



REPORT

SAVILLS RESEARCH 2021

# The Property Report

EGYPT





## Foreword

The real estate sector in Egypt is unlike any other in the region. The single biggest reason for this is the underlying demographics. The population of Egypt is now over 100 Mn and is growing at around 2% per annum, that is an additional 2 Mn people every single year. Add to this, the fact that the population is extremely young, with many still yet to enter their prime earning and purchasing years, not to mention an economy that was growing at over 5% per annum before Covid and still managed an extraordinary 3.6% growth in 2020. This has resulted in an extremely buoyant real estate market that still shows little sign of slowing down.

Real estate in Egypt has also been the preferred investment asset due an inherent cultural preference. In addition, the Egyptian Pound underwent a significant devaluation at the end of 2016 after The Central Bank of Egypt announced that it would be fully floated. Investments into real estate were therefore considered even more as a safe hedge against inflation. It became part of the Egyptian culture to put your savings into real estate rather than leave money in the bank. Even though the financial system has witnessed a high level of stability in recent years, with an improvement in economic performance as a result of the government's successful economic reform programme, real estate continues to remain the preferred investment option and one of the fastest growing segments of the economy.

The long-term economic opportunity that the country offers has also attracted foreign investors and corporates to the region. There has been a steady growth in the number of foreign corporates that have either recently established their operations in the county or expanded their footprint. Over the last decade there has also been a shift in demand towards Sheikh Zayed in the West and New Cairo in the East. The product offering has also changed towards modern investment grade and integrated developments to match the international corporates' requirements.

Retail has been another segment in vogue. Close to 65.2% of the population falls within the ages of 15 – 35 years old, serving as a catalyst for retail growth in the country. This is evident in the annual retail sales that exceeded USD 149 Bn in 2019 and is projected to grow to USD 160 Bn by 2023, compared to USD 105 Bn and USD 60 Bn in Saudi Arabia and UAE respectively by 2023.

The emergence of organised and Grade A developments will continue to gain popularity in the long run, as more mid-to-high end projects get delivered in the next few years. New asset classes, such as serviced/branded residence are also gaining popularity, with this sector forecast to grow faster in Egypt than any other country in the world over the next four years.

It would also be remiss of us not to mention the New Administrative Capital, a new city to the East of Cairo that is expected to eventually become home to approximately 6.5 Mn people, that will start coming online later this year. First with the moving of ministries and governmental agencies to the new city, which is expected to take place before the end of 2021, and then the completion of the 1.96 Mn sqm CBD in 2022 which will include Iconic Tower, the tallest tower in Africa at almost 400m tall.

This report aims to review the status-quo of the real estate sector in Cairo and the opportunities it offers to various stakeholders. It also aims to shed light on government initiatives and the positive impact it is likely to have on the segment going forward.



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Real estate amounted to 10.3% of the total GDP while the construction sector amounted to 4.9%

"The Polygon - SODIC"

## Economy expands in Egypt, despite global slowdown

In recent years, Egypt has been considered the fastest growing emerging market globally. Between 2016-2019, the country has been able to successfully execute economic reforms supported by the International Monetary Fund's (IMF's) Extended Fund Facility (EFF). The country is on track to build-up strong reserve buffers which already reached a high of USD 40.1 billion by the end of January 2021<sup>1</sup> and saw a significant reduction in public debt. The economy recorded strong growth, falling unemployment and moderating inflation.

The economy also boasts a stable macroeconomic environment, due to the bold fiscal, monetary and energy sector reforms. The government targets a budget revenue of EGP1.3 trillion in the FY 2020/21, increasing from EGP1.1 trillion the previous fiscal year, which amounts to around 19.2% of the GDP. The total government expenditure for the FY2019/20 was around EGP1.5 trillion which accounted for 27.1% of the GDP.

The manufacturing and wholesale & retail sectors are the two main contributors to GDP during 2019/2020, at 17.1% and 14.5% respectively, amounting to EGP 942 Bn and EGP 803 Bn in sector value. The real estate sector during the same period, contributed 10.3% of total GDP, and the construction sector recorded 4.9%.

The recent interest rate cuts reflect the CBE's confidence in maintaining inflation rates towards the lower end of the forecasted 6-12% range. These gradual cuts also help to facilitate accessibility to financing for the different businesses, while enhancing the overall market liquidity.

The government was looking to build upon the success of the past few years and further expand and strengthen structural reforms that began under the EFF, however,

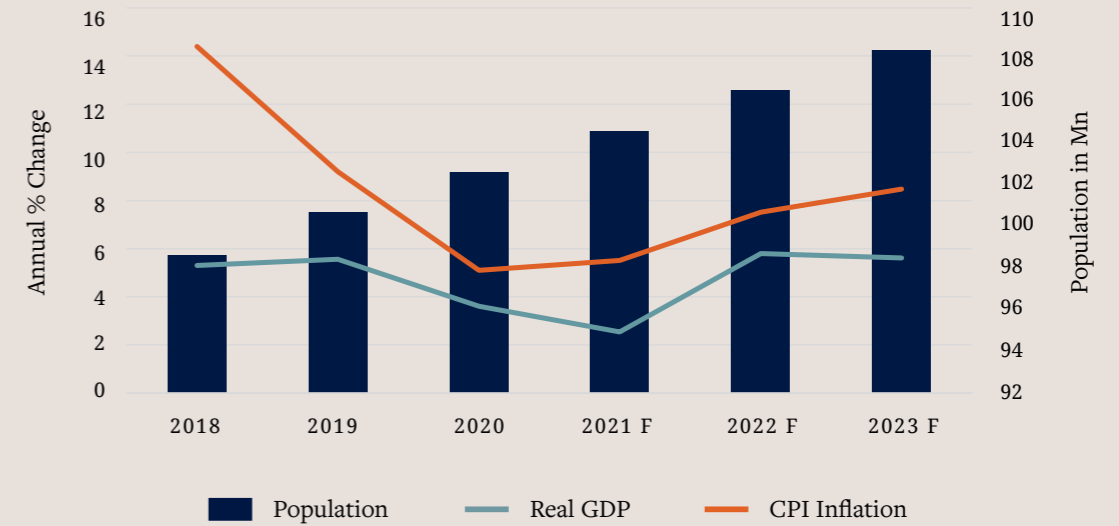
significant global, regional and domestic disruptions caused by the COVID-19 pandemic have negatively impacted the country's economic growth momentum.

Nevertheless, Egypt is among the 5 countries to record a positive GDP growth rate above 2%, and among a total of 26 countries to record positive economic growth in 2020. Despite the sudden halt in global tourism and the fall in exports, Egypt still managed to record an impressive 3.5% growth in GDP. While in the short-term, economic activity is likely to moderate to around 4.5% during 2021 and 2022, it is expected to return to pre-pandemic growth of around 5% from 2023 onwards. With one of the biggest consumer markets and robust fundamentals in the region, Egypt is well positioned to attract even larger foreign investments and emerge from the pandemic in a strong position.

The IMF has recently approved a 12 month, USD 5.2 Bn Stand-By Arrangement (SBA) to maintain Egypt's macroeconomic stability, by protecting necessary social and health spending, while avoiding an excessive build-up of public debt. It also targets to implement key structural reforms to strengthen transparency, governance, and competition. These measures are likely to cushion any severe disruptions to the economy and lead to a gradual recovery. The latest preliminary figures confirm that the recovery from the pandemic started in 2020 Q3 – real GDP rose by 0.7% y-o-y in Q3, after contracting by 1.7% y-o-y over the previous quarter.

<sup>1</sup> Egypt Economic Monitor, World Bank

POPULATION, GDP AND INFLATION TREND



SOURCE OXFORD ECONOMICS, WORLD BANK

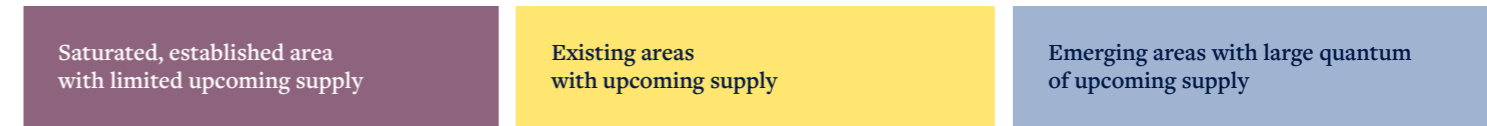
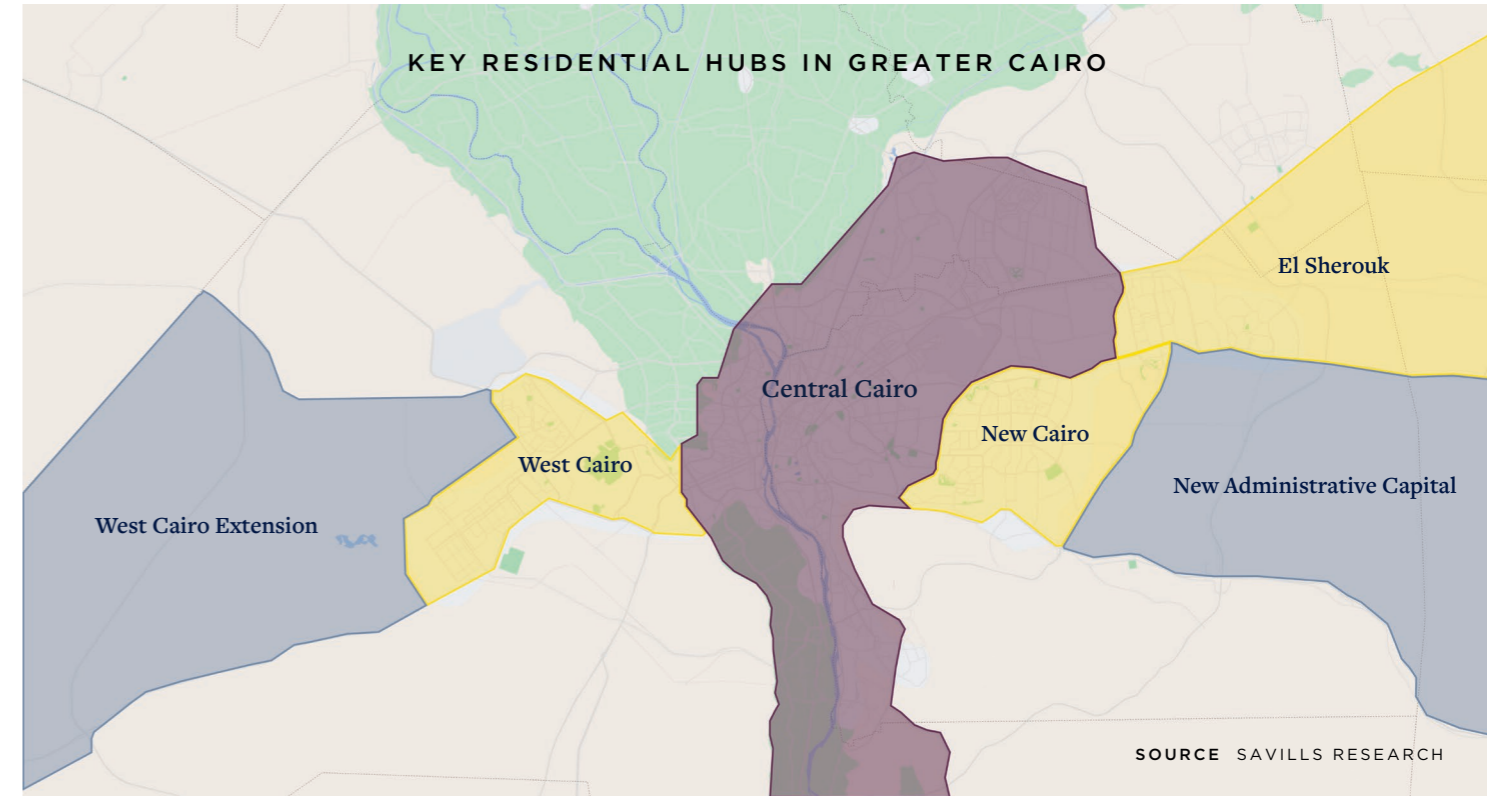
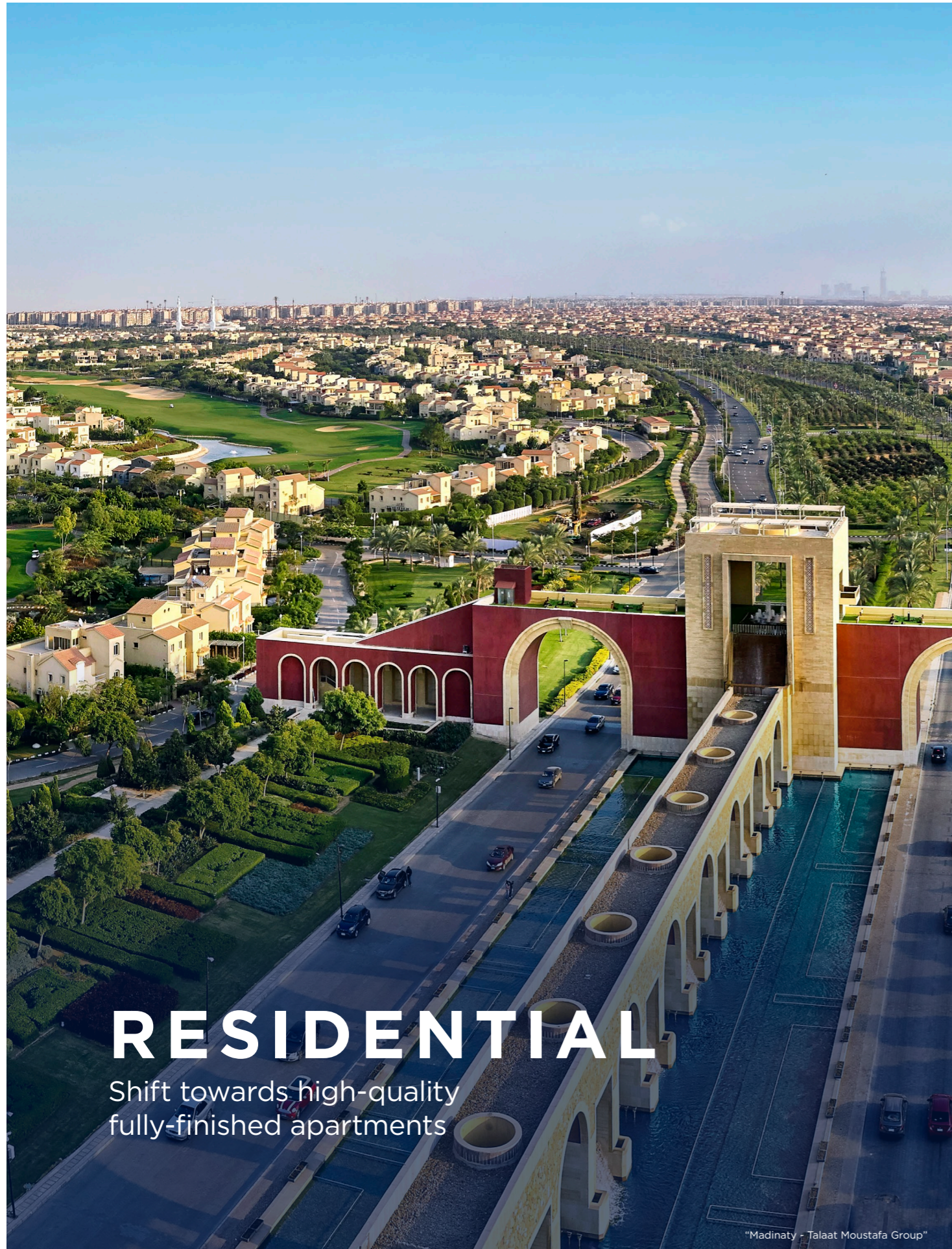
Going forward, it is anticipated that Egypt will witness an economic recovery, as exports and investments increase. However, whether said economic recovery will occur within the expected timeframe is still in question. This is mainly due to the slow-paced implementation of the local vaccination plan, as well as the possibility of a potential domestic and international surge in cases, together posing a threat to an economic recovery happening in the near future.

Across all the property asset classes, real estate remains an attractive investment in Egypt. Decreasing interest rates in the market has positioned real estate assets as a safe-haven investment across Egypt, driving demand from local investors, Egyptian expatriates as well as foreign investors. Individual appetite is focused on residential units and second homes, while corporate investors' appetite is concentrated on office and retail assets.



Nile Plaza - Talaat Moustafa Group





It is estimated that the current residential stock in Greater Cairo stands at approximately 7.1 Mn units<sup>2</sup>, with the bulk of the current stock concentrated across the Central Cairo micro-market. Apartments amount to roughly 93.2% of this supply in Central Cairo, while mixed-use developments account for 4.2%. Being the former city centre, most of the stock in Central Cairo takes the form of old, often, deteriorating buildings.

The Egyptian New Urban Communities Authority (NUCA), along with other governmental authorities, have ensured the availability of land to various private developers to execute new masterplan projects, signalling an increase in supply in the market. This has led to the development of various large mixed-use developments across both West Cairo and New Cairo, leading to a strong increase in the supply of Grade A residential developments.

The majority of Grade A units within West Cairo and New Cairo, which are currently estimated to be 69,400 units, is composed of new apartments spread over a number of

prominent developments, such as Mivida by Emaar, Palm Hills New Cairo, and SODIC East-town, among others.

In line with the supply, the demand for residential units has remained strong across Greater Cairo as well. A large portion of the demand has been found to be generated by the domestic population, making a growing population a key factor in the growth of the residential sector.

Whole buildings and stand-alone villa developments of good quality are also sought-after primarily by affluent and larger families. Apartments on the other hand, which are available through a mix of both private and public sector projects, are usually popular among young families and small investors, tracing back to ticket price, affordability, high quality finishing, and their accommodation of community facilities.

<sup>2</sup> CAPMAS



RESIDENTIAL SUPPLY (2010 — 2025)



SOURCE CAPMAS & SAVILLS RESEARCH

Residential Demand is expected to continue to increase in the coming years driven by population growth, which is forecast to increase at a CAGR of 1.4%, as well as the slight decrease of the average household size from 3.56 in 2020 to 3.46 in 2025. The overall demand is expected to remain strong and resilient despite the impacts of COVID-19. In addition, demand is likely to remain concentrated

across the mid-to-high end segment, making them a preferred investment choice for the top income category of the population, mainly for their good-quality services. Nevertheless, the market will still witness a surplus, as large inventory is being rolled out across multiple neighbourhoods and segments of the market.



"Oriana Villas - Cairo Festival City"

# Key Takeaways

## Categorization of residential supply types

### TRADITIONAL BUILDINGS

Residential buildings are largely concentrated in Central Cairo, majority of which are standalone buildings some of which have been constructed in the early 60's.

### RESIDENTIAL COMPOUNDS

These are purpose built gated communities that offer apartments and villas for different price segment.

These compounds are characterised by having community facilities, supporting retail amenities and are generally professionally managed.

### GOVERNMENT COMPOUNDS

The Ministry of Housing, as part of a government urban development initiative, have been developing affordable developments across different cities.

They represent a new asset class offering from the ministry of housing, catering for the demand of medium income level households.

### GOVERNMENT RESIDENTIAL

In 2014 the government launched a new program for developing lower income residential units. The project aims to construct 725,000 residential units.

"Forty West - SODIC"

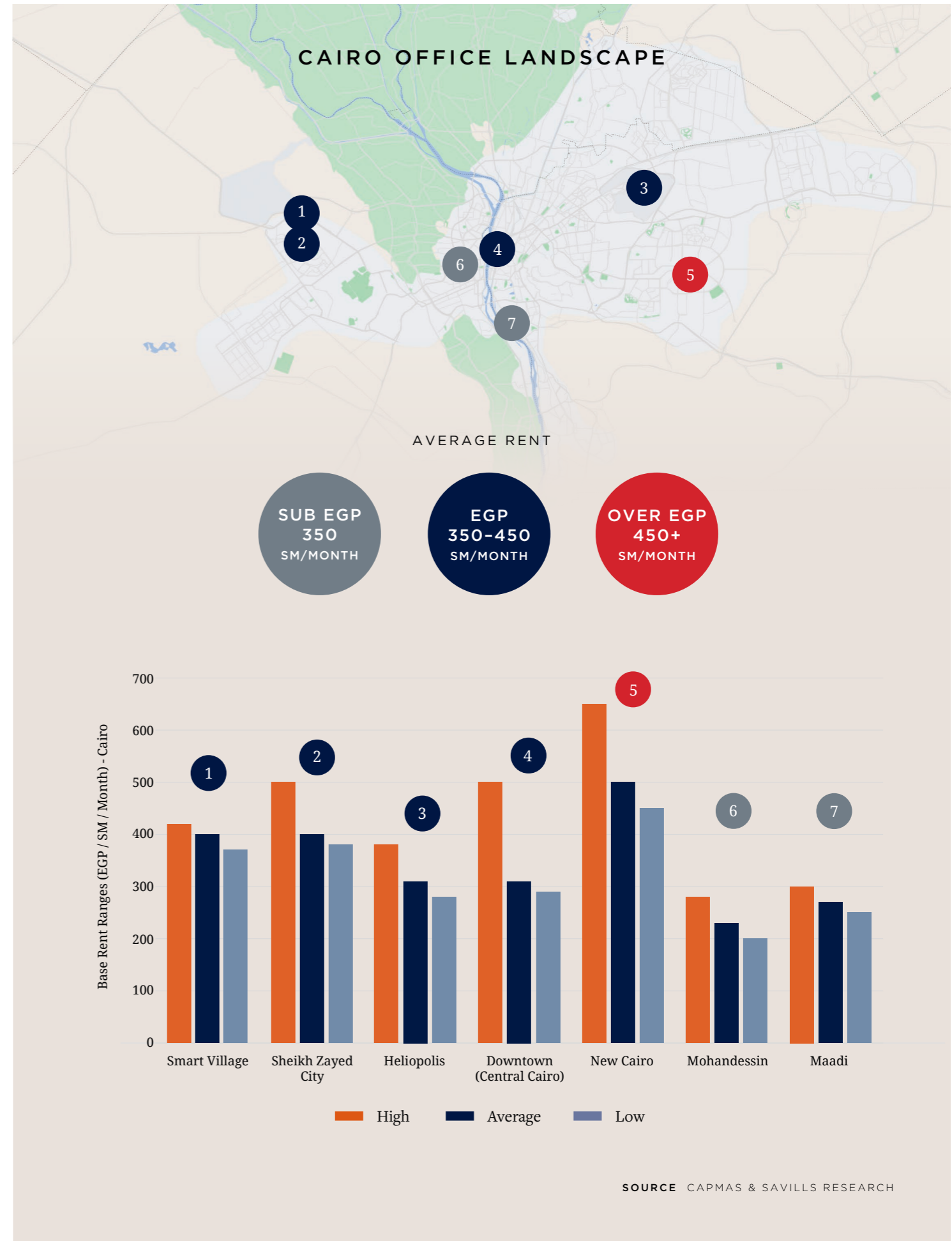




# OFFICE

Strong demand for good quality office space remains intact

"The Polygon - SODIC"





## OFFICE SUPPLY ACROSS GREATER CAIRO



SOURCE CAPMAS &amp; SAVILLS RESEARCH

Demand for office space has remained strong, gradually increasing on an annual basis across Greater Cairo. There has been a steady growth in the number of foreign corporates that have either recently established operations in the city or expanded their footprint. There has also been a shift in both demand and supply patterns within the key office hubs.

In Q2 2020, Egypt witnessed a number of global corporates put their plans on hold while they reassess their strategy due to the ongoing pandemic. However, as confidence in the economy is regained and with an optimistic long-term outlook, global firms are either proceeding or planning to proceed with their pre-Covid real estate strategies.

Developers and occupiers are moving towards mixed-use office parks, which offer various amenities and sufficient parking. The majority of developers adopt a hybrid model, where they offer part of the project for sale, while retaining the remaining office space to lease. Due to the high demand for these mixed-use commercial parks, prices have rapidly increased over the last 12 months. On the other hand, stand-alone office buildings with low parking ratios have seen their rates remain stagnant.

In recent years, large multi-national companies have been withdrawing away from Downtown Cairo and Giza towards office developments in Sheikh Zayed City and New Cairo. While Smart Village, Capital Business Park and Arkan Plaza have succeeded in attracting international tenants in West-Cairo, office projects across East-Cairo are emerging as a preferred option for the majority of corporate occupiers. This is largely driven by their proximity to the New Administrative Capital and Cairo International Airport.

The current office supply in Cairo currently stands at 1.7 million sqm (end of 2020). Upcoming supply of Grade A space is concentrated in the New Administrative Capital as well as New Cairo where international tenants constitute the majority of the demand. Business parks have gained popularity among newly launched office projects, essentially for their efficient space layout, generous car parking ratio for staff and visitors, and supporting retail and F&B services within the project



"Nile City Towers - Nile City Investments"

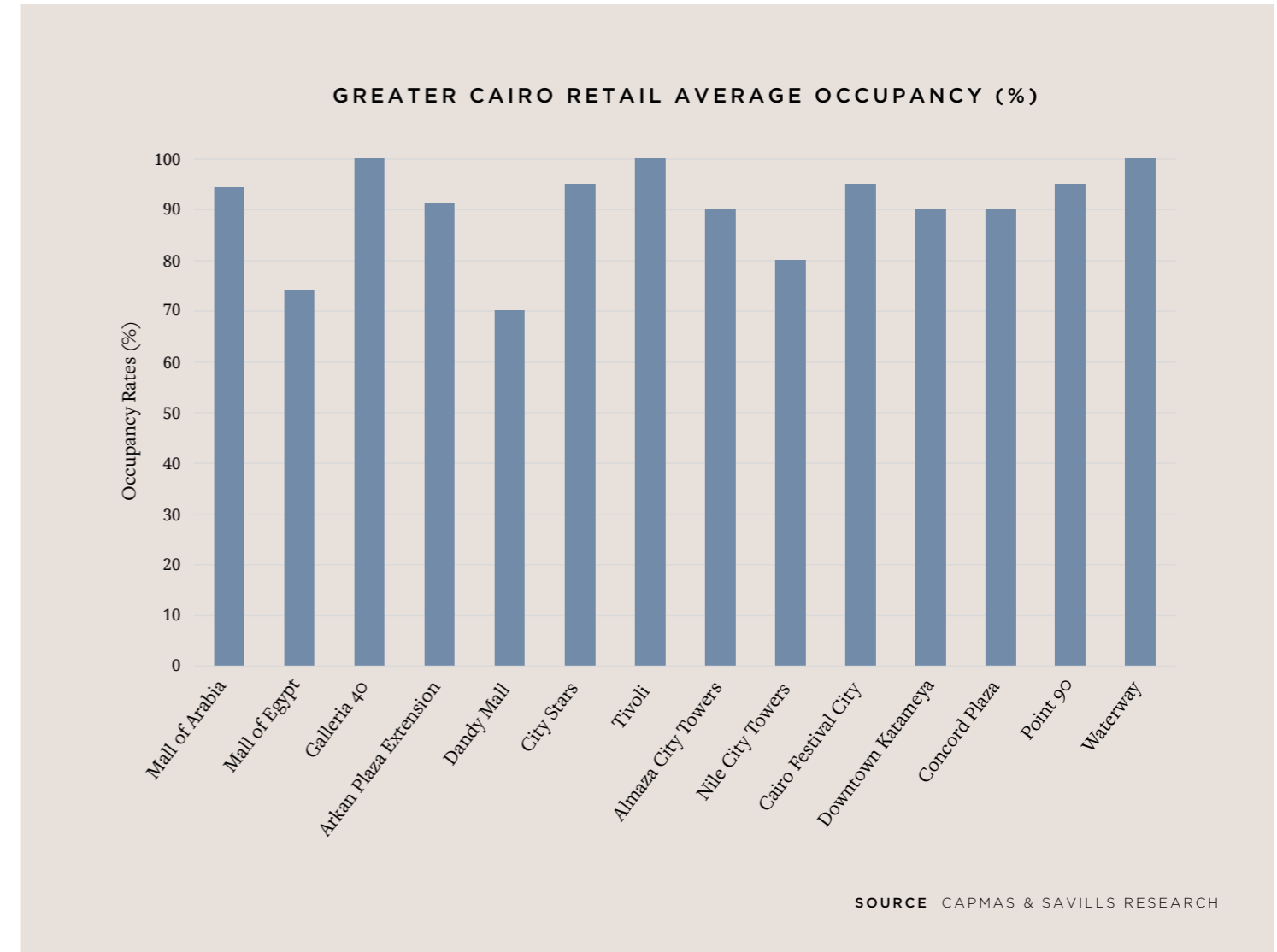




# RETAIL

F&B and FEC segment leading the retail occupier boom

"Arkan Plaza - El Badr"



Greater Cairo, being one of the largest retail markets in the Middle East and North Africa, holds a strong demographic advantage in driving demand in the region. This is evident in annual retail sales exceeding EGP 523 Bn in 2019, which are expected to grow to EGP 787 Bn by 2023. The key behind these figures lies in a strong population (19.2 million as of 2020) and a growing and affluent middle class. Furthermore, close to 65.2% of the population falls within the ages of 15 – 35 years old, serving as a catalyst for retail growth in the region.

Retail in Greater Cairo has evolved ever since trading laws were reformed in the early 2000's which facilitated the entrance of new international brands into the local market. Consumer preferences towards more organized retail centres have prompted retailers to relocate from high streets to organized retail development. This shift has been more prevalent in the last few years, especially in 2019, where there was a significant increase in the city's retail GLA with the handover of Mall of Egypt and Almaza City

Centre, in addition to retail strips in New Cairo and the expansion of Cairo Festival City.

The completion of these Grade A developments came at a time when the concept of retail was evolving in the region, with experiential retail gaining foothold. Consumers are looking at retail centres beyond just a place to shop and more as a place to unwind and get-together. Retailers and developers are focusing on experiential retail and creating dynamic destinations geared around F&B, leisure and entertainment.

Preference towards open air and walkthroughs has also increased, which has resulted in a growing popularity for retail strips across Greater Cairo. In line with this shift, Cairo Festival City Mall and Mall of Arabia, amongst others, have expanded their offering to include outdoor retail shops geared around visitor experience, designated to different retail categories.

Note – F&B (Food and Beverage), FEC (Family Entertainment Concepts)





"Forty West - SODIC"

## RESIDENTIAL

Demand in the residential sector is likely to grow in tandem with the growing population of Greater Cairo and Egypt in general. The emergence of organised and Grade A residential communities will continue to gain popularity in the long run, as more mid-to-high end projects get delivered in the next few years. Demand for fully finished high quality apartments is also likely to gain traction. This will also push real-estate hotspots further into the new micro-markets. It is expected that supply will increase, bringing the total number of Grade A units to 169,200 by 2025 in West and New Cairo, concurrent with the completion of other projects, such as Palm Hills Badya, Orascom O-West, TMG Madinaty, among others. The country's favourable demographics (young population base) and the Government's target to increase homeownership, are likely to stimulate demand for newer types of residential products in the market. The residential offering is also gradually but significantly changing to adapt to the modern lifestyle needs of the population, which is reflected in some of the recent and upcoming project handovers. This is captured through enhancing of product placements with regards to finishing materials, designs and unit sizes as well as focusing on providing more services within the mixed-use development enhancing the appeal to potential residents.

## OFFICE

The population and the labour force of Greater Cairo are the key demand drivers for office space in the city. Greater Cairo has a population of around 19 million which is expected to reach 20.5 million by 2025. On the other hand, the labour force of Greater Cairo is around 6.1 million and is expected to reach around 7 million by 2025. Along with a growing population, the political and economic stability of Egypt will continue to attract foreign capital and corporates into the region. Office supply in Greater Cairo is projected to grow to around 4.5 Mn sqm by 2025.

The shift in demand from standalone office buildings is likely to continue going forward. Demand is likely to be concentrated across East Greater Cairo, due to the proximity to the New Administrative Capital.

## RETAIL

In line with the growth in consumer spending, demand for retail centres focusing on F&B and FEC (Family Entertainment Concepts) is likely to remain strong. Despite the significant quantum of retail supply, opportunities remain for new and unique retail concepts geared towards offering experiential and leisure offerings. Observing the increasing trend towards retail strips and convenience / neighbourhood retail, developers have realized the opportunity of developing retail components within their master plan to attract footfall and create a destination. Contrary to global trends, though COVID-19 has negatively impacted retail developments globally and led to the emergence of e-commerce, Egyptian consumers still prefer conventional shopping which will continue to drive demand for retail offerings in the region. There is a clear shift in demand towards strip retail and more urban out-door settings. Going forward, we might witness a lot more supply geared towards open shopping streets in the style of the major European boulevards.







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