

THE ANNUAL REVIEW- 2018



A Real Estate Market Performance Analysis Review of Egypt

**B2B FOR INVESTMENT & REAL
ESTATE MARKETING**
RESEARCH AND DEVELOPMENT DEPARTMENT



Annual Review Series: I



2018

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15%

The Real Estate sector in Egypt has contributed more than 15% to Egypt's annual GDP since 2017,

The Egyptian economy continues to be on the mend with macroeconomic conditions improving in the wake of ambitious structural economic reforms enacted by the government under the advisory of the International Monetary Fund. As Egypt embarked on a major economic reform program, decisive measures such as liberalization of the Egyptian pound exchange rate and fiscal consolidation were enforced starting November of 2016. In the wake of these reforms, as expected, inflation rates skyrocketed to almost 30 percent during the 2016-2017 Fiscal Year. However, these structural economic reforms have proven to be necessary as well as successful to save the Egyptian economy as the latest IMF and World Bank report indicate. As reform momentum is sustained, economic activity has improved, and is expected to continue to do so according to the IMF country economic review and forecast for 2020. Moreover, budgetary as well as debt imbalances have improved throughout 2018, and are projected to narrow further in 2019. Real GDP has grown by 5.4% in FY18 in comparison to 3.9% in FY17, and is projected to continue gradually increasing to reach 5.8% by FY20 and 7.7% by 2026. This forecasted trend of growth effectively consolidates that the increased GDP is not an acceleration phase that can decrease again but is based on real economic development caused by the structural reforms. Growth has so far been driven by resilient private consumption and investment -especially in the real estate and construction sectors-, in addition to a gradual increase in exports -specifically from the oil and tourism industries- and a conscious governmental control over imports.



‘Real GDP has grown by 5.4% in FY18 in comparison to 3.9% in FY17, and is expected to continue gradually increasing to reach 5.8% by FY20 and 7.7% by 2026’.

ECONOMIC OVERVIEW 2018

More importantly, the economic reforms have had a significant effect on the Real Estate sector in Egypt, making it one of the most flourishing sectors within the Egyptian economy within the last two years. This has been due to multiple factors such as a real demand for residential and commercial developments for investment as well as relocation purposes, the grand strategy to increase urban development throughout Egypt, and the Central Bank of Egypt's cancellation of high interest rate investment certificates. In fact, the real estate sector has effectively contributed almost 15% to Egypt's annual GDP since 2017. However, despite the investment encouraging environment in real estate, 2018 was unquestionably a slow-down year in terms of market performance, especially in comparison to previous years. This can be attributed to a number of reasons, among which is the steady increase in prices of real estate developments, the increase in developers as well as projects entering the market, a widening gap between income increases and price inflations, fears and speculations regarding a market bubble as well as uncertainty towards the government's expansion plans and prime locations. All of which have undoubtedly led to a weakened purchasing power and in many cases consumers being overwhelmed with choices and postponing the decision to purchase now that currency fluctuation as well as prices have relatively stabilized therefore incurring that there is no rush, instead of the buy now or regret later consumption culture that has taken over in the last two years. Nevertheless, the real estate sector remains the primary safe haven for secure investment and economic growth in Egypt due to its competitiveness, resilience, and economic as well as demographic indicators forecasting its continuous growth until 2026.



Real Estate is often not only a highly rewarding but also the only reliable form of investment in emerging economies such as Egypt.

ECONOMIC OVERVIEW 2018

The Residential and Commercial real estate sectors in Egypt have both experienced a booming phase in 2016 and 2017, followed by a steady slow down throughout 2018. With the developers initially responding to the continuously growing demand, supply was significantly increased throughout 2018, which among other factors, also contributed to a market slowdown.

First, market performance during 2016 and 2017 encouraged developers to increase their supply in response to the drastically increased demand reflected by both expatriates and domestic investors as well as end users capitalizing on the real estate sector's stability and promising appreciation rates to preserve currency value instead of banking investments. Accordingly, Real Estate developers were rushing to offer the market with a multitude of choices under competitive prices and payment plans, which initially led to increased demand in Q4 of 2017 and Q1 of 2018. This also coincided with the land releases for new expansion areas, which encouraged developers -new and reputable- to also acquire lands for residential as well as commercial development projects in and around the New Administrative Capital - NAC- as part of the government's grand strategy to increase urban development and decrease the dense population concentration within Greater Cairo. However, this effectively led to a massive amount of projects swarming the market with similar market entry campaigns, very uninspiring projects, many of which were introduced by first-time developers with no development history or reputable construction record. Much of which was instead countered by offering prolonged payment plans over 10 or 12 years with very minimal down payment percentages, which undoubtedly negatively affected the market performance and contributed to a widespread slowdown phase throughout 2018.



SECTOR OVERVIEW 2018

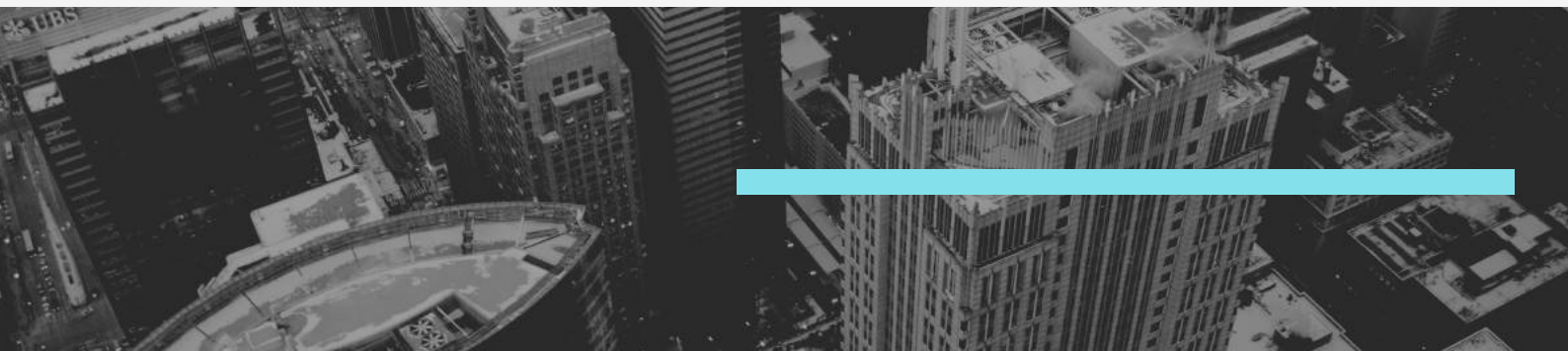
The Residential Sector

It is no secret that the Egyptian government has put forward a promising grand strategy aimed at increasing urban development in attempt to solve the overpopulation and centralization problem in Greater Cairo as well as other major cities around Egypt. The Egypt 2030 vision includes the development of multiple infrastructural mega projects including transportation, residential relocation and commercial hubs. Among the most prominent mega projects announced has been the New Administrative Capital -NAC, which as its name indicates has been primarily launched in effort to relocate the centralized administrative and governmental offices outside of Cairo to the new location 45 kilometer outside of the city.



The government plans to eliminate the concentration of all state institutions and offices in downtown Cairo with a plan to relocate these offices to the project in the ‘government district’ in NAC while also serving an economic purpose of acquiring revenues worth of \$10 billion by 2030 and being in proximity to Cairo and newly established Suez Canal Economic Zone.

The government’s grand strategy to decrease the dense population concentration within Greater Cairo and other cities has been criticized for being too idealistic through focusing on offering luxury and high-level real estate units within the new mega projects - whether in the New Administrative Capital or New Alamein City- while ignoring the growing demand for small affordable housing units. However, it is critical to understand that the grand strategy behind the Egypt 2030 vision is devised in a way that allows the government to privatize and attract high bidding developers in order to increase its funds, while also using those funds strategically to lift poverty, solve infrastructural services within major cities, with a supposed stipulation of not becoming a direct competitor with the private services market in order to avoid breaking any of the IMF loan conditions. However, with or without the stipulation of non-competition or intervention, the effect of releasing a massive supply of lands to the highest bidder effectively led to market-wide shock in both the development as well as the construction sectors, which led to a weakened performance in the real estate sector due to its saturation with rather identical projects all within the new expansion areas leaving consumers confused and hesitant to make an investment until a clearer picture can be seen, which consequently halted Cairo's residential market for most of 2018.



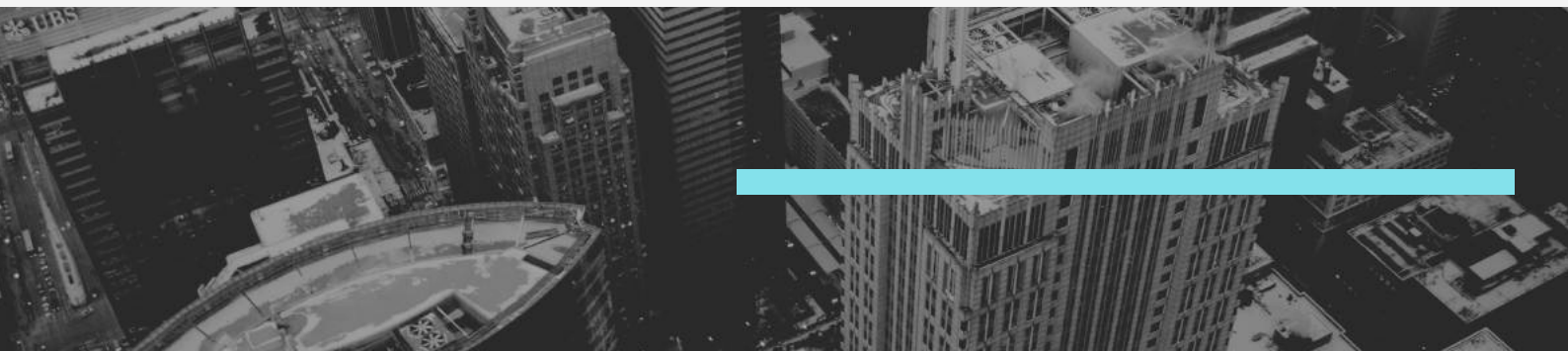
Similarly, in the seasonal and coastal residential market, **New Alamein City** overtook the market in 2018. As the second biggest mega-project -after the New Administrative Capital- to be announced as part of the government's grand strategy The new coastal city has gained a lot of hype within the real estate market and effectively captivated a large percentage of seasonal home buyers and investors during summer of 2018 and for good reason.

First, the New Alamein is being developed as a functional city year-round in comparison to the rest of the gated communities lining the Mediterranean shore that are only operational during the summer season. Instead, the new city built over 50 thousand Feddans will be a residential relocation destination with a multitude of infrastructural facilities such as a water desalination facility, solar energy station, industrial and agricultural zones to service the city, and private as well as public educational facilities including schools, universities, a large public library, and a center for scientific research. The city is also developed to be a large international commercial and touristic hub on the Mediterranean. With an airport, a highway network, business and convention centers, hotel chains, museums, an opera house, a gigantic entertainment park, and Egypt's first Ferris wheel the Alamein Eye being built.

Consequently, the city will surely compete regionally as well as internationally as a thriving tourist destination right on the breathtaking Mediterranean shore. So it was only natural that the market performance of all other projects across the Egyptian Mediterranean shore released this summer were negatively affected by Al-Alamein City's residential launches.

Moreover, City Edge's residential launches with the launch of Alamein city signified the government's entrance into the real estate market as well. Offering projects in prime locations, that private sector developers did not have access to, with unbeatable prices that most other developers could not compete with if they tried, this drastically affected morale among developers -small and big alike.

Conclusively, an increase in supply of residential projects during 2018, both in response to increased demand during 2016 and 2017, as well as a result of the launched projects in expansion areas in Cairo led to market wide slow down. While Alamein city's launch and City Edge's significant market entry dramatically affected the seasonal home market in North Coast over summer of 2018. It is important to note however, that Red Sea seasonal residential market was less affected negatively by the above-mentioned factors, and instead experienced steady slow-down as a result of weakened consumer power.



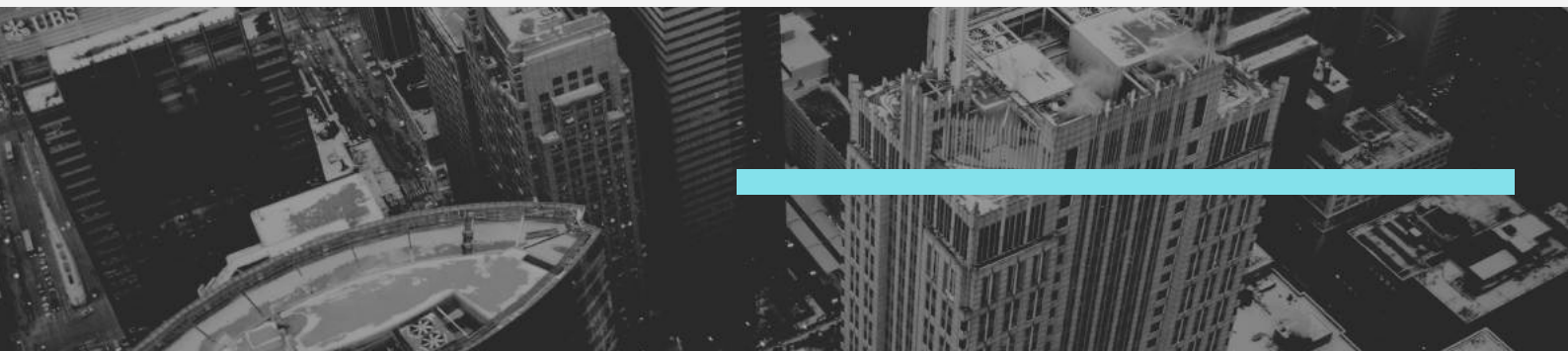
The Commercial Sector

Unlike the residential market, the commercial sector has performed well in 2018, despite the market wide slow down. Also, despite increasing concerns over Cairo's commercial market becoming over saturated, all commercial sectors are in fact currently undersupplied according to international thresholds.

First, the retail sector, which has been the target of much criticism for being oversupplied in the market, with most criticism caused by poorly developed mixed use projects that remain vacant skeletal structures constantly misused to prove over-supply. Or once operating projects that now struggle to keep a footfall or attractive retailers. However, these examples merely show a critical need to research and development consultancy ahead of simply building a commercial project without any real research or evidence on its market feasibility or any knowledge of commercial development standards that can attract valuable clientele or retailers alike. Instead, well researched and developed commercial projects were the reason the commercial market remained resilient, with increasing opportunities to enter the market as an entrepreneur or investor becoming more pronounced due to the market's competitiveness and constant state of change.

The standard threshold of retail space in developed and emerging economies is between 1000 and 2000 sqm per 1000 people. The United States currently has 1200 sqm per 1000 people, while the UAE offers 550 sqm per 1000 people. Egypt's retail market currently offers less than 150 sqm per 1000 people. Indicating, it is nowhere near over-supply as many speculated in 2018.

Currently, the retail sector in Egypt includes a variety of shopping mall types as well as a few areas known for their traditional old-school street shops and corner store line ups mostly within either densely populated areas or old neighborhoods where consumer demands tend to reflect a preference for the smaller scale traditional retailers and corner store shopping, instead of the large-scale malls or mixed-use developments in newer areas of Cairo. However, the most commonly found are strip malls, mixed use developments, followed by a number of regional and super regional malls such as City Stars, Cairo Festival City, Mall of Arabia, and Mall of Egypt. These developments are known for offering consumer friendly environments, a large variety of retailers catering to diverse needs and ages, containing various anchors depending on their type and size -including entertainment venues and grocery stores, offerings a multitude of Food and Beverage providers -whether fast foods or fine dining choices.



In terms of performance, the retail sector has followed the forecasted international trend that has been rather magnified by a mentality among retailers, many of which are franchises controlled by large retail corporations and move collectively accordingly.

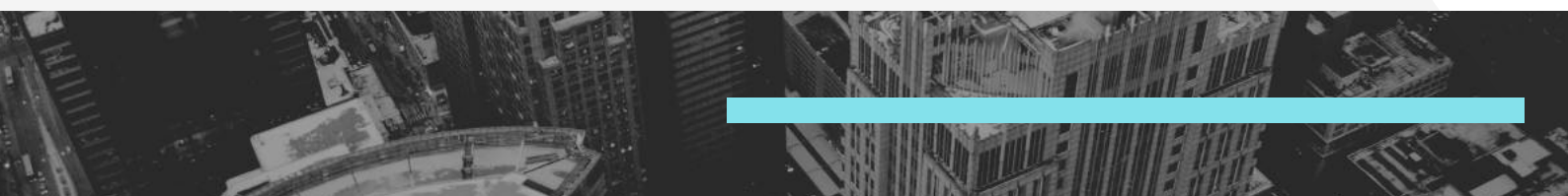
Consequently, as the international trend in retail has been steering away from anchor department stores and significantly favoring efficient shopping experience spaces, the more prominent type of malls commonly found today within Cairo are specialized purpose centers such as lifestyle malls, especially ones contained within mixed use properties. These are smaller scale malls that provide both a shopping experience, a variety of services such as hair dressers and gyms, entertainment hubs for children as well as adults; such as day-care like entertainment by the hour venues and movie theaters, in addition to a mix of local and international dining and cafe options, therefore converging all necessities in one space while also most commonly being within a mixed-use property and walking distance to a residential cluster.

These types of developments have highly performed during 2018, with a few exceptions of course where the projects developed were poorly researched or developed and therefore not leasable by international standards or local acceptable standards that most retailers require.

Furthermore, as mentioned the commercial real estate market has seen a rise of mixed-use developments over the past couple of years. This has not been a surprise to commercial real estate experts; as the market keeps responding to millennial demands who prefer connectivity in all aspects of their lives, mixed-use properties will continue to be much sought after, evidently making mixed-use developments containing smaller lifestyle malls more popular and of higher value due to demand.

The rise of MUDs has effectively influenced Cairo's commercial sector. Not only has it given space to developers to become more creative in order to create unique projects and experiences, become more competitive, and retain high market value. But it has also made it possible for many developers, who previously could not fund large scale commercial projects such as regional or super regional malls, to now be able to develop commercial projects according to their residential positioning and identity. Moreover, in terms of retailers, the competitiveness of MUDs allowed many local retailers the chance to also enter the market with a new unique identity, while many investors found it a perfect chance to keep investing into the highly rewarding commercial sector in Egypt, where annual appreciation rates have averaged 12%.

Standing at 12%, the Annual Appreciation rates for the commercial sector have encouraged and sustained its performance by making it highly attractive for foreign and domestic investors alike.



There is also increasing demand for international quality office spaces within the commercial sector. This is due to the announcement of a number of new business districts within the government's new mega projects such as the New Administrative Capital, New Suez Canal Economic Zone and New Alamein City. These business districts are meant to become commercial hubs for domestic, regional and international corporations, therefore any businesses interested in establishing headquarters or offices in Egypt will either be relocating or acquiring new office spaces in the newer developments within the up and coming mega projects.

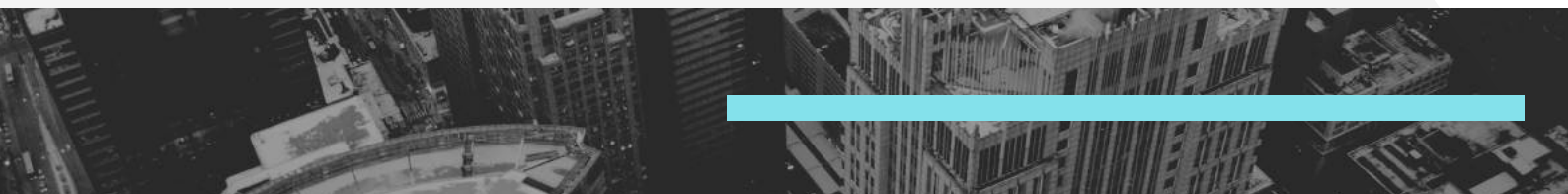
Furthermore, as a result of the Egyptian pound floatation more international corporations are increasingly interested in establishing offices within Egypt and relocating their production and service lines into the country due to the lower costs in comparison to other markets in the region such as the GCC countries.

Consequently, developers have been increasing their establishment of new fully integrated business parks with high international quality standards in order to capitalize on the increasing demand. Moreover, due to the new mega-projects as well as new airports and road-networks being established, the demand is expected to continue rising while the market will remain undersupplied.

The office supply in Greater Cairo is expected to reach 1.1m sqm GLA by the end of 2018, in comparison Dubai's office supply is reaching 9.13m sqm GLA by the end of 2018, while Abu Dhabi's office supply will reach 3.7m sqm GLA by the end of 2018. Therefore, according to Greater Cairo's total population and land area, it's offices sector is direly undersupplied.

Moreover, all office spaces within proximity of the new road networks leading to the New Administrative Capital as well as other newly established business parks will experience high appreciation rates due to their location and the ever-increasing demand. Therefore making the sector highly attractive for investment. In fact, demand for office spaces has increased 30% in the last two years, which is an unprecedented increase.

In terms of performance, mixed use developments with office components, as well as business parks with flexible layouts and sizing performed best during 2018 due to their volatility among both SMEs as end-users as well as affordability to investors alike. Developments with semi-flexible payment plans performed better, although location and delivery dates countered non-flexible payment plans especially for projects in New Cairo's golden square. Projects in proximity of new expansion and urban development areas also performed better than those in less populated areas or ones within areas expected to have long-term residential population plans such as NAC.



The healthcare sector has also thrived in 2018. This is largely due to growing healthcare trends as well as forecasted population growth rates. Egypt is already the most populous Arab country in the World with its 96 million residents, but with an estimated population growth rate of 2.2% per annum, the demand for infrastructure services is expected to continue rising.

Among the most demanded infrastructural sectors is healthcare, where real estate developers are consistently trying to provide the undersupplied market with new innovative facilities that can cater to an evolving demand. The demand for high quality healthcare facilities is currently at an all-time high in Egypt for multiple reasons. First, the high population growth rate is a tremendous driving factor for an ever-increasing demand for healthcare facilities. Despite some increase in supply of clinic complex facilities, the market remains heavily undersupplied. Furthermore, the changing demographic profile is also a contributing factor for increased demand; the country currently has a young population profile with almost 40% under the age of 15 and another 20% between the ages of 15 and 24. Although these younger age groups are relatively low risk for health problems, they remain at the highest risk for emergency health care, trauma and rehabilitation facilities, and pediatric facilities that can provide immediate high quality care efficiently. Moreover, as Egypt's growing population ages, there will be a sharp rise in demand for healthcare facilities as 80% of people's healthcare requirements occur after the age of 40-50 years.

The international recommended threshold for hospital beds per 1000 patients is 10, Egypt currently has a 2.1 beds per 1000 people. This reflects a dire need for more healthcare facilities.

Second, increased private medical insurance accessibility and penetration has also driven an exponential increase in the demand for private healthcare providers. In turn, the market has increased demand for high quality polyclinic facilities, hospitals, and customized medical facility developers.

Thirdly, the demographic profile also ensures that there is an increase in middle and upper-class income women, who represent a demand market for beauty and cosmetic related treatments. Additionally, these medical facilities are in higher demand than ever due to the advancements in social media and visual marketing pressures.

Moreover, another effective factor that has driven healthcare real estate into being a highly demanded sector has been the rise of medical tourism due to the competitiveness of treatment prices after the Egyptian pound floatation. However, this has put pressure on healthcare providers to seek better quality facilities in order to meet the growing demand for reputable and high standard medical facilities that can be easily marketed to international patients.

Consequently, this rising demand combined with undersupplied market has made the healthcare real estate sector among the most successful in terms of performance during 2018 in Egypt as it proved to be of vast potential for both developers, end users, and investors.

Performance Summary for 2018

- The residential real estate sector has experienced a noticeable slow-down in its 2018 performance due to a weakening purchasing power as well as a similar supply entering the market all at once, resulting in a state of hesitation among buyers and a no-rush environment especially concerning developments in new expansion areas such as NAC.
- Residential projects offering long-term payment plans have enabled the sector performance to only slow-down and not become stagnant altogether.
- New Alamein city development launches practically overshadowed other seasonal home project launches during the 2018 summer and proved to be a significant entry that most developers cannot compete with in terms of prices and locations.
- The commercial sector had a better performance than the residential one throughout 2018, largely attributed to the heavy undersupplied market as well as its significantly higher appreciation rates, which have reached 12% as of 2018.

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- The rising trend in the commercial sector and the highest performing projects have been mixed use developments with prime locations in residentially functional and populated East and West Cairo.
- Flexible layout and sizing options for both healthcare and office units are a trend among high performing projects for their ease and volatility among both end users such as SMEs as well as investors.
- The commercial sector has proven to be very attractive for foreign as well as domestic -expatriates and residents- investors and end users.
- The commercial sector remains severely undersupplied according to international thresholds for retail, offices, and healthcare spaces.



Looking Ahead: Performance Indicators & Projected Trends for 2019

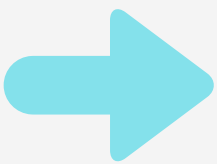
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The Egyptian economy will continue to experience macroeconomic changes during the current fiscal year of 2019 as part of the structural economic reforms enacted by the government under the advisory of the IMF. Among the most prominent stabilizing economic projections are decreasing inflation rate for 2019, which would revitalize a stronger purchasing power. Moreover, in addition to new tax laws on imports, a stronger environment of purchasing power and lower inflation would effectively encourage local production and economic development, which is part of the reasoning behind the growing annual GDP projections for Egypt. This in turn is also forecasted to increase the number of local product and service providers as well as entrepreneurs seeking brick and mortar retail locations as well as expanding their office locations, which would in turn positively affect the commercial real estate sector.

Moreover, the stabilizing currency is expected to also lower construction and development costs, while new government policies increasing production of oil as well as halting imports of liquified natural gas is expected to further increase the Egyptian pound's valuation exchange to the USD, which would in turn lower development and transportation costs. Consequently both mechanisms of a revitalized purchasing power as a result of lower inflation rates in combination with lower construction and development costs are forecasted to encourage better market performance in the real estate sector during 2019.



Real GDP is expected to grow by 5.6% in 2019 and continue increasing to reach 5.8% by FY20 and 7.7% by 2026, as a result of growing domestic production and industrial competitiveness in the construction and oil sectors.



ECONOMIC OVERVIEW 2019

An integral pillar of investment is having a comprehensive understanding of the market and a vision for future potential opportunities. Among the most effective variables in Egypt's real estate market in 2019 are population growth rates, urban development expansion plans, accessibility and road network plans, and finally the nature of developers and projects being introduced into the market.

First, investing in residential real estate in Mega Cities is highly rewarding, traditional or non-venture investors typically target mature Mega Cities such as London, New York, and Tokyo where rent ceilings have no bounds guaranteeing quick and high returns on investments. However, according to quantitative studies and investment specialists, emerging or developing Mega Cities such as Cairo are better long-term investments and should be the target for residential investment due to the forecasted population growth that can guarantee an exponential growth in demand over Europe and Japan, where population growth has been stagnant and is expected to decline heavily. This makes a developing Mega City such as Cairo the perfect target for foreign and domestic residential investment for venture capitalists looking for a long-term investment that can guarantee high returns as well as individuals with smaller budgets wanting to get ‘the biggest bang for their buck’ and who could also utilize the properties purchased as relocation investments in the future. This in turn could very well change the dynamics of the residential sector within the next two years, and tremendously affect its performance during 2019 if projects are exported to targeted foreign markets and investors. This is especially true when considering new urban development expansion plans with forecasted functionality and operational dates, which would later encourage and revive demand for those areas such as NAC within the local market after they've gained international demand.



SECTOR OVERVIEW 2019

Second, among the most over looked variables that can affect real estate value is new road networks that can affect accessibility to properties.

New road networks such as highways routes or bridge links increase traffic to an area, therefore effectively increasing footfall for commercial properties within that area. This not only increases business for operating commercial areas, but it also exponentially increases the value of those commercial properties by 30 to 60% as well as all areas within accessible proximity to the new road network.

This is precisely the case for all future road networks being built as part of the government's grand strategy to increase urban development through building a comprehensive road network that connects Cairo with new mega projects such the New Administrative Capital through highways such as Sheikh Bin Zayed Axis that is to be completed soon. In turn, all residential and commercial properties within accessible proximity of the entrance to that highway will experience an exponential increase in footfall as well as appreciation rates once the highway is completed and operational in the near future.

Finally, the most important of factors that will be shaping Egypt's real estate market performance in 2019 is the nature of developers and supply of projects being introduced into the market. Today's market has a surplus of developers with no record of development or in the real estate in general, which cannot identify a growing market and only leads to market confusion. Instead this year's market is expected to be one of mergers, acquisitions, and survival of the fittest of developers in terms of innovative projects, relevance to demand, balancing affordability, and catering to a growing millennial generation that demands sustainable smart projects.



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