivery, payments, and stall until the contractor brings the material himself.

As a participant observer, I can really say that these practices were forced on the company by the circumstances. Still, the consequences worked in its favor, because it allowed construction to continue (in some cases), even if this occurred at the expense of performance. I say at the expense of performance because many contractors used in these circumstances cheap materials which eventually led to many problems for homeowners such as water leakages, tiles breaking, or cladding falling off. The company tried to mitigate these challenges through the initial contract that sets the quality of materials and holds contractors responsible for all construction problems related to their work, but even this was not enough to mitigate this challenge because problems that are caused by the use of cheap secondary materials might not show until a year later. By that time, the contractor can be long gone, or can simply blame other contractors for the issue, and it becomes very hard to determine who is responsible for the issue and the company ends up entering big conflicts with contractors and ruining critical relationships that it used to preserve carefully. In many cases, the Company chose to fix the failure directly, which ends up being very costly but helped protect its reputation. The duration of material deterioration is still enough to sell apartments to clients, and intentionally or not, [20] to cheat them. This also backfired because it ruined

[20] Depending on whether the company knew that contractors were using the cheapest material or not, and

much of its relations with clients when the latter had been promised high quality construction, and the problems that are happening indicate otherwise. During the last phase, many clients faced with such challenges stopped their monthly payments until

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the measures they took to pressure contractors into using better materials.

those issues are resolved. Worse, many began to speak openly about the Company's failure, damaging its reputation greatly.

That is why at the time I left in December 2019, the company was revisiting this decision, and hiring trusted foremen and engineers to closely monitor the work of contractors and the quality of materials that they bring.

- Cleaning

Like building material, cleaning is a task that may be subject to negotiation when a financial crisis emerges.

The norm at construction sites is for the developer to provide workers responsible for cleaning the site and facilitating the building process. Prior to the financial crisis, the Company functioned according to these rules. However, when the company had to cut down on its expenses, one strategy was through not hiring workers to clean and maintain the site, rather, the company would force this issue upon contractors. The company would do so by negotiating the terms of the contract to include cleaning as part of the deal, and convince contractors to accept it by downsizing the matter of cleaning compared to the overall deal, and convince the contractor that it is a very easy task, and justify this as part of the company's strategy. The issue with cleaning is similar to that of secondary materials, it is an easy task for each contractor, but when combined those issues sum up and cost too much, that is why it is not very difficult to convince contractors to take up those tasks, in addition to the fact that contractors were also affected by the financial crisis, and are forced to agree to terms that they would not regularly agree too, and that is because of rarity of work and fierce competition, were the developer would simply go for a different contractor if he rejects the developer's terms.

The measures mentioned above greatly increase the precision of cost prediction for the company and the also greatly reduce the costs of construction. The terms are also ways that mitigate price fluctuations throughout the process of construction and lower the risk for the developer by shifting this risk to contractors. Nonetheless, it is important to note that those terms are still unpredictable because they are greatly influenced by external factors, such as the weather or the general economic stagnation or the work of other contractors, which means that in reality they only provide partial solutions when faced by big problems. For example, even if a paint contractor takes responsibility of any problems that are related to paint, a storm might happen and if the building is not properly water proofed, then all paint will get ruined, and in this case the company cannot force the contractor to redo the paint at no cost, and will have to bare the losses. In another case, a contractor who was supposed to get the materials ran out of money (due to general economic stagnation) and therefore stopped working. In this case too, the company had to provide the materials to continue working. That is why many issues eventually ended up being resolved in extensive negotiations between the company and other participants, and the upper hand is to the better and more experienced negotiator.

- Materials: primary

Initial pricing of a project also includes primary construction materials. The company maintains a delicate balance between minimizing costs and maintaining adequate construction quality. In order to achieve this balance, the company has developed three methods.

The first method was devised by the owner who drew on his background as a tradesman. It consists of locating mass suppliers and buying ‘good deals’ (catches) when possible that the company stores in warehouses. Thus, the company keeps stocks of tiles[21] that may be leftovers of other sites, reused in new ones. The company has also an established network of material providers, so it gets the material it needs for the best

[21] Stocks are cheaper because they are leftovers of a certain tile, and they are always limited in number, which is inadequate for construction, because a project might need a bigger number of tiles to unite its design, but the company mitigates this by combining more than one type of tiles, which is unpleasant aesthetically and is never done in upper tier projects, but is done in commercial building.

price possible. This method guarantees the quality of materials, it could also provide the best price if the developer is well experienced and connected in the construction market and is able to buy ‘catches’, but this option might be costly if the developer runs out/is in need of storage, in addition to transportation costs, this option is also risky because materials require careful handling and if anything is ruined the company is responsible.

As for the second method, it is by letting contractors bring primary materials as part of the overall contract, this option is also desirable by the company because it reduces the tasks of storage and transportation of materials and removes all risk since contractors are responsible for the entire process. This method can also provide good cost for materials, because in many cases contractors will have better access to stocks of material, or will have materials that they want to use, and they price this material for a very good price, which in many cases is better than the price that the company have access to. However, this method does not guarantee the quality of materials, because even if the developer and the contractor agree on the quality of materials in the initial contract, contractors can cheat and bring lower quality materials, and this have happened many times with the company. For so, when the company goes with the second option, they monitor work closely in order to ensure that material's quality is as agreement, but even this does not guarantee the quality desired, because as mentioned earlier, and it often happens that a site supervisor/engineer is bribed[22] to let the

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[22] This in most cases happened after the economic crisis when the company was unable to pay its

contractor go away with cheating the quality of materials which includes using lesser quality materials, or using less materials than is required, or using same quality but different kind of pieces such as replacing a 3 inch drainage pipe with a 1 inch pipe,

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employees.

which can only be detected by an experienced site supervisor, or later when problems (floods) start to happen because of this switch.

4.2.3. Financing the process

After finding land and approximating the cost of development, the company develops a financing strategy. During the first years of its operations, the company preferred to solo finance the project as this will reduce profits lost to partners/investors. The company also prefers to pay in cash, because doing so is usually less costly than any other alternative. Things however changed after the company's expansion and the financial crisis. Since the company did not have enough capital to finance its projects, it had to resort to partnerships and different kinds of deals that will be explained below.

- Partners and investors

Deals with financers/partners can contribute to the project in multiple ways. Those deals are primarily legalized through a public notary, which is a close friend of the company's owner. Some offer cash advances and are promised a percentage of profit within a given period. Others contribute with land. Many of the "investors" are identified through the social and economic networks of the company. For example, in one project, Masri's son in law is a partner. In another, the investor is a Jordanian businessman who was introduced to Masri through a Syrian contractor.

Similarly, profit is made in multiple forms: some partners ask for cash while others ask for several apartments that are equivalent to the amount that they invested.

In order to understand the organization of the business, it is important to understand that the relationship between the developer and his partners is heavily negotiated. Deals with partners vary based on the needs of the company. These deals are determined as an outcome of extensive negotiations between the head of the company and the potential investor. Those negotiations are affected by many factors including the profiles of the actors (e.g., the reputation of the company), the project characteristics (e.g., probability[23] to sell, amount of profit), the terms of the investment (e.g., duration, the amount of money the investor must pay, methods of payment (monthly payments or

[23] Based on company record and current state of the real estate market.

instant cash)), and how profit will be distributed (will the investor receive cash or apartments). It is important to note that all negotiations taking place within the real estate machine are greatly affected by the skills of the negotiator. An experienced negotiator can offer assurances if he is weak at one aspect and focus on other aspects where he is more capable, and if experienced enough can be successful in persuading clients, investors, contractors, and landowners to accept terms that are more favorable to him/her. In this case, the owner of MK development was particularly skilled since he came from a trading background, and that is one of the company's strongest assets and success factors.

When partners enter partnerships, they typically ask for the initial pricing including the BOQ (Bill of quantities) to make sure that the amount that they are investing is adequate. And many keep monitoring future work closely through the examination of bills and quality of work, to ensure that the company is still on track. That is why reputation of the developer plays a huge part here, because good reputation leads to trust, and trust reduces investor's concerns and provides the developer with more freedom to work. In the case of MK Real Estate, the good reputation of the company led many investors not to ask for the BOQ, nor did they monitor work, instead relying on the word of the company. This changed drastically after the crisis, especially after the company began defaulting in completion times, and in delivering lower than desired construction quality. As a result, many investors today are spending their time in the company figuring out bills and threatening to sew for delays, a practice that is ruining the reputation of the company and reducing the possibility of direly needed new investors to come on board.

The option of dividing apartments between the company and the investor also relies heavily on negotiations since both parties have to weigh the conditions. Since the agreement is made before apartments are built or sold, the object of negotiation is the salability of apartments and how to split them fairly. Negotiations over the valuation of apartments distinguish between their quality (e.g., apartments with views, aesthetic elements,) and who will get how many shops in the development. In this negotiation, pricing is not a critical factor, because in this market (commercial housing) of real estate, views and aesthetic elements have very little effect on the price, but they affect greatly the salability of apartments and which are sold first.

The choice of opting for apartments and/or case has its advantages and disadvantages for both the developer and the investor. The advantages for the developer are being relieved from the process of selling the apartments, and thus is only left with the responsibly of finishing them on agreed time and to deliver the agreed upon quality. Another advantage for an experienced developer is to focus on accumulating his profit, without sharing with the investor. As for the disadvantages of exchanging apartments instead of cash, the main point raised by the developer is the restrictions enforced by this kind of deal, where the developer cannot change the quality nor the timeline of construction. Whereas a cash deal leaves to the developer all decisions as long as cash is delivered on time, the delivery of apartments will signal that the investor will intervene in the process of construction (mainly checking materials and bills), which is undesirable for the company.

As for the advantages to the investor, it is guaranteeing the quality of construction, which benefits the investor if he/she personally wants to use apartments and opens the prospect of selling them for more if market changes. As for the disadvantages, there are the direct ones of needing a lot of involvement and supervision so that the quality of construction is ensured, and the indirect ones where the company (being mostly on site) would absorb all clients looking for apartments by telling them that the apartments of the investor are sold without telling them that there is a partner, but if they inquire about an apartments that is set for the partner, they would simply say that it is sold and divert them to one that is owned by the company. This also happens in cases where the investor asks the developer to help him sell apartments.

As for investors who ask for cash, they are freed of selling apartments, but they run higher risks since they leave the process to the developer who is at liberty of developing a sale strategy that benefits his company across all its projects instead of the project at hand.

Despite the original agreement, negotiations still happen along the way, typically in informal modes where parties stay away from courts. Thus, the developer may run late despite his best intentions because of various factors, as in the recent financial crisis. The investor is left with little assurance against bankruptcy, particularly if the developer if facing problems with clients due to delivery delays, ruining the reputation of the developer and making it hard for apartments to sell and/or reducing the original estimates of the selling prices. Given that investors who choose cash are individuals who have no time or experience in the real estate market, and just want to profit the easiest way possible, they find themselves at a big disadvantage. However, many of these investors are now negotiating switching to receiving apartments instead of cash.

The details of the Case Study in C12 illuminate some of the scenarios that can happen in negotiating finances.

- Example case study, Project C12: Cost and Profit Distribution

Once the realtor was out of the picture, Masri negotiated a deal with Mr. Hadi. In this negotiation, Masri capitalized on his reputation and record of success in adjacent projects and was successful to convince Mr. Hadi to accept terms that are very favorable to the company. In similar projects (land + size + quality), the most common deal is an agreement where the landowner provides land and receives 35% of the entire profit, either in case or as apartments. The developer would be responsible for everything else and would receive 65% of the profit. At the time of that agreement, Masri was expanding his business and needed money, so he opted to offer apartments. In similar projects, the landowner only contributes land, then the company would look for additional investors. Project C12 is an exceptional case because Masri was able to convince Mr. Hadi to also come in as an investor and contribute up to 50% of the entire project costs[24]. In return, the landowner would receive 50% of the profit. This was clearly an unfavorable deal to the landowner and would have been possible in Beirut

[24] Since Mr. Hadi is also providing the land, Masri and him agreed on the price of land then subtracted it from the 50% of all other costs.

where land is very expensive, costing up to 50% of the project's costs. However, the huge difference in land price[25] is compensated because land in Beirut does usually have

[25] For example C12's land is nearly 1600m^2, and was priced for USD 800,000, which means that one square meter of land costs USD 500, while in Beirut, it is around USD 3000 (in some areas it is much more higher, but I chose an average that the company paid for land in its projects in Beirut), which means that land costs seven times more

a higher FAR (0.9 in Noumara, and it is 3+ in Beirut), which means that more meters are built, and thus, construction will cost more. Given that the percentage of investment is determined as an outcome of an equation that balances out the price of land versus the price of construction, the higher the cost of land compared to construction the higher percentage of profit the landowner will receive. In addition, construction in Beirut costs more than it does in Noumara[26]. Thus, if we are to balance out the price of land (6-7times more expensive per meter) with the price of construction (three times more

[26] The cost to construct ($1m^2$) of middle quality commercial housing is around USD 500, whereas it is around USD 1000 for high end commercial housing

constructed meters x two times more expensive (per meter squared) which also equals to six times more), then we get a ratio of 1:1, which leads to the 50/50 deal that usually takes place in Beirut. This equation justifies the extreme difference between prices of apartments in Beirut and apartments in Noumara, which is also five-six times more expensive per square meter, and this substantiates the equation above and explains one of the factors that developers rely on to set the price of apartments. Because the pricing of an apartment will equal to the cost (land + construction) multiplied with a certain percentage. Real estate development revolves around this percentage as it will determine the actual profit. It is important to note that investors and developers always aim to receive the highest percentage in the shortest time possible. There is also a norm in investment that states that the bigger the investment, the higher the percentage should be[27] and that is primarily done to ensure a high return of investment (ROI).

In the case of real estate, the return of investment is affected by three factors.

[27] For example, if a project costs one million dollars, investors/developers will agree/aim to 30% profit (USD 300,000). However, if the project costs two million dollars, they will agree/aim to 40% profit (USD 800,000) which means profit increases exponentially with the increase of investment

The first factor is that until the profit is received, the investor’s money is frozen, whereas he/she could have invested this money in something more profitable, for so, and in order to ensure a good investment. The second factor is that bigger projects will usually take more time to finish, thus reducing the (ROI) value if the percentage of profit is the same, for so it is increased to compensate for the additional time that is ‘wasted’ (money is frozen). The third factor have to do with the general context of Lebanon, specifically the real estate booms, investment of foreign capital and the big number of Lebanese people working outside of Lebanon who are able and willing to pay higher prices, the availability of PCH loans and the recent surge to buy real estate just to free money from banks, those elements provided developers with the opportunity to profit, for so, they just increased the percentage because they were simply being able to sell higher. That is why investors will ask for a higher percentage and developers will try to find ways to secure it, because this percentage is the most primary element in negotiations between the investor/land owner and the developer, and it is the factor (in addition to reputation) that will determine which developer will receive the project.

- Architectural fees: design and permitting

Once land is secured, the company must finance the architectural fees (including design and permitting). The architect is responsible for carrying the permitting procedure, which begins with the construction permit and continues until the company receives the residency permit and individual property titles are issued for each apartment. As noted above, the choice of the architect is depending on the area and made tactically to gain favors.

When the company is forced to work with a prominent local architect, the cost of architectural services soars compared to the alternative method that the company employed in its previous projects. Knowing that the local architect demands an amount that is nearly 10% more expensive than a regular engineering office, but that is still much higher than securing architectural services through hiring an architect employee and only paying him a monthly salary of USD 1000.

The company managed to create a strong social relationship even with the local architect, and used to it to negotiate lower prices, it was successful in many cases, but the margin of negotiations is relatively small because the local architect is the one with the upper hand in the area of Noumara, and the company must keep him pleased. For such, the company must keep balance between the amount it is paying and the satisfaction of the local architect, which usually ends up by paying him an amount that is 5-2% higher than a regular engineering office.

In addition to this, prior to the crisis, the company would pay the architect in cash. However, after the crisis it was unable to do so. Instead, tapped into its good relationship with architect and tailored an exchange deal, locally described as “trock”. In this deal the architect would pay for all architectural fees and issuing of permits and in return receives his fees in the form of apartments.

- Contractors

Financing also includes deals made with contractors, and these deals vary a lot. First, the company may adopt the typical deals where a contractor is paid in cash in exchange of the building service he has delivered. In this contract, the company negotiates the amount of money paid for the service/material, how is paid and when. This negotiation relies greatly on the experience of the developer and how well informed is he/she about the construction market and the standard prices. This kind of information is best provided through socialized relations to contractors as they will provide the company with the actual prices without profit, or even provide the company with better offers. This way the company will have a solid ground to negotiate on when it wants to lower prices.

Prior to the crisis, the price of services was fixed, and developers chose between different contractors on the basis of the quality that the developer aimed for, and the ability of the contractor to achieve this quality, including the reputation of the contractor and his portfolio.

The war in Syrian however changed market conditions drastically, generating a huge oversupply of contractors. Indeed, a large number of Syrian contractors and workers were available for much lower costs, allowing the company to take advantage of this situation to negotiate lower prices in addition to the extra terms (risk + secondary materials + labor). That is why almost all contractors who work with the company are Syrian, except for ones that are forced upon the company through local networks. It is important to note that hiring foreign labor is not something new for the company. To the contrary, all along, the company hired foreign labor because it is cheaper, and, according to the owner, more efficient, more experienced, and more powerful than local labor.

As for payments, the company has two methods. The first method is the regular cash for service. In this deal, the contractor receives an agreed on amount at the end of each week/month or at the end of each task as per agreed upon in the initial contract, but it is mostly at the end of each task so that the developer can ensure the quality and time of work. Unless the developer and the contractor are well acquainted or in cases where the task is very expensive (such as concrete works), in this case the developer would provide cash at the end of each week/month to facilitate work. This method is preferred by both the developer and the contractor, because as long as cash is there then work will go on, and vice versa, because the developer wants to finish as quick as possible in order to sell and the contractor in order to move to something new, especially that the entire amount to be received is set at the beginning, and the faster work is the faster is the payment. In such agreements, socializing relations plays a critical role in solving issues when either party defaults to finish its tasks on time, whereby such issues would be resolved by providing the other party additional time to finish without resorting to law or any penalties. Such issues happen a lot, and when a party forgives another, this pardoning will automatically increase the social capital of that party, and this capital can be later used to ask for favors. In addition to this, when similar issues are resolved this way, this will enhance the reputation of the pardoning party and more people will want to work with it. Socializing relations will also provide the developer with the ability to convince a contractor to start working prior to receiving payments. That is critical in the real estate market, because many developers begin with a small amount of money and rely mostly on project sales to finance the project. This way they will be able to construct the project and then pay the contractor. However, only close contractors who trust the developer will accept to do so.

The second method is referred to as "a trock deal". In this deal, contractors would finance their entire operation and in return receive an apartment from the developer. This method is mostly used when the developer does not have enough capital to go with the first payment method. Trock deals are not desirable for the developer nor to contractors that do not have cash to finance their work. As for developers, trock deals are usually more costly because contractors always have the upper hand when negotiating the pricing of work and always tend to rise the price higher when they are not receiving instant cash and an apartment instead because they will be financing construction until it is over, for so, their profit is much delayed, and that is why they ask for a higher price, and in this case the company cannot negotiate much, because apartment prices are standard and easy to figure out, and the cost of a trock deal cannot be lowered. That is why rich contractors prefer trock deals and look for developers and offer them to finance and build in return of an apartment.

As for middle and few small contractors, prior to the crisis they would accept a modified trock deal, which goes as 60/40, where they would receive an apartment that is equivalent to 60% of the amount of their work and receive 40% as monthly payments while they are working in order to help them finance their work. After the crisis, few contractors opted for this kind of deal, primarily because they had no money to finance 60% of construction, and receiving an apartment was not desired because of a stagnant market.

Construction is greatly affected by the type of deals made with contractors. Method one is very desirable because the developer will have greater ability to control the pace of construction and cancel the deal at any time if the contractor is failing to meet his dues. However, that is very difficult to do with a trock deal, because contractors will be not pressured to speed up construction as they cannot be pressured by denying them the monthly or weekly payments, and they know that the apartment is waiting. And once they begin working, canceling the deal with them becomes very difficult, as it will require the developer to pay them for all what they have worked already. The developer in such cases will most likely not have the money to pay the developer (otherwise he would not make a trock deal) and will have to suffer from delays. Such issues are mostly handled by the Masri himself, the strongest tool he uses to pressure contractors into speeding up construction is to shame the developer, threaten to cancel the deal and not pay the contractor anything in return, or simply pressure the contractor through his social network.

4.2.4. Advertising and selling

Advertisement is an integral element of the process. It is used for two ends: attracting clients, but also raising the profile of an apartment building by emphasizing specific characteristics that may raise prices and consequently increase profits.

In order to develop an advertisement strategy, a company needs to be familiar with the profile of its future clients and what they may find attractive, as this can empower it to target advertisement and increase profit. For example, the company advertises economic benefits when it is constructing a commercial building. In this case, the company will portray the economic benefit through advertising the location and quality of the project. That is because a project located in downtown/busy city core is known to provide better market and client access, therefore will be priced for much more than the same building but in a peripheral area. In addition to this, building in critical economic locations will have much higher quality, and this is because of two reasons, the first being the building code which usually includes higher standards for such areas, the second 'invisible' reason, is that the bigger the investment the higher the percentage of profit and increasing the quality of construction is the way (other than land) to cater for the bigger investment. This increase in price is rational because the client will get to profit from location[28]. The company also advertises political benefits

[28] The company used this rationale to advertise one of its projects that was located in a busy business

when an apartment is neighbored by prominent political figure. This is always portrayed as an advantage and a reason to increase the price, because the client will get access to that political figure, and that was also used to sell an apartment in Beirut.

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location in Beirut

Those aspects are all capitalized on by the company when they exist. As for projects in Noumara, MK Real Estate limits its operations to affordable residential complexes that are located in the suburbs of Noumara where land does not have any ‘cultural’ nor ‘historic’ nor ‘economic’ assets that the company can capitalize on. Instead, the company doesn’t hesitate to deceive its clients. Thus, brochures advertise apartments by focusing on the natural elements, claiming that Noumara is a “green getaway”. Ads rely on terms such as: ‘escape the city’, ‘you are always surrounded by nature’, ‘the beauty of nature surrounding’, ‘a precious opportunity to enjoy the breathtaking natural beauty’, ‘Surrounded by distinctive landscape’ and ‘Stylish living enclosed by fantastic panoramic views, offering best scenery Noumara can give.’ Those quotes are found in brochures in addition to ‘fake’ renders that place projects in imagined forests, green surroundings and internal gardens and trees that does not exist. In addition, brochures typically include a location map that shows the proximity of the project to the airport or to the coastal highway, because they are closer than Beirut, and can leave a good impression. In a number of cases, even the (google earth) map showing the way to projects was faked using photoshop and the actual terrain was replaced by forests, so that you would see a way and a project that are surrounded by forests rather than the actual map of Noumara.

The company doesn't hesitate to weave the narrative of the project to the social weaknesses that it knows its clients are sensible to. Ads speak of helping clients get married because in Lebanon, the general social norm that is related to marriage dictates that the man must have an apartment in order to be eligible for marriage. The company capitalizes on this norm through its advertisements using slogans like 'let us unburden you with the house', 'show me the key to the house, and the bride is yours' (accompanied with an offer), 'handle the wedding and we will handle the house' and 'the key to her heart, and your new home', all those slogans are added to pictures that show happy couples.

The company also began to target young Lebanese expatriates with slogans such as 'for everyone living abroad, come closer to your family'. This slogan was paired not with an offer to live in Noumara (which was used when targeting local customers), but with an offer to live in luxurious apartments (without indicating the location) in addition to instant delivery. This was used because luxury is a term that is common everywhere, while Noumara is specific and primarily familiar to people who are living in Lebanon. Thus, using Noumara in the advertisement will not have a positive impact on clients (living abroad), whereas a ready to move in luxurious apartment that is next to one's family will do.

The company also portrays the house as an opportunity for a new and better life, using slogans such as 'they key for a new house is the key for a new life' and 'a vision for your life', those slogans are added to pictures with happy families.

This 'social' strategy is strengthened as the company also promises clients to live next to 'educated families' and 'well-mannered young couples' who all descend from respectable families. The projects were also branded with titles that provide the client with a sense of coziness and familiarity, such branding the project as a village, or as a garden city, and using names of local trees as the names for projects, for example Cedar village.

Masri always uses this rhetoric as part of his selling strategy, claiming that he carefully chooses who lives in his apartments, thus securing the client a good, safe and quite environment to live at. It is very hard to tell if that is correct or not, especially that it is very difficult to rate the manners of a person without falling into some sort of prejudice, but one can assume that Masri relied on the sectarian prejudice (that is particular to Lebanon) to ensure the ‘goodness’ of his clients , because most of the clients that he sold apartments to do not come from a certain area or a certain background, except that the majority are (Sect 2) from Beirut. And if we are to examine the future issues that happened between Masri and some of the clients, they included many threats and procedures that do not point to the ‘good’ mannered individual that Masri was bragging about. Even by the words of Masri himself, where he repeatedly said that he was shocked and surprised by the behaviors of some of his clients.

Most importantly, the company capitalized on ‘financial’ benefits, and they did so by advertising an ‘affordable financial scheme’ that would allow anyone regardless of their job to acquire a good apartment. This kind of offer was crucial to anyone without a steady salary who sought a bank loan or even the loan of PCH, because the eligibility to receive that loan was connected to the job of the receiver. For so, using this slogan attracted clients that otherwise would have not been able to secure a loan nor buy an apartment. The client was still required to receive that loan under the terms of banks, for so, the company mitigated this issue by negotiating an informal deal with the client who does not have an adequate job/salary to receive that loan. There are two cases when a bank may reject a loan. The first is when the official salary is very low salary, below the acceptable threshold of the bank. The second is if the client does not have a formal job with a monthly salary, if for example, he/she could be a taxi driver or a freelancer. In both cases, and only when the client was able to provide[29] the full amount that is to be paid if the client were to receive the housing loan, the company would informally

[29] In many cases the money was taken from family or loans from charitable institutes such as ‘al qard al hasan’

hire that client to provide him with a regular monthly salary on paper, allowing him to receive the housing loan.

The company also portrayed renting as an outdated and bad decision that should be replaced with the solution that it is providing, which includes buying the apartment while paying the same amount that one would pay in rent. They used slogans such as ‘renting is an outdated trend, own a house with exclusive benefits’, ‘do not give any excuses or justifications, owning is better than renting’ and ‘when you own you are king’. All those slogans were paired with a claim that for USD 500 as a monthly installment, one could own a house. This number is attractive because rentals of similar apartments at adjacent areas costed USD 350-550.

In reality, this advertisement is misleading and designed to attract clients. The USD 500 advertised were part of the payment to be made to the company, following a large first down payment (which ranges from USD 10,000 – 20,000), and an additional (USD 15,000) that would paid to the company as monthly payments (which is the USD 500 mentioned in ads). Since the company sold apartments with an average of USD

130,000 then the rest of that amount USD 100,000 (USD 130,000 – (USD 15,000+15,000)) would then be managed through the housing loan, and now the client will have to sort this out with the bank (this part is not mentioned in advertisements). Again, the company aims to draw clients to the office, and once they are there, Masri is successful most of the time into convincing them into buying an apartment from him.

4.3. Conclusion

Networks are critical in real estate production. They provided the developer with primary access to real estate ingredients and the ability to negotiate prices and terms of agreement with all participants. Forming networks required a costly strategy emphasized by socializing all business relations, then constant investment into the maintenance of those relations. In return, the company established a network that allowed it to function and profit greatly from the real estate business. I will conclude this chapter by mapping the networks of the company based on Smith's method explained in the methodology. However, this following network will not include all transactions and will only include the formal and visible ones. The invisible and mostly informal transactions will be mapped in the following chapter and added to this network. The reason for this is that the following network is more representative of the real estate market, but the second network is area specific and only representative of the area of Noumara.

4.3.1 Mapping networks

The following diagrams show the connections between MK Real Estate and housing ingredients. Including actors, type of connection and the effect of socializing the relationship between MK Real Estate and the actor.

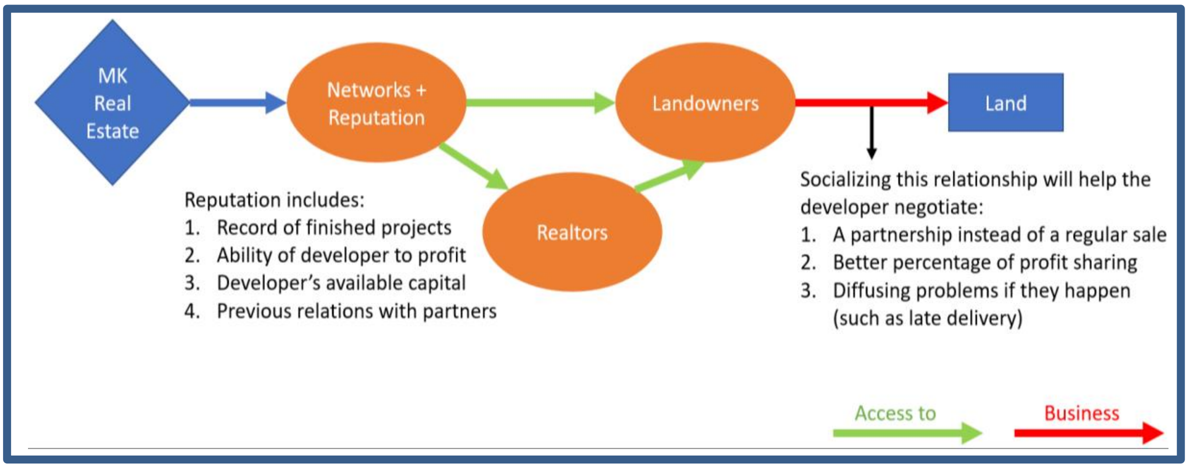

Figure 8: Land network

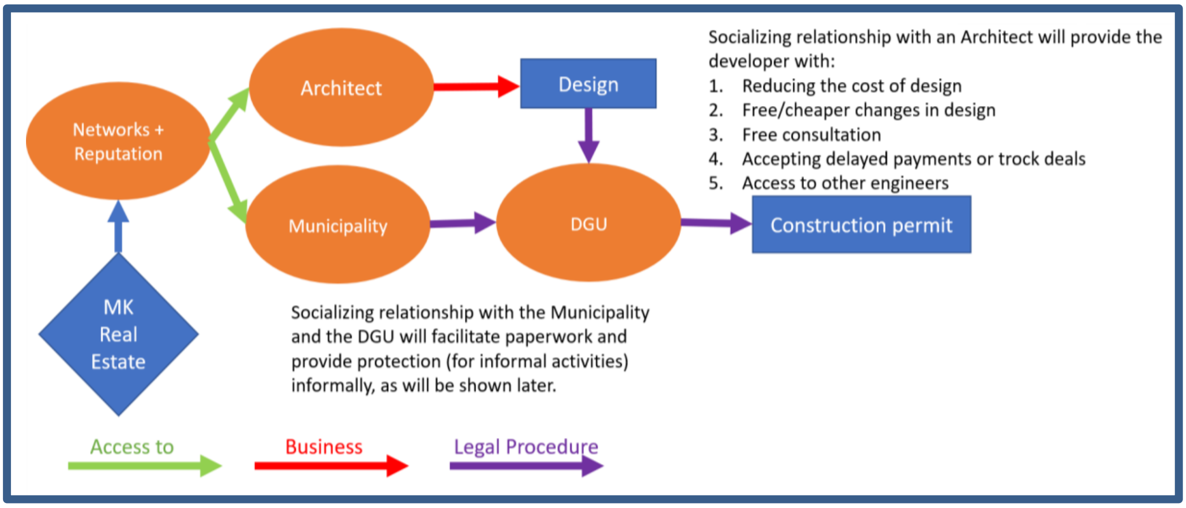

Figure 9: Design and permitting network

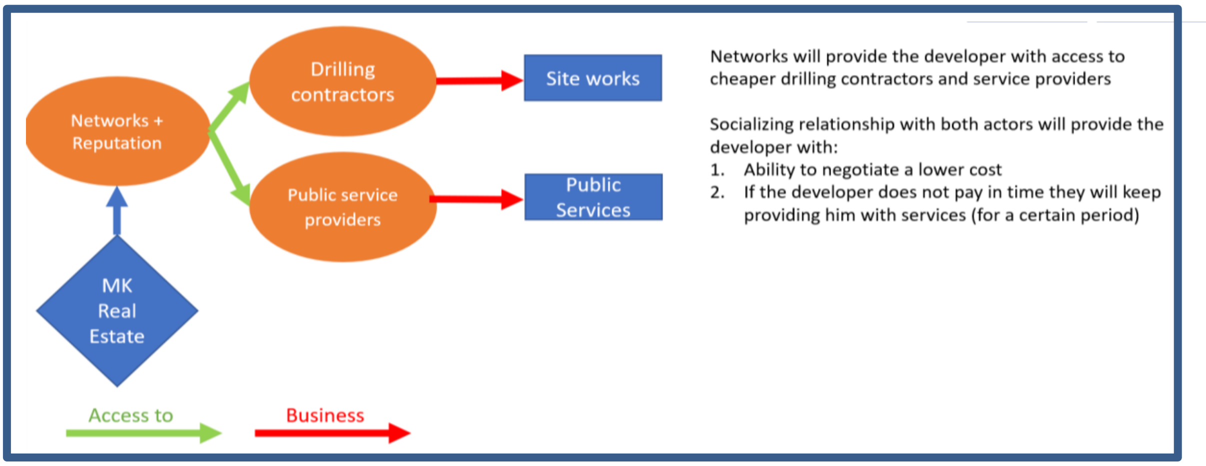

Figure 10: Siteworks + Public services network

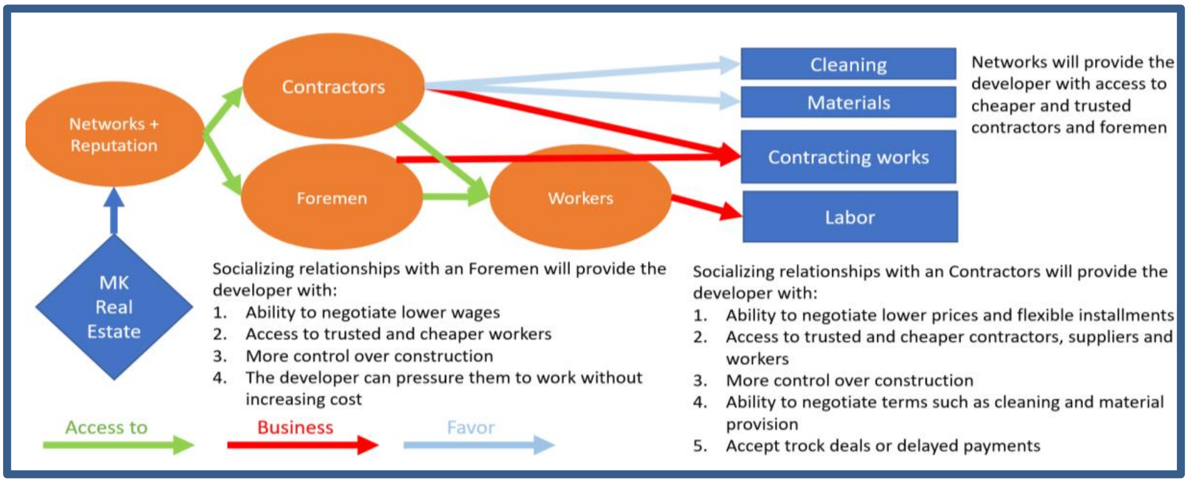

Figure 11: Contracting network

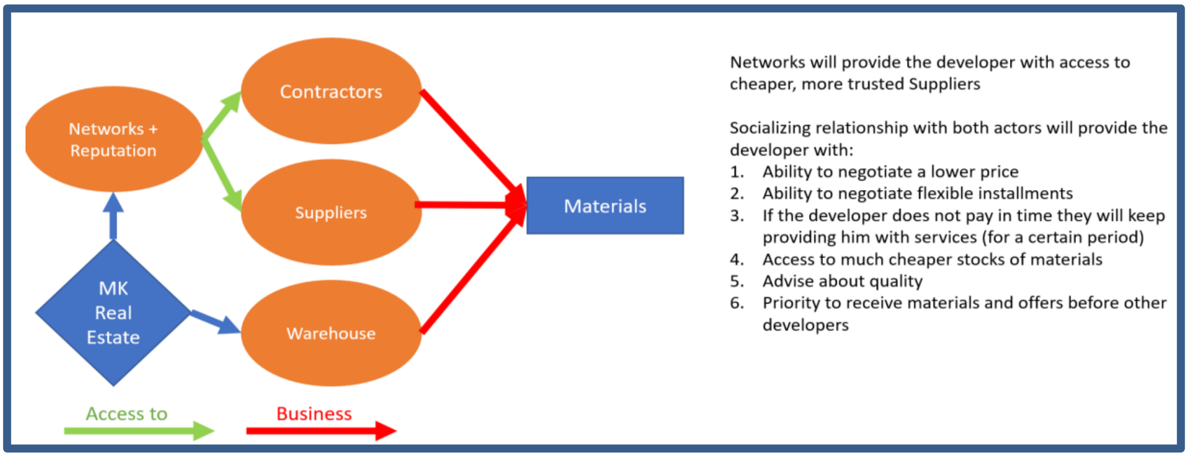

Figure 12: Materials network

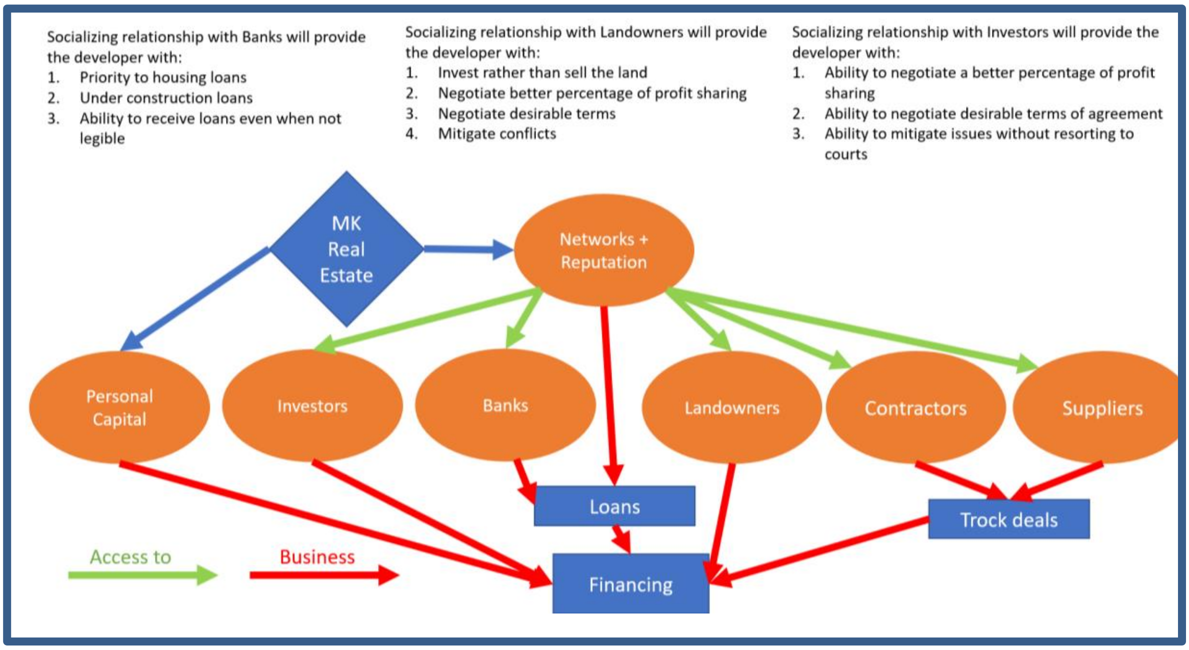

Figure 13: Financing network

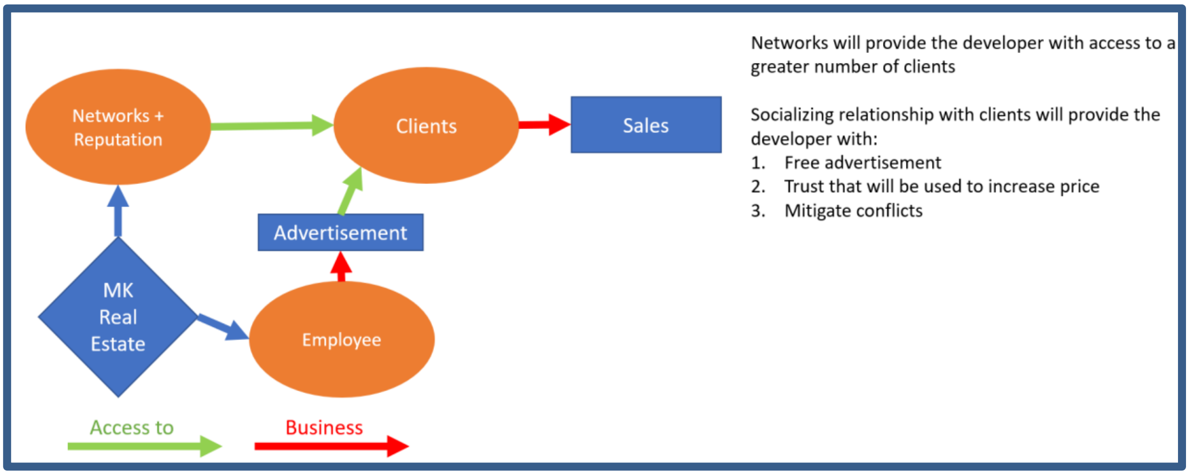

Figure 14: Advertisement network

Next, is the combination of all of the above diagrams into a single diagram that shows MK Real Estate's visible network of real estate production.

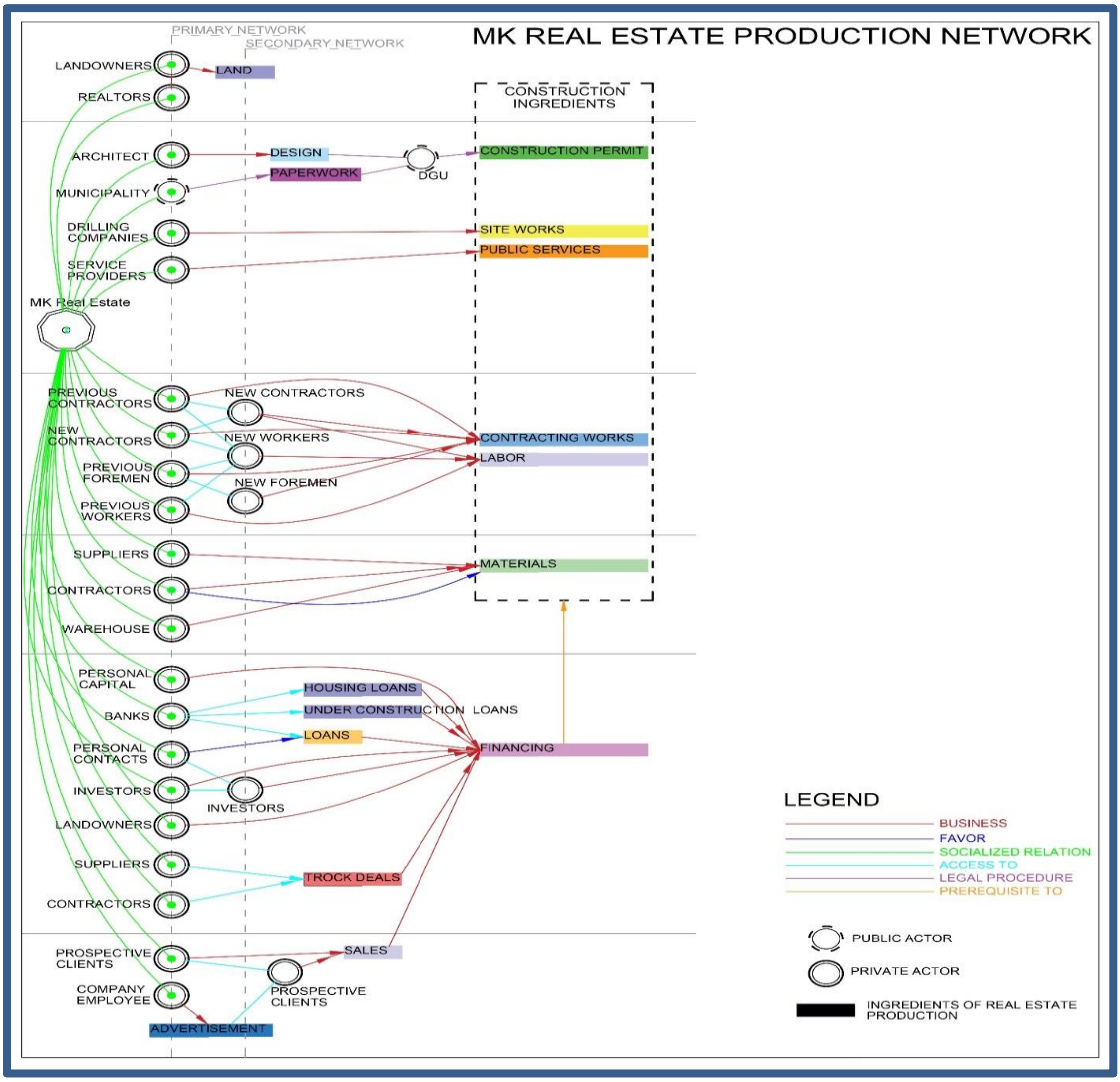

Figure 15: Visible real estate production network

CHAPTER 5

INFORMAL NETWORKS, INFORMAL RELATIONS AND INFORMAL ACCESS

This chapter revisits the role of social networks in order to highlight how the informal relations that run through social networks empowered MK Real Estate to expand its business, increase profit, and secure *favors* that allowed it to violate the limits imposed on the business by legal and sectarian/political constraints. It hence provides *protection* and *cover* for illegal and/or "undesirable" activities.

5.1. Informal relationships

I define informal relations as invisible relations connecting multiple different parties based on trading favors. Informal relations are the product of socialized relations or can happen through personal networks. They run parallel to the visible and formal agreements, and they are equally important. The reason for this stems from two reasons, the first comes from the way the network functions, in which formal and legal procedures that appear to abide by law are actually determined or highly influenced by informal transactions that happen between actors in the informal network, where each actor puts on the table many of the formal tasks/housing ingredients that he controls and gives other actors informal access to those ingredients on the basis of trading favors and not the basis of rights and law. This can produce a corrupt environment were basic rights and freedoms are subjected to and manipulated by a specific group (the participants of the informal network) for their own benefit, what is more problematic is that this illegal benefit can also be at the expense of harming others. In many cases informal functioning is more important than the official and formal one, because it can be used to manipulate the outcome of formal agreements regardless of the visible condition, such as bribing a judge to delay the case of a guilty developer and resolve the issue informally with the victim.

In this real estate market (middle income – gated communities) informality works on different levels and benefits different people at each level. In most cases, social, political and social networks are informally accessed to provide cover for illegal construction activities and violations of the building law.

There are informal relations that exist between the developer and political actors, and they include relations with the DGU and other governmental bodies that provide the company with permits and paperwork that is required to construct (formal relationship), the informal interaction in this case includes paying more (bribes) to speed up the permitting process, or exerting influence to delay permits, they also include indirect support to developers in all conflicts with clients by cancelling cases or delaying them. They also include cover up/turning a blind eye for all violations of the building law such as building unlicensed basements and adding extra floors (instead of roofs) and then legalizing those violations. This kind of informal transactions primarily benefits the developer by facilitating his work and increasing his profit. These activities also benefit the involved public agents, because all money paid in those transactions is illegal, undeclared, and goes to the people active in this informal circle. The informal process mentioned above revolves around corruption, because concerned governmental bodies purposefully obstruct permitting procedures in order to get paid. Thus, developers are forced to bribe in order to facilitate work, highlighting the dark side of informality since only people who are able to pay bribes can work, placing a constraint on a free market. A developer tapping into governmental bodies in order to win a case against a client or a contractor is also unlawful and negative, because it supports corruption, and the client end up not receiving what he/she paid for, and can do nothing about it, forcing him sometimes to resort to extreme measures such as threats and violence. As for the informality of building apartments at roof floors, in this case, informality is positive, because it makes better use of space (instead of having an empty space under the tiles, one can make use of this space and create an apartment without increasing the overall height), and for now, developers are paying nothing for the government (as a penalty) when they build such spaces, they just build them then rent/sell them without a legal deed. Not having a legal deed is lowering the price of those spaces and they are offered for half the price, people tend not to buy such spaces, but they still provide a cheaper alternative for people who are looking for affordable housing. For so, the indirect/unintentional benefit of this informality is keeping the price of such places low, because as soon as they are formalized and legal deeds are issues, their price will double, and they will sell as regular spaces, thus reducing the stock of affordable housing.

There are also the informal transactions between developers and municipality or in the case of Lebanon the political/sectarian party that is controlling the area of operations. In this case the developer offers money directly or in the form of offering a service[30] to whomever is controlling the area, and in return will receive protection from

[30] Such as paving roads, placing cameras or digging water wells and subscribing to their power generators

the party itself and even from police because police cannot overpass them. When the company is 'covered' cops must deal with that party and not with the company, which is done informally. For example, when the cop arrives to the site, he is immediately received in the political party's office and invited for a cup of coffee, then is bribed by

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and water tanks

the security person allocated by the party to secure the project. This of course is very costly, as the company is paying for this protection, and will also have to pay for cops, but the company is taking advantage of this, as it is using this protection to cover for informal activities that will greatly increase its profit. For example, a protected developer will be able to begin construction earlier and continue overtime (than what is legally allowed), the developer will also receive a cover against all complaints from nearby residents (such as noise and pollution violations) except if the complaint is coming from the party itself, in this case the developer must fix the problem quickly[31].

[31] That is the case in Noumara, because the Municipality will never stand by the side of an outsider

This kind of informal relation is also negative because it illegally benefits the Municipality/party controlling the area and the developer[32], but at the expense of harming local citizens who are not politically covered.

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against a local (Sect 1)

[32] By allowing him to finish work faster and reduce the cost of safety procedures that reduce noise and pollution

This cover also includes illegal tapping into public services, such as tapping into the water, electric and sewerage networks. This usually happens when a political party is offering the cover and not the municipality, and they do so as long as it is not ‘visible’[33], and when a violation becomes visible, they just bribe the person responsible of reporting the issue.

It is important to note that bribery happens more often in Beirut rather in Noumara, because in Beirut law enforcement is stricter (in the ‘informal’ way being

[33] In order to portray that they are obeying the law, because all of those parties are vocal about their respect to law, but they all break it through their informal transactions

described now) and cops do checkups more often, but in Noumara it is less stricter as there are less cops, and the company is covered by the Municipality.

5.2. Informal network of Noumara

Noumara is very territorial. There are many reasons for this territoriality, this thesis will not elaborate on them. However, for the purpose of understanding the market, it is important to know that territoriality means that individuals who operate in Noumara are typically classified in two distinct categories. The first are the “locals” who are the native (Sect 1) population and no others, even if they were (Sect 2) who lived in Noumara for years, as long as they are not (Sect 1) , they are not considered locals. The second are the “outsiders”, which include many developers and people seeking housing. To operate in Noumara, outsiders must have permission from locals. This interaction is informal, as there is nothing formal or any law that attends to this permission, and the way it is enforced is also informal through violence or hindering of work such as delaying permits or not allowing trucks with materials to come in.

Masri worked on receiving permission to work in Noumara from the beginning. He established his social relation with the Mayor of Noumara back in 1985, while developing his first project there. The Mayor sold him personal land that he owned. The Mayor saw an opportunity to profit without upsetting locals (by selling to an outsider) because the land that he sold was adjacent to the first land that Masri already bought, and both lands are located far from the main village at a peripheral and rural area back then.

Masri was later offered the opportunity to purchase two more land lots by locals. Land sales were facilitated by Masri's good relations with the Mayor and prominent (Sect 1) families, and it was profitable to these individuals. After Masri was successful in building his projects and relationship with locals, he could purchase land and initiated projects on his own and ended up having five projects adjacent to each other.

In Noumara there is a hierarchal system that controls the relation between local contractors and outsider developers, this system runs from the top to the bottom. At the top there is the Mayor, and all developers must go through the Mayor in order to proceed with their work. The relationship with the mayor has to do with two things when it comes to contracting, the first is that he owns a drilling company, and all sitework contracting must be handed to him, and that was the case with project C12, the mayor does not make trock deals, and needs to be paid in cash. The second thing has to do with the mayor's role as a caretaker for his community, in which he would help local contractors secure work by asking developers to hire them. The company must agree to the mayor's demands, then it can proceed with construction. Right below the mayor comes the local architect, he must also be hired, and along with him comes a local engineer who takes up concrete works, for so, concrete contracting and all architectural works go to the local architect. Masri was able to convince the local architect to accept trock deals, but he had to pay for concrete works. After satisfying the mayor and the local architect, Masri still has to satisfy other local contractors who come to him, but he has more power to negotiate at this level depending on the social and political standing of the contractor.

The Mayor of Noumara also functioned as a middleman between locals and developers. Because he usually knows when a project is being developed and will have locals ask him to provide them with work, and he does so by ‘pressuring’ developers to hire them. In this case, Masri took tried to take advantage of his relation to the Mayor (since he is already part of the deal but not as someone who will profit, but as someone who is asking for a 'favor'[34]) to try to convince local contractors to lower their prices which are usually very high. Masri did this because the developer's only

[34] Which is not really a favor because if the developer rejects the Mayors demand, he will not be able to construct in that area, but it is portrayed as a favor to upkeep the social play that exists to beautify informalities and make them more pleasant by/and to the people who are part of them

chance/opportunity to negotiate with locals lies in his relationship to the Mayor because any direct negotiations with them will negatively affect the relations that he thrives to keep good in order to function in Noumara. Thus, the developer can do nothing else with local contractors. However, the Mayor will not ‘publicly’ stand by the side of an ‘outsider’ against a (Sect 1) local especially that he took the role to provide locals with profit, and that is the initial reason that they allowed outsiders to function in their areas. But the Mayor may ‘informally’ agree with the developer to help him get a lower price, and manages to also ‘informally’ convince a contractor who extremely overpriced his services to lower them to a ‘reasonably’ overpriced amount, such as lowering the demanded price of USD 150 per meter (of aluminum works) down to USD 120, where the actual price is USD 90. This way the Mayor pleases both parties while practically doing nothing, because the cost for the developer is still very high, and the profit for the contractor is still very high, but he gains influence over both as if he had done them both a favor.

5.3. Mapping the informal network of Noumara

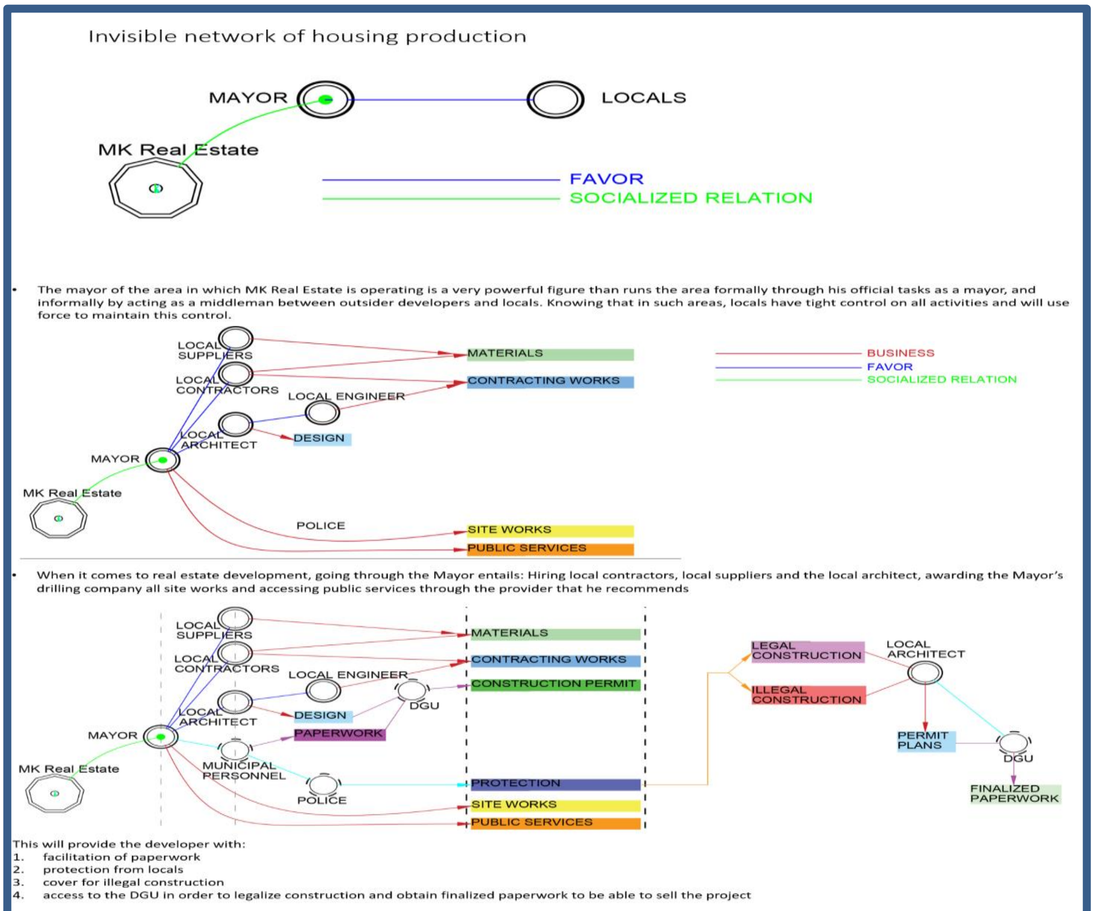

Figure 16: Informal networks of Noumara

5.4. Real Estate production network of Noumara

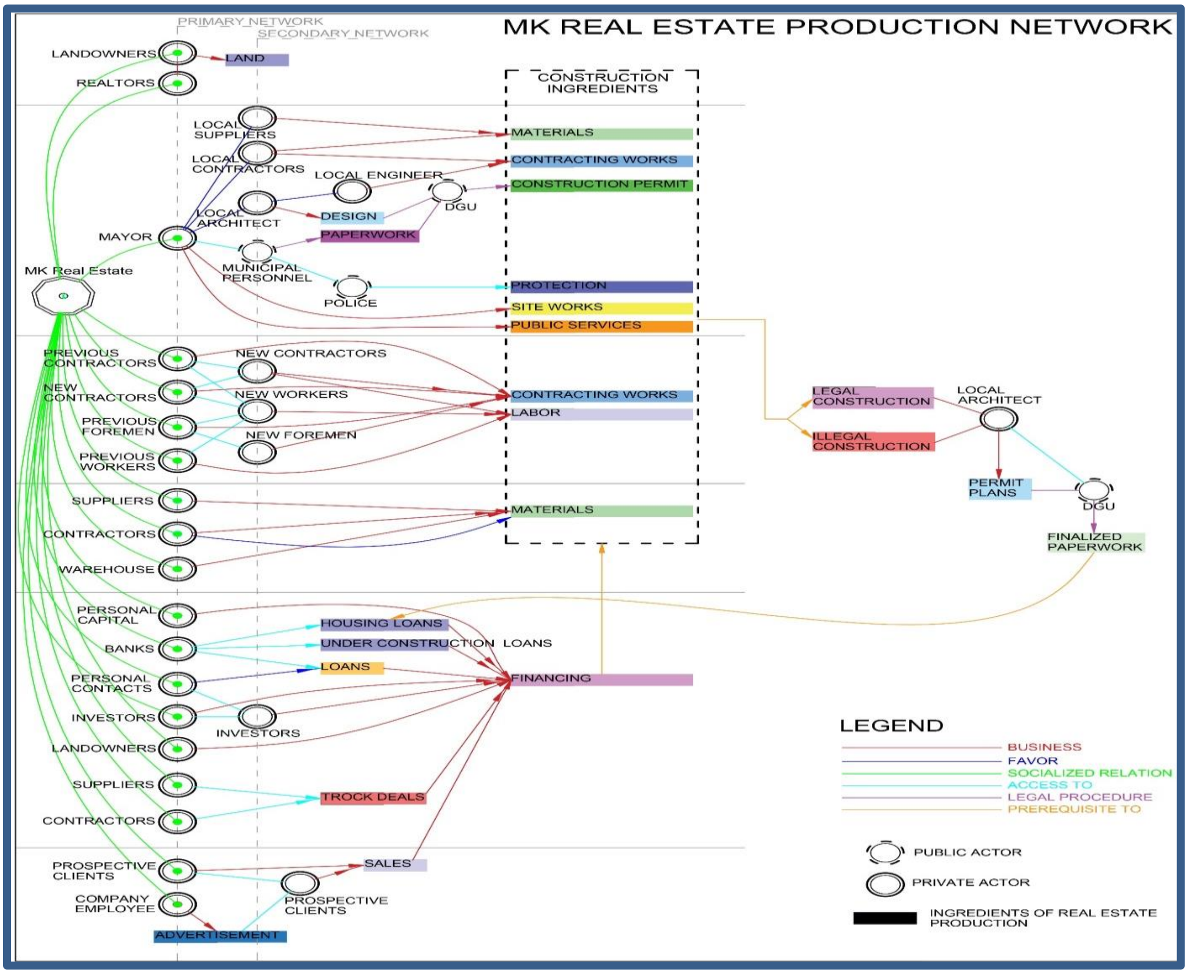

Figure 17: Real estate production network of Noumara

It may seem that the important ingredients that are secured through the informal network are protection and facilitation of the construction permit. However, without a construction permit, the developer cannot begin do build. In addition, the final network shows that the construction permit is a prerequisite for the finalized paperwork, which is required to receive “under construction housing loans”. Those loans are critical to finance the project even in its earliest stages. Therefore, even the financing of the project is tied to informal networks. This means that without accessing the informal network of Noumara a developer will not be able to function unless he is very well connected to the point that he can supersede this network and produce paperwork without accessing it, and that is not the case of MK Real Estate. The second equally important outcome of the informal network is the protection it provides. This protection is important in two ways. The first is that even if the developer manages to issue a construction permit and finish all required paperwork, if not protected, locals will violently shut down the project, and police can do little because the area is under the direct control of (Sect 1) and political parties there. The second way is the cover that the developer managed to secure through this protection. This cover was used to access an array of illegal activities that increased profit greatly.

In addition to this, while mapping a typical project's timeline, financing and protection are the only two activities that cover the entire span of the project's timeline.

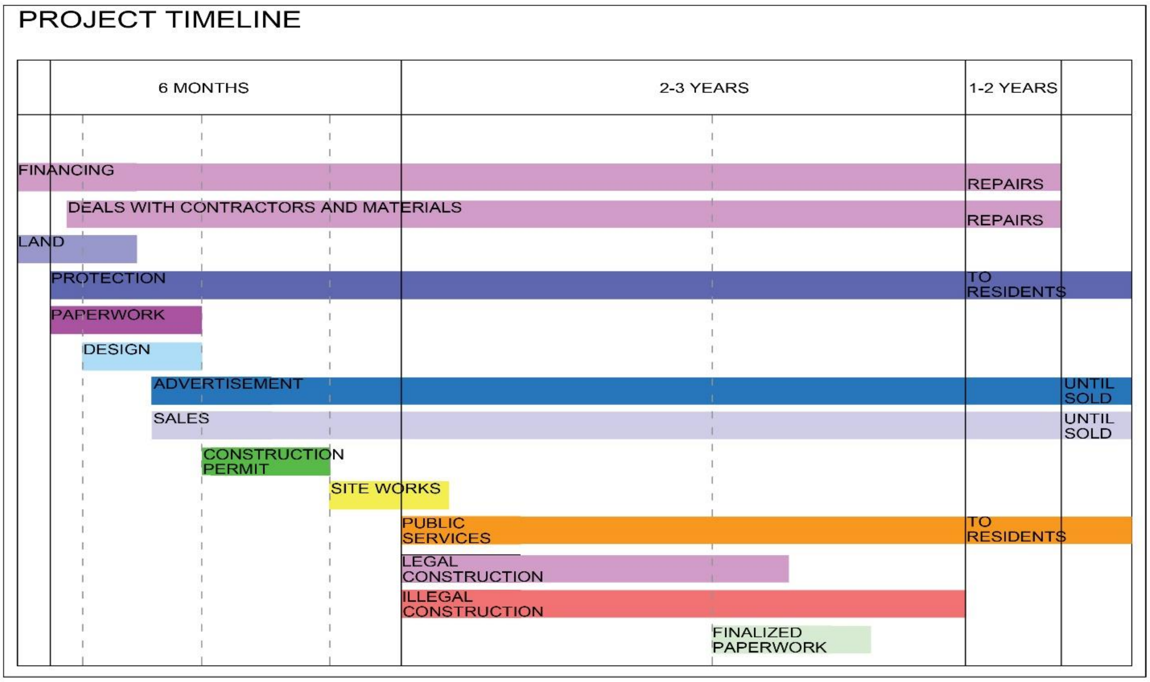

Figure 18: Typical project's timeline

In conclusion, Masri was initially forced to meet the demands of locals to work in Noumara, but he managed to socialize his initial relations with locals and then capitalized on those relations to provide him with protection, cover and access to an array of informal and illegal activities that he used to increase his profit and survive the current crisis. The following section will provide an example for those activities.

5.4.1. Violations of the building code: Case C12

In order to show how these informal networks work in the organization of building activities, I flesh out in this section the violations that I observed in the Case Study [C12] that I detailed for the research. As noted earlier, prior to his deal with MK Real Estate, Mr. Hadi had already hired an architect to design the project and to complete all the paperwork required to issue the permit of construction necessary to build the project. The architect finished the design and the permit was issued in 2012. Unable to build the project, Mr. Hadi looked for a developer to partner with.

As a developer, the company always tries to minimize cost and increase profit. At the same time, the company is aware of the conditions it must meet to be able to build profitably in the context of Noumara. Therefore, the developer asked Hadi to cancel the deal with the architect he had hired before they partnered. Hadi canceled the deal and did all the required paperwork (barae'et zimmeh). The company then proceed to hire a local architect, a prominent (Sect 1) figure with sizable influence in the Local Planning Authority. This architect has the informal power of delaying permits and speeding them up, but most importantly, this architect is a prominent local figure in an area that is very territorial, especially when it comes to investment or real estate. Developers know that any external investor must benefit locals in one way or another in order to be able to invest in Noumara. Otherwise, the developer knows by experience that his work would be informally delayed, or simply stopped –even violently if needed. That is why the first step both parties did was to hire the local figure who will facilitate the rest of their work in 'his' area.

Masri was also a prominent figure with lots of experience in the production of real estate including all formal and informal activities that exist in this field, and he always took advantage of both in order to secure the biggest profit he could make. Since he realized that working with the local architect was a must, he did try to build a good relationship with him so that he can secure more benefits than the ability to work in Noumara. He was successful and managed through the architect to access networks that would provide him with the cover needed to carry on informal activities that will increase his profit. Those informalities included code violations and how to cover them up, as I will show below. It is important to note that the architect is also very experienced and is aware of the consequences of such violations. He therefore placed a formal term in the agreement between him and Masri that relieves him of any legal pursuit if the company was to be legally prosecuted. In addition, his supervision of work is limited to an early stage in construction in which violations have not yet occurred. Indeed, violations are typically implemented after all legal documents (lot division) (farz) required for the housing loans are issued, and those documents will not be issued if there are any code violations. Thus, the architect's contract ends when those documents are secured, and he is free from any liability towards later legal violations. However, if the company was to work with a different architect, it will never be able to carry on with those violations, as it will not have the required cover which the company was able to secure through the architect.

Since the plans of C12 were already finished, and the permit had been issued, Masri did not want to pay again for the design and permit. This was a violation of the company's strategy that seeks to save any costs it can. Additionally, the original permit had been obtained in 2012, before a revised zoning regulation had lowered the FAR to contain development, a measure many believe to be politically motivated and designed to contain the expansion of (Sect 2) and Shiite development in the area (Bou Akar 2018).

Table 1: FAR Zoning in the area before/after 2012.

	Zoning in 2012	Zoning of 2013	Project Area	Project Area

			(Zoning of 2012)	(Zoning of 2013)
FAR	0.9	0.75	(1600 (land) x 0.9) = 1440m^2	(1600 (land) x 0.75) = 1200m^2
Allowable building footprint	0.3	0.25		
Setbacks	4.5 meters	3 meters		
Maximum Height	10 meters	10 meters		

The changes in FAR lowered greatly the investment of this site down, bringing legal development down from 1440m^2 to 1200m^2. This, in turn, would greatly reduce the expected profit. Therefore, Masri held on to the permit issued in 2012 so that he can keep the higher investment ratio.

Keeping the original permit didn't mean the project was not readapted to fit a revised sale strategy given changing market conditions. The initial design responded to the housing market conditions in 2012: At the time, the market offered relatively large apartments (110m^2 – 130m^2) and developers were expected to produce aesthetically pleasing stone facades. By 2015, at the time the partnership was signed, the housing market had changed and Masri needed to adapt the project. He lowered the size of the apartments and increased their number, to reduce the price of the individual unit and bring it to the reach of clients. In addition, Masri lowered construction costs by reducing the quality of construction, knowing that clients were unable to afford more expensive finishes. These changes were critical to increase the salability and profit of C12. Thus, Masri through his negotiation skills and good relation to the local architect, convinced him to use the same design and the same permit, reduce the architecture fees, and maintain the old exploitation ratio.

It is important to note that keeping the same permit but changing the design is very difficult to achieve, because Masri asked for many changes that violate the building code, and other changes that are legal but required him to update the permit. The advantage that Masri was able to secure through his work with the prominent local architect is evident. The architect is responsible for the new design changes, but most importantly, he provided the required cover to carry on with all the informal activities that went with the changes. Thus, Masri paid the architect only USD 45,000 as an initial payment and an additional USD 7000, while he also covered all the bribes needed to cover his informal activities.

An analysis of the building plans shows the extent of design changes, code violations, illegal additions, and how are they managed. It explains how informal profits are made and the role of the local architect in this process. In summary, the violations include (1) exceeding the construction area, (2) violating requirements for lighting and privacy, and (3) violating parking requirements.

In order to protect the violation, the project has three sets of maps. The original design done by the architect commissioned by Hadi, the ‘official’ permitted file plans that are to be submitted by the local architect[35], and the ‘as built’ drawings which show the real project. Both the initial and modified designs of the proposal follow the law, although it is illegal to change the floor plans without filing for a new permit –or at least for revisions. Only the as-built drawings include substantial violations done by Masri

[35] This file (including plans) is required to be able to divide the lot (farz), after which the deeds for the apartments can be issued and thus the ‘official’ transfer of property to owners can happen.

and covered by the architect. The architect's cover is provided through his responsibility of issuing the permit file and his ability (through his influence in the DGU) to make plans pass even though they differ a lot from what is built, which is done by bribing people in the DGU and the people who are responsible for checking the compatibility of the built to the permit. Below I will demonstrate violations done and how are they managed.

- Exceeding Exploitation Ratios

The original design was made back in 2012, the FAR of the lot was 0.9 and the allowable footprint was 0.3, the maximum height was 10 meters (3 floors) (without the tiled roof), and the setback was 3 meters. The area of the site was 1,587m^2, which means that the allowable footprint is 476.1m^2 per floor and the allowable total area is 1,428m^2. Hadi's architect designed the building accordingly and the permit he issued respected the zoning of the area.

Table 2: Project area according to original permit.

Original Permit				
Floor	Area (included in exploitation)	Free areas (excluded from exploitation)	Balconies	Total area
Basement 2				
Basement 1	0	385m^2	16m^2	401m^2
Ground floor	451m^2	140m^2	52.5m^2	644.5m^2
First floor	476m^2	150m^2	90.5m^2	716m^2
Second floor	467m^2	150m^2	90m^2	716m^2
Third floor (tiled roof)	0	505m^2	0	505m^2
Totals				
Basements	401m^2			
Free areas	1330m^2			
Included areas	1403m^2			
Balconies	249.5m^2			
Total area	2982.5m^2			

The architect was able to a secure a basement because the site was sloped, and according to Article 14 of the Lebanese building law, this area was allowable and not computed within the exploitation ratio because it is partially underground. In addition, the 2004 building law allows for several “free areas”, or areas outside the exploitation ratio, including external double wall thicknesses, shafts, (stairs, elevators, corridors between apartments unless they do not exceed $20m^2$ per block), balconies (if they do not exceed 20% of the total allowable area), and tiled roofs. This initial design knew how to take advantage of all these benefits while respecting the law.

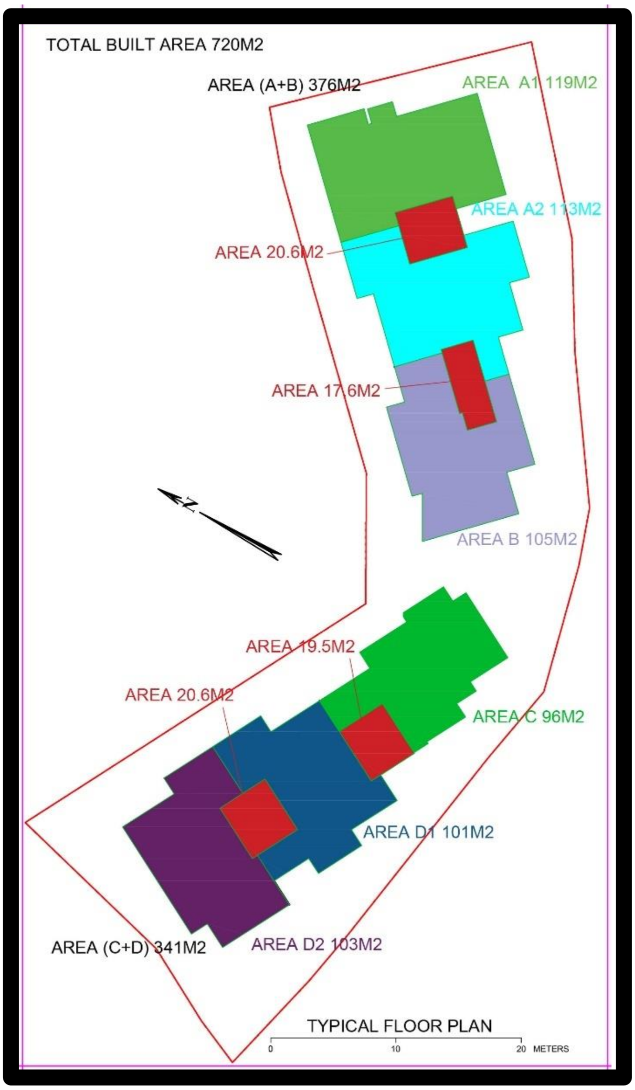
TOTAL BUILT AREA 720M2
AREA (A+B) 376M2
AREA A1 119M2
AREA A2 113M2
AREA 20.6M2
AREA 17.6M2
AREA B 105M2
N
AREA 19.5M2
AREA 20.6M2
AREA C 96M2
AREA D1 101M2
AREA (C+D) 341M2
AREA D2 103M2
TYPICAL FLOOR PLAN
0
10
20 METERS

Figure 19: Original Typical floor plan

The plan in (Figure 19) are taken from the initial drawing book. The first and second floors share the same layout. The floor plan includes three apartments per block. This design had relatively big areas. In the plan modified by the Company, an additional apartment was added, providing instead four smaller apartments per block. All apartments in both designs include the same spaces: 2 bedrooms, 1 kitchen, 1 living / dining space, 2 bathrooms, and 1-2 balconies. This layout is typically favored by young couples. It includes a master bedroom and a room for children. Most of the company's clients have this profile.

It is important to note that the areas of (elevator + stairs) and parking are added to the overall area of the apartment, which means that the (total) area found in (Figure 19) is the actual number of meters sold by the company (plus 10 meters to each apartment as parking space). The area of (elevator + stairs) is distributed among all apartments per floor. For example, in the (as build) drawings, the actual area of apartments (including walls and shafts) is as mentioned, but apartments are not sold as such, the area of elevators + shafts (149.5m^2) is distributed among all apartments in that floor (5 in this case), meaning that each apartment will have an additional 29.9m^2 added to its area and sold as such.

The tables below will show the additional illegal addition to area in detail.

Table 3: Modification of Basement 1 areas.

	Basement 1									
	Apt. A1	Apt. A2	Apt. B1	Apt. B2	Apt. C1	Apt. C2	Apt. D1	Apt. D2	Elevator + stairs	Total Area
Initial Design		110 m^2	65m^2				89.6m^2	-	(35 + 35 + 31 + 30) = 131m^2	401 m^2
Permit Drawings	51 m^2	25.2 m^2 (shop)					117.6 m^2	103.5 m^2	(22.7 + 41.4 + 14.6 + 39.5) = 118.2 m^2	416.4 m^2
As Built drawings	80 m^2	36.1 m^2 (shop)	19.3 m^2				122.5 m^2	101.5 m^2	(39.5 + 47 + 23.6 + 39.4) = 149.5 m^2	508.1 m^2

Table 4: Modification of Ground floor areas.

	Ground Floor									
	Apt. A1	Apt. A2	Apt. B1	Apt. B2	Apt. C1	Apt. C2	Apt. D1	Apt. D2	Elevator + stairs	Total Area
Initial Design	95 m^2	107 m^2	95m^2		96 m^2		93m^2	80m^2	(20.6 + 17.6 + 19.5 + 20.6) = 78.3 m^2	644.5m^2

Permit Drawings	91 m^2	96.4 m^2	69.1 m^2	75.7 m^2	82.6 m^2	75.7 m^2	94.4 m^2	96.1 m^2	(22.6 + 20.6 + 20.9 + 21.4) = 85.5 m^2	766.7 m^2
As Built drawings	100 m^2	98 m^2	78.3 m^2	79 m^2	79.3 m^2	81.8 m^2	97.1 m^2	96.6 m^2	(22.5 + 20.7 + 20.9 + 21.4) = 85.5 m^2	796.5 m^2

Table 5: Modification of Typical floor areas.

	First Floor + Second floor (typical floor plan)									
	Apt. A1	Apt. A2	Apt. B1	Apt. B2	Apt. C1	Apt. C2	Apt. D1	Apt. D2	Elevator + stairs	Total Area
Initial Design	119 m^2	113 m^2	105m^2		96 m^2		101m^2	103m^2	(20.6 + 17.6 + 19.5 + 20.6) = 78.3 m^2	716 m^2
Permit Drawings	91 m^2	96.4 m^2	69.1 m^2	75.7 m^2	82.6 m^2	75.7 m^2	94.4 m^2	96.1 m^2	(22.6 + 20.6 + 20.9 + 21.4) = 85.5 m^2	766.7 m^2
As Built drawings	100 m^2	98 m^2	78.3 m^2	79 m^2	79.3 m^2	81.8 m^2	97.1 m^2	96.6 m^2	(22.5 + 20.7 + 20.9 + 21.4) = 85.5 m^2	796.5 m^2

The total change of design is shown below.

	Basement 2	Basement 1	Ground floor	First floor	Second floor	Roof	Totals	Addition to permit	Legalized addition	Illegal addition
Initial Design		$401m^2$	$644.5m^2$	$716m^2$	$716m^2$	$505m^2$ (as tiled roof)	$2,982.5m^2$	$0.0m^2$	$0.0m^2$	$0.0m^2$

Permit Drawings	384.9m²	416.4m²	766.7m²	766.7m²	766.7m²	467.7m² (as tiled roof)	3,184.2m² (without basement 2)[36] 3,569.1m² (with basement 2)	591.6m²	591.6m²	0.0m²

[36] I left out the area of basement 2 so that this sum of areas can be compared to the original permit file, because the addition of basement 2 is completely legal but needs an updated permit.

As Built drawings	756.8m^2	508.1m^2	796.5m^2	796.5m^2	796.5m^2	796.5m^2 (as apartments)	3,694.1m^2 (without basement 2) 4,450.9m^2 (with basement 2)	1.468.4m^2	591.6m^2	876.8m^2 (+ illegal conversion of 505m^2 tiled roof into apartments)

Table 6: Total modification of areas.

The violations above increased the profit of this project by an estimated USD 1,107,700 (USD 625,000 coming from the (warehouse (built in basement 2) + roof apartments) + USD 107,100 (coming from 107.1m^2 (additions in basement 1) x USD 1000 (average price of m2 in basement floor)) + USD 375,600 (coming from 313m^2 (additions in ground + first + second floors) x USD 1200 (average price of m^2 in respective floors))). If the total expected yield of this project is USD 3,966,000, this means that the illegal practices of Masri have increased the total yield by 28%.

The following plans will explain the illegality of design in detail.

- Violation of Areas

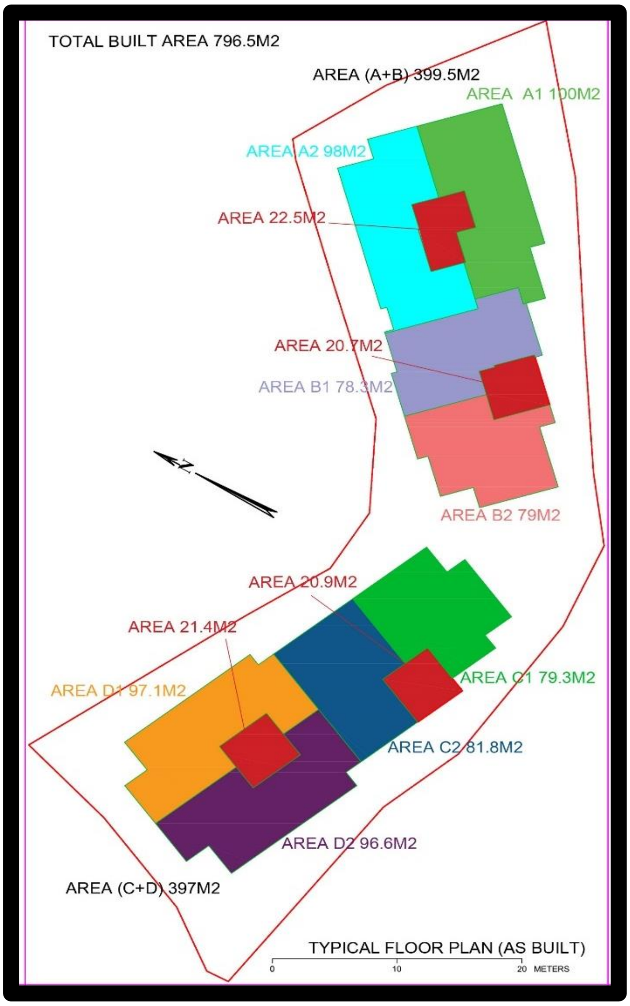

Figure 20: Typical 'As built' floor plan.

That is the typical plan for the 'as built' file, meaning that those are the actual constructed plans for the project. The constructed project has the footprint of $796.5m^2$, which is a clear violation of the building law and of the permit for the project. There is an additional $76.5m^2$ in footprint, which was used to add a fourth apartment per floor. The new design contains four apartments per block, but all apartments still have the same layout (2 bedrooms, 1 kitchen, 1 living and dining and 2 bathrooms).

This plan cannot be shown to the DGU because it violates the original permit with an additional unpermitted $76.5m^2$. To mitigate this, the architect faked this plan as will be shown below (Figure 21) in the typical 'permit file' floor plan which complies with the original permit and the building law, and therefore can be shown to the DGU to receive final paperwork.

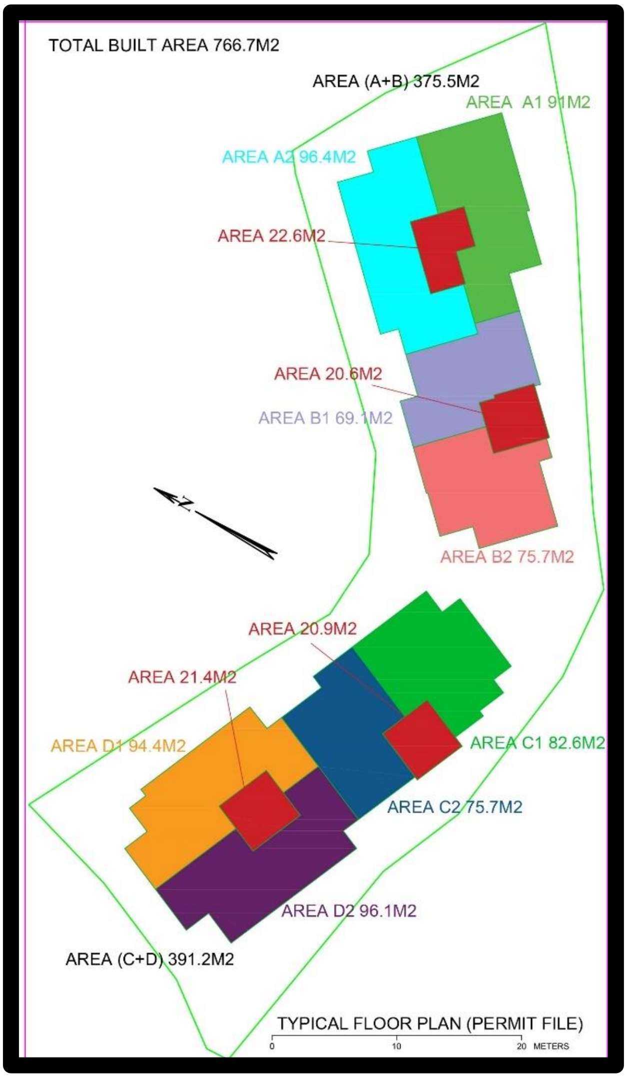

Figure 21: Typical 'As permit file' floor plan.

The plan above is that one to be shown to the DGU, it still abides by the original permit but includes the new modifications. However, this plan is still larger by 46.7m^2. This architect was able to legalize the addition using three factors, the first is that there was a slight change in the size of land (up to 1614m^2 from 1587m^2) which gives additional square meters, those additional square meters were exploited and the new subsequent walls were deduced from the overall area, thus increasing the entire footprint, lastly, the architect increased the (stairs and elevators) area by 7.2m^2. All those changes amounted up for a legal total footprint of 766.7m^2. What is very interesting is that the architect was able to change this area but without changing the permit, I don't know how he did this. But I know that the architect made sure that the permit file looks legal, thus he must have had a legal way to attend to this issue, but no paperwork shows the method that he used.

The original plan had a ground floor (shown below) which was smaller than the second and third floors, the reason for this is to create space for parking that was required for each apartment in order to secure the permit.

Figure 22: Original ground floor plan.

This floor does not exist in neither the ‘as built’ nor the ‘permit’ plans. It is replaced by the typical floor plan. This is because the Company seeks to gain as much meters as possible to increase its profits. The lost parking spaces were compensated by adding a (legal) underground parking level and (2) squeezing illegally more spots than legally mandated.

As for the basement area, the initial design had an area of 398.8m^2, which included the rest of the parking spaces, entrances (stairs + elevators), and three ground floor apartments as shown below. However, apartments located in this floor are smaller than the regular apartments and have the same spaces but with only 1 bedroom instead of two.

Figure 23: Original Basement 1 plan.

The company did big changes to the constructed ground floors (as shown in as built plans below (Figure 24)). Those changes included building up an additional $110m^2$, which is another violation for the original permit. Those changes are however invisible on the permit drawings as it only shows a difference of only $18m^2$, which can be easily legalized, but nonetheless also not permitted. The additional meters were additions to the apartments so that they would have the additional bedroom and become similar to the regular apartments, in addition to a shop and one room that was sold informally (because this space does not exist in maps) to a one client for USD 18,000. The as-built plan also shows the dug area that should be filled as in the original and permit drawings.

Figure 24: ‘As built’ Basement 1 plan.

- Violation of the 'vision box'

Figure 25: Violations of the 'vision box'.

This plan shows the required vision boxes (green boxes) imposed by building law to allow for an opening in the building façade. The Lebanese building law requires bedrooms, kitchens, and living rooms to all have windows. Thus, the contour of the plan is drawn to accommodate for those boxes and thus be able to create windows for the spaces mentioned above. Both the original plan and the permit plan had those boxes and windows laid out accordingly. However, the 'as built' project violates them as the contour of the building often intersects with those boxes, meaning that any window that is located there is illegal, which could prevent the building from being issued the legal deeds. Not only do these violations expose the building to legal repercussions, they also gravely jeopardize the quality of apartments since the building will not have enough natural illumination once the adjacent block is built. The next plan will elaborate more on the boxes and spaces adjacent to them.

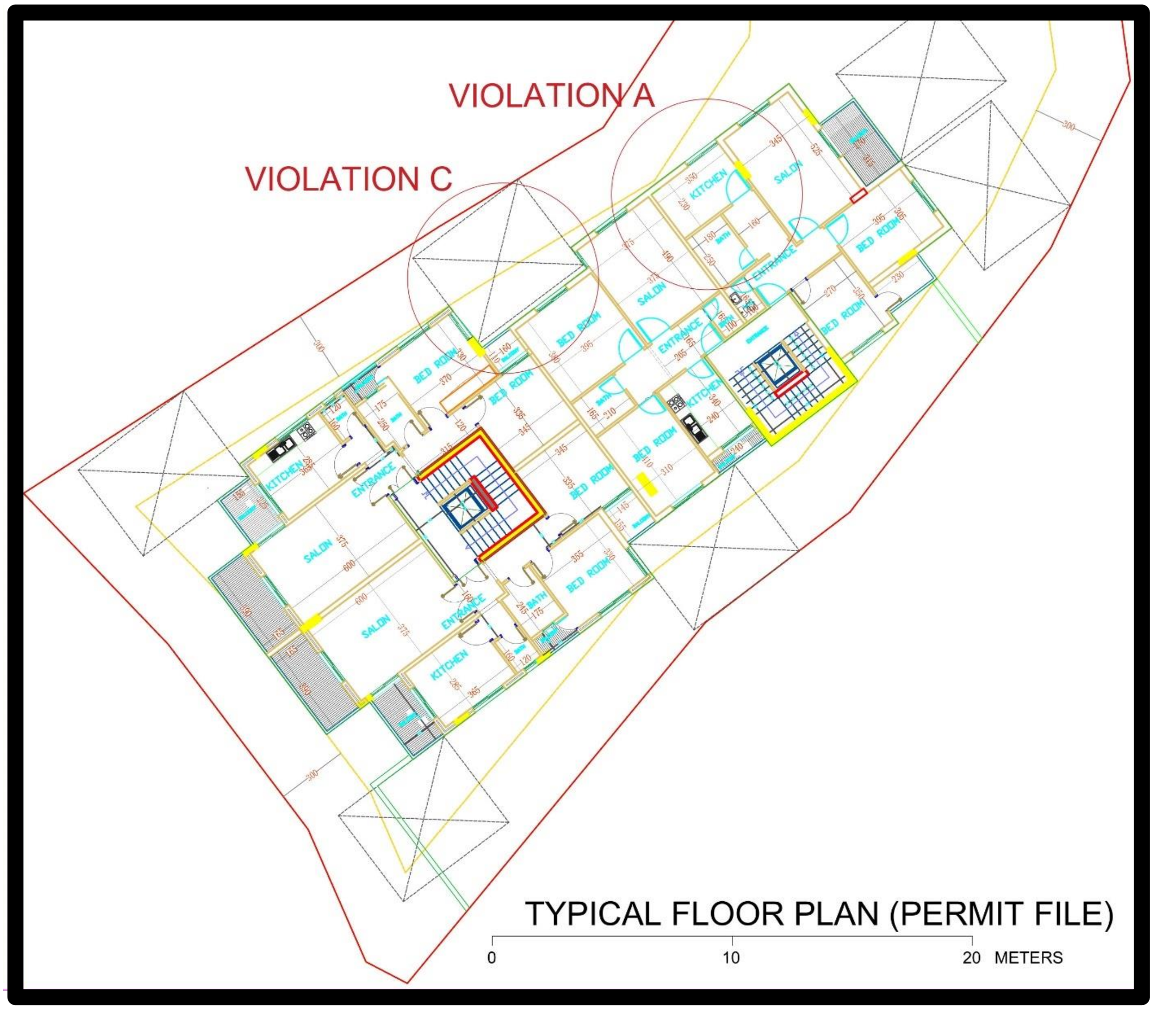

Figure 26: Violations of the ‘vision box’.

The plan above points to the violations that were made in the as-built plan. In this plan, violation A shows a kitchen with a window but with no "vision box", which means that the window has no clearance and thus the kitchen is illegal. That was mitigated in this plan by reducing the size of the kitchen to be below $8m^2$, which makes it legal as it is considered a "kitchenette" that does not require a window. However, in the as-built plan advertised for sale, the space is turned into a living room (Salon) to increase the salability of the apartment, since this direction has the best view, and the kitchen is placed in the back. Mind that all windows (required to make a space legal) in this plan are either in direct contact with the vision box or has a balcony that is. Violation C is an area that was changed greatly in the actual plan, this plan shows how all spaces touching the box have windows facing the box to make them legal, but were closed in the plan below (and that was done to win more meters and to reduce cost by reducing the amount of windows because they are more expensive than a regular wall).

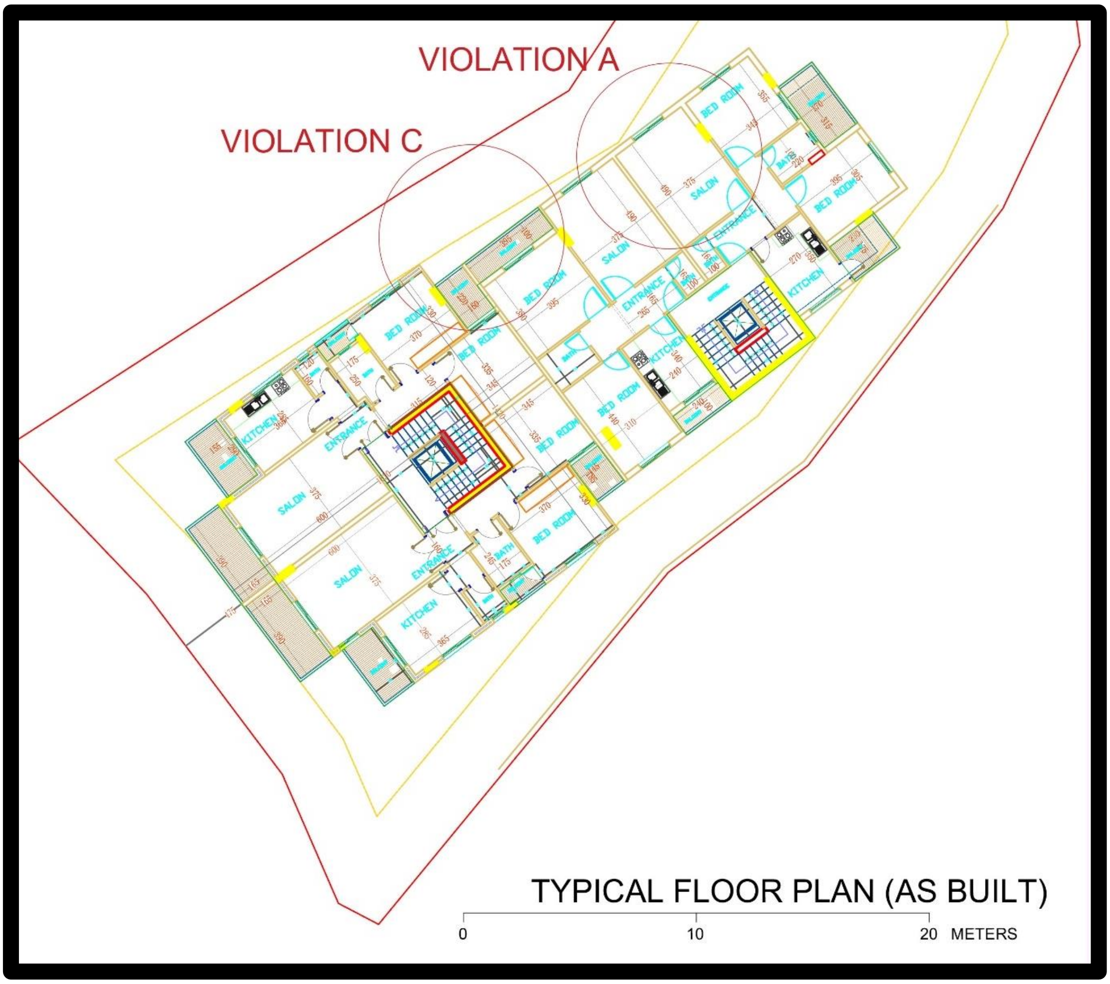

Figure 27: Violations of the 'vision box'.

The same violation was repeated elsewhere as shown in (Figure 25) whenever the building intersected the vision box.

- Violation of Leveling

As seen in (Figure 22), the ground floor in the original design had two different levels. All parking shown in the plan is 3.1 meters higher than the opposite side, which means that at one side it is a ground floor, but from the other side it is elevated 3.1 meters in the air as shown in the section below.

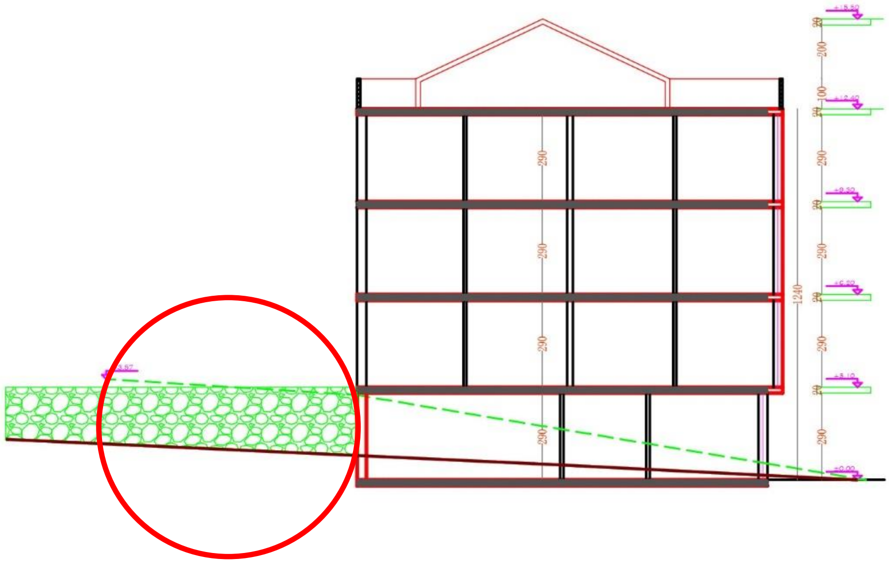

Figure 28: Project Section

This difference in height made it possible for the Company to add another floor (basement) as a free area, since it is partially underground (as shown above). This was the case in the original and the permit drawings. The Company however changed the topography, digging further, and resulting in the section below (Figure 28).

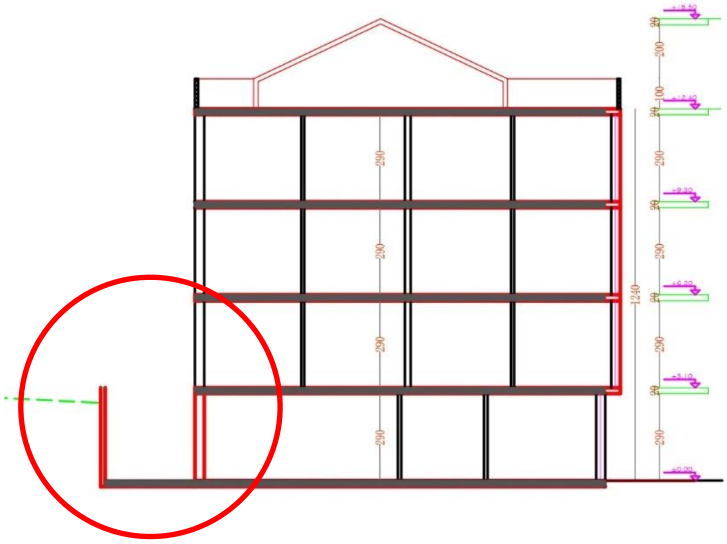

Figure 29: Project Section

The Company did this change so that instead of a ground floor he would have a first floor (although not in permit), and this will greatly increase the salability of apartments because a higher apartment is more desirable than a ground floor apartment. This design change is however illegal, but the Company used another trick typically used by developers in this kind of terrain. He backfilled the area after selling it, received the inspectors for clearance, and then restored the design once he secured the legal papers. This was obviously a trick, likely well-known to the public inspectors who get their kickback from the deal.

- Violation of Legal floors

Figure 30: 'Permit file' Basement floor plan.

The ramp shown above leads to the new underground floor that was added later to the permit later. This floor was dug at the earliest stage of construction during site works but was then covered because it was not permitted for, which means that it was a violation that would lead to the stoppage of construction until it is permitted. However, the company just covered it and continued with construction. The space is still covered, but now the architect is issuing an updated permit that includes this floor, which is considered a free area and does not go into the FAR calculation because it is permitted as an underground parking. This is also incorrect, as shown in the as-built drawings below, because there are three violations related to this underground parking.

- Violation of Setbacks

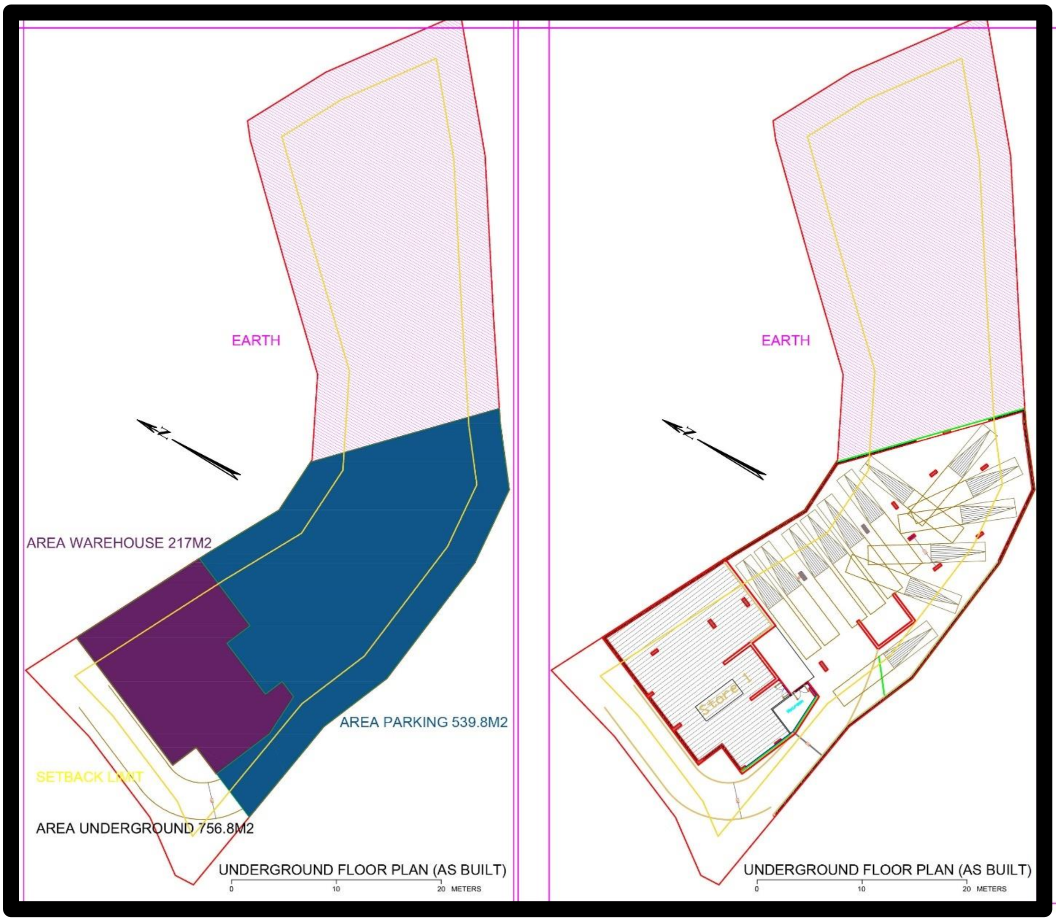

Figure 31: 'As built' Underground floor plan

The first violation is that this underground parking extends over the setback limit and reaches the end of the site. The second violation is that the company will be selling part of this space as a warehouse. The last violation is that the actual area ($756.8m^2$) of this underground parking is much greater than what is declared in the new permit ($384.9m^2$). The company mitigated all those issues with the help of the architect who issued a different and legal permit drawing for this parking. In addition to the altered drawing, the company again bribes the inspectors responsible for checking the compatibility of the permit drawings to the as built. Building inside the setback limit is a recurrent practice for the company that has adopted this strategy in many projects, including a project in Beirut. However, in Beirut, the company had to build a fake wall to follow the permit drawings, which will be demolished after the inspection has occurred.

The next plan will show the underground parking as shown in the permit drawings.

- Violation of Parking and Access

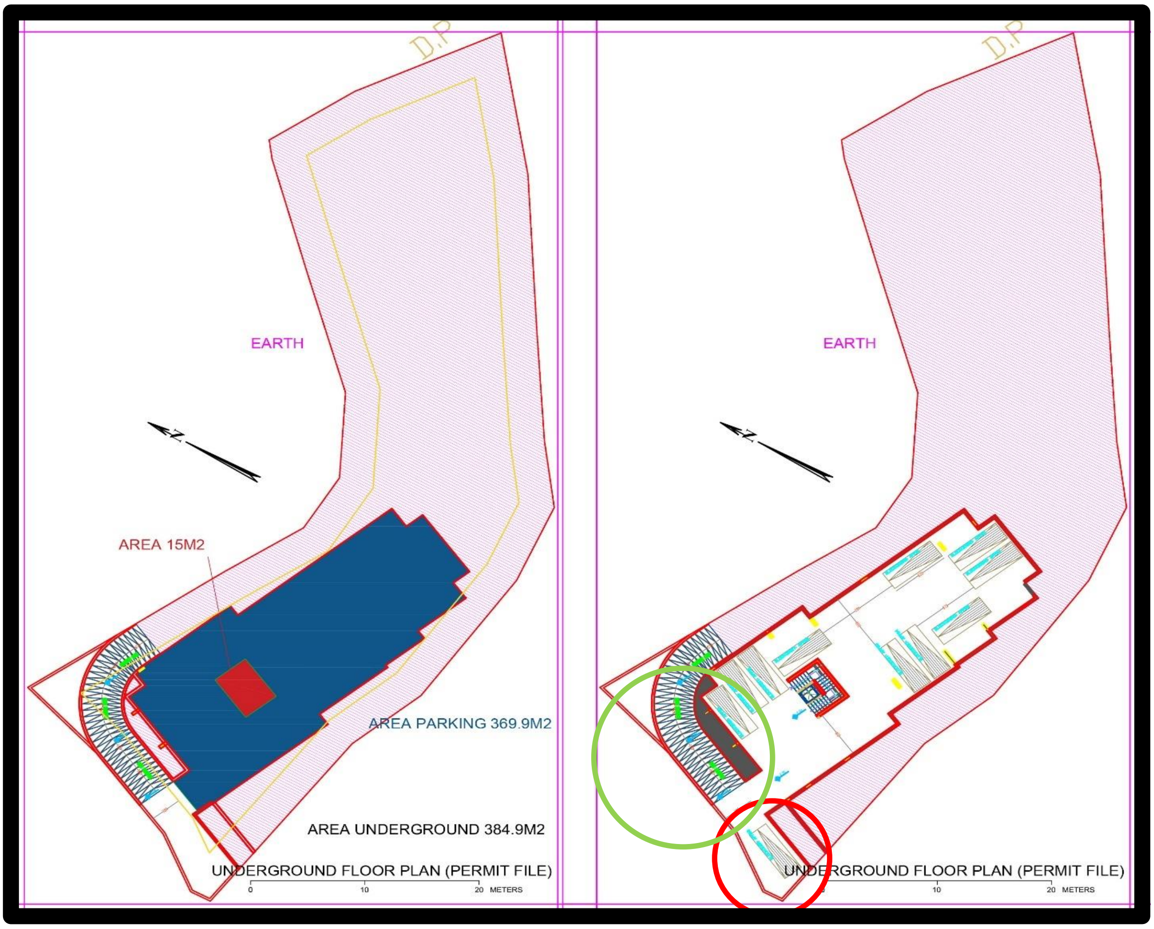

Figure 32: 'Permit file' Underground floor plan.

The plan above is free from any violations, as it only includes parking spaces that are within the setback limits, and the legal paperwork that is being issued to update the permit includes an underground area of 384.9m^2. However, there is still some illegality even in the ‘fixed’ permit drawing and a violation that has to do with the feasibility of the parking spaces offered to clients. The illegality has to do with the access to the underground parking, which as seen above (red circle) does not allow any car to enter as it does not follow the allowable curve (as shown in the upper curvature circled in green (which is also altered as will be explained later)). This was mitigated formally by the architect’s influence in the DGU, where they would turn a blind eye, and was mitigated informally (so that this space becomes accessible) by expanding the lower part of the ramp, however, that change was not shown in maps because it will show that the area of the expanded ramp is not filled with earth (as opposed to the ground floor plan), and if it is not filled with earth then the entire floor becomes illegal. Which means that in this case, the ‘as built’ is legal but is not shown because this legality will result in exposing a violation, and it is much easier for the architect to legalize this illegality rather than the other one.

Figure 33: ‘Permit file’ Basement floor plan + ‘As built’ Basement floor plan

The plan on the right shows the “fixed” ramp at point B, while the plan on the left (permit drawing) does not show the ramp and instead shows earth filling (which must be there so that the entire floor can be considered as an underground floor).

There is another violation in the same ramp shown at point A, the violation was caused by expanding the saloon of the ground floor apartment to the point that it overlapped with the ‘legal’ ramp that was shown in the permit drawings. This resulted in the reduction of the curvature of the ramp making it illegal and difficult for cars to go through (at the expense of more m^2 to sell). This issue was mitigated by drawing a different ramp in the permit drawing as shown above.

It is important to note that in order to secure a legal title deed it the apartment should satisfy the building law which indicates one parking for each apartment. The building law also gives the power to the DGU to force the architect to change the design (Article 19) if the parking is not suitable, and that is the case in project C12 for many cars (as will be shown below).

Figure 34: ‘Permit file’ Underground floor plan + ‘Permit file’ Basement floor plan

The plan above shows violations that are found in the permit file (which should be completely legal), but such violations can be handled easily through the architects relations to the DGU, although the architect would have avoided them if it was possible, but the area of the project does not allow for a better parking, especially that the footprint of construction was increased, thus reducing the area left for parking, and in addition to this, the number of apartments was also increased, thus increasing the number of parking needed. That is why the architect had to squeeze in parking so that he can proceed with the permit. The parks in red are all not feasible. The red parking in the left plan are not feasible because cars will not be able to enter the floor, and even if they enter, they will not be able to turn around the car. The red parking in the right plan is not feasible because the space is very little for a parking, and cars will also not be able to turn. For so, this layout is only done to update the permit and eventually receive the title deeds for the apartments, but not as a design solution for the parking problem. The case with the ‘as built’ drawing is also the same (as shown below).

Figure 35: ‘As built’ Underground floor plan + ‘As built’ Basement floor plan

The same parking issues are found in the actual constructed project, all parking in red is not feasible because of the lack of adequate area for cars to park and be able to turn, especially that the site limit is walled and cars can only maneuver inside the limits of the project. The company resolved this issue invisibly by having a site that is greater than what is shown in maps, for so, parking is possible because the exploited site is bigger than what is shown, even bigger than what is shown in the as built plans. Such violation will only be uncovered when a neighboring landowner wants to invest in his land, and such issues result in big problems. The reason that Masri did not change the site of the as built plans is a mitigation measure for when a neighbor would find out that the company had taken part of his land and added it to project C12, and in many cases, developers would add an extra meter along an entire side and not a single area, so that the violation does not stand out. However, this kind of violation is the hardest to achieve especially that site maps should be issued by a certified surveyor prior to construction, and permit drawings should follow the certified plans. That is why such violations does not happen on drawings but happen during construction and then are covered by bribes.

But if such problem is uncovered, the company will have to give up all the land that it took and if not possible, it will have to pay a compensation.

The problem of parking does have a solution, and this solution was taken by the initial architect who designed for less apartments and reduced the area of the ground floor down to 644.5m^2 (instead of 716m^2) to make space for parking as shown in (Figure 28). The initial design also had a smaller basement (398m^2 rather than 416m^2). Mind that the areas (716m^2 and 416m^2) are taken from the permit file, while the areas of actual construction are even bigger (796m^2 and 508m^2) meaning that there less space for parking.

Figure 36: Original Basement floor plan + Original Ground floor plan

The company was successful in mitigating the issue of parking (using methods mentioned above) informally in order to profit, as the legal solution would have reduced the built meters and thus the profit.

- Violation of Roof

The company resorted for an additional violation to increase its profit, and that is to build apartments at the roof floor under the tiled roof. This violation does not show in the maps of both architects as shown below.

Figure 37: Original Stair roof plan

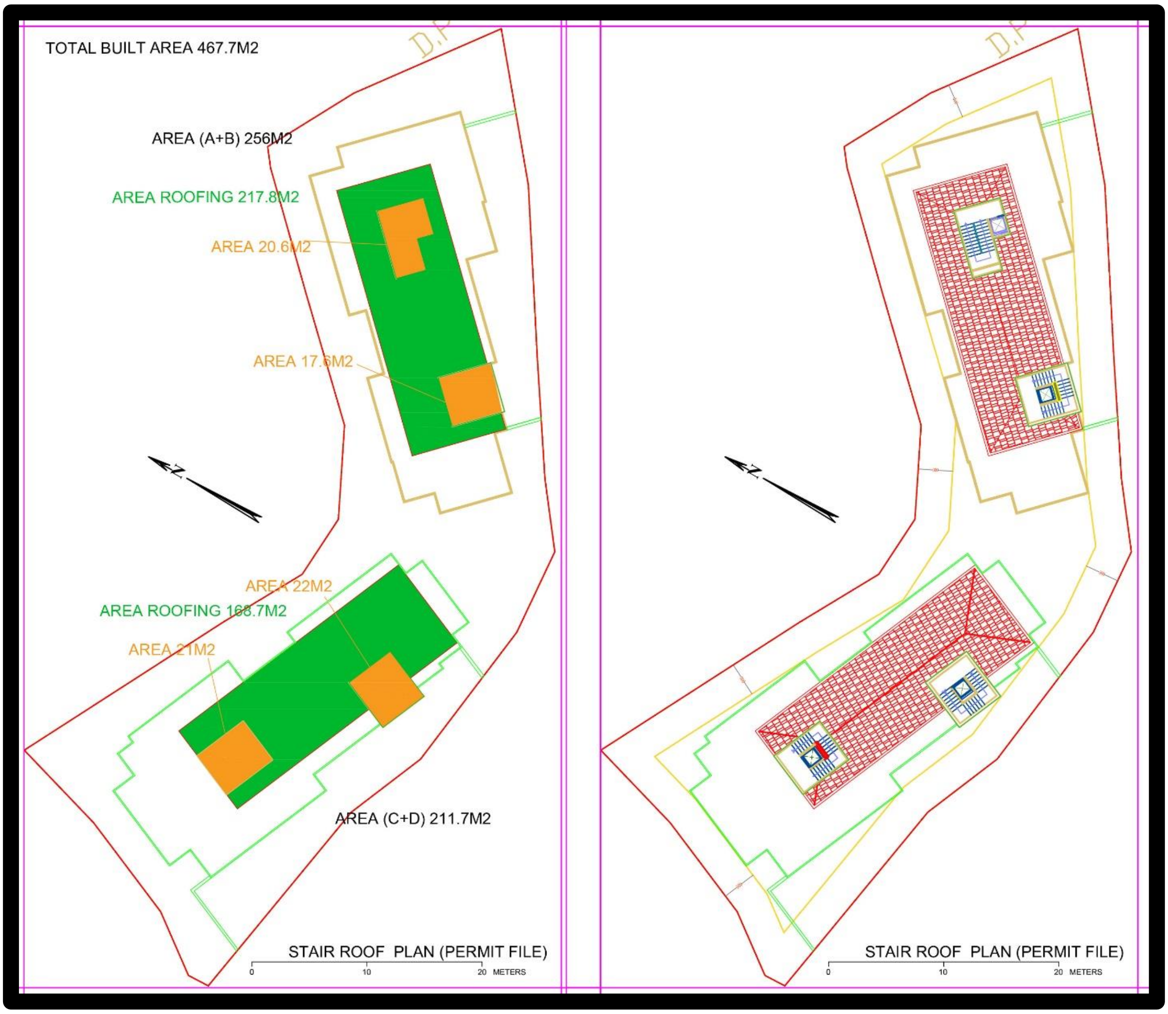

Figure 38: ‘Permit file’ Stair roof plan

Both maps only show stairs and the tiled roof. However, Masri is exploiting this entire area as apartments. The local architect is not concerned about this as it has nothing to do with the permit and thus his work, the reason is that roof apartments are built after the permit is issued and the architect's contract ends at this point, for so, the company is left to do the plans and construct them, but it still benefits from the architect's connections to cover this violation. The map below shows how will the roofs be after they are built.

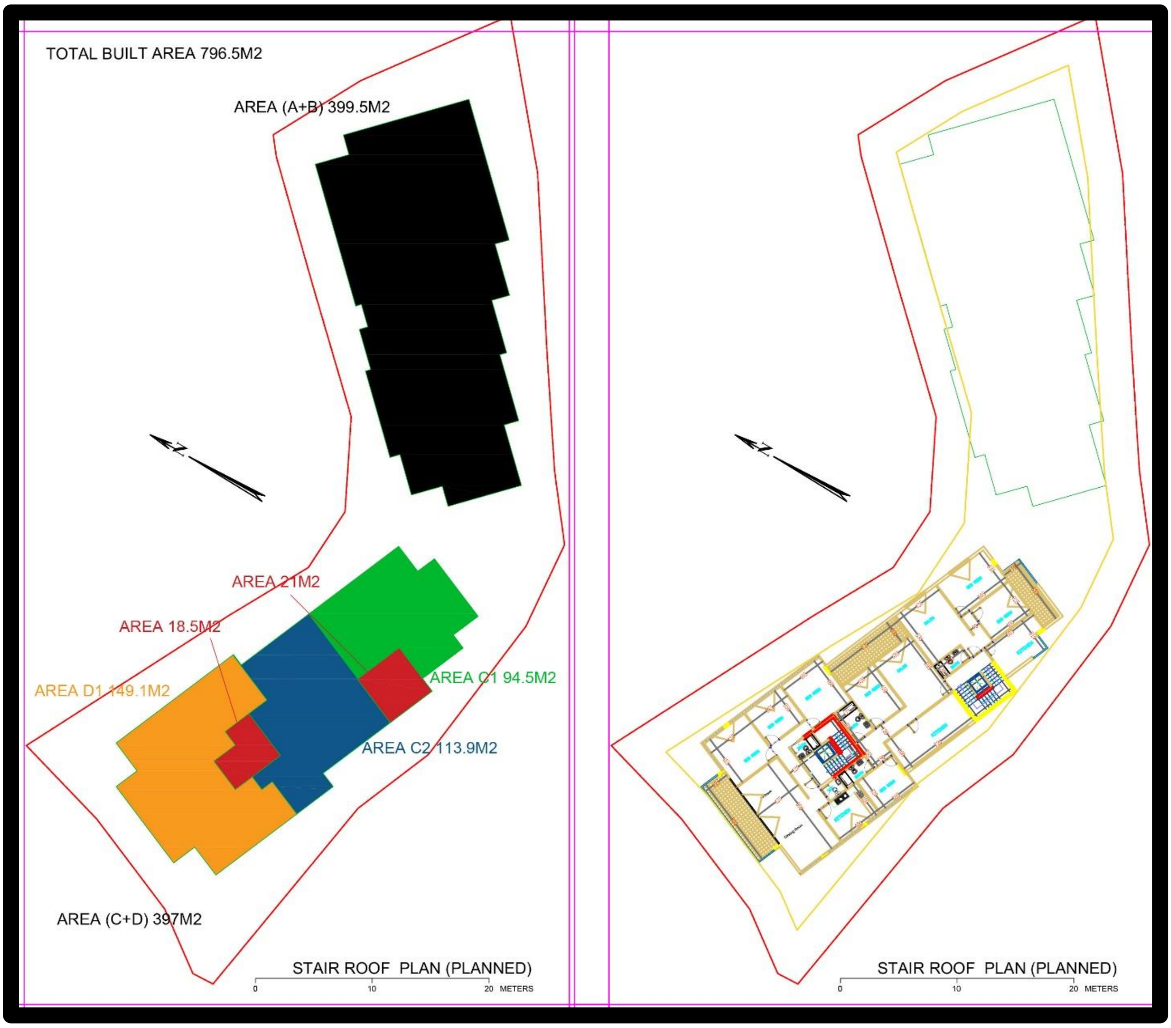

Figure 39: Planned roof plan

The plan above is still incomplete (only one block is finished). Another plan is being prepared. The design for those apartments is done by an employee of the company and not the architect. In company prefers to enlarge roof apartments for two reasons. The first reason is that they are much harder to sell because they are illegal spaces with no legal deeds, which explain why such apartments are usually bought by Palestinians[37]. The second reason is because the roof of the apartments is sloped (following the tiled roof), meaning that it becomes very low (down to 1 meter) and inhabitable at the contour of the building. This means that there is a lot of dead space

[37] Palestinians cannot own in Lebanon, for so they do not care about the legal deed.

(everything below 1.9 meters) in the apartments. The company tries to mitigate this using two methods, the first is to violate the building law and increase the overall height of the building by a meter and thus elevate the entire roof and making the space under it livable. However, this does not always work, because in some cases the company does not have the resources required to carry on with this informality, especially if the neighbor is well aware and reports this violation. The second measure is to increase the overall area of the apartment, this technique works by increasing the percentage of areas with a ‘high’ roof (closer to the center of the building) within each apartment, this is a mental trick that reduces the visual impact of the low roofs by mixing them with high roofs. This technique is also paired with painting the apartment with bright white paint to make it look bigger before showing it to potential customers.

- Conclusion

Overall, it is evident that the company resorts to an array of code violations in order to increase its profit. It is unclear to what extent is the damage coming from such activities as they are mostly violations of zoning that does not directly affect clients, except for the violation of the vision box which might produce dim spaces[38]. It is important to note that most developers in Noumara follow the same illegal measures to increase profit, and the legal cycle of real estate production is accompanied by an illegal

[38] Most damage comes to clients come from informal activities in construction mentioned in Chapter 6.1.

cycle that brings in profit equivalent and in some cases more than the profit coming from the legal cycle, and that profit is distributed among all participants in the real estate market, except for the client. The client is usually the victim of all illegal and informal practices, because those practices increase the cost (when developers pay for bribes and such) and that amount is to be added to the value of apartments. There is no benefit for clients in the way real estate market functions (formal and informal), and the law which claims to protect clients is violated most of the time, and clients are nearly powerless unless they are politically backed.

It is important to note that the extent of informal activities depends on the visibility of the violation. Invisible violations do not need any cover, but when violations are visible, they require cover. This cover is provided through informal relations and bribes. Visible informal activities will draw law enforcement, and if the developer does not bribe then a penalty will be issued, and construction might be stopped. However, this rarely happens as it is the job of the site supervisors (with the help of informal cover) to bribe cops and keep construction running.

In some cases of visible violations, a bribe is paid to provide the company with enough time to cover up the violation and make it invisible, such as covering an illegal floor until the permit is issued. Police know it's there, and they do monthly checkups for the site, and in each visit, they would receive a bribe. The amount of bribe is relative to the size of the violation, bigger violations mean bigger bribes. For example, during a usual visit the cop is bribed for LBP 50,000 (prior to the dollar crisis), but if there is a complaint then the bribe is up to USD 150.

In rare cases, informal activities will cause construction to stop. This only occurs if the violation is visible and the company does not have enough connections to make it pass. For example, in one of the company's projects, the balconies exceeded the allowable 1-meter extension, encroaching on a prominent (Sect 1) figure in Noumara. The prominent neighbor filed a complaint about the violation, and the Municipality (who is supposed to cover for the developer) did nothing about it as it will never prefer an outsider over a prominent local. The grievance was however was taken up to the Directorate General of Urbanism (where the head of the main (Sect 1) Party, is said to be highly influential). Construction was immediately stopped. The company is trying to work it out, but such violations are very hard to dismiss, especially that they are visible, and the case is now at the higher council for public works. When cases reach high legal bodies such as courts and the higher council, they become much more difficult to resolve, require paying bigger amounts of money, and eventually may lead to the destruction of the illegal additions. That is why all parties who perform informal activities try to hide them so that they are not subjected to courts and legal measures.

5.5. Ranking of networks

The ability to function informally through networks differs greatly between developers and is based on two factors. The first is having connections to figures that are higher in rank, position or influence, such as having an informal relation with a cop and having an informal relation with the head of that division. In this case the developer who is connected to the head of the division will be much more powerful than a developer who is connected to the cop, and if the two get into a struggle, the former will be able to bend the law in his favor, because the head of the division controls the cop. The same logic applies everywhere, a developer who is personally acquainted to the Mayor is much more powerful than a developer who knows someone in the Municipality. However, investing in higher relations is much more expensive and demanding, for example, a cop can be bribed for LBP 50,000, but a political office's bribe begins with USD 7,500 (this number is based on Masri's bribe to a political office in Beirut). The second factor has to do with having direct relations with the opposite end of the hierarchy, and that is having socialized relations with workers. This kind of relations is critically important when it comes to securing the quality of construction. The reason is that workers are the ones who will doing construction and are aware of all activities that are done to lower quality and are aware of the actual prices of construction. Thus, a direct relation with them will expose any attempts to cheat the developer, and the developer can surpass contractors and hire workers directly for much cheaper prices. This makes middle actors the least influential in such networks, as they can be controlled from above and below. I will provide an actual example that happened between the company and an equally connected contractor.

Negotiations between developer and contractor depend on the relative power and leverage each can bring to the table. Take the example and a project in which the developer disagreed with a powerful contractor, after they had settled on a deal where the contractor would receive several apartments in return of his work instead of cash. The contractor was to do his work immediately but would receive apartments when they are built (which might take a long time). Given that contractors are producing work without being paid, they ask for a guarantee, which the developer provides as a collateral by giving the contractor a legal document that entitles him to sell apartments that are already built in other projects. The contractor can then sell if the original contract is breached. This agreement is informal: While the contractor can sell the apartment whenever he wants, he is not expected to so by the developer unless there is a serious breach. However, should the contactor sell these apartments, his sale is considered legal.

One of the apartments listed in this agreement was an “illegal” duplex, built by the developer on a building’s roof by adding an additional floor in violation of building codes in Noumara.[39] In such cases, the company registers the duplex as a single floor roof, and receives a legal deed for it. The price of property taxes and all official records

[39] Three floors were allowed in addition to a tiled roof, but the company converts the roof into a floor that it also sells informally because this floor is illegal and does have a legal deed.

indicate that only one floor exists.[40] In practice, the company sells the apartment as a duplex, making additional profit, but keeping a discounted price that would be alluring to clients. Thus, the customer will pay *under the table* an undeclared amount and will know that one of his floors is not registered. The transaction is considered a win-win:

[40] The price estimate goes into permitting because the cost of the permit is related to the area of the apartment and its estimated price

the customer permitting money, the developer makes money. Both however are taking a risk: the developer by building illegally, the client by living in a house that includes an illegal floor. Worse, Lebanese law considers the roof as legally part of all the shared property of the building and hence claimed by all residents of the building. However, the company mitigates this risk through another informal procedure. It requires all customers to sign a waiver that puts all shared facilities, including the roofs, as the property of the company. Then the company 'informally' gives that space to the customer. As for the informal duplex that was given to the contractor as a mortgage, that contractor ended up fighting with the company. They fought about the pricing of apartments that the developer promised instead of work. The contractor claimed that the estimated price of the promised apartments was much higher than their actual price, and the developer argued the opposite. Given that both were very well connected, none of them could pressure the other into submitting to his terms. Thus, the contactor went on to sell the mortgaged apartment and sue the developer. According to the developer, that contractor accessed his networks to influence a general prosecutor to win the case, and the developer also accessed his networks to win, and the case ended up in a stalemate. Selling the ‘illegal’ duplex made things much more complicated because the sale was also conducted informally. Since the contractor did not own the apartment but had the right to sell it, selling it was problematic and would not be complete until the issue is fixed with the developer (who is the actual owner). Consequently, the contractor sold it to a 'thug'[41] realtor and for a very low price. This extremely low price was used by the developer as a proof that the sale was illegal because no one would sell a duplex for the

[41] A thug is person that has access to weapons, thus cannot be threatened, and is a person who belongs to sectarian party, meaning that he is backed.

price of a single apartment. This informality however backfired because ‘legally’, the apartment is only one floor and is priced appropriately, thus this proof cannot be used in court. This realtor would then ‘have his way’ with the developer to get the rest of the apartment. To mitigate this, the developer hired a politically backed thug to live in the apartment so that the realtor will not be able to force him out. However, the realtor bribed the police to come and evict him, but they were unable to do so because the developer was able to reach the head of police and stop their intervention. This issue is still not fixed, and the apartment is owned by multiple people and is inhabited by a thug.

CHAPTER 6

CRISIS MITIGATION: INFORMAL ACTIVITIES & ADAPTIVE FINANCING

In this chapter, I expand on the moment of crisis, which peaked as of 2015, and document the ways in which the studied company deployed an array of informal arrangements with contractors and employees to lower costs, and with clients and contractors to secure financing.

As of 2015, Lebanon's entire real estate industry fell into a financial crisis primarily caused by the severe issuing of PCH loans and the general economic stagnation in Lebanon, and the dwindling flow of capital that had fed the built environment from the Arab Gulf. At that time, the company had already expanded its operations without having the capital required to do so. The company was counting on receiving money from the PCH loans and paying for its developments, but PCH loans did not resume as planned. To mitigate the crisis, the company resorted to an array of activities to manage the lack of income and activities that would provide income.

Managing the lack of income relied on informal activities in construction that include intentional disregard of construction standards to reduce costs and resorting to controversial activities to facilitate work, sometimes breaking the law and sometimes abiding by it, but at all cases compromising the quality of construction. It also includes activities that deviate from the contracts signed with clients and contractors.

The main shift that occurred at the time was that Mr. Masri who until then directly supervised the construction of his projects, did not resort much to the informal activities in construction, and aimed to produce good-middle quality housing, because he saw his involvement over a long period and wanted to protect his reputation was forced to make other choices. In 2015, the severe decline in income forced Masri to drop the supervision of construction and focus on making deals and new financial schemes with clients and contractors. Instead, he hired construction supervisors. Given that Masri lacked the capital to build the new projects, he wanted people who were able to reduce the cost of construction. For so, he hired people with access to informal activities[42].

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[42] The reason for acting informally had to do with the fact that the owner was a trader, and so he never officially "learned" the trade, nor did he consider more than profit and his reputation. Hence, if business brought revenue and his reputation was safe, he was fine with it even if he was advised by professionals to do otherwise. One should however also account for the fact that the business is operating in a highly unregulated environment of Lebanon.

This chapter outlines some of the activities adopted by the company. It was hard to uncover those activities because many are hidden, and each project brings with it a new type of informal activities. But in general, they follow the same logic of finding ways to minimize the cost of construction while keeping the 'image' of a good construction, keep construction going and provide capital. Those activities include:

Managing the lack of income was done through an array of practices such as the informal reduction of construction costs, buffering between the developer and clients, shifting the responsibility on contractors for cleaning and securing materials, juggling materials, pressuring contractors to take risks.

Providing income was also done through an array of formal and informal activities including the formation of 'trock' deals, fake advertisement and developing adaptive financial schemes with clients.

6.1. Informal reduction of construction costs

The company shifted its building strategy from looking for a reliable, good quality construction to building its reputation to cutting on costs and increasing profits in any form. To this end, the company hired an experienced "supervisor" who articulated those cost cutting strategies and instituted a new, make-shift mode of operation. The “supervisor” was not trained as an engineer[43], but had connections and experience in “informalities”. His experience came from his previous work with a lawyer where he was responsible for preparing legal papers. He also derived his experience by relying on his brother who works as a developer experienced in informal

[43] the true effect of education is debatable because when this supervisor was advised by ‘educated’ engineers, he agreed to their claims but ignored them and functioned as he saw fit.

construction. His methods included using cheaper materials, replacing pipes with smaller ones, replacing gutters with openings in the facade, bringing (untested, cheap and unreliable) waterproofing and applying it incorrectly, reducing the amount of paint, replacing stone with paint, connecting water drainage to rain drainage and to sewers, bringing cheap CMU that is inadequate for construction, wiring electricity without any maps. Those methods were very problematic and engineers who worked for the office objected and advised him not to do so. The site supervisor however always had the final word especially that he was able to mitigate the problems using very cheap techniques providing temporary solutions, and in return making substantive savings for the company. Thus, the company consistently paid to fix issues as he suggested, silencing clients temporarily. For this reason, many of the engineering who worked in the office quit work and the owner still favored that supervisor because from the owner's perspective he was saving money, he was responsible for advising for and covering up all of the informalities and violations of the building code, providing the cheapest materials, bribing everyone that needed to be bribed, following up on all paperwork, solving problems with clients and partners, and providing formal and informal basic services for construction such as fastening the paperwork required to receive electricity and water or illegally tapping into them, even having access to the police who are responsible to monitor such violations and bribing them not to do anything about. This supervisor was caught stealing from the company, and was able to easily do so because he was in control of all materials on site, and the company did not keep any records of its materials nor did it have a proper storage[44] space, and the way he stole was directly and indirectly. Directly by simply taking materials from site and using them personally,

[44] Which also led to the deterioration and destruction of a lot of materials, consequently increasing cost.

and indirectly by letting contractors cheat the company and use more materials than needed and share part of the profit with them. But still, the owner did not fire him and allowed him to continue work, because he had the capacity to damage the company greatly, as he knew all about the informal activities and code violations. But now Masri is monitoring him closely and is using his strong social skills to control his attitude.

6.2. Buffering between the developer and clients

Another “supervisor” was eventually also brought into the company. As in the first hire, the new “supervisor” had no professional training nor experience in construction, but he had financial capital and, most important, hailed from a prominent family in Noumara, which granted him in the context valuable social capital. Consequently, the role of the second supervisor was to “buffer” between angry clients and contractors and the developer, in a social context where he was well backed and consequently protected. Hence, while construction was still managed by the “site supervisor”, while the company appointed the new hire as part of deals and contracts, following up on financial issues and paying people. In a way, this person was placed as a buffer between the owner and people. But this person also lied to people regarding times of money delivery and gave fake promises, this may have delayed some issues, but also caused big problems. However, this buffer was carefully used by the owner in his negotiations with people, and he managed to always divert problems from the company unto that ‘buffer’. The buffer was not harmed because he was backed. And the owner in many times stood with the client against the buffer but that was done as a negotiation strategy to calm people down and buy time to fix problems.

It is worth noting that responsibilities between various actors are flexible. Thus, the buffer who brought in money intervened in construction. Having no experience however in construction, his interventions ended up causing the company more problems and costing more money than they saved.

6.3. Shifting the responsibly on contractors for cleaning and securing materials

Shifting the responsibility on contractors for cleaning and securing materials was discussed previously in Chapter 4 (sections 4.2.2.e and 4.2.2.f), however, after the crisis, this was done much more and it became an integral part of the contract with contractors. Contractors had to agree because they also were affected by the crisis and many needed to work even for less profit.

6.4. Juggling Materials

Following the economic crisis, the company had to devise new methods to reduce costs further. This method consists of juggling materials between projects, hence bypassing the original building and pricing strategy and instead distributing risks across sites. In this method the company uses materials allocated for a project in another that needs to be urgently finished, and then tries to compensate for the missing materials. This method is only a temporal solution since it does save the company when it is in need, but it creates a new need for materials. This method can be very controversial and immoral when materials are specifically supplied (by a partner) for a certain project and the company takes those materials to a different project without the partner's consent. The company tries to mitigate this by more juggling, but in many cases end up delaying delivery dates, and this causes problems with investors/partners. To hide these practices, the company tries to work out swaps without providing investors with access to site nor access to bills and is solely done by the owner's strong negotiation skills that allow him to buy enough time to mitigate this switch. Nonetheless, this method is ruining lots of relations with investors and partners, and eventually is ruining the company's reputation. The owner is aware of this issue and its consequences, but lacks any other way to finish projects, for so he stated many times that he only wants to clear his debts, finish his current projects and quite real estate.

The other method consists of juggling materials between different suppliers. For example, a certain supplier or a contractor would own the company a certain amount[45], in this case, and when the company is in need of a certain material that it cannot afford, it would connect the contractor/supplier to the supplier that sells this

[45] This happens mostly when the company trades apartments for work or materials, and the price of an apartment is more than the price of service received.

material and if they can trade something in between, then the company would receive the material it needs. For example, an electric contractor who owns the company a certain amount of money can be connected to a shop that sells general construction materials and provide him with electric wires and receive water pipes instead, then the company would receive those water pipes from the electric contractor. This method can be part of the initial pricing, but it includes a big amount of risk, because at any point the contractor would run out of material, or the supplier would not need it anymore, and the company would end up not receiving materials in both cases. Also, the company in this case would be forced to use materials available, which might be undesirable if the company wants a different quality. That is why this solution would be only used as one of the last solutions to resort to.

6.5. Pressuring contactors to take risks

The recent crisis affected the regular pay for work method greatly, because as soon as developers ran out of money, they were unable to pay contractors, and contractors were unable to pay workers nor get materials (if they had to). These difficulties slowed the entire construction process. This stoppage had big consequences on the company, other than the direct stoppage of construction thus delaying delivery thus delaying payments and causing problems with clients; it started problems with contractors, those problems could have been solved if contractors just stopped working immediately after the stoppage of cash, because they were already receiving payments at the end of each task, for so, if they had any unpaid tasks with the company the amount would have been small, but the company decided not to stop construction, because the owner thought that the crisis would be over in a month or so, and pressured contractors to continue working (using their own cash to pay workers) until the company is able to pay them. Most contractors agreed to do so because of their previous relation with the company, its good record and the pressure from the owner. Contractors who agreed to continue work did so by paying workers and in some cases get materials from their own money, and all along receiving promises and assurances from the company that payments will arrive soon. They continued working until they also ran out of money, but now the amount that they want from the company is very high compared to when the crisis first started, this decision entangled them with the company, because now they are forced to help the company finish construction so that the company could sell and give them their money back, otherwise (if they quit) they risk losing all the money that they have spent. Nonetheless this ruined the relationship between contractors and the company, because they did not want this situation and they felt cheated, and now they are forced to work even if they do not want to, it is important to note that this was the case with contractors who used up all of their resources for the company, and were unable to move to another work because they had no money. But this situation did not last, because the company began securing small amounts of money to those contractors[46] due to constant pressure, and as soon as contractors had some

[46] Contractors pressured greatly for money, many times fighting in the office, other times stopping work and threatening, but in most times the owner was able to mitigate their anger by his negotiation skills and by giving them promises or small payments.

money to work somewhere else, they did so immediately but kept pressuring the company for the rest of their money. The same contractors are still receiving promises and small payments, but they no longer work with MK Real Estate, and most of contractors working today are new ones.

6.6. ‘Trock’ deals

The company tried to mitigate the lack of cash by using a type of deal called ‘trock’ deal, which means giving contractors an apartment instead of cash. Usually this deal happens in the beginning, and the developer and contractor negotiate the prices of work and the price of the apartment to be received, if the price of the apartment is more, then the contractor would either pay the rest, supply materials or do extra work for the company, and if work costs more, then the developer would pay the rest. Those payments can be monthly payments or be paid at the end of construction depending on the agreement. The company resorted to trock deals to pay contractors that continued to work with the company but did not receive any payments, while many did not want this option because they needed cash and not an apartment in a stagnant market, they did accept because it was the only way to secure the money that they have spent. In many cases, the owner gave them apartments as a guarantee and as an assurance until they were paid, and as soon they received their money the apartment would be back to the company.

Many of those contractors do not have the initial capital to finish construction but rely on other sources of revenue coming from different works and from the percentage received from the trock deal. That is why after the crisis all contractors who did not have the initial capital and took trock deals were unable to finish construction delaying construction and thus delaying their payments, this created a closed loop and halted the real estate market. The company had issues with those contractors but did not cancel deals with them and choose to stand by them. This decision had many reasons behind it, first, the company had no money to hire someone else, and when it had it did (in many cases) hire someone else to continue the job, and it tried to calculate the value the of contractor’s current work and negotiate a way to pay him/her money back.

Second, the company wanted to preserve relations with contractors as much as possible, for so, it did try to help all contractors continue work by providing them with small payments and accepted delays that arise when contracts go to work for someone else who pays in cash, this way they have money to continue the company's work.

- Example case study, Project C12: Contracting

This section will talk about the company's strategy for hiring contractors in order to build the project, then elaborate on the consequences of this strategy. In line with his expansive strategy and lack of capital, Masri was able to secure 14 trock deals out of 16 total deals with contractors, the remaining two contractors were locals (Mayor and engineer) which Masri had to pay in cash. Those deals made this project possible, at the same time they caused a lot of problems as will be explained.

In project C12, there were no local contractors except for the architect and concrete works, and the reason is that once the project reached the point of hiring new contractors, the company was passing through a financial crisis and this was known to locals, for so, they did not want to work with the company fearing that they will not be paid. That was the case with one local contractor whom the company owned around USD 180,000 and is unable to pay him, this person keeps threatening the company and stopping its work, and he made sure that locals are informed about this. Luckily locals were understanding as they are all passing through the crisis, and because of the previous good relation that Masri had with them, this made them allow the company to bring non local contractors (to some extent, as the company was still obliged to buy construction materials from locals) so that Masri can still manage his affairs.

The general strategy of the company is to always lower costs and increase profit. But at the time of building project C12, the company was functioning on a different strategy which relied on trock deals rather than the regular work for cash deal, and the reason is that the company did not have cash to build the project, thus it looked for alternative solutions, and trock deals was the solution adopted by the head of the company.

As for stone works of the façade, cement plastering and internal tiling (of one block), they were handed to a Syrian contractor which Masri knew earlier and is working with him on multiple project. Masri made a trock deal with the contractor[47]. The same tasks for the second block were taken by another Syrian contractor who

[47] The contractor is still looking for a good apartment in return of his work, because all apartments proposed by Masri did not satisfy him since he is looking for a big apartment so that he can live with his children.

partnered with another Syrian contractor, where the first would do stone works and tiling and the second would do cement plastering. Also, for a trock deal in return of an apartment (that they would share) in a different project. In both deals, contractors would only apply materials, and the company would provide them with materials.

The company got tiles and paint from a tradesman in Tripoli (also a trock deal), and all secondary materials needed to install tiles and stone (sand, grout, gravel) are bought from a local supplier also for a trock deal, in which he received a shop in one of the company's projects (other than C12) in return of construction materials. The same local supplier took paint contracting, where he would only install the paint, and paint would be provided by the company, and in return he received another shop.

All woodworks, including doors and kitchens was taken up by a contractor for a trock deal, this contractor had previously traded wood works (for project C12 and other projects) for an apartment in a different project, then he took an additional apartment in C12, but in return for works that he will be doing in projects other than C12, as the works for C12 were paid already paid for.

As for electrical works, they are all taken up by the same contractor for a trock deal, this contractor is not only doing C12, but all the company's projects, in return of many apartments and a warehouse, but not in C12.

As for gypsum works, they were taken by two contractors, both contractors made trock deals, however, it is two contractors rather than one because the first contractor did gypsum works for multiple projects, and C12 was not the first project that he began with, he finished two projects then started with C12, and by the time he reached C12, he was done with all the works that he must do in return of the apartment, for so, he only finished one block of C12. That is why to finish the other block, the company hired a new contractor, also for a trock deal. Both contractors received apartments in different projects other than C12.

As for plumbing works, they were done by two contracts, the first block was done by a local contractor who worked on many of the company's projects, the company used to provide him with materials and he used to install it (I don't have any information about his agreement), but this contractor started drinking heavily which resulted in many construction mistakes and then he himself stopped work. The second block was continued by a tradesman, this person used to buy plumbing materials from China (including sanitary fixtures and pipes) but did not have any experience in construction. Masri was able to convince him to take the entire task (supply and apply) of plumbing and he accepted. The deal was a trock deal, and in return the tradesman received two apartments in a different project. The same tradesman did plumbing for many of the company's projects. However, working with this person proved to be very difficult and very costly for the company. Since he has no experience at all, he hired

Syrian foremen to do plumbing and in return he would provide them with materials and pay them, the foremen that he hired were also inexperienced and ended up making a lot of mistakes which led to a lot of problems[48]. The company had a very hard time

[48] Plumbing mistakes cause floods and water leakages that ruin the building

convincing him that the problems were caused by his people, he had no technical experience and thought that the company is trying to rob him, this took a long time to solve which ended up delaying the project for a long time, in addition to causing numerous problems for construction[49]. A second problem happened with the same

[49] The foremen used smaller pipes for drainage, which led to floods, they connected sewage to water drainage, which is causing bad smells, they did not seal pipes correctly at many places which led to leakages, those problems ruined paint and tiling, and solving them is very difficult as it will require a lot of demolition to reach the pipes.

tradesman, because the apartment that he was promised to receive was also delayed, even though he did enough work to receive it, for so, he stopped work to pressure the company into delivering the apartment. Then a third problem happened after the company finished his apartment, this time, he was not able to continue supplying materials because he was hit hard with the financial crisis. The company mitigated this by making a deal with a new supplier, the new deal is a trock deal and the apartment is located in C12, however, most of the materials from that deal are going for a different project, and only part of it is going to finish the sanitary works of the project.

As for aluminum works, the company worked with two contractors. The first contractor finished part of the first block then had a fight with the company and stopped working with them. The company then hired a new contractor and made a trock deal with him, he received an apartment in Beirut, and in return he is doing aluminum works for many of the company’s projects.

As for elevators, the company made a trock deal with a contractor who will be installing elevators for all the company’s projects. This contractor received many apartments and two of them are in project C12. However, this contractor is facing financial problems which are making him unable to do any works, for so he is delaying the completion of C12 and other projects.

As for water insulation, the company was not able to secure a trock contract with any company, for so it resorted to buying insulation gallons and then letting daily workers apply this insulation. This led to many problems and water leakages, since both the materials and labor and not up to standard. The company keeps mitigating this issue by insulating again, which is causing additional costs and no effective solutions. Water leakage is a major problem for many of the company's projects, and its issue is yet to be solved, especially that the company is unable to pay the money required to fix this issue properly.

This strategy had a direct consequence of increasing the cost of construction by increasing the direct cost of contractor services because it is the norm for contractors to ask for a higher price when they take a trock deal. And an indirect consequence of also increasing the cost by construction because in trock deals many contractors take a lot of time (much more than the usual) to finish their work, and this happens in two cases. The first case is when the contractor runs out of capital and needs to work somewhere else in order to secure money to finish the company’s work. The second case is when the contractor does have money but does not want to waste an opportunity to work elsewhere and get cash, especially that his/her apartment (from Masri) is secured. For so, contractors are not in a rush to finish, as finishing faster will not lead to faster payments (as per regular deal). This led to a lot of delays[50] in construction, which in

[50] Up to five years (and still not finished) from the anticipated two years

return, lead to financial loses and result in delaying the delivery of the project and thus problems with clients and many deal cancelations, thus worsening the financial situation of the company and its relationship with clients.

6.7. Fake advertisement

The sales strategy was devised by the company's main salesman who was able to sell clients quickly, and for the price that was desired by the owner. However, he did so at the expense of lying to many clients about the quality, delivery dates, services to be provided and faking visual renders. The owner did not initially fire this person, even while knowing about his fake promises because he was selling and providing the company with great profit. Recently, the company had a legal issue with this employee after he started asking for more money, and this led to firing him. But it was already too late because many promises have been made, and clients are asking about the features that they were promised, which the company didn't provide for when it had the money to do so, and now it lacks the funding to do it. Consequently, the Company is facing big problems with clients, and is solving this issue by blaming that salesperson and ridding themselves of all responsibility by also playing the victim. However, the company is no victim, because they kept on using the ‘fake’ renders that he produced. Those fake renders were a way to attract customers to the company, because clients will eventually find out that they are duped as soon as they visit the project. At this point, two actions are taken by the company to capture clients, justify the high price and sell them the apartment. The first strategy consists of launching a second array of lies and fake promises (done by another salesmen) about the actual status of the site. For example, if there is an empty land in front of the site, the salesman would lie and say that this will be converted into a garden, or if there is still an unbuilt area in the project, he/she would say that this will become a garden. The second action is a meeting with Masri, in which he will try to convince clients to buy using his powerful negotiation skills, such as presenting his very good construction, the services that would be provided, the views and quietness in such areas, and most importantly, that the client will not find a better apartment for this price and this payment method. Most clients who reach the office, end up buying an apartment from the company.

6.8. Adaptive financial schemes with clients: Case of C12

This section will explain the strategy that was used in determining the price and payment methods for the apartments in project C12 and demonstrate how they changed during the four phases of the project in order to mitigate the financial crisis. The phases include:

(1) Phase 1: which was determined by the general development strategy of the company at the time of the initiation of the project (2015).

(2) Phase 2: This phase began after the severe reduction of the PCH loans (also in 2015 and until early 2019),

(3) Phase 3 began after the public loans were fully suspended and developers began to act as if the PCH loans will not resume,

(4) Phase 4 (late 2019) began right after the recent revolution and economic crisis in Lebanon and the consequent devolution of the Lebanese Lira and bank's strategy of withholding client's cash and not allowing people to draw money except in the form of a check banker. This will be paired with data about clients and the type of agreements that were done with them during the different phases, in addition to demonstrating the problems that happened and how did the company handle them.

The company began selling apartments in the C12 project in 2015. At the time, publicly subsidized loans were widely available. Masri did not have the capital required to construct the project

In order to do get this money, Masri began pre-selling apartments from the same project (C12) before construction started, based on maps and renders. This method was widely used by developers and was possible because of the availability of 'under construction' housing loans back then. Unlike regular loans, these payments are issued in phases, developers receiving installments depending on the completion of each stage of construction. Masri however activated his economic networks with bank employees and was able to secure the entire amount of ‘under construction’ loans instantly. In return, he agreed to provide something else as a collateral, such as an unsold apartment that the company owns. Right after construction is completed and the legal deeds are issued for the apartments, the bank would free the previous collateral, and now the apartment (related to the loan) becomes the new collateral submitted by the client to the Bank, and would be freed when the client pays back the loan.

Masri was able to secure some housing loans but could not sell all[51] apartments accordingly, and the reason was the severe decline in publicly subsidized loans as of 2015. Although loans were still being issued, banks were scrutinizing closely the conditions of the loans by: (1)rejecting two salary accounts from the same client, and

[51] He did want to sell all apartments this way because his entire expansive strategy relied on this method of payment.

limiting loans to a single salary big enough to cover the loan, (2-) increasing the minimum amount of salaries that is acceptable to receive a loan and the amount of acceptable installments[52], (3) preventing companies from issuing fake salary accounts

[52] According to the financial officer in the office: from USD 400 a month, up to USD 750 a month.

for clients, (4) stopping 'under construction' loans, (5) reducing the amount of given loans greatly.

In order to adapt to the new situation, the company began making alternative agreements with clients when it had to in order to keep the flow of capital. While it preferred to rely on public housing loans whenever it could, it developed new deals. This section will present data about clients and the pricing of apartments between 2015 and 2019, in addition to methods of payments that were used. It is important to note that those tables are not representative samples for the real estate market in Lebanon but will be used to explain the company's rationale in pricing and making new deals, thus providing explanations for market trends and developer practices. These explanations can be later used and paired with a different kind of research that includes the collection of representative data in order to generalize about the real estate market in Lebanon.

Sales in 2015

Legend	Cancelled Deals		Special Cases		Housing loans	Other deals		Paid >50% of total amount	Paid <50% of total amount

Table 7: Sales of 2015

Client name	Date of agreement	Floor Location area	Total price + ($/m2)	First payment	Monthly payment (total/duration)	Final payment	Method of last payment	Amount received in 2015	Total amount paid
CC1 Cancelled in 21/8/2019	25/1/2015	F2 B1 85m2[1]	105000$ 1235$/m2	15000$	(35000$/not specified) = Minimum of 700$	64000$	Up to client (special contract that will be explained below)	18500$	18500$
CC2 Cancelled in 15/1/2020	4/5/2015	F3 B1 85m2	106000$ 1247$/m2	12000$	(12000$/not specified) = Minimum of 500$	82000$	Housing loan Client did not receive the loan	15000$	21500$
CC3 Cancelled in 2019	13/11/2015	F1 C1 90m2	105000$ 1166$/m2	6000$ (lowered in return of another big payment)	(4000$/not specified) = Minimum of 1000$	(a) 9600$ (b) 85400$	(a) In cash due 5/4/2016 (b) Housing loan Client did not receive the loan	6000$	18000$
CC4	13/11/2015	F2 B2 90m2	104000$ 1155$/m2	10000$	(9600$/not specified) = Minimum of 400$	84400$	Housing loan Client did not receive the loan	10000$	28400$
CC5	13/11/2015	F1 B2 90m2	105000$ 1166$/m2	10000$	(14400$/not specified) = Minimum of 600$	80400$	Housing loan Client received the loan	10000$	75000$
Averages			1194$/m2	10600$	640$/month		-4/5 Deals with Housing loans 1/4 Loans received -1/5 Special deal		-1/5 paid >50% of total amount = (1 in loans

							(CC1)		received)
Sums				53000$	3200$/month			59500$	

In 2015, the company sold a total of 5 apartments out of 27. There are three reasons for this low number. The first reason is the relatively high price per $1m^2$

averaging as USD 1,194/m^2 (in 2015), which is much higher than the price of adjacent similar projects (averaging as USD 950-1,100/m^2)[53]. Pricing is decided by Masri alone, and he ended up rejecting many clients wanted to reduce the price. Masri attributes this high price to the quality of his construction, which as was outlined above is very

[53] That is an average that I heard over and over from clients who bargained for a lower price, and from other contractors that I worked with in this project.

debatable. Nonetheless, Masri believes that his construction is worth such price and will not negotiate it. Masri also advertises the ‘living’ experience provided by his projects, which include respectable, well-mannered and educated neighbors, all living together in a well serviced beautiful complex that would be never found in other ‘cheaper’ projects. Masri always concludes with his reputation (to guarantee the deal) and the reputation of his successful projects and record of happy clients, which was true in most of his early projects. In addition, Masri was able to sell most of his apartments in previous and other projects for similar prices, including all the apartments of this project. For so, his previous experience in the real estate market affected his selling strategy where he did not of lower the price and still ended up selling the project. This meant that the project would take more time to sell. Masri expected this lower pace but he was patient in order to increase his profit, although it is very important to note that what made it possible for Masri to wait this much (5 years) to sell his apartments is the fact that he was selling apartments in other projects and using money wherever he needed it the most. He did not keep the profit a project to the expenses of that project but juggled his profit to cover for all his projects. This juggling strategy was successful because of three reasons, the first is that the cost of construction is spread along the entire period of construction, for so, the developer is not required to pay the entire amount instantly, for example, tiling comes at a later stage in construction, and the developer will not be required to supply its cash until the last stages of construction, thus the sequential process of construction provides developers with time that in this case would be used to wait for the best deal possible. In addition to this, the cost of construction is relatively low compared to its profit, for so, the company can cover the entire cost of construction with only selling part of the entire building. Thus, (if not in a crisis) developers are not in a hurry to sell. Lastly, when developers are late in payments (to contractors) this usually delays the delivery of apartments, and developers will face problems with clients and contractors, in order to mitigate this, the company includes a term in its agreement with clients (term 9)[54] that rid the company of all liability for any delays if there is any overpowering condition, such as the stoppage of housing loans or the general economic

[54] Term 9: In the case of an overpowering force, or a security situation, or any other condition that cause the stoppage of construction, permitting, delivering, and registering in the agreed upon duration, then the agreement between the two parties still holds, and the duration of all works (including construction, registration and delivery) is postponed for a duration that is suitable for the company's current financial situation and relevant capacities. This extension will not give the right to cancel the agreement, nor the

stagnation. In this case, the company blames its inability to provide money and deliver to that condition and not its strategy of waiting to sell apartments for the highest price. Which is also true, because prior to the crisis, the company used to sell its entire apartments for the same prices very quickly.

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right to ask for return of paid amounts, nor the right to invoke a penalty, nor the right to default in any agreed upon payments and in time.

The 5 deals made in 2015 include 4 deals that declared housing loans as the primary payment method. All deals include a first payment, a monthly payment and a final payment. The first payment is usually advertised as USD 10,000, but the company always tries to get more, and that is because the company is paying for the construction of its multiple projects from this money. In addition to the first payment, all deals with clients include a monthly payment, which is also advertised as USD 500/month, but the company always asks for more and for the same reason. Those two payments' only significance was to maintain cash flows for the company. The amounts secured from such payments are insufficient to cover the entire construction costs, nor are they enough to keep construction up alone. The company compensates the missing amount from big payments it would receive from selling apartments in other projects, and through the financial networks of Masri, where he is able to secure the money of 'under construction' loans immediately.

Initially, the company had no problems in liquidity. Consequently, the average amount for the first payment in 2015 remained USD 10,600, and USD 640 for the monthly payments, meaning that Masri did not focus much on increasing those amounts in his sales, and remained focused on the entire price of the apartment which was not lower at all. Not only did the averages remain low, in one case (CC3), the company agreed to lower the first payment down to USD 6,000, but the client had to pay the remaining USD 4,000 as USD 1,000 per month (for 4 months), and instead of the regular monthly payment, the client was supposed to pay USD 9,600 in cash after the 4 months are over. Although the company appeared to lower its first payment to client CC3, but in return it was able to secure the rest in only four months, but most importantly it secured receiving the second payment instantly, which otherwise would be usually received in two years as (USD 400/month)). This kind of negotiation (not giving up on first/monthly payments except with something in return) proved to be critical for the company especially after the financial crisis.

Clients (CC2, CC3, CC4, CC5) all received the same contract, but with slight variations in the down-payments, monthly installments, and price per m^2. All contracts say that the client must pay the first payment as soon as the contract is signed, then would agree on a monthly amount that the client would pay for 2 years. Two years is the time estimated by the company in which it would be able to deliver apartments or at least reach a point where it would receive the cash from the PCH loan, which is usually the case if not for the informal relation between Masri and banks. However, the company does not specify the number of months, but does specify the entire amount (of the monthly payment) and the amount to be paid each month, and the company states in the contract that this is the 'minimum' amount that the client can pay each month. This term is added in the contract in case the client wants to pay more and finish faster, which is desirable for the company. And under no condition can the client pay less as explained in Term 3 (section 2). It is evident that there is no advantage for a client is able to finish his payments earlier because the company had included a contractual term that specifies the earliest apartment delivery date to be two and a half years after the construction permit is issued, and only after the client had paid the entire amount. For so, even if a client pays the entire amount early, the company is not obliged to deliver the apartment faster.

As for the last payment, which usually includes most of the amount, the company specifies in the agreement on the method and time of its delivery. In most cases, this amount is set to be received one-three months later after the housing loan is received by the client, the agreement also states that the client has at most two years to secure the loan (section 2).

In other cases (such as CC1) the method of getting money is up to the client. In this case, the company will set the final due date of this payment, in the case of CC1 it was set to 4 years starting from the date of signing the agreement. That is usually the case when the client does not want to resort to a housing loan, which can be for a religious reason, especially with the (Sect 2) clientele of Masri because usury is prohibited in (Sect 2) Islam, or if the client is financially able to pay the entire amount in a short period of time, which is a financial reason because this way the client is freed from paying all the extra money he/she he would pay as the interest rate for the loan. Only 4 clients out of 31 had this term in their contract, and only one managed to pay.

The agreement with client CC1 had two more interesting terms which were not replicated anywhere else. The first term stated that if the client was unable to finish the entire cost of the apartment in four years, then the company will have the right to sell the apartment but must share 50% of the profit if it exceeds the initial price of USD 105,000. Which is something that is very unusual for the company, as in all its agreements, it does have the right to cancel the deal and resell the apartment if the client does not finish the entire amount in time, but without sharing any of the profit. For so, this kind of agreement was not repeated at all. The second term stated that if the client was able to pay the entire amount in four years, then the company would deduce USD 5,000 so that the final price becomes USD 105,000. Which is also something that is only found in this deal.

As for the regular housing loan contract, the company issued 18 deals and only 5 were able to receive the housing loan. The company's norm is to use the contract that enforces the housing loan because of three reasons. The first is that it has a dedicated employee that works to secure housing loans to clients, this way the company has more control over payments and reduces the probability of clients defaulting in the agreement as it would do all the required follow up with banks, thus ensuring more the success of all their sales. The second is Masri's good relation to banks, which translates as his ability to access and secure loans. This method is also more preferable because prior to the crisis, the company was also able to informally secure the entire amount of the 'under construction' loan prior to the completion of construction, whereas in the other deal (when it is up to the client to secure the money) the company will have to wait for the time that it agreed upon with that client. The third reason was the company's ability to help clients with weak financial records secure housing loans. Which was done by making an informal agreement with the client that provides him/her with a salary account from the company, which is in many cases more than the actual income of the client, and the client would have to compensate the missing money (the difference between the faked salary and the client's actual income) through personal means.

However, the financial earlier made issuing housing loans very difficult, and that is the reason why 3 out 4 clients (in 2015) were unable to secure the housing loan, and two deals were eventually cancelled.

- Cancellations of 2015

CC1 was cancelled early on as the client was unable to even finish his second payment. However, this deal was cancelled in 2019, which as in many other cancelled deals could have been attributed to two reasons. The first reason is when the client wants the apartment but is unable to pay for it, either by not being able to secure the housing loan (but had already paid the first and second payments) in this case and since that is an overpowering condition for the client, the company is trying to sort out a new deal with those clients. The new deal is based on the resumption of the monthly payments (even after the agreed upon (second) payment is finished), the company always aims to convince the client to pay an increased monthly payment so that he/she would finish the left amount in less than four years, because otherwise the company would suffer from lack of income and would not be able to finance and complete its ongoing projects. If the client is unable to pay more, the company agrees to resume monthly payments as per original contract but for an extended duration of 1-2 years but keeping the housing loan premise, so that if this time is over and the client still did not secure a housing loan, the company will have the right to either cancel the deal, or simply reschedule again. Clients who reach an agreement with the company remain, while others who are unable to pay gets their deals cancelled. It is important to note that the cancellation does not happen immediately, and that is because in order to cancel the deal, the company must give the client his/her money back. The company does not have any money to spare, that is why it waits until the apartment is sold, then returns money to the client, that is why most deals were cancelled much later than the client's stoppage of payments. In addition to this, the company always tries to sell vacant apartments so that they can make use of the entire amount. The second reason of cancelling deals is when the client cannot pay and no longer wants the apartment, in this case the client must wait until the company sells the apartment and gives back the amount paid. In many cases the company does not return cash immediately or at once, but does a scheduling of returns which begins after few months of cancelling the agreement, and in many cases is the exact opposite of how the client paid, meaning that the final payment to the client is the first payment he/she paid. This is done to relieve the company from the burden of returning cash instantly and in big amounts, this will also provide the company an opportunity to make use of newly received money by delaying the first payment which is usually the biggest to become the last payment instead of returning it all to the client. This is good for the company, but not so good for the client, as he/she will not be able to receive his money back immediately, thus will not be able to pay for a new apartment (if he/she is already financially struggling). The client can do little about this because this arrangement is already mentioned in term 8 (section 1).

CC2's deal was cancelled because he was unable to pay, this deal was also made with a client that has a weak financial record but was promised a salary paper and help in acquiring the housing loan. However, CC2 was not even able to finish his monthly payment with the company, nor secure a housing loan. The company that he wanted to cancel the deal early on, but the deal was cancelled in 2020, and that is for the same reason stated before. The ending of 2019 and beginning of 2020 was a turning point in the real estate market in Lebanon (as will be shown in sales) because after the 2019 revolution banks made restrictions on financial transactions, which greatly reduced the amount of dollar withdrawals in cash, people where nearly unable to withdraw their money from banks, in addition to this, banks where rumored to shut down or lose all their assets. This made lots of people fear for their money and wanting to free their money from banks, the only option that was available to them is to withdraw money as cheques. Cheques were not trusted by many, as the fear of banks going broke would have made those cheques obsolete, but developers took advantage of this and accepted payments in cheques. They did so because many (including Masri) had huge amounts of depts to banks, this way they were able to sell and thus ending the stagnation of real estate, at the same time not risk losing money if cheques go obsolete, because those cheques were accepted by banks.

CC3 is a similar case, she was a secretary that worked for MK real estate, however, she later quite her job and was unable to secure the housing loan nor finish the second payment of the agreement. Masri wanted to help CC3 and given her financial situation (she was unable to pay more than the USD 18,000 she already paid) he built an informal small apartment ($18m^2$) for her to live in. Located in the ground floor of project C12 next to the keeper's room. Masri sold her that space for USD 18,000.

CC4 is a different case, this client was not able to secure the housing loan but managed to agree with the company to keep paying small monthly payments for another year while waiting for the housing loans to resume, thus the deal still stands. However, CC4 paid USD 28,400 out of USD 104,000, in this case Masri would never let him move to the apartment but also cannot force him to cancel the deal. In many cases, it is the client who wants to cancel the deal, as many other developers operating in Noumara and adjacent areas are allowing people to move in right after paying a first big payment (lease to own), for so, clients themselves ask to cancel the deal since Masri would not let them move in, so that they can live in an apartment that they own without losing money to rent. Masri does not cancel the deal immediately but waits to find a better sale for the apartments, which could take years to happen as in the case of CC1,2 and 3 as all were sold after 2019.

CC5 is the only client who was able to secure a housing loan. However, CC5 must pay USD 30,000 for the company, which means that loan taken was not big enough to cover for the entire cost. In this case this amount is paid through an agreement between both parties. This deal is very difficult to cancel, as the client had paid more than 50% of the apartment's price and can 'informally'[55] pressure the company into letting him move into the apartment. The informal pressure is by stopping to pay the company, however this entire issue is informal, because the agreement states that the client does not have the right to default in his payments for any reason, but

[55] Because the formal agreement clearly states that the client cannot move in unless he/she had already paid the entire amount

some clients argue about this because the company promised to finish construction two and half years after the permit/deal, and in both cases the company is overdue the date by two years. The client in this case would tell the company that he is not paying because they are not delivering in time, and that he would continue paying when construction finishes. This issue intertwines many of the agreement's terms, and will end up in an impasse, especially that this usually happens with clients who had already paid more than 50% of the entire price, and the only formal solution is to cancel the deal, and in this case it is very hard to do so, and both parties would not want to cancel as the company will have to wait until it gets paid, and the client would also have to wait to receive his money back, and this will take a lot of time because of the size of the amount. For so, such issue is usually resolved in an informal agreement between the two parties, in which the company agrees not to receive money at the time of the problem but asks the client to continue paying as soon as they progress on construction.

Client name	Date of agreement	Floor Location area	Total price + ($/m2)	First payment	Monthly payment (total ($)/duration (months))	Final payment	Method of last payment	Amount received in 2016	Total amount paid

CC6	1/1/2016	F2 D1 115m2	140000$ 1217$/m2	10000$	(14400$/not specified) = Minimum of 600$	115600$	Housing loan Client did not receive the loan	14000$	35200$
CC7	16/2/2016	F3 C2 90m2	106000$ 1177$/m2	10000$ (special case, 2500x4)	(10000$/not specified) = Minimum of 500$	86000$	Up to client (this entire amount must be provided in 5/11/2018)	13500$	24400$
CC8 Cancelled in 2020	25/2/2016	F3 A2 115m2	140000$ 1217$/m2	10000$	(14400$/not specified) = Minimum of 600$	115600$	Housing loan Client did not receive the loan	15400$	36000$
CC9	2/3/2016	F3 A1 115m2	139000$ 1208$/m2	15000$	(21600$/not specified) = Minimum of 900$	97400$	Housing loan Client received the loan	23100$ + 90000$	125000$
CC10	12/5/2016	F2 C2 90m2	105000$ 1166$/m2	15000$	(54000$/36) = 1500$	36000$	To be paid after monthly payment is finished (was paid in 3 checks of 12000$ each in 9/9/2019	25500$	105000$
CC11	12/8/2016	F1 B1 85m2	105000$ 1235$/m2	30000$	(18000$/not specified) = Minimum of 750$	57000$	Housing loan Client managed to pay without the loan	33000$ + 57000$	105000$
CC12	14/10/2016	F1 C2 90m2	105000$ 1166$/m2	2000$	(51000$/51) = 1000$	52000$	13,000$ (x4) at the end of each year	4000$	33000$
CC13	2/11/2016	F2 A1 115m2	140000$ 1217$/m2	4000$	(24000$/not specified) = Minimum of 1000$	112000$	Housing loan Client received the loan	5000$ + 112000$	122000$
CC14	5/11/2016	F3 B2 90m2	103000$ 1144$/m2	8100$	(14400$/not specified) = Minimum of 600$	80600$	Housing loan Client did not receive the loan	8700$	31750$
CC15 Cancelled in 2020	19/11/2016	F1 A1 115m2	140000$ 1217$/m2	10000$	(16800$/not specified) = Minimum of 700$	112000$	Housing loan Client did not receive the loan	10000$	27000$
Averages			1196$/m2	11410$	815$/month		-7/10 Deals with housing loans 3/7 Loans received -2/10 installments deal -1/10 regular contract (but no loan (CC7))		-4/10 paid >50% of total amount= (3 in loans) (1 in installments deal)
Sums				114000$	8150$/month			411200$	

Sales in 2016

Table 8: Sales of 2016

Legend	Cancelled Deals		Special Cases		Housing loans	Other deals		Paid >50% of total amount	Paid <50% of total amount

In 2016 the company sold the biggest number of apartments (from 2015-2020), which is normal because the company was able to focus more on sales and less on the development of the project as permitting and construction where set on track. The company kept using the housing loan contract because Masri was still convinced that it will resume at any point, and that was enforced by information that he was receiving from banking employees that he knew. But the prolonged stoppage made Masri accept different deals if payments were big enough. For so, in 2016 the company issued seven out of ten housing loan contracts, and only two loans were received. The company was able to receive those loans through its relationship with banks, because those loans were not PCH loans, but specially tailored loans issued by banks for housing purposes, those loans had lower interest rates than regular loans, but not as low as the PCH loan. The companies access to banking employees was critical because the number of those banks was very limited and they were very hard to give (as they were ‘under construction’ loans), but Masri’s good reputation and relation to banks allowed him to access those loans and to even cash them immediately, even while the building was still very early in the construction process. Clients were not very welcoming as they would pay more, but had no other choice, as the company imposed the housing loan as part of the agreement. The company had one contract (CC7) with the same dynamic as the housing loan but without specifying the method of receiving the final amount (third payment) but specifying the date of that final payment, which was the same date given to a regular housing contract. This way the client is free to get this money whichever way he wants if it is received in time. The other two contracts (CC10, CC12) included special payment methods which will be explained in detail. The clients who were able to pay more than 50% of the apartment’s price included two clients who received the housing loan (CC9, CC13), one client with installments deal (CC10), and client (CC11) who managed to pay without taking a loan.

The company is very strict when it comes to the first payment, the norm is to always receive it at once as soon as the contract is signed, but in the case of CC7 the company accepted to divide the first payment which was USD 10,000 into four smaller payments (cheques of USD 2500). This could happen when the client does not have the money at the time of signing the deal, in this case the company if not in critical need would accept a divided first payment, especially if this client is a social contact. This kind of leniency adds to the social capital of the company and improves its reputation among clients. CC7 was also not given to the housing loan contract and was given the freedom to bring the final payment as he liked. Which can also mean that CC7 is not financially capable of receiving a loan but has other means to provide money. CC7 was unable to provide the final payment but was able to pay the first and second (monthly) payments. His deal and deals with clients (CC6, CC7, CC12, CC14) were all not cancelled even though none was able to secure the last payment in time. That is because of two reasons, the first reason is that they did not refuse to pay but were unable to do so because of the stoppage of the loans, which is considered as an overpowering issue, thus they legally protected under term 9 in the agreement with the company, and they are free of all liability to this delay. But the second and more important reason is that they were able to reach an ‘informal’ agreement with the company to continue paying monthly payments although they all had already finished their first and second payments, but keeping the premise that they would take the housing loan as soon as it is possible to do so. This explains the additional amount of money that is found in the (paid) records of those clients, since it exceeds the sum of the first and second payments. This shows the measure that the company took in order to maintain its operations running throughout the crisis, this measure was the outcome of a negotiation between Masri and clients, the former was able to convince them to continue monthly payments so that he can finish their apartments and deliver them in time. In case a client refused to pay more, Masri could not use any legal measure against him/her because the new payment is not part of the original contract and no term can justify it. In cases where clients refused to pay more and in cases where clients were unable to finish their first + second payments, Masri through negotiations pressured them into giving up the apartment, because a legal cancellation is impossible (in the first case). In many cases, it is the client who wants to cancel.

CC10's deal was one of the installments deals, the company accepted such deals when the method of payment would cover the entire cost in the same time that would a housing loan agreement do. The company later tried to switch many housing loan contracts to installments deals (after the crisis) but was rarely successful (only one case (CC17)) because payments would be very big[56] and most clients will not be able to pay them. For so, most of the installment deals were made at the initial stage of making

[56] because the company would not agree to a long period of installments, but to maximum of four years

the contract, meaning that clients already had the ability to pay as such. CC10's deal included a USD 15,000 first payment, and a huge second payment of USD 54,000 (to be paid as USD 1,500 for 36 months), and the remaining amount (USD 36,000) would be paid once as soon as the second payment is finished. This client was able to finish the entire amount in time.

CC12 is the second installments deal, the client had to pay USD 2000 as a first payment, which is very low, but the company accepted this because the last payment of this deal was (USD 52,000) and had to be paid though 4x USD 13,000 where each payment is received at the end of the year, given that this deal was signed in 14/10/2016 this meant that the company would cash in USD 13,000 in just two months, thus justifying the low first payment. As for the second payment, it was USD 51,000 (to be paid as USD 1,000 for 51 months). This client was unable to finish his payments and only paid USD 33,000 of the entire amount. However, this deal is still active, which could mean that the client is paying whenever he can and had an informal agreement with the company, especially that his apartment is not being showed to other potential customers.

CC11 is one of the few cases that the client was able to secure the entire amount but without a housing loan. Even though the contract states housing loan as the payment method, but the company does not mind any other method if the amount is paid in the same time as the housing loan. That is because the company does not benefit anything from the loan, but the term is added because the company had informal access to loans in which it used to help clients acquire them.

CC9 is also a special case because the company owns this client USD 10,000, which is something regular that happens with many of the clients who take housing loans. This happens when people take a housing loan and make an informal agreement with the company which includes adding an additional amount to the loan[57], then the

[57] If the company wants USD 90,000, then the client would ask for a USD 100,000

company would return USD 10,000 to the client in cash. Clients do this when they do not have money to buy furniture or register the apartment, this way instead of taking a regular loan for a high interest rate, they would use the PCH loan (with very low interest) to get this money, thus receiving money instantly and saving a lot.

- Cancellations of 2016

CC8 was cancelled because the client died, although she was not able to acquire the housing loan, this client managed an internal agreement with the company and resumed paying monthly payments. However, after she died her husband was unable to continue with the same payments. The company did provide him time to find a way to continue payments, but he could not. For so, this apartment is currently being presented to potential buyers, and once it is sold, the money would be returned to the husband.

CC15 was also cancelled and the reason is unclear, but it is evident that the client did reach an internal agreement (to pay an additional monthly payments) with the company because his financial record show that he did not pay anything other than his first and second payments and was unable to secure the loan.

- Sales in 2017

Client name	Date of agreement	Floor Location area	Total price + ($/m2)	First payment	Monthly payment (total/duration)	Final payment	Method of last payment	Amount received in 2017	Total amount paid

Legend	Cancelled Deals		Special Cases		Housing loans	Other deals		Paid >50% of total amount	Paid <50% of total amount

Table 9: Sales of 2017

CC16	19/1/2017	F3 C1 92m2	105000$ 1141$/m2	5000$	(14400$/not specified) = Minimum of 600$	85600$	Up to client (this entire amount must be provided in 5/3/2019)	11600$ + 70000$	89000$
CC17	27/2/2017	F1 A2 115m2	135000$ 1173$/m2	50000$ (this amount lowered price)	(36000$/not specified) = Minimum of 1500$	49000$	Contract mentioned Housing loan, but client kept paying in monthly payments	65000$	97500$
CC18 Cancelled in 12/11/2018	13/5/2017	G.F D1 115m2	103000$ 895$/m2	9000$	(8000$/not specified) = Minimum of 500$	86000$	Housing loan Client did not receive the loan	12500$	NA
CC19	5/6/2017	F1 D2 115m2	135000$ 1173$/m2	5000$ (this low amount is because client swapped an apartment with this)	(9000$/18) = 500$	12100$	Housing loan Client received the loan	8000$ + 100000$	113500$
Areas of apartments fixed (after construction was completed) (8/6/2017 – onwards)									
CC20	8/6/2017	F1 D1 115 m2	130000$ 1130$/m2	5000$	(3500$/7) = 500$	121000$	Housing loan Client did not receive the loan	10000$	14500$
CC21	17/6/2017	F3 D1 115 m2	130000$ 1130$/m2	30000$	(21000$/12) = 1 month 1000$ and 1 month 1500$ Once finished: (12000$/6) = 2000$ Once finished: 20000$ cheque (to be cashed in 5/9/2019) (18000$/12) = 1500$ Once finished (24000$/12) = 2000$ Once finished 5000$ in cash as last payment			30000$	115000$
CC22 (unofficial cancellation)	11/10/2017	F2 D2 115m2 (area not mentioned in contract)	130000$ 1130$/m2	30000$	(23400$/18) = 1300$	76600$	Housing loan Client did not receive the loan	32600$	52100$
Averages			1146$/m2 (excluding ground floor apartment)	19124$	941$/month (CC21 averaged as 1687$/month)		-5/7 Deals with housing loans 1/5 Loans received -1/7 installments deal -1/7 regular contract (but no loan (CC16))		-4/7 paid >50% of total amount= (1 in loans) (2 in installments deal) (1 in cash)
Sums				134000$	6587$/month			339700$	

The company made a total of seven deals in 2017, five included the housing loan contract (CC17, CC18, CC19, CC20, CC22), one installments deal (CC21), and one deal (CC16) where the client had to pay the third payment in two years, but was not forced to take a housing loan (similar to CC7).

In 2017 the number of sales went down, although there were still five more apartments to sell. This can be attributed to the fact the entire real estate market was beginning to experience the consequences of the stoppage of the housing loans and the general economic stagnation in Lebanon. People were becoming less able to buy apartments, because they could not secure loans, nor were they able to pay in cash, and developers were still relying on the same housing loan contracts because they were still expecting the housing loans to be resumed. For so, they did not develop any new payment methods such as lease to own that would encourage clients to buy and resurrect the stagnant market. Housing loans did not resume as expected, and this meant that securing big amounts was becoming increasingly hard to get, that is why the company was left with the first and second (monthly) payments as the only reliable sources of income. In 2017 the crisis was having its toll on the company, and its income was becoming low compared to its expenses, which meant that Masri was in critical need to sell. Taking all those factors into consideration Masri lowered the price per m^2 (down to USD 1,146/m^2 from USD 1,196/m^2 in 2016 and USD 1,194/m^2 in 2015), this helped him sell more apartments. Which he also paired with an increase in the average amount of first payment received (up to USD 19,124 compared to USD 11,410 in 2016 and USD 10,600 in 2015) and the same goes for the average of monthly payments (up to USD 941 compared to USD 815 in 2016 and USD 640 in 2015). This way the company was able to mitigate the dwindling financial situation. The company was switching its business to accommodate smaller monthly income rather than fast paced instant profit. This adaptation included an overall ‘trock’ strategy which meant that in order to cut expenses, Masri made deals with contractors in which they would receive an apartment for their work instead of cash, trock deals will be explained in detail in 2018, as it was the year of their initiation. By doing this, Masri used all the first and second payments to pay his depts, and continued construction using trock deals.

The company was able to secure (from client CC 17) USD 50,000 as a first payment and a second payment of USD 36,000 divided by USD 1,500, the deal stated the remaining (USD 49,000) would be received through a housing loan, but this client was able to negotiate a different method with the company in which she is still paying a monthly payment (even after finishing the second payment) and will remain doing so until she finishes the entire USD 49,000 without the need to resort to a housing loan. Such deals are very valuable for the company, as it provides it with the necessary capital that it needs to keep functioning.

On the other hand, the company made a deal with client CC 19 and accepted USD 5,000 as a first payment and USD 9,000 (USD 500/month) as a second payment, which is contradictory to what is stated above, but the reason for this is that this client had access to a housing loan, and was able to secure the cash from that loan instantly, thus making all other measure irrelevant, because when instant cash is available, all other methods become obsolete. However, the company did not lower the total amount as both (CC 17 and CC 19)'s apartments costed USD 135,000 (USD 1173/m^2).

CC21 was the only installments deal made that year, the contract included a first payment of USD 30,000, a second payment of USD 21,000 (the client would rotate between USD 1,000 and USD 1,500 in each month for 12 months), once finished, a third payment of USD 12,000 (USD 2,000/month for 6 months), then one month to pay

USD 20,000 (unspecified method), then a fifth payment of USD 18,000 (USD 1,500/month for 12 months), then a sixth payment of USD 24,000 (USD 2,000/month for 12 months) and a final payment of USD 5,000 due 5/8/2021. This client has already paid USD 115,000 out of USD 130,000.

Although the real estate market was in decline, 2017 was a good year for the company, as it was able to receive more than 50% of the total price from four out seven clients. This can be attributed to Masri's experience in sales, knowing how to choose his clients and his ability to negotiate good deals with them. Especially that project was still under construction, which makes securing such deals much more difficult. Reputation and record and key components in such cases, as they do provide assurances for clients who are reluctant to pay big amounts for a project that still has a long way to finish.

- Cancellations of 2017

As for the three remaining clients (who failed to pay more than 50% of the total amount), the company cancelled two deals (CC 18, CC 22), and one deal remains (CC 20). CC 20 is the worst deal done in 2017, as it has the lowest first and second payments

(USD 5,000 and USD 3,500 (USD 500/month)). However, this deal stands still, and the client seems to have managed an internal payment with the company (because his paid financial record is more than USD 8,500) until he receives the housing loan. This odd deal can be explained in two ways, the first is that this client could be an important social contact and the company is doing him a favor, or simply because the company had no other better deal and needed money urgently (thus accepting for the USD 5,000).

As for CC 18, this client worked in security and his salary was USD 600 a month, which is not enough to receive a housing loan. The company promised him a fictional salary[58], this way he would have 2 salary accounts and upon them receive the loan, but this step was made illegal and banks only accepted one salary account. Thus, the client was unable to receive the housing loan. The company and the client agreed to

[58] because he had the ability to secure more money but not from an official salary that is recognized by banks

cancel the deal, and the company is now paying him back USD 1,000 a month, until all his money is back to him.

The case is very different for CC 22, this client has already paid a big first payment USD 30,000 and nearly finished a second payment of USD 23,400 (USD 1,300/month for 18 months), in total he paid USD 52,100 and was supposed to pay the last payment (USD 77,900) though a housing loan. The company usually does not cancel such deals, and the amount paid in this case is much more than the amounts paid in similar deals that the company kept. For so, cancelling this deal seems illogical. This deal was cancelled for a different reason. By the time this client was nearly done with his second payment, Masri invited him to a meeting and asked him to provide one more big payment so that he can allow him to move, client CC 22 was furious about this, he argued about why did the company wait this much time (2 years) to talk about this, while they were supposed to be handing him the apartment by now, then he started swearing at Masri. Masri took this matter very personal and did not want to sell this guy anymore because of his ill manners. However, the argument of this client is somewhat valid because when selling, the company usually provides the client with promises that he will be living in the apartment in two years, and they do not focus on the stoppage of the PCH nor the struggle with construction. For so, the client is somehow tricked into believing that he would be living in the apartment in two years, rather than being asked to bring a minimum of USD 30,000 in order to 'speed up' construction and not even live there immediately. Thus, the client's frustration is understandable but it is not 'legally' supported because the deal clearly states that in order to receive the apartment the client must provide the entire amount (which he did not), and in the case of any overpowering situation, the company is not to be held liable for any delays (term 9). Such problems happen a lot, but they are always solved with Masri's good negotiation skills and well-prepared contracts, as for this case, the client went too far in insults leading to the cancellation of this deal. The client did not initially want to end the deal, because he spent two years paying and planned his life accordingly. But as things became personal with Masri, he could no longer trust receiving an apartment from Masri (as he can 'invisibly' ruin the apartment by using cheap materials or doing intentional construction mistakes), nor does Masri want him to live in one of his projects. Now, the company is waiting to find a new client so that they would return the client’s money and end this deal. It is important to note that CC 22 is Palestinian, which means that he cannot own in Lebanon, but the deal was made in the name of someone else who is Lebanese, then they would sort it out.

- Sales in 2018

Table 10: Sales of 2018

Client name	Date of agreement	Floor Location area	Total price + ($/m2)	First payment	Monthly payment (total/duration)	Final payment	Method of last payment	Amount received in 2018	Total amount paid
CC23 Cancelled in 2020	5/3/2018	G.F A1 85m2	100000$ 1176$/m2	5000$	(3600$/9) = 400$	91400$	Up to client (due 5/2/2019)	8200$	9000$
CC24 (full trock deal)	6/9/2018	F2 A1 115 m2	140000$ 1217$/m2	00$	00$ but 5000$ worth of works in elevators (incase no work is done, amount is paid in cash)	00$	Elevator works instead of cash (full trock deal)	00$	00$ in cash (-140000$ from total cost)
CC25	22/9/2018	F3 D2 115 m2	150000$ 1304$/m2	18000$	(9000 $/18) = 500$	123000$	Housing loan Client did not receive the loan	19500$	28000$
Averages			1260$/m2 (excluding ground floor apartment)	11500$	450$/month (excluding trock deal)		-1/3 Deals with Housing loans 0 Loans received -2/3 Special deal		-0/3 paid >50% of total amount
Sums				23000$	900$/month +5000$ in elevator works			27700$	

Legend	Cancelled Deals		Special Cases		Housing loans	Other deals		Paid >50% of total amount	Paid <50% of total amount

In 2018 the number of sales went down, that is because of two reasons. The first reason is that it became very hard to secure a housing loan, especially that in addition to the strict measures imposed by banks, the number of housing issued went down drastically and the number of clients buying apartments went down greatly. As for the company, the last housing loan it received was in 2017. This leads to the second reason, which relates to the adaptation strategy done by the company. This strategy revolved around switching to trock deals rather than regular sales to clients unless it is an instant cash deal. This meant that the company was saving its apartments to trade them for contracting works so that they can finish construction, because the amount received from regular clients are small monthly payments that will not cover the quick and big costs of construction. It is important to note that the company did not look for trock deals earlier because of two reasons, the first is that construction was still in the concrete phase, and other contractors will not have any work to do, for so, selling them early will not benefit the company at all, because they won't be able to start working until concrete and masonry works are done, by 2018 they were finished, and the company began looking for trock deals. The second reason is that trock deals are not desirable for the company as all trock deals increase the cost because contractors who accept trock deals increase the price of their services, and that is a standard in construction market, for so, the company cannot negotiate lower prices. Trock deals also increase the risk for the company, as many contractors might not finish work in time and the company can do little about it. For so, trock deals were the company's last resort, and only when regular deals failed in providing enough cash to carry on with construction, the company resorted to trock deals.

However, trock deals are very hard to secure, especially in the general economic stagnation, because the contractor will have to pay from his own to finish his tasks, and the company will pay him nothing except for the apartment that he will be receiving in return of his/her work. Very few contractors can afford a trock deal, and they are usually big contractors who has enough capital to cover for construction costs on their own. However, C12 is a small project which does not interest big contractors because the margin of profit is very little compared to other projects that they take. For so, the company had to wait until an interested middle/small contractor came to accept a trock deal. In this case, the company's economic network proved to be critical, as through this network the company was able to find those contractors. But nonetheless, working with such contractors imposed a risk on the company, as they also suffered from the general economic stagnation, and were not able to finish their work in time, thus delaying the completion of the project.

In 2018, the company made a total of three deals, one regular deal but without the housing loan premise (CC 23), one trock deal (CC 24) and one regular deal (CC 25). This low number of sales is due to the reasons explained above.

CC 23's deal was made because the company was in need for urgent cash, and that was the only client available who was willing to buy that apartment at that time, especially that it is located at the ground floor of C12 and is surrounded from all sides but one, thus leaving the apartments with very little views, which greatly lowers the salability of the apartment, and usually the price. But Masri's strong negotiation skills and persistence helps him keep prices up.

CC 24 + (CC 27 made in 2019) are the same client, but the agreement was done in two stages. This is the first trock deal that was done for this project. This client is the relative of one the company's employees. The company made a partial trock deal with this client where he paid USD 33,500 as a first payment, and he would pay the rest in elevator works. This contractor primarily works in Algeria as a government contractor, and once the revolution happened, his work stopped and he stopped receiving money from their government, for so this contractor is not doing any current work for the company nor is he paying any money, because a premise in his deal was to do works worth USD 5,000 a month, and if he fails to do work then he must pay that amount in cash. However, the company did not cancel the deal because it is simply a very good deal, including a USD 500,000 full trock deal and one payment of USD 33,500, covering the construction of elevators in all the company's projects. This deal is one of the best deals that the company was able to secure as it relieved the company from worrying about elevators. When the company tried to pressure this contractor into speeding up his work, he asked them to provide him with money because he was out of cash and was not able to secure materials, but the company refused. That is one of the biggest problems with trock deals, because this situation can end up delaying the delivery of the project, and cancelling this deal is even more complicated. The complication is for both parties because this client already began his work, and completed work that is equivalent of an entire apartment, however, his work was random, meaning that instead of finishing one elevator at a time, he was constructing parts of elevators in many different projects, thus ending up in works that are spread between multiple projects, but none is complete. For so, and even though he did finish works worth an apartment, the company would never let him have the apartment and cancel the rest of the deal, because of two reasons. The first reason is that this deal is too good to cancel and finding a similar trock deal will be very difficult, for so, the company would not give him the apartment nor cancel the deal to pressure him into continuing his work. In similar cases, but when both parties want to cancel the deal, an agreement is reached between the two, and the work of the contractor is priced, then the amount is paid and the deal in cancelled. In similar cases but when only the contractor wants to cancel the deal, he would provide concessions to the company, for example, if the work is little, he would leave with very little compensation, and the deduced amount will be given the company as a compensation for cancelling the deal. In the case of CC 24, the amount he paid (in works) is very big, which makes it hard for him to quit as he is unable to give up his money, nor the money would be able to pay him back, for so, both parties are entangled in a situation that will only be fixed when the economic situation is improved. The second reason is that convincing another contractor to continue his work will be very costly, as the new contractor will price the work of the old contractor for much less than its actual worth so that he can profit, thus leaving the company with a higher cost, which it cannot afford in this situation.

CC 25 is a regular deal that was made in opposition to the new strategy, but the reason for this deal is the very high total price (USD 150,000 or USD 1,304/m^2) which is the highest since 2015, in addition to a big first payment USD 18,000 that was very valuable for the company at that time.

- Cancellations of 2018

CC 23 was cancelled because it was a regular deal (including the housing loan premise) but the client is a taxi driver, and it is impossible for a taxi driver to receive a housing loan. The deal was made because the company thought that it would be able to provide the client with a salary statement, thus allowing him to receive the housing loan, but the company was not able to do so, nor was the client able to continue with his second payment. Given the client's inability to pay, both parties reached an agreement to cancel the deal and return money to the client.

- Sales in 2019 + 2020

Table 11: Sales of 2019 + 2020

Client name	Date of agreement	Floor Location area	Total price + ($/m2)	First payment	Monthly payment (total/duration)	Final payment	Method of last payment	Amount received in 2019	Total amount paid
CC26 (replaced with CC18) Cancelled in	5/1/2019	G.F D1 115m2	110000$ 956$/m2	7000$	(6000$/12) = 500$	97000$	Housing loan Client did not receive the loan	10800$	10800$

11/11/2019									
CC27 (partial trock deal)	22/2/2019	F2 C1 92 m2	104000$ 1130$/m2	33500$	00$	70500$	Elevator works instead of cash (partial trock deal)	33500$	00$ in cash 104000$ worth of work
CC28 (partial trock deal)	30/3/2019	G.F D2 130 m2	85000$ 653$/m2 (lowest price sold)	30000$	55000$ left, paid not in cash, but in construction materials worth 6000$ a month (incase no materials are delivered amount is paid in cash)			30000$ + 36100$ in materials	66100$ (he stopped paying because he was supposed to receive the apartment)
Post revolution (most recent liquidity crisis)									
CC29 (1) (trock + Switch + Cash) (instead of CC26)	23/11/2019	G.F D1 115m2	115000$ 1000$/m2	155000$ (apartment switch from a different project – priced as such)	(40000$/12) = 3500$	60000$: entire amount is paid in supplying tiles and ceramics		00$ payments begin in 30/1/2020	00$ in cash 215000$ worth of work
CC29 (2) (instead of CC3)		F1 C1 92m2	140000$ 1521$/m2						
CC30 (instead of CC1)	11/12/2019	F2 B1 90m2	120000$ 1333$/m2 (lowered price because cash payment)	30000$	00$	90000$	Cheque banker	120000$	120000$
CC31 (full trock deal) (instead of CC23)	8/1/2020	G.F A1 85m2	130000$ 1529$/m2	00$	00$	130000$: entire amount is paid in wood works (kitchens + doors)		00$	00$ in cash 130000$ worth of work
Averages			1130$/m2 (pre revolution) 1427$/m2 (post revolution) (excluding GFs)	23500$ (pre revolution) 30000$ (post revolution)	500$/month (excluding trock deals) 3500$/month (post revolution)		-1/7 Deals with Housing loans 0 Loans received -6/7 Special deals		-6/7 paid >50% of total amount (1 in cash) (5 in works + materials)
Sums				105000$	2000$/month +6000$ in materials			194300$ + 36100$ in (materials)	

Legend	Cancelled Deals		Special Cases		Housing loans	Other deals		Paid >50% of total	Paid <50% of total amount

								amount	

2019 was divided in two parts, the first part was pre revolution, and it was a continuation of the stagnant real estate market and a worsening economic situation. For so, the company was pushing forward with its new strategy of including trock deals when available. In that year, the company made three deals (pre revolution) one of which was a regular deal (CC 26), and two additional trock deals (CC 27 and CC 28).

As for CC 26, the company was able to sell him the ground floor apartment which previously sold to client CC 18, the company could have sold him a different apartment but preferred to sell this apartment. The reason for this relates the company's selling strategy, as it always tends to sell ground floor and 'less appealing' (usually underground with no views) apartments because they harder to sell, and being able to sell them early will unburden the company as selling the rest will be easier.

The deal with client CC 26 included the regular contract which had the housing loan premise. But this deal is a special story that included lots of informal negotiations between the company and client. This client came to the company accompanied with a prominent religious scholar from Beirut. Masri was very welcoming and appeared to be very lenient with this client as a show of appreciation to the scholar and to improve Masri's social capital. Throughout the negotiations during the first meeting, the client insisted that he did not want the loan premise, as it is prohibited in (Sect 2) Islam, and Masri accepted as he was faced with a (Sect 2) scholar and refusing such term will damage his reputation as a prominent (Sect 2) figure. Masri also accepted to lower the price of the apartment as a favor for the scholar. The 'lowered' final price that they agreed upon was USD 110,000 or USD 956/m^2. However, this apartment is the ground floor apartment that was previously sold to client CC 18 for USD 103,000 or USD 895/m^2 which is cheaper than this sale by USD 7,000. Client CC 18 did not have any social significance for the company, but was sold the apartment for a cheaper price, which indicates that the social pressure done by client CC 26 appeared to be efficient, as Masri did lower the price (he probably asked for USD 120,000 then accepted USD 110,000, because this deal was later cancelled and the same apartment was sold for USD 120,000), but this does not negate the fact that the same apartment was previously sold for USD 103,000. This could mean two things, the first is that an experienced developer will be able to capitalize on social capital but without affecting his revenue, and this case is indicative of this. Because as soon as client CC 26 walked in with the Scholar, Masri knew that he had to offer something in return, so he might have increased the price for more than he actually wants so that he can lower it the amount that he want, thus appearing that he had accommodated his ‘social’ obligation, but through this trick ended up receiving the amount that he wanted. This could also mean that the deal made with client CC 18 was bad and that the apartment was worth more than the amount agreed upon in that deal, but the company had to sell for this low price because it needed urgent money. This is possible because the deal with CC 18 was deemed to fail, as the company knew that this client would not be able to receive a loan, nor would he be able to pay adequate monthly payments. This apartment was sold in three different conditions, the lowest price was when the company needed money the most, the middle price was when the company was able to capitalize on its sale, especially that client CC 26 came from a rich family, thus Masri knew that he was able to negotiate a good deal with him, but the same time had to accommodate the social pressure that came with this deal (thus lowering the price), and lastly the apartment was sold again in 2020 during a real estate boom for the highest price.

The second more important issue with client CC 26 was the method of payment. This client did not want to take a housing loan, and Masri accepted in the presence of the Scholar. But when the client signed the contract, he was given housing loan contract. He signed without reading the contract because he 'trusted' the company. The initial meeting with Masri did not specify the method of payment in detail, except that it would be in monthly payments. Masri would have accepted if the monthly payment was big, but in addition to a big monthly payment, the client must also pay a big first payment, and big yearly payments so that the entire amount is finished in less than four years. However, this client agreed with a salesman (who was also fired) to pay USD 7,000 as a first payment, then USD 1,500 a month for five years and six months. In addition to this, the client was promised (by the salesman) to move in after six months of signing the deal. When Masri knew about his he refused and called the client for a meeting. However, Masri would not meet him himself, instead he would negotiate with him through an employee because Masri was going to change the terms of that deal and this will have social consequence. This way the employee will be blamed for ruining the deal and not Masri, and Masri will deter the blame and keep his image. The employee was moved by Masri and told to let the client know that he must provide big payments if he wants to move in. The client was frustrated because he had already specified his wedding date to few days prior to the promised date of receiving his apartment, especially that he was unable to provide any big payments. Masri (through the employee) refused to give him the apartment as he would never let a client move in prior to paying more than 75% of the total price, because if a client moves in, it becomes extremely difficult to let him out of the apartment. The client claimed that this was a breach of the original agreement, but the employee brought out the contract that the client signed and showed him that he signed a housing loan contract which states that he cannot move in unless he already paid the total amount, and that it was the fault of the salesman who promised him to receive the apartment in six months, because that is against the company’s strategy and ended up blaming the salesman of cheating this client. The employee acted as if they are both victims and wanted to help the client move in. For so, he offered him to switch his apartment for a different one in a project (C 15) that is still on maps. C 15 is the last project of the company, it is still being designed, however, the company asked the architect to design small apartments (65m^2 and 85m^2) as an outcome of its adaptation strategy, this project was to be sold relying on first and monthly payments without resorting to housing loans. For this reason, the number of apartments was increased so that the company can receive a bigger number of monthly payments, thus a bigger amount. For so, transferring client C 23 to that project was the best thing to do, as it is the most suitable for his financial capacity. This measure was also done with many other clients (from different projects) who were unable to receive banks nor were they able to provide big payments. However, there are two issues with the new project, the first is that it will take a lot of time to finish, the company was tricking clients by telling them that it will be finished in four years, which is incorrect, as the company plans on finishing in four years but that depends on many factors that the company had not secured yet, and this time might be much longer than four years. In order to mitigate this, employees began telling clients that the delivery will be in four years starting from the issuing of the construction permit. Which is also misleading, because there are still a lot of contested issues about land and design, thus construction permit might be delayed for a long time and clients are not informed about this, instead, employees make it appear as if the construction permit is underway and will be issued at any time soon. But this way the company rid itself of 'formal' liability as it did tell clients that the countdown starts after the permit is issued. Client C 23 was informed about this issue and threatened the company with violence if they do not provide him with an apartment (in the same time of the original agreement) as he had already planned his wedding accordingly, and any delays will affect his entire life. The employee mitigated this by making a new deal with him, in which he would accept to switch to project C 15 and in return the company would provide him with a roof apartment (at a different project (C 6)) that he would live in freely until his new apartment is ready (this apartment is usually rented for 300$) and is very difficult to sell as it is an illegal 'roof' apartment. The client initially accepted and did move into that apartment after he got married. However, prior to singing the new deal of giving up the apartment in project C12 and instead receiving an apartment in project C15, the client was warned that project C15 might not be built at all because the company is financially struggling and will not be able to build that project. For so, he refused to sign the new deal and wanted back his apartment in C12 using the same old deal or wanted to receive his money back and cancel the deal. They could not reach an agreement, and a third party got involved to fix the issue. The deal ended up in cancellation as will be explained later.

CC 27 is a follow up to the same deal with client CC 24 that was done in 2018.

CC 28 is a full trock deal that had the lowest price per m^2. This client was able to buy the largest apartment for the lowest price (130m^2 for USD 85,000 or USD 653/m^2) and was able to do so for the reasons. The first reason is that this client is an expert negotiator with lots of experience in the construction because he is a supplier of construction materials, thus he is well aware of the quality of C 12 and the actual price of construction, thus the company cannot negotiate a higher price based on the quality of its construction. The client was also aware of the dwindling prices of apartments and the fact that the apartment offered is ground floor apartment, which would normally sell for much less. The second reason is that this is a local supplier who knew well the financial situation for the company as news circulate between different suppliers, and the company was indebted to many local suppliers and was struggling greatly with the provision of construction material, for so, this client exploited the critical need of the company by providing them with a big first payment (USD 30,000) in addition to supplying them with construction materials for the rest of that amount but in return would have the price of the apartment lowered. The company had no one else to resort to in order to get materials as it had already accessed all the available suppliers in its network and had its relations ruined because of the inability to pay them in time. lastly, this client is a prominent local (Sect 1) figure, and Masri realized well that he had to satisfy locals in order to keep his work running in the Noumara. This client paid the first payment and supplied materials worth (USD 36,100) then stopped. Although he is obliged to continue supplying materials until the amount supplied reaches USD 55,000, but he stopped because the company is late in construction. The client was promised to receive the apartment in 21/3/2019, but he knew well that the company will not be able to finish in time, that is why he stopped supplying to pressure the company into finishing faster.

In 2019 a critical event happened and greatly improved the real estate market. As stated earlier, it was the revolution and the following banking crisis which caused distrust in banks and made people want to take money out of banks to something that is more secure, and real estate was advertised as such. That is why the prices of real estate surged up to USD 1427/m^2 compared to an average of USD 1185/m^2 (for years 2015,2016,2017,2018 and 2019 (pre crisis)).

CC 29 (1+2) included the sale of two apartments for the same client. This client had already bought an apartment in a different project (C 9), and wanted to buy another apartment, but he wanted for his apartments to be next to each other, and that was impossible in project C 9, that is why the company swapped one apartment in project C 12 with the apartment from project C 9, and negotiated new terms for the additional apartment. The apartment in C 9 was priced for USD 155,000 that were already paid by the client, while the two apartments in C 12 were priced for (apartment A: USD 115,000 or USD 1,000/m^2 for a ground floor apartment) and (apartment B:

USD 140,000 or USD 1,521/m^2), totaling USD 255,000. The remaining amount was to be paid as a monthly payment USD 3,500 for 12 months (USD 40,000), and the remaining USD 60,000 were to be supplied as tiles and ceramics for the project. This happened because CC 29 owns a tiles factory and was also suffering from the stagnation of the real estate market[59]. That is why as a supplier, client CC 29 wanted to make use of his stock of materials, and the best way[60] to do so was through trading his stock for

[59] Given that the post revolution surge did not cause an increase in construction, but it led to an increase in the sales of already built apartments, as people were still unable to develop anything new, which was very beneficial to developers, but not to contractors nor suppliers

an apartment. Masri was aware of this situation and ended up exploiting it by selling him for a much higher price (USD 1,521/m^2).

[60] It is the best way because he was unable to sell in cash due to lack of dollars nor able to sell using cheques as his money will remain in the captivity of unsecure banks and might be inaccessible and even rumored to be lost

CC 30 was the first apartment sold through a cheque banker, even with the banking crisis, the company did not mind a cheque, as it already had huge depts to banks, thus its inability to take this money out, nor its insecurity does not matter at all, as this money will be eventually used to pay debts to banks. The company was also able to secure a big first payment from this client (USD 30,000) in cash and the rest (USD 90,000) as a cheque. Selling the apartment for USD 120,000 or USD 1,333/m^2 (which is much higher than the previous average of USD 1,185) in addition to the fact that instant payments would usually lower the total amount is another indication of the surge in real estate.

CC31 is another full trock deal that replaced client CC 23, the apartment was sold for USD 130,000 (or USD 1,521/m^2) in works of wood (including doors and kitchens). The same apartment was previously sold to CC 23 for USD 100,000 or (USD 1,176/m^2) back in 2017. This further proves the surge in prices after the revolution.

- Cancellations of 2019 + 2020

The only deal cancelled from 2019 deals is CC 26, his case was discussed briefly above. Prior to the cancellation of deal, this client resorted to an important social figure to seek his help in fixing the problem with the company. This social figure had great influence upon Masri because he was a good friend of his and was lending him money throughout the crisis and trying to help him with sales. This measure is legal as it is stated in term 12, whereby both parties can resort to a third party in order to help them fix the problem. Masri wanted the client to give up the apartment, because he is refusing to pay big amounts, and refusing to take a housing loan, and because the client refused the alternative deal that was proposed by the employee. For so, Masri told the client that he would give him his money back, but the client had to first give up the apartment so that Masri can sell it and give him money from the sale. Masri also wanted the client to pay for the duration (4 months) in which he stayed in one of his apartments because he is cancelling the offer, as it was only free because they had an agreement. The client wanted to return to the original ‘vocal’ deal that was given to him through the salesman, or to receive his entire money back before giving up the apartment. The person they resorted to invited both to his house and listened to what they had to say. He then decided that the client should give up the apartment, and that Masri should sign debt bonds[61] for the entire amount that the client paid. The bonds were to be scheduled

[61] Which is never done, as those bonds are legally binding, and if Masri cannot default at any payment

the same exact way the client paid but in reversal, such that the client would receive the same monthly payment that he used to pay the company but starting with the last payment and ending with the first one. Finally, he also decided that Masri should not charge the client for rent, and to keep the client in the apartment until he finds a place to

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and will otherwise face legal consequences go to, but the client had to pay rent for the upcoming months. Both parties agreed and the issue was resolved.

6.9. Conclusion

Throughout the deals starting in 2015 and up till 2020, Masri was able to secure part the initial capital that was required (USD 800,000 based on the agreement) to begin construction then thrived to finance the project (through first + monthly + some third payments) just enough until the project reached a point where Masri was able to make trock deals in order to finish this project. Finding trock deals would have been difficult, but the recent banking crisis saved the company as it facilitated such deals, making the company able to finish construction even with the lack of housing loans and instant cash. nonetheless the project was delayed and is still not finished, many clients did complain about this, but Masri was able to contain their anger and frustration by blaming the economic situation for this delay. Clients were understanding, and only one client out of 30 ended up fighting with the company, and the rest are still waiting.

However, the greatest impact on clients is yet to be seen, because it is not the delayed delivery, but the quality of construction that will be delivered. The problems generated by the type of informal practices adopted by the company to reduce construction costs indicate that there will be serious negative implications for future homeowners. Unlike developers, clients rarely access the benefits of informality and are only subjected to their consequences.

For example, changing the standard size of pipes and using bad materials will cause floods and ruin the interior of the house. And in some cases, it could threaten the lives of clients, such as installing lifts without parachutes[62] to save money. Developers benefit from such activities because it will lower the cost, and they will still advertise and sell the apartment as good quality construction by advertising the use of European materials and standards, and other alluring specs that will be placed on the brochure of

[62] The company included them in the deal with the contractor, but the contractor did not install them, but at all cases, the company is responsible.

the project. While it is stocks of materials bought from the best priced suppliers that the company can find. To some extent, the company still demanded good quality, and suppliers did promise so, but for the price of the agreement, the supplier will bring low quality materials and Masri will either not be informed by the issues due to the unqualified/bribed site supervisors, or will simply ignore the matter because he can do nothing else to continue and finish work. At all cases, it is the client who ends up being the victim and will have to pay the price of such activities. Clients can do little about this formally, because resorting to law will take so much time and money due to the complicated legal procedures in Lebanon, and a developer with access to anyone in the legal procedure can easily (and cheaply) hinder the legal process, by either delaying it or just cancelling it altogether. Moreover, many of the problems that arise from such activities will not show immediately and will take time to do so, and by then the company will rid itself from all responsibility, even though salesmen use terms such as "the project is guaranteed for 10 years", but in reality, problems will begin to show in 1-2 years.

There is also the issue of fake promises, such as providing water wells, gardens and high-end finishing, and nothing gets delivered. For so, many clients unable to resort to law, stopped paying the company the amount that is agreed upon between them[63].

[63] This amount is the internal payment and not the payment of PCH loan. Clients continued paying the Bank payments because otherwise legal action will be taken immediately, and they would lose the apartment

This, accompanied with the severe reduction of income from the PCH loans, had negative implications on the company. The company did it best to mitigate issues with clients, mostly through negotiations (by blaming the issue on corrupt contractors) and by fixing the issues when possible, and in many cases the company was able to convince clients to resume paying. However, this did not save the relationship with clients, and the reputation of the company is deteriorating very quickly with many of its clients.

Overall, clients end up being the final victims of informal activities, while the entire network of real estate production is benefiting.

CHAPTER 7

OPAQUENESS OF A SOCIALIZED MARKET

In this last piece of the research analysis, I argue that the heavy reliance on social networks and informal relations in the organization of the market produced a relatively opaque market that fails to protect transacting actors, putting both (inexperienced) partners and clients as victims in the process of building development. I detail each of these in this chapter.

As for partners, the first issue of functioning within social networks stems from its inherent property that entails a huge reliance on reputation. When it comes to social networks, reputation is one of the most important factors to attract investors, but it may not be a reliable indicator. A developer who invests in building a persona and advertising his social status of “a big developer” may well drag many clients to substantial losses. During the last period of its operations, MK Real Estate deployed a visible strategy of portraying an image of success for clients and possible business partners. This was done through Masri's expensive clothing, weekly dinners/meeting at expensive restaurants, holding meetings in his expensive luxurious apartment and riding lavish cars (including all his children)[64]. He even employed individuals to circulate this

[64] At some point Masri was in severe need of money, and had the opportunity to sell one of his car but did

image. In project C12, the company was able to convince the landowner not only to provide land, but also to participate as an investor and provide cash to build the project, amounting to 50% of the entire cost (including land), and will then receive 50% if the

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not do so, and the reason was to maintain his reputation as a rich developer, because selling the car would damage this reputation (such news circulates quickly, and based upon it people decide on the financial situation of the developer), if this reputation is damaged, Masri will not be able to sell apartments nor make any new deals.

total profit. Had the investor known about the actual financial condition of the company, he would have not partnered with them. In addition to this, this percentage is considered low (for the investor), because similar developments usually go for 35/65, and my research shows that the investor would have profited more if he had taken the 35/65 deal but was convinced otherwise by the company.

The second issue is that the heavy reliance on informal networks rather than legal texts means that contracts can be swayed to the advantage of the experienced actors in the market, at the expense of others. This happens in two ways, the first is the contract which is tailored to let the investor give up all rights to interfere in all matters that are related to the development of the project, including sales to clients, all made to appear in benefit of the project. The second way is through informal arrangements when the company is failing to complete its part of the deal, in this case and if the company does not have a way out through the contract, it will simply try to invite the investor for a meeting and try to find solutions or tailor informal agreements that are not in the official contract

As for clients, the company relies greatly on its previous good reputation (pre 2015) and salesmen to draw clients. The first issue lies in advertisement, the company advertises a social image of a caretaker of young couples, who wants to help them get married and live a happy life and doing so while providing them with a high-end house surrounded by gardens where children can play. Salesmen use fake renders and false specifications to convince clients into buying. In many cases when clients examine the location of the project, they know about the faked renders but are then convinced to buy through the negotiation skills of the owner. However, other issues that relate to quality remain hidden and clients will have to bear with the consequences of low-quality construction

The second issue is in the contract, a detailed study also shows that the company rids itself from all liability towards the quality of construction, knowing that in many cases the company provides lesser quality than it promised.

In the following sections, I will examine the case of project C12 to provide examples that demonstrate what is mentioned above.

7.1. How are partners affected: Project's Cost, Case of C12

Masri used his reputation as a successful developer to convince Hadi not only to form a partnership instead of only selling him land, he also made him accept a 50/50 (cost and profit) agreement, instead of the 35/65 in similar projects. This deal is unfavorable for Hadi, I detail in this section the cost of the project and how it was managed and split between both partners. The analysis of the project's costs shows that far from being equal partners, the developer took advantage of his partner whose inexperience works to make him lose substantive profits. I demonstrate this through my analysis of the company's latest financial records.

According to the company's records, the project's costs include (1) the price of land, all born by Hadi and (2) the building costs, born equally by the two partners. To collect construction costs from his partner, Masri reinvested all profits reaped from the presale of units in the project, avoiding hence asking his partner for money directly. He did the same, of course, for his own investments, following a typical strategy adopted by experienced developers who avoid placing their personal capital in new development projects.

Here are the calculations (according to the most recent record):

Table 12: C12's Total Project Costs

Project C12	Current cost	Additional anticipated costs	Total cost
	USD 2,582,857	USD 300,000	USD 2,882,857

According to the BOQ, project C12 was estimated to cost at the time of the research, USD 2,582,857 in addition to USD 300,000 that Masri was anticipating in order to complete the project. Thus, the total estimated project cost is USD 2,882,857. The figure includes the price of land, which was estimated at USD 800,000.

By dividing the costs evenly, the contract states that Mr. Hadi must pay in addition to the land the sum of USD 491,428 (as per Table 13)

Table 13: Price Sharing between the two partners in C12

Total cost (current)	Amount Hadi must pay	Amount Masri must pay
USD 2,582,857	USD 2,582,857/2 = USD 1,291,428 - USD 800,000 (price of land) = USD 491,428	USD 2,582,857/2 = USD 1,291,428 - USD 800,000 (initial capital as per contract) = USD 491,428

Since Masri and Hadi agreed that the former has total freedom to handle the financial affairs of the project, Masri was able to deduct the amount that Hadi owed the project from the profits that he made from the presales of project C12 (as shown in Table 14). This amount was deduced from Hadi's required cash investment and the company recognized it by asking him to pay only USD 182,336 instead of USD 491,428.

Table 14: Financial Status between the two partners in Jan 2020, Project C12

Total cost (current)	Amount paid (Hadi)	Amount paid (Masri)	Amount collected through sales	Remaining amount (Hadi)	Remaining amount (Masri)
USD 2,582,857	USD 800,000 (land)	USD 800,000 (from personal capital as per contract)	USD 618,185	(USD 2,582,857 – (USD 800,000 + USD 800,000 + USD 618,185))/2 = USD 182,336	(USD 2,582,857 – (USD 800,000 + USD 800,000 + USD 618,185))/2 = USD 182,336

The table above was attached with the last correspondence between the company and Hadi to prove the validity of the asked amount. However, my own knowledge of the project's sales status indicates that more apartments had been sold, and thus the calculation is incorrect. Indeed, according to the company's private financial records (which are not shown to Hadi), the company received USD 1,788,000 from presales and not USD 618,185 as it told Hadi. The hidden amount of USD 1,169,815 (USD 1,788,000 – USD 618,185) was used by the company to pay for the USD 800,000 that it was supposed to provide from its personal capital, which is a clear violation of the agreement between the two parties. The developer had opted to defer all risk on his partner, only sharing with him a share of the profit. The remaining undeclared USD 369,815 (USD 1,169,815 – USD 800,000) was probably used by the company to pay its personal debts or to cover the expenses of a different project, which is also a clear violation of the agreement. The company expects to compensate its partner through sales in different projects. However, if the company was true to its contract, then the project would have already earned USD 805,143 (based on the calculations of table BB), meaning that Hadi and Masri should have already received USD 402,571 each.

Table 15: Corrected Balance Sheet

Total amount both parties had to pay	Amount Masri should have paid	Actual amount collected through sales	Balance sheet
(USD 2,582,857 – USD 800,000) = USD 1,782,857 because Hadi already owned the land and did not pay for it	USD 800,000 (from personal capital as per contract)	USD 1,788,000	(USD 800,000 + (USD 1,788,000) = USD 2,588,000 – USD 1,782,857= + USD 805,143

Table (15) indicates that were it not for Masri's management, Hadi's balance sheet would have been a positive USD 402,571 in profit, since he already owned the land of the project, and the rest of the amount that he was supposed to pay was secured through sales.

Instead, both parties are still required to pay for the project in order to complete it. Because the official record contains a different calculation (Table 14). Moreover, there is an additional amount that includes the expected USD 300,000, which will increase the total cost up to USD2,882,857. This means that the company might ask

Hadi for more if the company fails to collect the extra amount from clients. In all cases, the additional amount expected from Hadi is not to exceed USD150,000 (because it is half of the USD300,000 predicted by Masri, and each would pay a half) meaning that instead of USD 182,336 Hadi would be paying USD 332,336, which is still much less than the USD 641,428 that he should have paid if it were not for Masri's 'apparent' financial strategy (paying for the project's construction from its own sales). Masri describes this as an achievement as he claims to have spared his partner from the financial burdens of the project, and brags about his managerial capacities to other investors, and hides the fact that he is informally running the project while keeping his partner in the dark, and that he is making his partner pay at a time that he should be profiting. One can argue that Masri was forced to carry on with such actions because of the general economic stagnation that affected badly the Lebanese real-estate market. But that is debatable because the investor is kept in the dark, while Masri is siphoning profit from this project to save other projects, while increasing the risk for this project and delaying its profit.

7.2. How are partners affected: Project's Profit, Case of C12

This section will discuss in detail the profit of this project, showing the additional profit acquired through violations of the building law and demonstrating why in this cases, the "regular" 35/65 deal is better for the investor than the 50/50 deal made here.

The profit of the project is divided in two parts. There are first the declared profits reaped from the presale of apartments, which amounts to USD 3,011,000. In addition, the partners will make an estimated USD 955,000 which will come from selling the remaining spaces which are partly legal and partly illegal.

Table 16: C12, Total Project's Profit

Current income	Remaining Apartments	Remaining shop	Remaining warehouse	Remaining roof apartments	Total expected income
USD 3,011,000 (25	USD 240,000 (two	USD 90,000	USD 145,000	USD 480,000 (6 apartments, each priced for	USD 3,966,000

apartments)	apartments left, each priced for USD 120,000)			USD 80,000)	

It is important to note that only USD 1,788,000 have been collected from the 'Current Profit' and the remaining amount is yet to be collected, but the calculations are based on the total amounts and not the current yield because the company is expecting to receive the rest.

One of the strategies pursued to increase profit is to transgress the law, whenever possible. in C12, the warehouse and all roof apartments are illegal spaces, developed in excess of the building permit. Those units are sold at a discounted price without a legal title, since they didn't appear on the official building application.[65]

[65] It is worth pointing out that it is expected that every few year, the parliament passes a regularization

These spaces doubled the profit of the developer, or, my calculations show, increased them by an estimated 236%. Although the amount of profit is fixed, it is still an estimation because building those spaces added to the cost of construction, however, the increased costs are little. That is because building roof apartments is not very costly

law that allows property owners to pay penalties in exchange of legalizing their property. In 2019, a law was passed to this end.

since tiles are already part of the initial cost, what is left are the interiors which are not very expensive. Add to this the illegal profit which the developer was able to secure by increasing the total footprint of the project. In both cases, the cost of construction per meter squared is nearly have the amount that each meter is sold for. Which adds to the accuracy of the approximated 236% of additional profit due to illegal additions.

Table 17: The Hidden Side of C12's Profit

Legal income			Illegal income			Total profit (Legal)	Total profit (Legal + illegal)
Apartments	Shop	Total	Roof apartments	Warehouse	Total	(USD 3,341,100 – USD 2,882,857) = USD 458,243	((USD 3,341,100 + USD 625,000) – USD 2,882,857) = USD 1,083,142
USD 3,251,000	USD 90,000	USD 3,341,100	USD 480,000	USD 145,000	USD 625,000		

Yet profits are severely reduced by delays in the construction process. Initially, the project's timeline was supposed to extend over two years. The project has however dragged over five years and is still unfinished. This delay greatly increases the cost, as more salaries are paid, more construction mistakes happen, and more building materials deteriorate and need replacement. The deals made with contractors to reduce the need for cash, particularly the exchange of material for apartments, are also costlier. For so, this project could have profited more, but not as an increase in the total yield, as Masri sold his apartments for the maximum price possible, but as a decrease in construction costs through better deals and better management. However, the informal actions done by Masri compensated for this, and ended up bringing more profit as other developers would have not been able to build such spaces. The only downside left is the fact that instead of collecting money in two years, both parties must wait seven years to collect that money, which is detrimental for the ROI for this project, as it was supposed to yield USD 22,565 (USD 541,571(Profit)/24 months (duration)) of profit per month for each partner, but ended up yielding USD 6,447 (USD 541,571 (profit) /84 months (7years)) of profit per month for each partner. Meaning that the delay resulted in lowering the ROI by 71.5% as (6,447/22565 is 0.285 or 25.5%).

Given cost and profit, it is evident that the cost sharing between Hadi and Masri was unfair to the landowner. It is possible to demonstrate why is a (35/65) partnership better for the investor/owner of land, in this case and similar cases. As stated earlier, investors care about the percentage of profit that they are receiving in return of their initial investment. In the case of C12's (50/50) contract, the partner ended up paying a total of USD 1,441,428 (including land) and receiving a total of USD 1,983,000. Which means that he ended up increasing his investment by 137.5%. If he had chosen the regular (35/65) deal, then he would have only contributed land, as this deal states that the partner will only provide land and nothing more, and in return receive only 35% of the entire profit. which means that Hadi would have increased his original investment by 173.5% (((3,966,000 x 0.35)/800000) x 100). The reason for this change in percentage has to do with the fact that in a 35/65 deal, the investor will only provide land and will not contribute to additional costs. In project C12 and similar areas where land is cheap, the price of land is 38% ((800,000/2,082,857) x100) of the price of construction, meaning that the developer contributed 62% of the entire cost. This explains why partnerships in such areas range from 25/75 up to 35/65[66], but never reach 50/50.[67]

[66] This range is determined by the price of land, if land is cheaper the percentage leans towards the 25/75

7.3. How are partners affected: Agreement of C12

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and vice versa

[67] if we were to apply the same formula to Beirut, (if 1m2 of land costs 3,000$) then the price for a land that is the same size of C12 would be USD 4,800,000, and the price of constructing a project with the same size would be USD 4,165,714. While keeping in mind that lands in Beirut usually has a higher FAR, which means that construction will cost more as the built area would be more. Which will leave us with a price of land that is very close to the price of construction, thus the consequent 50/50 agreements.

The agreement between Masri (first party) and Hadi (second party) was a formal business deal signed in front of a notary public. Although the contract looks like any official document, it is clear from the terms that Masri who had a more extensive experience in building development was able to capitalize on his reputation and success record to gain the trust of his partner and score terms that are very favorable to his company. Given that the notary public was selected by Masri, who considers him a friend, one sees the blurred lines between the legal and informal in the bias of the contractual terms.

The deal specified several points, known to the developer as critical to avoid future contention. It included setting the percentage of cost/profit and setting the terms of agreement. In the paragraphs below, I translate each term of the contract and then provide a critical analysis of its conditions for the two actors.

- Term 1

"Both parties declare that they have agreed to share all costs of this project

(including construction, permitting, digging and all other expenses). Both parties declare that the second party [Mr. Hadi] has made a first payment of USD 400,000 through the cost of land that he has provided to the project, and the first party [Mr. Madi] has received this money. In counterpart, Mr. Madi will also pay USD 400,000, to be secured from the personal savings of the company as initial capital. Each of the two parties is then to bring an additional USD 400,000 to the project so that the investment of each of the two parties will amount to USD 800,000. Any additional expenses are to be shared by both parties equally."

We see here a first circumvention of the law, necessitated by the fact that the price of land had been registered below its legal value, a typical procedure in Lebanon to reduce tax payments.

The actual cost of land was priced at USD 800,000, and not USD 400,000 The developer (Party 1) had also brought forward USD 800,000 in return and not USD 400,000. Otherwise, the 50/50 agreement would not work. The agreement recognizes the informal process and allows the two partners to present a “clean” legal slate while accounting for deals designed outside the law.

- Term 2

> *"The second party has given to the first party the right to sell all buildings on site, and the right to determine the total price of each sale, the method of payments and to set conditions and terms that the company sees fit. The second party has given to the*

first party the responsibility of collecting money (from sales) and the right to spend that money on this project. The second party will sign all papers that are required to legalize term 2."

This term might seem to be normal, because in many cases the investor (second party) does not have any experience in the real estate market and leaves all financial affairs for the developers[68]. However, the company abused this term to cover for all its

[68] The developer is even paid to manage the financial affairs of the project.

informal and illegal practices, and it did so by adding an additional term (term 5[69]) that prevents the investor from interfering in how it manages the financial affairs of the

[69] Term 5: both parties agreed that only the first party has the right to design the project and its plans, and to follow up on all works and requirements that are needed to issue construction permits. The first party has the right to hire and make deals with whomever he wants including workers, employees, engineers, customers, and has the right to set prices and costs as he sees fit without going back to the second party to avoid delaying work on this project.

project. The term was inserted in a tricky form that is to the inexperienced investor, as will be explained below.

Term 2 requires a great amount of trust, as Hadi is giving up the right of pricing apartments and setting methods of payment to Masri, thus risking his overall profit and ROI. His trust is rational as all developers will seek to maximize the profit as much as possible. The financial crisis, however, and the dire need for cash, changed however the developer's preferences since he was willing to go for a lower price provided he receives instant cash[70]. That is why experienced investors look for

[70] A developer with many projects is more susceptible to this, as he might go for cheaper deals not to save

developers who have assets and capital enough to cover for problems so that they would not have to resort to such measures (decreasing the price of apartments) in order to keep up construction, thus reducing the overall profit. In this case, it is possible that the good reputation of Masri might have tricked this partner into believing that Masri is a very

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the project, but to secure money that is urgently needed to save other projects. In this case, the partner is sharing burdens of the developer that has nothing to do with his investment.

rich developer. It is also possible that Hadi being an inexperienced investor, may have not realized the importance of working with a financially comfortable developer and did not even attend to this matter. In addition to reputation, Masri always brags about the number of his projects throughout negotiations as an assurance to investors that he does have money to sustain his projects, which was true prior to his new and aggressive strategy in which he began seven new projects without having enough capital. In this case, had Hadi investigated more the financial affairs of Masri, then he might have refrained from making the deal, or at least would have not accepted terms that prevent him from scrutinizing the project. However, even if Hadi had investigated Masri's financial affairs, he would have probably failed to get the adequate picture because Masri is very keen and knows how to portray the image of a big successful and well financed developer.

For so, agreeing to term 2 paired with term 5 below demonstrated Hadi lacks experience in the real estate market, because in term 5, Hadi effectively relinquishes all his right to interfere with the process of pricing.

In order to persuade Hadi into accepting such terms, the legal terminology is deliberately blurry, likely giving leeway for the developer to interpret the text as he wishes. For example, although they accomplish the same outcome and complement each other, terms 2 and 5 are separated by other clauses. In addition to this, term 5 does not clearly link to term 2, as term 5 gives the right of pricing to the developer and specifies the subjects of this right. Subjects included all appear to be normal, such as engineers and workers, but the last subject is customers, which is very tricky as this also covers term 2 (sales of apartments) but uses a different terminology. Thus, term 2 gives to right to “sell apartments”, but term 5 gives the right to “sell to customers”. The two terms point to same thing. In addition, term 5 immediately provides a justification for what it asks for (to avoid delaying work), which will trick the investor into accepting that term as it is portrayed as something that will facilitate work. There is an additional subtle trick in such contracts, in which it points to the negatives of partner’s interference and clearly mentions them (interference will delay work), but never attends to any of the negatives resulting from agreeing to such terms nor stating anything that would alert the investor[71], as this would alarm the partner to the importance of what is he giving up. This unconsciously pressures the partner into accepting the terms. Thus, unless the partners involved in the transaction are experienced enough to understand the

[71] such as pricing shall not be lowered to an extent that would lower the profit (more than a certain percentage))

consequences of the term, they are likely to be duped if they don't seek experienced legal advice.[72]

[72] In other projects, partners sought legal assistance of a lawyer or notary public, substantially changed the terms of the contract.

- Term 3

> *"The second party takes the responsibility to pay for all costs, taxes, amounts that are related to this project prior to this agreement. The second party is also responsible to end his agreement with the previous architect who was hired for this project, and to settle all legal issues related to this cancellation (bara'et zimmeh)."*

Here, the developer draws a line with the earlier phase of the project and removes all responsibility for any transaction he has not dealt with.

- Term 4

> *"Both parties promise not to burden the project with any mortgages nor hold nor legal problems, and both promise to resolve any of the issues stated above as fast as possible, as any damage resulting from them will make the party responsible liable and will have to compensate for the other party."*

This is another term protecting the Company and pressuring Hadi to end any agreements prior to the signature of this contract, effectively throwing all responsibility on him for a delay in the process. In the developer's calculation is a keen awareness that he needs to hire a local architect from this area if he wants the project to proceed smoothly, so although the design was done and the building permitted, it is clear that the Company will have to protect the project through this procedure.

This term sets a penalty should the landowner delay this step, keeping in mind that the 'legal' penalty is rarely invoked, but if one party defaults, the other party can exploit this to put the blame of relevant and irrelevant issues on this violation, especially that the term is vague as the compensation is not defined, leaving it up to the damaged party.

- Term 5

"Both parties agreed that only the first party has the right to design the project and its plans, and to follow up on all works and requirements that are needed to issue

construction permits. The first party has the right to hire and make deals with whomever he wants including workers, employees, engineers, customers, and has the right to set prices and costs as he sees fit without going back to the second party to avoid delaying work on this project.”

On face value, this term seems rational. Since the developer has better knowledge on the development process, he can develop a better project and yield higher profit. However, combined with term 2, term 5 effectively disempowers the landowner who can no longer influence decision-making in the project.

Given that the two partners are not equal in their contributions to the project, whereby only the developer is required to bring cash to the equation, the developer may choose options that reduce his burden, even if that is not profitable generally to the project. The term leaves the landowner in the dark, unaware of the actual quality of the materials, nor the fact that he is paying more because the developer lacks financial means to carry on with regular deals (which cost less). Worse, the developer who is involved in several projects, may pay with an apartment in this development when the actual costs paid back to the contractor extend over works in other projects. This indeed happened in project C12 in several deals as will be explained in section 7.3. In other words, Hadi is sharing a much larger risk now with the developer who is basing his calculation on his entire portfolio of developments, and not just this project.

For example, one contractor was given two apartments in C12 as the equivalent pay of USD 244,000, to cover the costs of elevator works. In the BOQ of C12, elevators were priced at USD 50,000, and while this is a low estimate, the different is sufficiently large to suspect that most of the remaining USD 194,000 covered the costs of elevator works in other projects. This arrangement is a clear violation of the deal and is risky, as the company must now get money from the profit of a different project in order to substitute for the missing profit. Hadi could have easily objected to this if he did not give up the right to interfere.

Second, such actions might have delayed construction and the collection of profits, as the resources provided by this project were expected to be used towards the completion of the project, not to support tactically Mr. Masri across his developments, The investor was hence risking a very low ROI because the developer is trying to fix his own problems, and if successful, the developer will profit from all the different projects, while the investor will only profit from the project of the agreement.

Those practice was used repeatedly by the developer who spread the risks and exchanges across all his projects, whether it is in the provision of materials or the completion of works. This measure is normal when the developer works alone without partners. However, in this case, and through the terms of this contract, the landowner was sharing the combined risks of Mr. Masri although his risk is considerably lower.

- Term 6

> *"Both parties agreed on a monthly financial revision, this revision includes signing all financial accounts and records (which should be prepared by the first party), each meeting will liberate the first party of all liability regarding the revised financial affairs."*

This term appears to give the partner some control over the financial management. In reality, it is placed to protect the company's financial management from any legal questioning or revision that Hadi might want to invoke at a later time, as explained below.

This term appears to compensate for the power the landowner is delegating in terms 2 and 5. In reality, the landowner who has limited knowledge of pricing will be looking at the final figures, after the deals are done, and will remain unaware of the details of agreements and the reasons behind them. For example, the landowner would be shown (as per term 6) the monthly spending on carpentry works without a comparative basis for the price per meter. Term 5 can be used to prevent him from scrutinizing these prices. And if he manages to find out that the company is paying much more per m2 than the market price, the company can justify this by claiming it is installing better quality, rather than the fact that it made a deal with the carpenter. Even if the investor finds out that the developer is overpricing, he has relinquished his right to intervene in term 5 because the Company is entitled to hire whoever it sees fit. Should Hadi object to a deal and refuse to sign the financial record (based on term 6), then the company might (but is not forced to) ask him to pay money (based on term 1) so that they can hire someone else, and if he refuses to pay (using term 1) by claiming that the company should be also paying, then the company would also claim that it had been paying (knowing that they are paying from the project's revenue). If the investor objects to this by arguing that he would be paying from his own pocket while the company is not, then the company would invoke term 2 which gave it the right to use money from sales to construct the project, but did not give this right to the investor. In addition, term 8 states that the client is forced to provide money when asked for, while the company can simply use the profits of the project. This usually ends with the partner not objecting to any of the company's actions and signing the monthly record to keep work from stopping and thus relieving the company from all liability that has to do with its financial management.

Hadi refused to sign any of the monthly files sent to him, as he became aware that other landowners were losing to developers. He thus refused to relieve the company from the liability of its financial management. That is a smart move which ‘indirectly’ protects himself against the terms that he agreed to sign. As he is not interfering with any of the company’s works, but at the same time he is not relieving the company of any financial liabilities, and can at the end object to the method of their work, but without interrupting it or causing any problems that would delay construction. This way, if he finds any trouble with the final accounts, he will have the right to sue the company for money, but only after the project is completed so that he does not delay construction or lose his initial investment. Aware of this liability, the Company attached a term to each of the monthly files it stating that if the client does not reply to the company nor complain about anything in that monthly report within the period of one week, then it is considered that he agreed and signed this report.

This measure adds to the confused legality of the project, since the client can still rebuke all files through courts if both parties fail to reach an agreement. thus, the future of this project is still unclear, and if the parties fail to agree (after distributing the profit), then the company will have a lot to answer for but will also have a lot of tools to defend itself.

- Term 7

> *"Both parties agreed that the first party will receive 15% out of the total profit of the second party as fees for works and supervision."*

This term is unusually unfavorable to the investor who would be paying twice. The reason is that management fees (including employee + worker salaries + overhead cost -which is a term that is found in the BOQ that is related to management costs- + sale commissions) are already all found in the current BOQ. Therefore, the partner is already paying for the management, or at least part of it. This term might be informally cancelled between the two parties, but if not, then the investor will end up paying for management twice. Conversely, the developer will be paid management fees twice, as the partner is already paying 50% of the actual costs of management (stated above), and then will pay an additional 15% of his total profit for the same services. If the investor knows about this issue, he can object, but he is not doing any financial follow up (as mentioned previously), and such issues can cause future problems between the two parties.

It is normal for the developer to profit from managing the project, and this is something that is found in many contracts and with the same percentage (10-20% of the total profit), but the BOQ should not include costs that are related to management, since the entire payment of management will be deduced from the final percentage.

The percentage of management cost usually ranges between 10-20% of the total profit based on the complexity of the project, in this case, 15% is a very high percentage as this is a very simple and small project, in addition to the fact that the investor had already prepared the design and relevant papers for the construction permit, thus reducing the tasks of the party that will manage the project.

- Term 8

> *"Both parties take responsibility to provide money needed for the project in time and without any delays. Money provision shall be fast paced so that no party is harmed, and not to violate agreements with clients of apartments and other spaces. In case a party is late in any payment, the other party has the right to pay that amount, and the paid amount shall be added to the percentage paid by that party, and then that same percentage is added to his share of profit (meaning that if one party ends up paying 60% of the entire cost, then it must also receive 60% of the entire profit). This measure does require any notification nor legal revision."*

This term might appear to be fair to both partners and in line with term 1. However, given the other terms that Hadi had signed which made him delegate all financial management to Masri. By signing this term, Hadi is practically subjected fully to the company's financial management and to serve as a source of capital when it needs it, risking all profit if he resists, thus turning his own capital into the Company's financial security.

After costs exceeded the planned USD 800,000 (from term 1), the company began asking the landowner for money. The landowner resisted, asking instead the company to deduce from his share of the profits (as stated in term 2). Although this term gives the company the right to pay for the amount that they asked for and in return receive a bigger percentage of profit, it will not be able to implement the clause. Indeed, the implementation of the clause requires the developer to share the detailed financial records. As detailed above, this is undesirable for the Company because of the numerous blunders noted above. Therefore, the company continued to finance the project without confronting the partner and is trying to finish construction by juggling capital and materials between its different projects.

- Term 9

> *"Both parties agreed that the first party is to manage and supervise the project, the second party does not have the right to interfere in work but does have the*

right to look at work."

That is an additional term in which Hadi is delegating more control over the project to Masri. After signing this term, Masri would have full control over all financial and managerial affairs including construction agreements, design, and construction. The right to "look at works" is pointless since it only yields the power of observation. Additionally, Hadi has his own work and cannot be burdened with the project. He basically wants to receive profit in return of his land and *will* pay Masri 15% (as stated in term 7) to make this happen.

- Term 10

"The first party promised to finish the project in two and a half years max starting from the date of this agreement. This time is cancelled in the case of an overpowering situation or problems in management."

This term appears to constrain the developer to a specific timeline in which he must complete the project. However, the second part of this term undermines the condition because it introduces the possibility of an “overpowering situation or problems in management”, a vague term, open to interpretation. The term can be used by the developer if he claims that the delay was caused by an “overpowering situation or a problem in management”. This term however comforts the landowner by providing him with an approximate timeline for the project completion.

I note that the project has already taken five years and is still not finished. Hadi did not complain as he is aware of the financial crisis. However, investors in other projects who also had the same type of agreement (where they would receive a percentage of the profit) and whose projects are also late are now demanding to receive apartments instead of profit. That is because the company was blaming clients for the delay in receiving profit. Investors are therefore trying to mitigate the delay by taking apartments. The reason behind this switch is that they are afraid that the developer would not be able to finish construction or sell apartments. Should this happen, they will lose their investment. They are therefore pressuring the developer into finishing construction, so that they can secure something tangible incase the developer goes bankrupt.

- Term 11

> *"Both parties agreed that the penalty of violating any of this agreement's terms is 500,000$. This amount is due at any violation without the need to warn, notify, or does it need any legal revision. This term is non-negotiable and cannot be modified."*

This term introduces a form of pressure from the part of the developer against the investor, as other terms practically relieve the developer from liability to all his actions that are related to this agreement, and consequently protect him against this penalty. But that is not the case for the investor, as this agreement does not protect him in any case, nor does it relieve him of any of the duties that he had signed in this agreement. However, this penalty is never resorted to. This is because even though the term states that there is no need for a court decision to apply the penalty, the penalized party can still resort to court to rebuke this penalty. This will open an investigation, and if this happens, Masri's illegal and informal practices makes him extremely vulnerable. That is why Masri does not resort to applying this penalty but keeps it as a pressuring tool. The second reason is that such problems will ruin the reputation of the developer regardless of who was responsible for the violation.

In the following section, I will attend to the BOQ of project C12 in order to demonstrate part of the company's informal activities and how they alter the BOQ to cover those activities.

- BOQ of C12

The BOQ (bill of quantities) of the project is critical as it will be the legal document that will be used as the financial record that indicates the project's costs. The BOQ defines all financial responsibilities for both parties. That is why it was appended to each monthly record that was sent by the company to the landowner. And it was the only form of control that the investor had on the project, as he had the right to approve or disapprove construction by comparing works to the BOQ. Hadi never revised the regular record because he planned to conduct a final revision. The BOQ used for this thesis is very close to the final document, as it includes all costs up to the date of its issuance.

Part of my work with the company included partial supervision of Project C12. My observations, in addition to the accountant's record, point to several inaccuracies in the BOQ. Three main factors affect the accuracy of cost calculation and thus the BOQ. The first is the company’s strategy to build all projects together, which blurred the boundaries between them. The company tries to separate the records of the expenses, clarifying the BOQ and actual works for each project. Several factors however rendered the task nearly impossible to achieve.

There is first the negligence of the site supervisor and the accountant[73] who failed to clarify records and, more generally, their (and the Company's) lack of professional regular practice. In many cases, one same supplier would bring a load of materials destined to different projects but deliver them as a bulk to one site. Rather

[73] Although this might not have happened, but according to the new accountant it is impossible to tell, thus there is no assurance of an accurate BOQ

than separating the reception, it was common to bill all materials to the site where they were delivered. Furthermore, the company had failed to do an accurate preliminary pricing for the projects. It therefore became difficult to notice that one site was being overbilled with the costs of the materials of the other. The second reason was the direct consequence of the financial crisis, where in many cases the company would bring materials to a project and materials would be correctly registered and added to the BOQ of that project, but another project would need the same materials urgently. Given the lack of liquidity, the Company chose to move materials across sites, but it did so informally, rarely recording these decisions, and changes were rarely done to the BOQ. The company later tries to compensate for those materials but doing so is very difficult and the room of error is too big. In other cases, the site supervisors lacked experience, as the company routinely hired people as a favor rather than based on an educational background or experience. Their lack of knowledge often generated construction problems that resulted in additional costs, either to repair the damage they caused or to repeat the works.

The second reason why it was difficult to keep an accurate record is the corruption of site supervisors who benefited from these unclear records with personal profit. These supervisors received bribes from contractors to overlook poor contractual work. They thus helped contractors save on costs by using cheaper materials and doing poor quality work and received bribed in reward.

The third reason it was difficult to keep the record is the Company's informal deals (trock) , where the prices would not be based on market but recognized the "favor" done by the supplier… and again, the company overpaying because it had to rely on local contractors, who typically know they are at an advantage and will ask for higher prices. In project C12, there were no local contractors except for the architect and concrete works. But the Company still had to buy construction materials from locals, and those materials were inexpensive, yet of lower quality, and the company could not always attend to this issue as it wanted to keep the locals satisfied. This also prevented the company from finding 'catch' deals, which was part of its cost saving strategy.

The records were also confused because of numerous trock deals, exchanges where the contractor is paid in kind. In these cases, however, many contractors choose to jack up prices, or to work at a very slow pace, in both cases incurring higher costs on the project than anticipated in the BOQ[74].

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[74] For example, if roofs are not tiled in time, water leakage might happen and ruin many things already

Deals with contractors in project C12 were mostly trock deals. One can check the agreement with the contractor for details about pricing, however, such information is not mentioned in the contract, as Masri leaves it open for negotiation, and only the total amount is mentioned, and the price per m2 or for services is only mentioned in each bill.

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finished in lower floors, thus resulting in many fixations and new costs.

In addition to this, examining trock contracts will cause more problems, because many trock deals include works for many different projects. For example, the trock deal in C12 with the wood contractor mentions wood works worth USD 130,000, which are spread on several projects. Indeed, the BOQ for C12 mentions USD 29,000 (woodwork) + USD 53,000 (wooden doors), which is less than USD 130,000. In addition, the two costs mentioned above were issued before the (USD 130,000) deal was made and they were finished already, which means that the works of the new deal are going for a different project, and this deducts USD 130,000 from the project's profit as entire profit of this apartment is going to construct a different project. The company can compensate this money by bringing the profit of an apartment from a different project and substitute the missing amount, but this will probably cause big problems with the investor.

For so, the only way to find out about the costs in this BOQ is through a thorough investigation of all bills submitted to the company. But even this is not possible, as many of the old bills are not separated by project. To make matters worse, the costs in the BOQ are not detailed, and one cannot figure the cost per square meter, which could then be benchmarked. In addition, there is no initial pricing estimate which could be used to compare the current BOQ. Thus, should Hadi become suspicious, the documents would be impossible to scrutinize. Instead, would have to hire an expert who will issue an actual pricing for the project to be able to compare with it with the current BOQ. I was informed by a previous engineer working on site that the concrete contractor constructed bigger beams and used up more materials in order to profit more as the bills per m^2 built. There are also some costs in the BOQ such as (USD 44,663 bribes and commissions, USD 13,909 salaries due to workers, USD 5,177 monthly salaries, USD 30,575 sales commissions, USD 31,319 overhead cost) which should be part of management costs, and the company is already taking 15% of the investor's total profit as management fees.

In sum, it is very hard to tell whether the costs on the BOQ are correct, but it is likely that by the end of the project, this BOQ will most likely cause problems between the parties.

- Conclusion

The probable reason that made Hadi accept the terms of this agreement is that he is someone who had land but wanted to invest in it without putting any effort, as he is a busy person with his own work and no experience in real estate, Masri realized this and capitalized on it by giving him assurances that he would have to worry about nothing and will end up receiving good profit, and in order for this to happen, Hadi must sign all the terms mentioned in this agreement, thus making this agreement appear to be in favor of Hadi, rather than something that every developer wants. Keeping in mind that such agreements do happen, but not in deals where the partner is investing money, but in deals where the partner only gives his land.

In this case, Hadi was lucky that Masri decided not to lower the total price of the apartments but decided to wait until finding the best deals. Thus, the total profit was not lowered, but the project was delayed, and thus only lowering the ROI and not the total profit.

In summary, this agreement is in favor of the developer as it offers him complete power over the entire process of realizing and selling the project. In addition, it provides him with complete protection and frees him from all liability regardless of the methods that he is using. If it was not to the informal and illegal practices of Masri, this agreement would have been viable to both parties, because in most cases landowners lack the experience of developers, and if they interfere, they would be delaying the process of realizing the project and selling it. For so, the best thing to do is to add to this agreement terms that would attend to the ill practices that are done by the developer in order to protect the investor.

7.4. How are client affected: Advertisement of C12

This section will attend to how the company used fake advertisement to lure clients into buying the project and some of the issues that stem from doing so.

The company did not focus much on advertising project C12 as it did with other projects. It didn't create a special website or brochure, nor did it buy social media ads. This may be due to the small scale of this project compared to other advertised projects or the fact that the salesman who did previous advertisement was fired without being replaced by a proper one. But the company did advertise the project to all clients who came to buy an apartment in one of the advertised projects or were drawn to the company through its reputation of having a stock of housing apartments in Noumara.

Once a client was at the office, the company advertised C12 using renders, but more importantly through the salesman. The project capitalized on the ‘natural’ aspect of living in Noumara. The renders for the project placed it in a landscaped beautiful environment with paved and lit sidewalks, which were used to sell the experience of jogging and taking a safe walk smelling fresh air while surrounded by trees. There is a problem with this method, and it is that the renders fake the surroundings of the project, either by removing adjacent buildings and putting trees instead, or by faking planted and paved streets, while this does not exist. Clients are aware of this as soon as they get to visit the project, but the company mitigates this by diverting the attention of the client to the advantages of living in such project (including fresh air, close to Beirut but far from prolusion, good quality construction and the provision of public services), or by lying to the client and telling him that the features in renders will be provided later.

The company also capitalized on the quality of the building, arguing it was of higher quality than adjacent projects. The is because adjacent projects were old and displayed deteriorated facades while C12 was still new. It was also because C12 was cladded, while numerous adjacent projects are not. Indeed, developers save on costs by simply painting facades, and they attract a poorer clientele. The projects of MK real estate, which reflected the vision of its owner, focused on achieving the quality mark, which he knew would have a positive effect on the salability and price of his apartments. That is why he can sell much quicker and for much higher, a feat that he always brings up when negotiating with clients. However, this does not mean that the buildings of MK real estate are of good quality, because the company did struggle greatly with construction problems, primarily water leakages and low-quality materials. One can say MK real estate with buildings look good but function poorly. The third reason is the architectural office which Masri works with, it is considered to be the best one in Noumara, and the architect does care about the aesthetics of the design, and as long as it is not costly and would increase the salability of price of apartments the company would go along. In many cases, they would also change parts of the façade to reduce costs. This architect adds value to the project through good design of plans and exploitation of views, which adds to the quality of the building.

There is a moral issue with this advertisement strategy that claims the provision of ‘natural open view spaces’, and that is because the project’s only ‘open’ views (by open I mean a view that is not blocked by something very close) are to the north of the project, and all living rooms/saloons[75] face that direction. This feature will probably not

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[75] Living spaces/saloons are the only spaces that include big openings that exploit the view, and if only those spaces has views then the entire apartment will be considered as an apartment with view. The reason for this has to do with the social fabric of Masri's clientele, because most of the families which buy from him are Sunni's from Beirut. In most of those families the women are veiled, which means that they seek privacy in private spaces such as the kitchen and bedrooms, and windows are rarely opened

last because the northern land next to the site is owned by someone who will most likely develop this land into a residential project that would block all views of project C12. When this happens, C12 will have fewer open views, and instead will have a building in

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there, instead they always place curtains that block the view but allow light in. As for saloons, they can sit there while being veiled, making saloons/living rooms as the only spaces were windows with views matter.

front of it, especially that other views are also blocked by other buildings or face the quarry that is owned by the Mayor. Such issue will negatively affect the ‘natural’ narrative as it is very related to the views that the project would offer. To conceal these future problems, the salesman lied to customers and told them that the land adjacent to the project will be converted to a garden. He sometimes claimed that the adjacent land is owned by the company, and he developed renders that showed that garden and sold the project on its bass. The proximity of a nearby quarry which generated loud noises was also dismissed with the claim that it would be closing soon, although there is no evidence of this closure. People who bought apartments in this project hence bought in good faith, on the assumption of the narratives sold by the salesman, but a project could be built in front of them at any point.

When Masri was informed about these lies, he was upset and blamed the deception on that salesman, while stating that the company would not lie to its customers. In many cases, he worked hard to make-up for the false promises of the company’s salesmen. It was however often impossible. In C12, Masri was short on cash and there is no way for him to not buy a land and convert it into a garden. In such cases, Masri said that he would inform clients about the issue and leave it up to them (if they want to cancel the deal or accept the status quo). In reality, it is unclear how often he went through this trouble, and even if he did, the cancellation terms of the deal are very complicated and will put the client in great disadvantage[76]. It is therefore unlikely that the clients who are already struggling financially and have been waiting for years to live in the apartment that they have bought, would do anything other than settle on being worse off.

[76] The client will be portrayed as the one who wants to break the deal and thus will have to bear with the consequences of doing so, such as waiting a very long time to receive money back

7.5. How are clients affected: Contract of C12

This section will cover a sample contract that was used with clients in project C12. The contract is designed to protect the company’s strategy and actions by relieving it from any legal liability. It is also designed to legally control activities of clients and to pressure them into obeying the installments agreed upon in this agreement. The agreement is also made to provide the company with all the power that it needs to run the project as it wants to. The agreement is designed in a way that would trick an unexperienced[77] customer into forfeiting rights that he/she should not forfeit to ensure receiving the quality that they are promised and in time.

[77] Which is the case with most customer, unless they are familiar with legal terminology and consequences of agreeing to terms found in the agreement. Or if they are knowledgeable about the real estate market and how it works.

Terms of the agreement will be mentioned in boxes below with an analysis to each term.

- **Introduction:**

The two parties state their legal legibility and ability to make contracts, and they have willingly agreed upon the following:

Whereas the first party owns the entire 2400 shares of lot number (748) in Noumara district and would like to build four new buildings in this project

And whereas the second party's thorough, complete, and comprehensive examination of the location of the building, the second party is completely aware of the site. And with the second party's knowledge about the physical and legal realities of the project. And with the second party's hearing about all details related to the project (through the first party). And with the second party's knowledge about the site plan, legal documents, permits, plans + drawings, building permit and apartments being built on site. And with the second party's knowledge about the technical details of construction and quality of the apartment. The second party have accepted all (mentioned) details and have willingly decided to buy an apartment in this lot. The apartment is in block (B) side (1) floor (2) in accordance to the permit and plan (that is attached to this contract), and in accordance to this contract and all its conditions and terms. For so, the two parties have agreed upon and signed in acceptance of the following:

- Term 1

> *"the introduction above and all attached documents are all considered to be part of this agreement and considered as a complementary and explanatory tool for all its rulings."*

This term provides an encompassing protection for the company's actions (including construction and management of the project) by letting the client agree to whatever decisions it will make regarding the project. This is done indirectly, because this term refers to the introduction, and the introduction uses encompassing words such as ‘complete awareness of the site’, ‘knowledge about the physical and legal realities’ and ‘knowledge of plans and technical details of construction and quality of the apartment’. A client is rarely aware of the real meaning of such terms, because all customers sign this term while only being showed the plan of the project and some renders (which in most of the time include interiors of luxurious apartments brought from the internet). The company does not show anything else and does not give any sheets about quality nor specifications. The introduction concludes by securing the second party’s acceptance to the actions of the company regarding the issues mentioned, which practically include everything. Not giving clients solid documents nor maps means that the company can change whatever it wants, and clients can do nothing about it, as they will have no legal reference to resort to when they receive something other than what they were promised verbally. However, clients are protected by the indirect power that they have, which is ruining the reputation of the company or resorting to violence and threats to receive what they want. Masri is aware of the importance of having a good reputation, that is why he always try to satisfy clients, but at the same time reduce the cost as much as possible, thus it becomes an issue of balancing the reduction of cost to the upkeep of reputation.

At all cases, this term would be rational if clients knew exactly what they were signing to, at the same time receiving solid evidence (such as plans and technical details of quality) to everything that they accepted. This way they can legally protect themselves against any informal activities that the company would resort to in order to reduce costs.

- Term 2: Regarding the sold entity

1. *"The first party have sold the second party who accepted to buy the entire 2400 shares of the apartment located in the building that is built on lot 748 in Noumara. The apartment is specifically located in block D, side 2, floor 2, as indicated by the attached plan. The apartment is still under construction, and it contains: a saloon, 2 bedrooms, bathrooms, corridor and balconies. It should be noted that the area mentioned above (although not*

mentioned in 29 contracts) includes all internal and external walls, elevator, shafts/voids, parking (allocated for the apartment), entrance and stair landing as shown in the attached plan. For so, both parties forgive and relieve the other of the final as built area for the apartment being sold whether that being positive (addition) or negative (subtraction)."

This term is placed to protect the company from the violations that may occur because of its informal activities, which are usually made to increase the area of the project and thus sell it for more. Since the legal documents must contain the areas prior to the violations of the company, paired with the fact that the company is going to illegally increase the areas and sell them as such, the company does not indicate the area in the contract. Because if it does, then it will put areas that are smaller from what it is selling clients, and this might alarm clients and lead to legal questioning.

In addition to this, this term allocates the apartment and how the area is calculated, but it does not specify the area of each subpart of the total area, and just mentions the total area (even if not in contract but verbally), which is misleading for clients who are not aware of such issue, because a $70m^2$ apartment will probably end up being sold as 85-90 m^2 apartment, and the client will think that he/she had bought a $90m^2$ apartment. It is the norm to include such spaces in the total area, which usually totals $15\text{-}20m^2$ as shared spaces (aqsam mushtaraka), MK Real estate sticks to this amount and does not exceed it. However, prior to the legalizing all violations, they do not put the area in the contract and sticks to the area shown in maps.

This term also concludes by reliving the company of any additions/subtractions in the total area that would result from construction. The company began putting areas in the contract after legalizing violations and issuing of the 'as built' plans.

It is important to note that the company was selling apartments larger than they were in the initial plans issued by the local architect, but the final plans of the constructed project was in line with the enlarged areas, which can mean that the company had planned from the beginning to violate the building code and construct more meters than it was allowed to do so, and sold the project accordingly.

There is another reason for not putting the area in the contract (prior to the completion of as built plans), it is done as a measure of mitigation incase constructed areas vary a lot from the planned areas, this way when the client receives the final 'sales contract' which will state the as built area, any changes in the area would be hard to notice since the client will not have a visible reference to compare to.

2. *"This sale attends to all attested rights for the ownership, designation, development and use of common (shared) spaces as specified in the permit plans and ownership system (term 10). The second party completely accepts all the stated allocations and terms and cannot revoke this compliance ever. The second party will benefit from a parking space as allocated in the permit plan."*

This term is added because the company usually exploits many of the shared spaces as ‘informal’ apartments and storages which it would later sell to clients, and as those spaces are owned by all clients the company cannot sell them. for so, this term in addition to term 10 will rid clients of the right/ownership to all spaces that the company can exploit, so that it is able to sell them.

The second party had examined and accepted this term and the apartment’s specifications, facilities, building information and plans. Based on this, the second party decided to buy the apartment.

- Term 3: Price and method of paying

1. “Price   *The price for the sale of this apartment (including shares in shared spaces and a parking spot as stated above), is set for the total amount of USD 130,000 (only one hundred thirty thousand dollars and no more)”*

2. “Method of paying

The second party must pay the price of the apartment as follows:

- *A first payment of USD 30,000 (only thirty thousand dollars and no more), the second party must pay this amount as soon as this agreement is signed. Signing this agreement is considered as the receipt for this amount.*
- *A second payment of USD 23,400 (only twenty three thousand, four hundred dollars and no more), the second party have promised to pay this payment to the first party in monthly bonds (in 18 months) as would be decided by both parties, no bond can be less than USD 1300 (only one thousand three hundred dollars and no more). Payments begin in the 5th day of each month, starting from 5/12/2017*
- *As for the rest of the amount which is USD 76600 (only seventy-six thousand six hundred dollars and no more), this amount must be paid once the bank issues the loan, and is due one month after the last*

payment is made"

This format is the general payment method used by the company. Although there are variations in the amount of each payment, and in some cases the entire method is different (different formats will be explained later). As for the first and second payments, they are usually determined and adjusted by the company as the product of a calculation that includes its monthly expenses (that would facilitate its operations but not the big payments of construction, which would be usually paid after receiving the third (big) payment from the housing loans), that is why when housing loans decreased, the company began increasing those two payments. The monthly payment is paid through signed bonds where the client signs all bonds right after singing the contract (a bond is legally binding and would be received by the client after each payment). In many cases the duration (number of months) is not specified (which in reality is incorrect, because once the company sets the amount of monthly payment that it needs (as stated above) it multiplies it with 24, which is two years and then sets this number as the total amount (which is mentioned in the contract) for the second payment. The company sets two years because it is usually the time that it needs to finish construction, this way if any complications[78] happen in receiving the housing loan the company

[78] By complications I mean the company's inability to secure 'under construction' loans, or inability to informally receive the entire amount of the loan instantly, and thus having to wait until each step in construction is finished to receive part of the amount, or if it is a regular housing loan then having to wait until construction is finished

would still have a significant monthly income. The duration of two years is also a measure of security for the company in case the client fails to secure the loan, this way the company would have the upper hand since the client will be liable for this and the company will have the right to proceed with actions (stated in term 8) that would allow it to cancel the deal and find a better one. The reason for not explicitly mentioning the number of months in the agreement and leaving it open is to allow the company to ask for a bigger monthly payment as this is paired with ‘no bond can be less than USD xx’ but it can be more (thus the contract makes it possible for the client to pay more and finish faster), which means that the company can negotiate a higher monthly payment (however the client is in no case obliged to increase his payment, but this term leaves the possibility of an increase open), at the same time it eliminates any possibly to decrease this amount, that way if a client defaults he will be held liable to all consequences that will be mentioned in term 8.

As for the last payment, it is usually scheduled for 1-3months after the last payment of the second payment is done, which is usually in two years. This duration is specified for the reason mentioned earlier.

- Term 4: Delivery date and registration

1. *"As soon as the building is ready to be delivered, and as soon as the first party finishes registration, preparations for the deed of release and all relevant paperwork and required procedures, the first part will invite the second party (through a registered letter that includes a notice to receive) to sign the sale contract (akd baye' mamsuh) for the apartment of this agreement in front of a notary public, or in the official real estate registration office (amanet al sijjil al aqari)."*
2. *"The first party promised to complete and deliver all its duties (stated above) in the maximum duration of two and a half years starting from the date of the building license. But on the condition that the first party pays the entire amount and within the time period agreed upon (as determined*

in term 3).

Failing to deliver or being late (including measures to be taken) will be attended in another term."

The addition of this term is critical for the company, since it rids itself of all obligations to deliver in time if the client have not finished the entire amount. There is an additional invisible benefit this term offers the company, that is being a measure to mitigate obscurities carried on by the company to facilitate the sale of the apartment, where the company would vocally advertise the fact that it would deliver the apartment in only two years while being completely aware (after the crisis) that this would be very unlikely. The company does want to finish in two years, but given the current crisis, this is very difficult, in addition to this, when selling, the company does not mention the crisis, nor does it mention those terms, but encourages the sale by promising the client to receive his/her apartment in two years. When this fails to happen, many clients come to blame the company for the delay and false promises. In this case, this term is brought up, and the company will blame the client for not paying the entire amount and legally rebuke his/her claim to the apartment. This action is understandable and justified, but the real issue lies within the ambiguity of the way the apartment is sold, which is something that is to be blamed on the process of selling the apartment, and not the agreement itself, since it is all mentioned there. That is why many clients who are legally aware or have consulted a lawyer/notary public end up negotiating and changing many of the terms in this contract (such as being able to move in after paying 50% rather than the entire amount).

3. "On registration, the first party guarantees for the second party that the title deed for the building is clear of all holds, mortgages, lawsuits, insurance (collateral) or any other burdens."
4. "On registration, the first party must provide all documents required for final registration, and all the costs for registration, transfer of ownership, notary public fees and adjuster of documents fees are to be paid by

the second party."

- Term 5: Adjustments in specifications

"All conditions and specifications mentioned in the specifications document attached to this agreement have been examined and accepted by the second party and based upon them the second party decided to buy the apartment. All those conditions and specifications are mandatory for the second party except if he/she agrees with the first party to change or modify something. All new modifications including (type, and size) are priced and managed in a written agreement (that should be signed by the second party) and should include all works and materials related to the modification. The second party must pay for any increase in price. In case the second party does not ask for any modifications then he/she permanently concurs to all conditions and specifications that are mentioned in the attached specifications document. Note: modifications cannot include (at any condition) any of the shared spaces and facades."

This term works in line with term 1, as it protects the company's informal construction activities which include reducing the quality of materials. The protection is provided indirectly, because although this contract mentions a specification document, there is no such attachment given to the client, unless what is meant is the salesman promises or specifications mentioned in the brochure (when available) which cannot be considered as a legal evidence. Most of the verbal promises made (at least in later projects) are lies that are only told to sell the apartment, but many of the materials are of a cheaper quality. In most cases with clients, they are the ones who do not ask for this document, which could be because of their ignorance in standards and specifications, or inability to identify the quality of materials used, for so, their only concern is the price and method of payment. In rare cases were the client asked for this document, the company did provide it.

This term also acts as a tool to mitigate conflicts that would happen when clients find out about low quality used, but this tool is designed to put the burden of improving materials on the client as he already accepted the materials used by the company and cannot prove that it is not the promised quality, and if he wants to 'upgrade' quality then he must pay.

- Term 6: Prohibition to put any holds on the legal deed of the apartment

> *"The second party is prohibited from putting any hold/mark (ishara) on the legal deed of the lot nor the sold entity before (farz) legal division of the lot nor after it, and the first party is legally entitled (through an official/legal appointment signed by the second party) to legally cancel any holds that are placed in violation of this term, without the need to notify, nor legal permission nor resorting to any other procedure. The second party also concurs that any violation of this term is considered as an essential violation for this entire agreement and will give the right to cancel this agreement and will hold the second party liable."*

This term is a mitigation measure in case a problem arises between the client and the company. In many cases, the client would stop paying money (intentionally or not) or the relation with the company would reach an impasse. In this case, and if the company knows that this problem will not be solved, it will try to cancel the deal and sell the apartment. Although cancelling the deal might be difficult, selling the apartment is not because prior to the sales contract the entity of the sale (apartment) is still legally owned by the company. However, if the apartment is ‘marked’ then it becomes very difficult for the company to sell the apartment, thus exaggerating the problem with the client. For so, this term will ensure that the work of the company is not hindered in case of a stagnant problem with a client. This term is critical because putting a mark is usually encouraged by personal lawyers of clients and notary public, because it is considered as an assurance for the client. When there is a negotiation about this term, Masri always manages to convince the client to accept this term by using his reputation and previous record as an assurance to the client. In some cases clients marked the apartment without the knowledge of the company, this damaged the company because problems did happen with this client, and the company wanted to sell the apartment, and once it found a new client, the client found out about the mark and did not want to buy the apartment (since a mark usually indicates a problem). This complicated the stalemate with the original client, because cancelling a deal through the penalty proposed in this term is still very hard to do, not because of the legal procedure because this term eliminates all difficulties that would hinder the cancellation of the deal, but because of the financial consequence, as the company is forced to pay the client back his money (according to term 8). At this financial crisis, it is very difficult for the company to pay back the money unless it sells the apartment, therefore if marked, the company will not be able to sell the apartment, and the problem with the client would complicate even more. That is why the company always tries to keep a good relation but backed with the 'apparent' but not very applicable power of law, so that the client would not resort to measures that would lead to complications.

*note: this term (and other later terms) place liability on the violating party, this liability is critical since it will force the liable party to pay the penalty as stated in term 8. Thus, it pressures both parties to avoid any actions that would hold them liable for cancelling this agreement, as this liability to cause them to pay a penalty.

- Term 7: Prohibition to transfer the rights of this agreement

"The second party does not have the right (under any circumstance) to transfer the rights of this agreement nor any part of the rights given to him through this agreement to anyone else, nor can he/she rent the apartment, nor make any deal related to it nor can he/she do any changes, nor can he/she sell nor burden the apartment with anything prior to the completion of paying its entire price and the complete transfer of property right to his/her name, or if granted written and clear permission from the first party. All deals that violate this term are considered invalid and not binding to the first party and will lead to the cancellation of this agreement while holding the second party liable."

This term is an additional mitigation measure in case a problem happens between the client and the company. As in many cases, the client is unable to pay or gets in a problem with the company, when this problem reaches an impasse, some clients try to sell the apartment to someone else prior to the completion of payment and transfer of property to them. Since the apartment is not legally theirs, they do so by transferring this sales agreement to someone else, then the company would proceed with the same agreement with the new client where he/she would make an agreement with the previous client and would continue with the company where the old client stopped (including payments and delivery dates). That is very inconvenient for the company because of many reasons. The first reason is that the company would want to cancel the deal and sell the apartment for a better deal and price, in case the client transfers the agreement to someone else, that is not possible, and the company would be forced to keep the same agreement. The second reason is that in some cases (when things get really bad) the client would transfer the agreement to a thug, now the company is faced by two new problems, the first is collecting money from that thug, if not the opposite, since this thug will probably threaten the company and cause more new problems, the second reason is that if this thug manages to live in that apartment, then this would ruin the entire advertisement strategy of the company, which includes the provision of a well-mannered, educated and safe neighborhood. Having such person will ruin the reputation of the company and send off all clients that are seeking the advertised neighborhood. The third reason is that the new client might not be financially suitable to continue with that deal, thus the same problems would arise with the company, whereas if the company cancels the deal and starts a new one, it will look for clients who are financially able to carry on with the agreement.

- Term 8: Completion of works in time, delays and refusing to pay

1. *"If the time duration given for the first party to finish construction and register the apartment two and a half years from the signature of this deal is over without the first party inviting the second party to register the apartment, then the first party must send a notice (to the second party's address as specified in this agreement) that explains the reason of why is he late, and set*

an additional extension to finish construction and register the apartment (as stated in this agreement). This extension must not exceed six months from the date of giving out the notice, and if the first party exceeds this extension without finishing the apartment and inviting the second party to register it, then the second party has the right to cancel this agreement and the first party will be held legible for this cancellation based on the last paragraph of law 241 from the law of agreements. The second party does not need to warn, nor to resort to any legal measure, and the first party is obliged to return the entire amount received from the second party. The first party will decide on how to return the money (method and time) as it suits him. The second party has the right to invoke a compensation for (error and damage) for the specified amount (that cannot be adjusted nor lowered) by anyone. The amount of compensation is USD 5000 (five thousand dollars).”

This term includes one contradiction to term 4 (section 2), as it is stated there that the time of delivery is two and a half years starting from the construction permit, but here it states that the time of delivery is two and a half year from the signature of this deal. I do not know how is this issue is legally resolved, but I know that the first duration (related to construction permit) is used and resorted to when the company is selling a project that is still on maps (construction have not started, and no permit is issued yet), this way the company buys time, as the countdown for delivery would not start prior to the release of the permit, which is something that the company can 'informally' delay until it is able to begin construction, and such delay would not be penalized because the countdown begins after this delay, and there is no term that attends to this delay nor specifies it. As for the second duration (related to signing this agreement), it is used when the project is already under construction, this way the company buys more time as the construction permit would have been issued before the time of agreement, thus the company is freed from the previous term. At all cases, this penalty was never invoked, as the company includes term 9 in this agreement, which relieves it of the responsibility to all delays in case of an overpowering force, and the company always resorts to this as a justification if it is late in delivery, and thus rebuking this term. In addition to the extra six months (mentioned in this term) which are given to the company in case it defaults, meaning that the actual delivery date is two and half years plus six months, however it is much better to advertise two and a half years rather than three years. In addition to the fact that the company can also rebuke this term whenever the client is held liable to any of the terms mentioned in this deal, which means that the company has a multitude of tools that it can resort to not to in order to rid itself from all liability and blame to any problems that would arise. Which means that this term is an assuring term rather than an actual term, because when combined with other terms, it becomes obsolete, and the company's record of never paying a penalty proves this.

2. *"In case the second party is late or does not want to pay (any of the payments) to the first party as stated and agreed upon in term 3, then it is the right of the first party to consider this agreement cancelled (and the second*

party is held liable) based on the last paragraph of law 241 from the law of agreements. This applies when the second party defaults to pay for more than a week at any scheduled payment (as per term 3). The first party does not need to warn, nor resort to any legal measure. At this point the first party must return to the second party the amount paid after deducing the compensation for (error and damage) for the specified amount (that cannot be adjusted nor lowered) by anyone. The amount of compensation is USD 5000 (five thousand dollars). At this point, all ties of the second party to the entity of agreement is severed, and the first party regains the right to sell and do whatever an owner can do to his property. The second party gives up all his/her rights to object the amount of money that is returned to him/her, and promises not to invoke any legal, penalty, or any measure regarding this term. This concession is final and cannot be overturned for any reason by all parties."

This term might seem not fair to the client, as the extension provided for the client is only a week compared to six months to the developer, however that is not the case because this applies to the client at all payments, including monthly and final, and the client is provided with 1-3 months to secure the final payment after its due time. Which means that the client has the duration of a week in each month, which when added to the duration provided to the last payment (24x7 + 2 months) this equates to the six months provided for the developer. In addition to this, the developer cannot afford any leniency towards client when it comes to monthly payments (especially after the crisis) as such delays would hinder the entire construction cycle, and negatively affect everyone that is involved. In addition to this, the client can also invoke term 9, and rid him/herself of liability towards defaults in payments. Which means that this penalty is also very difficult to invoke, as if this term is a pressuring tool rather than an actual tool to be used. The fact that no client paid a penalty before also proves this. I was informed by the company that Masri never resorts to the penalty (not because of legal difficulties) but because of humanitarian and social reasons, because most of the clients who default do so because they are struggling to pay, thus, and as a sign of solidarity, Masri would wait until they are able to pay without invoking the penalty. In addition to this, invoking the penalty means cancelling the deal, which is also very bad for the company, since it will have to return all the money to the client, and given the current financial situation that is nearly impossible. However, even when the company was able to pay back the client and cancel the deal, it did not invoke the penalty, thus proving that the main reason for this term is to secure the deal, and not resorting to it is a social/solidarity measure taken by Samir. What proves that this is an assurance tool rather than an actual one is the fact that the average penalty for a regular sale is USD 5000 but is much more (USD 20000) for trock deals and deals that are very profitable to the company.

- Term 9: Impossibility of action

"In the case of an overpowering force, or a security situation, or any other condition that cause the stoppage of construction, permitting, delivering, and registering in the agreed upon duration, then the agreement between the two parties

still holds (including all terms), and the duration of all works (including construction, registration and delivery) is postponed for a duration that is suitable for the company's current financial situation and relevant capacities. This extension will not give the right to cancel the agreement, nor the right to ask for the return of paid amounts, nor the right to invoke a penalty, nor the right to default in any agreed upon payments and in time."

This term is the company's formal and informal security measure against the financial crisis, as it will rid the company of all formal and legal liability when defaulting (as per stated in the term), and will informally rid the company of all blame, as the company will invoke it when questioned by a client and blame its delay on the overpowering situation, thus diffusing the problem with the client.

- Term 10: Ownership system

"Only the first party has the right to set the ownership system for the shared

spaces, and dictate its rules, and the second party must abide by this; while knowing that some of the rights to use and benefit from shared spaces would be given to some apartments and floors, thus, the second party clearly gives up the right to those spaces for the first party. The first party has the lone right to divide and allocate the shared spaces according to the final permit plan. The second party vows to sign all papers related to this concession (for the first party). Both parties also agree that the sold entity will be only used as a residential space.

Based on this, all spaces that are outside the apartment (of this deal) excluding the allocated parking, and including all shared spaces are to be only used and distributed by the first party or whom it allows to. The second party clearly states that he/she gives up all public and shared spaces and roofs in last floors, so that it is only up to the first party to benefit from any increase in the exploitation factors, and without any objection in all cases from the second party. The second party also states that the price of the apartment includes this concession."

This term is the follow up for term 2 (section 2). The reason behind this term is that the company informally[79] sells roofs as apartments and other spaces as storages, whereas they are part of shared spaces that belong to all clients. Since those spaces

[79] This sale is informal because those spaces violate the building code and must not be there, for so, those spaces cannot be registered and are sold informally without a legal deed

cannot be registered nor do they have a legal deed, the only way they can be sold safely without the risk of clients asking access and use to those spaces is through this concession. In many cases those spaces are sold to people who do not care about the legal title deed because they are unable to legally own in Lebanon such as Palestinians. But recently, Masri have been advertising that it is now possible to legally register those spaces but for a moderate amount (USD 20000-30000). This measure did cause some problems with clients, especially that in some projects the company tried to sell basement spaces as storages without providing them with an external access, which meant that trucks would enter what should have been a safe ‘child zone’ project. That is why many sales were rebuked through the direct pressure of residents, but nonetheless causing issues with the company and hurting its reputation, since that is a direct violation for the advertised residential gated community. In other cases, Masri turned basements into Mosques, which was welcomed by some clients (because they are all (Sect 2) s of Beirut), but was also objected especially after the Syrian refugee crisis, as many of the Mosques were handed to charitable institutions that wanted to add a school and housing to that Mosque which also housed Syrian children, and that was objected by some clients as something that also violated the advertised closed gated community. At both cases, the company did negotiate with clients and ended up either finding a solution or just halting the issue. But this also damaged the company's reputation.

> *The second party also agrees that the first party is responsible to carry on or appoint whomever they see fit (including individuals or companies) to manage the affairs of the building and take the place of the owner's committee for the first ten years (right after the construction permit), which means that the second party is responsible for all (shared) payments that are set by the first party or whom they hold responsible.*

This term provides the company with the opportunity to profit if it wants to take the role of managing the project, which will include maintenance and provision of public services. However, the company is not taking this task because of it does not have the capacity to do so, and because of the recent deteriorated relations with clients, which will cause a lot of resistance to any action that the company would take.

- Term 11: Water, electricity and telecommunications

> *"The first party promises to pay for the delivery of water, electricity and phone to the building, but only if the second party pays for the fees of subscribing and delivery of water, electricity and phone to the apartment (mentioned in this sale)."*

This term relives the company of a huge financial burden summing from the cost of subscribing to such activities. The company placed this term from its initial establishment and that is a norm in this market, that is why no one objected to this term.

- Term 12: Courts of interest

> *"The courts of Beirut, or someone that is accepted and known by both parties are to be resorted to in order to resolve any conflict regarding the correctness, application and interpretation of this agreement."*

The company made sure to place the courts of Beirut as the legal entity that both parties would resort to because Masri is well connected in Beirut and has access to legal bodies.

- Term 13: Correspondence and notifications

"Both parties use the address mentioned next to the name (in the first page of this contract) for all correspondences and notifications that are related to this agreement, and the notification is considered valid and legal as soon as it is presented whether it had been received or not.

All correspondences and notifications that are related to this agreement are to be written and sent though a notary public or through mail, and a delivery notice must be issued. And it they should be sent to the party's address mentioned (in this agreement) next to his/her name."

This term facilitates the legal procedures for the company, as it a legal notification is considered valid as soon as it reaches the other party's address. This way the other party cannot claim that it did not receive the notification.

- Term 14: Fees of permitting, lot division and registration

> *"All fees of permitting and lot division must be paid by the first party, as for the fees for the sales contract (transfer of property) that is to be signed in front of a notary public or in the official real estate registration office, in addition to the vacancy fees (rusoom faraa') and registration (in the official real estate registration office) are to be paid solely by the second party."*

- Term 15: Copies and official stamp fees

> *This deal was issued based on a single original version; the second party have promised to pay for the official stamp related to it. Each party will receive a copy of this agreement, and the original agreement will be saved with Masri in order to be revisited when necessary.*

- Term 16: Receiving the sold entity

When works are over, the second party will receive the entity sold to him/her in this agreement through a notice of reception. After which, the second party becomes responsible for all shared payments (as set by the first party, or whom he appoints), and becomes responsible for any damage caused by decoration works. The second party also promises to pay all taxes and municipal and financial fees and other fees that would arise from him/her occupying the apartment; starting from the day the second party signs the notice of reception.

Clarification: both parties have willingly signed and with no objections on all what was mentioned above, which makes them both parties of this agreement.

Beirut in :11/10/2017

Given the company's informal activities in construction, especially the ones that lower the quality of construction and cause delays in delivery, such agreement is very bad to clients because it rids them of the all rights that they can use to hold the company accountable for its actions. Therefore, not making clients helpless, but also obligated to continue paying and defaulting as there will be penalty to do so, and they would be paying the same amount for lowered quality and delayed delivery.

In the last section, I will conclude this thesis by providing recommendations that would attend to the informal practices within the real estate market.

7.6. Conclusion

There is no arguing that fake advertisement and manipulating clients and investors into making deals with the company is not right, especially with the company's current financial condition. However, both contracts are not inherently bad to neither to clients nor contractors, because they do facilitate the work of the developer and provide him with flexible mode of operations that can be capitalized on to build faster, and eventually make more profit, especially given the developer's previous success record. However, both contracts become problematic when it comes to the protection that they provide the developer with, especially with the developers current informal and illegal mode of functioning, in which he is violating big parts of the contract while being protected and not held liable for the violations by the contract itself. The following and last chapter will attend to those issues and propose ways to control contracts and advertisement in order to protect unwary investors and clients.

CHAPTER 8

CONCLUSION AND RECOMMENDATIONS

This chapter concludes the thesis. To this end, I begin with a brief summary of the thesis findings followed by a number of tentative recommendations. Given that the thesis builds on only one case study, my recommendations would need to be vetted in relation to other localities and firms. They provide nonetheless a good place to begin a direly needed discussion of how to improve the organization of Beirut’s housing production.

8.1. Thesis recap

MK Real Estate is a real estate development company that operates in Greater Beirut’s housing market to produce mid-end housing in the form of gated residential complexes, with an average area of 105m^2 per apartment and an average price of USD 1200 per m^2. The company’s owner began to work in real estate development in 1985 and has remained in the business since then. Throughout his career, the developer relied greatly on socializing business relations by reaching out personally to well-placed individuals, creating and cultivating networks on which he later capitalized to secure access to real estate ingredients and negotiate better deals and more advantageous terms of agreement. Networks were a choice, the thesis showed, but they were also an obligation for the developer to operate in the territorial divisions of Beirut where building access is heavily guarded by public officials. Consequently, the heavily socialized networks in which building production is happening set conditions for developers to be able to build in any area, such as hiring local individuals and companies. If the developer does not meet the demands of the local informal network, then his work will be hindered, either through intentional delay of paperwork (that is required to issue the construction permit therefore begin construction) or forcefully by preventing outsider supply trucks from coming in or by violently shutting down construction. Although Masri was forced to meet the informal demands of imposed on him by the authorities controlling the territories where he wanted to work, having accumulated substantial social capital and experiences in informal relations, he managed to capitalize on the informal networks to reap benefits and secure cover for illegal building additions he could sell at profit.

Until 2015, the company had a good record with clients and contractors, as it provided good quality of construction, and paid contractors generously and on time. This provided the company with good reputation and a solid network of real estate production. The company also had a safe strategy of not developing more than three projects at a time, one being planned, one being under construction, and one being sold. This strategy provided the company with control over its projects because it had the financial capability and means of mitigating problems that would arise in its projects. However, in 2015, enticed by the fast-generated profit of the PCH loans, the company decided to expand its operations and developed seven projects at the same time. The company had neither the capital nor the capability to carry on with this expansion. Consequently, the Company resorted to making partnerships with multiple investors, convinced contractors to start working without being paid, and sold clients' projects that were still being planned.

In 2015, the severe decline in PCH loans paired with general economic stagnation and shortage of Gulf investment in the real estate market of Lebanon wreaked havoc with the Company's expansion plans. Investors, contractors, and clients, and the developer were caught in a spiral of failing developments. Investors lost profit and felt further threatened to lose the initial capital they had invested, as the company was unable to complete projects and sell them. Contractors already invested a lot of their money in construction without being paid, and many clients had already paid an average of USD 20,000 but were unable to receive the housing loan and provide the company with cash, nor were they able to receive the house because it is either unfinished or not entirely paid for, and the company would not allow anyone who did not pay the entire amount to move in. This placed the development agency in a difficult position: either declare bankruptcy or engage through informal practices that help push through the developments and complete them, thus paying investors, contractors and delivering to clients. These practices were however harmful to clients and partners as the Company shifted the risk and the burden of the MK Real Estate's risky developments to unwary investors, contractors, and clients. Ultimately, the developers have shared hefty costs with their investors, some of whom have experienced substantive losses. In addition, due to the company's informal juggling strategy, many investors are paying to finish projects other than theirs, thus putting them in more risk because they are putting in more money, but their investment is still stuck. Contractors who were unpaid for more than a year were forced to continue work and pay from their own money so that they can complete construction and the company can sell and therefore pay them. In addition, many were supposed to get paid in cash, but had to reluctantly settle for apartments instead of cash knowing the stagnant state of the real estate market. As for clients, they bought apartments while receiving assurances that the PCH would be issued and they would live in the apartment in two years, in addition to promises of good quality construction and landscaped projects. Instead, five years later, clients are still stranded, very few have moved in, and the rest were forced to make an informal installments agreement with the company for much higher than they would have paid in installments for the PCH loans. In addition, the company lowered greatly the quality of construction but did not lower the price of the apartment, thus clients are paying the same amount but for lower quality, and the issue of quality will have additional consequences because lowering the quality will result in much problems that will require future repairs, and those repairs are to be done by clients. Clients who wanted out had to wait until the company's financial affairs allowed it to pay them back, which can take years.

At the time of the writing of the thesis, it is unclear whether MK Real Estate will survive the overlapping effects of the crises in Lebanon. The company is struggling to finish the construction of its ongoing sites, given that it has already received significant payments from clients and committed many payments in kind (as apartments) to contractors given its lack of funding. While informal strategies and recent deals may allow it to deliver compromised products, they may also ruin permanently its reputation and consequently its ability to operate in the city.

8.2. Theoretical Contribution: So What for Housing Markets?

This thesis confirmed the importance of social networks and how they plug in the matrix of real estate production. It also unraveled the modes in which social networks are cultivated and deployed and the consequences of the reliance of housing production and exchange on these informal institutions. In sum, social networks translated into a form of capital that secured an array of formal and informal, legal and illegal connections that allowed the developer to close deals with actors who control, influence, lead to, and own real estate ingredients such as land, building materials, permits, finance, or clients.

Aside from access to housing ingredients, networks also provided the developer with cover and informal protection to perform a myriad of illegal activities to increase his profit and be able to function in territorial areas that are not very welcoming to outsider developers. The thesis also confirmed that social networks are not inherited, rather they were cultivated and still require constant investment, and that this investment yielded social capital. Social capital is critical in the functioning within social fields such as the real-estate market, because the transactions along the links that connect different parties together are determined (including leverage and ability to negotiate) proportionally to the amount of social, economic and political capitals that each party has.

In addition, if we are to portray the official, legal and formal real estate market as a circle, then functioning within social networks can be portrayed as a bigger circle that surrounds the first circle and contains new modes of functioning that are different from those found in the smaller circle, and if the small circle is breached (by resorting to any activity that is included in the bigger circle) the transaction is still valid, but is not considered official, legal or formal.

However, the formal market is regulated by law that aims to protect clients, investors and contractors, but the informal mode of functioning is devoid of that protection leading to a dark side of networks. The thesis showed that social networks failed to provide the needed securities for all parties intervening on the housing market, leaving many vulnerable and unprotected. Investors, clients and contractors were all victims of the developer's activity without their consent, and this was made possible only because of the mode of informal functioning provided with social networks. I choose the word victims not to connote the company's actions as negative or ill intended (because this might be debatable since one can claim that the company was forced to do this in order to survive and eventually safe everyone), but to point out that investors, clients and contracts were tricked, forced, pressured, or drawn to take part in the company's actions.

In sum, socializing business widens the circle of formal operations and allows a myriad of activities that can facilitate the functioning of the real estate market. In many cases, networks provided direly needed flexibility and allowed for the emergence of creative solutions to problems that would not be solved formally. Therefore, functioning in networks is not inherently good nor bad, it however increases the possibly of foul actions between parties. Such activities can harm unprotected parties and unlawfully leverage a party over the others. Consequently, it will be imperative to introduce institutional revisions and protections for these parties. In the next section, I outline a number of suggested revisions.

8.3 Possible Planning Recommendations

8.3.1. Rethinking the Scale of Governance for Building Production

As noted in the thesis summary, the possibility for the development company to operate within a specific geographic area depended on its willing to work through the informal networks that govern real estate production in the studied town, showing that social networks and informal practices empower local figures to abuse their position in public office for personal gain and control of who is entitled to build.

In Lebanon, municipal authorities are entrusted with the permitting of all new buildings and the disbursement of residency permits. In theory, this power invested in local authorities fits well within the dominant planning paradigm of decentralization that recommends the delegation of power to local authorities in order to foster more democratic rule. However, as we saw in Lebanon, within the sectarian and corrupt context of Lebanon, heavier authority in the hands of local authorities backfired in allowing for the formation of a controlled political territory. Thus, decentralization fed this informal network with many formal and legal powers which they can then use informally, thus further increasing the network's power, influencing access to formal activities that they can informalize and illegally profit from, therefore subjecting more people to their informal mode of governance. It may therefore be warranted to review some of the typically recommendations that support contemporary planning theory in emphasizing the advantages of decentralization and the empowerment of local authorities. Perhaps allowing for permitting at a larger scale could be more beneficial and reduce the power of such local strongmen.

It could be argued that the informal network of Noumara had nonetheless positive externalities in supporting the local population by securing for local workers contracted works and helping them sell materials. This would be true if it were not for the informal network and informal modes of governance that have the actual control over the locality. Indeed, the informal network of Noumara is hierarchal, and the resources or power given to the locality are being diffused through heavily guarded social network that are not distributed equally. People controlling the network benefit much more than those at the bottom and use the network to strengthen their power. Thus, in my case study, the network supported used profit gathered from building activities to fund the reproduction of its own social hierarchies.

In sum, if we are to support decentralization based on the premise of local empowerment and equal distribution of wealth and power, while accepting the inevitability of informal governance through social networks, then we must think of ways that would ensure the realization of the positive aspects of decentralization such as inclusive local government and addressing the limitations of the territorial networks.

Primarily, power of social networks should be balanced with more transparent institutions that can increase accountability and protect clients, investors, developers and contractors. This entails revisiting the scale and authorities that are providing building permits and lifting them from local networks of exchange in order to reduce the power of local authorities in reaping informal benefits from the right to build. Given the difficulty of instating new legislation in Lebanon, controlling and applying them, the thesis proposes additional alternatives.

8.3.2 Bottom-up Accountability mechanisms

Another recommendation revolves around introducing a level of accountability by mobilizing oversight from the community through the form of community organizations. This will make market operations more transparent and accountable by increasing customers' awareness. Given a notorious level of corruption, this task should ideally be initiated by an NGO or a local community groups who could set up a neighborhood based transparent registry. It is also possible to involve the national Order of Engineers and Architecture as a partner, given that the projects involve the performance of engineers.

The thesis has shown that part of the disempowerment of clients rests in the complexity of contracts, vague legal terminologies, and the consequent ability to trick unexperienced actors. As such, the oversight body should provide clients with legal advice, particularly in reviewing contracts (including all its terms), clarifying terms to clients and investors, explaining the implication of each term, and providing recommendations which can include amendments to the contract (including price and profit sharing). In sum, the oversight body could play the role of a professional legal advisor.

That same party would then ensure that the contract is being followed by both parties, including control over delivery dates, installments, quality of materials and construction and ensuring that all terms of agreement are being followed by both parties. At the same time recording this experience and making it visible for other parties involved in the same market.

It might be possible to empower the functioning of this entity by providing it with jurisdiction and legal authority. More importantly, the new actor needs the executive power to be able to realize its role effectively. Given the context of Lebanon where corruption has penetrated governmental bodies, it is imperative that the oversight body has stake in the good performance of the developer: that the group consists of residents who suffer from poor quality of construction and environmental deterioration and are therefore directly invested in the good quality of their neighborhood. Therefore, the entity must design its functioning to expose corruption and prevent it. It should be open for public revision, with an external committee of selected and trusted planners that would monitor the work of that entity from its initial establishment.

There is no need for the committee to provide certificates so that there is nothing to buy/sell. Rather, clients and residents benefit from the improved circulation of information and the higher transparency in seeing a cleaner neighborhood and better homes.

Finally, a revision of the penalty law should be done, because developers have found ways to work around it to build illegally and receive legal permits. And in extreme cases, they managed to continue selling without having legal permits, which was done by lowering prices and selling clients who not care for to have legal papers. This thesis will not elaborate on the required legal amendments, and leave it to experts, but will emphasize on the importance of changing the penalty law, because not doing so will undermine all efforts to fix the real estate market of Lebanon.

8.3.3. Learning from MK Real Estate

A final lesson can be learned from MK Real Estate, which can lead to the production of affordable housing that is much cheaper than the current stock while maintaining the same or even better quality, ease the financial burden of installments and secure the rights of clients.

The company was able to construct an entire project without having the financial capital that is required to developer the project. Rather, it resorted to partnerships and creative solutions to realize its projects. This information is critical because this thesis showed that the biggest obstacle to real estate production is the need to have a big amount of financial capital in order to buy land and build it.

In addition, the financial records showed that the total cost of the project was around USD 2,800,000 and the profit USD 4,000,000, given that all management expenses were already part of the cost, this means that the company profited for USD 1,200,000. Knowing that clients are the ones who will pay for the project, the financial records of project C12 show that clients are paying 30% more money as profit for the developer. This amount can be deduced if housing was produced by a different entity that does not seek to profit. In addition, even the stated cost of USD 2,800,000 can be reduced, because as showed in (Chapter 7, section 3), the company's informal activities and trock deals further increased the cost. A quick approximation of 40% in cost reduction is rational given the financial records of project C12, meaning that a non-profit professional entity can produce and sell the same apartment for USD 660 per m^2 rather than the average developer's price of USD 1100 per m^2. The biggest obstacle for such entity would be the financing of the project, for this, lessons from MK Real Estate provide solutions.

There is a lot to learn from the activities of the developer. A not-for-profit entity could still secure land through a partnership, granting landowners a number of apartments instead of cash to sell at profit. apartments. Similarly, it is possible to adopt the financing scheme developed by MK property with a mix of down payments, small installments, and subsidized loans. It is also possible to finance construction incrementally, and to rely on some of the exchange/trock deals adopted by the developer. Lastly, it is possible to create a housing cooperative for each project. This is important for two reasons, the first is that housing cooperative will reduce the cost of the project because it is legally exempted from several payments that a regular project must pay. Second, clients themselves would be the ones who would decide on the pace and quality of construction based on their financial capabilities.

In order to conduct this work appropriately, there is a need to introduce a professional actor with partnerships with architects, planners and engineers in order to ensure quality and adequate professional work is being done. This entity would be financed through the management fees of the project. Thus, would be very similar to how development company’s work, but instead of yielding profit, it would reduce the cost of housing and produce affordable good quality housing.

Epilogue

My in-depth case study of MR Real Estate extended over the 2017-2019 period, all the way to the first financial breakdown in 2019. The thesis covered the adjustments made by the company to the real estate slow-down, the interruption of the PCH loans, and the first restrictions placed on bank account holders. As Lebanon entered a new phase of mass protests, de-facto devaluation of the currency, stagnant real-estate market, breakdown of the banking sector, liquidity crisis and the covid-19 all accompanied by general social unrest, many of the trends I had identified as adjustments, particularly the increased informalization of the practices of the developer, are likely to have intensified. However, the findings cannot be generalized without additional fieldwork to Lebanon post 2020. The ethnographic research conducted here provides nonetheless important hypotheses about the working of the market and its organization as a first step in this direction.

It is also evident that the ethnographic method requires further research to cover more case studies before generalizing findings to the entire market. It may be useful to derive from the study some kind of quantifiable metric that can measure the relative weight of developers and their reliance on social networks. These could then lead to more solid and generalizable findings. The extension of this method could also help researchers use this information to address the exploitive market that requires direct attention of planners, policy makers, lawmakers, architects and engineers. Hopefully, this thesis will bring us a step closer to a better country.

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