An Insight into the Upwards Trajectory of the Real Estate Sector 2016

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Profits and Projects

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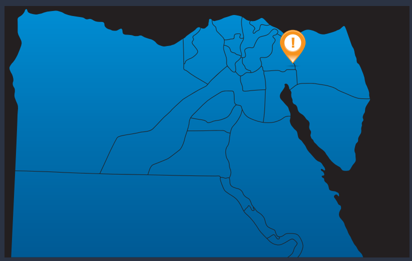

Projects Outside Greater Cairo

Reasons Behind the Real Estate Boom

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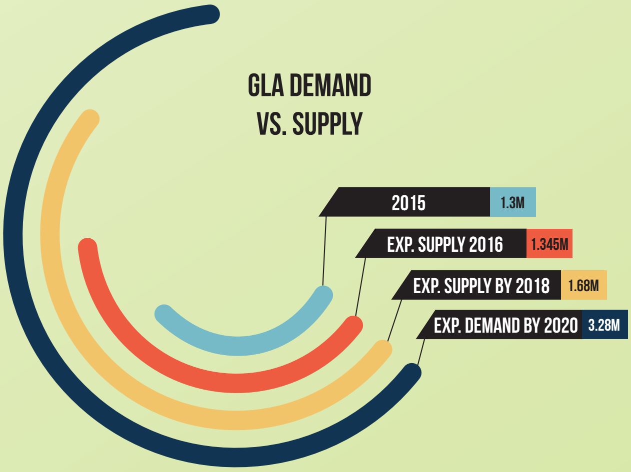
For years now, Egypt's real estate market has been the backbone of the country's economy and stayed steady through plenty of political and economic fluctuations. Despite some construction delays and security concerns, the real estate market's overall upward trajectory appears to be continuing in 2016, with companies reporting big profits, rosy outlooks, and a variety of new projects planned for the remainder of the year. Several factors contribute to the now booming industry, including the currency devaluation, political policies, and the country's demographics. A closer examination of these factors is crucial in determining the future of such positive trend.

Profits and Projects

Evidence of Egypt's real estate success can be found in strong company profits. Talaat Mostafa Group reported a 17% increase in consolidated revenue for 2015, totaling EGP 6,180 million, and net profits of EGP 762 million, which is 12% higher than the previous year. Palm Hills Development's revenue increased 69% to a record EGP 3.6 billion in 2015, and the company had a net profit of EGP 1 billion, a remarkable 192% year on year growth. Sixth of October Development & Investment Company (SODIC) also did well last year, with a 21% increase in net profits totaling EGP 310.7 million, and revenues of EGP 1.47 billion, compared to EGP 1.37 billion in 2014. Emaar Misr's revenues increased to EGP 3.2 billion, up 24%. The company enjoyed net profits of EGP 854.7 million, an impressive increase of 104.5% over last year. Madinet Nasr Housing & Development's net profit rose by 15% in 2015 to EGP 245 million. Revenues rose just barely to 748.4 million pounds. Those profits reportedly came from the completion of a variety of construction projects, and estimates for the coming years call for increase in office, residential, retail, and hospitality spaces.

Research from Colliers International, a global commercial real estate company, indicates that more than 800,000 square meters of office space will be constructed between 2015 and 2018. The company contends that office space is currently undersupplied, and will require at least 3.1 million square meters more by 2020. According to Jones Lang LaSalle (JLL), a global real estate services firm who published "The Cairo Real Estate Market, 2015: A Year in Review," about 31,000 square meters of gross leasable area (GLA) of new office space was built in 2015, located mostly in 6th of October and New Cairo, bringing total Cairo office space to about 920,000 square meters. BMI Research, an international research firm, predicts that an improving economy will increase opportunities in office real estate this year and lead to rising rental rates and demand for more space. The company also forecasts increased demand for retail space in New Cairo in 2016.

In Cairo, 7,560 residential units were built in 2015, although 30,000 units had been forecast by developers at the beginning of the year. JLL expects residential construction delays to continue this year, due to the rise in construction costs as a result of devaluation, and importation restrictions on construction materials. The company reports that 600 residential units were completed in the first quarter of 2016. Both low-income and luxury housing are in high demand,



but the greatest demand is among middle income residents. Colliers International estimates that Cairo will require an additional 500,000 units by 2020.

Last year the completion of 93,000 square meters of retail GLA brought Cairo's total mall-based retail space to 1.3 million square meters, according to JLL research. This year the company predicts an additional 45 thousand square meters from completion of the Capital Mall in Heliopolis. The company also anticipates that 338 thousand square meters will be constructed in 2017. Colliers International expects that Cairo will require an additional 1.6 million square meters of GLA by 2020 to accommodate improved consumer confidence and a growing population.

Only one new hotel was built in Cairo in 2015, but the demand for tourism infrastructure is increasing, according to Colliers, who estimates a 7.5% average annual increase in Cairo's hospitality demands over the next five to ten years. The company believes that Cairo will require an additional 10,540 keys above the announced supply by 2025.

Positive Projections

Riding the wave of positive financial statements and completed projects from 2015, real estate companies also have high expectations for the rest of the year. Wadi Degla Developments CEO, Maged Helmy, told Daily News Egypt in early April that the company hopes to double its sales to EGP 6 billion this year. Mohamed Sultan, CEO and Managing Director of Palm Hills, told the same news outlet that this year his company expect sales of over EGP 6.5 billion, a net profit exceeding EGP 650m, and constructions valued at over EGP 2 billion.

Palm Hills has reason to be cheerful; its housing units sell quickly, indicating a strong market for new residential space. In East Cairo, Palm Hills is constructing Capital Gardens with Madinet Nasr Housing & Development. Palm Hills offered pre-sales in this residential community in late 2015 and sold almost all of its 280 apartments in less than 48 hours. In mid-March 108 pre-sale units in the company's Palm Valley residential community, located in West Cairo, sold out within 48 hours with a total contracts value of EGP 491 million.

"We are very optimistic about the future of the Egyptian real estate market, especially as 2015 was a great year for all developers," said Tarek Abdel Rahman, co-CEO of Palm Hills Development, in an April interview with Daily News Egypt. "The market still has potential to grow in light of the increasing demand for housing and scarcity of supply on all levels."

Optimism abounds for the real estate sector. Homestrings, a British-based investment firm, expects Egypt's real estate sector to grow by 70% over the next four years. YouGov, an online market research company, recently conducted an online survey of attitudes towards the Egyptian real estate market. Results were released in early April and included opinions from 178 real estate professionals and 321 real estate investors. The survey found that 69% of professionals and 52% of investors were confident that the Egyptian real estate market would continue to grow over the next year. Most real estate investors and professionals surveyed expect that commercial and residential sales and rental prices will increase. Almost half of investors believe that the Fifth Settlement has the strongest potential for property investment.

Major Construction Projects on the Horizon

There are a number of exciting real estate projects either in the works or already underway across Egypt that will support the sector in the coming years. Some projects are partnerships between the Egyptian government and private companies, and many large-scale projects are funded by international investors.

The biggest construction project on the horizon is, of course, Egypt's new administrative capital city, which aims to transfer government ministries and other institutions to a new location east of Cairo. The project, estimated to cost EGP 400 billion, will also include residential and commercial areas spread over 700 square kilometers. Plans for the new capital were temporarily halted in 2015 after disagreements arose over costs and a timeline for the project. However, the first phase of development finally kicked off in early January when the China State Construction Engineering Corporation (CSCEC) signed memorandums of understanding with the Arab Contractors company to finance the construction of government buildings, a convention center, fairground, and 25,000 residential units. Minister of Housing, Utilities and Urban Communities, Moustafa Madbouly, announced in mid-March that CSCEC had completed designs for 12 ministries. In early April four construction companies began infrastructure development for the project and bidding for private companies to participate in the first phase should begin in the next few months. The following month, CSCEC signed a deal to provide Egyptian contractors with long-term loans to finance construction on 14 government buildings, a conference center, and a fair zone.

The government is participating in several other projects that will expand the real estate sector, with a particular focus on building low and middle income housing. In January, Egyptian President Abdel-Fattah Al Sisi called for the completion of 145,000 social housing units for young people this year, at an expected cost of EGP 20 billion. In February, President Sisi designated EGP 1 billion from the Tahya Masr Fund to finance construction of affordable residential units in several cities, including 6th of October, 10th of Ramadan City, and 15th of May City. The donation-based fund was created by President Sisi in 2014 to support the country's development.

Madbouly signed agreements with four banks in early 2016 to provide loans to the Social Housing Fund, established by the Ministry of Housing in 2014. This fund will support the completion of 150,000 residential units by the end of 2016, adding to the 100,000 that have already been constructed through the program.

The Ministry of Housing is also focusing on public-private partnership projects, and has recently signed several contacts with real estate developers totaling EGP 131 billion. One gigantic public-private partnership project is the Mountain View iCity, which was officially announced at the end of May. To be located in New Cairo, the EGP 32 billion iCity is a collaboration between the Egyptian company Mountain View, the Saudi company Sisban Holding, and the Egyptian Ministry of Housing. Mountain View and Sisban will own 60% of the project while the Ministry owns the remaining share. This sustainable urban community will be developed on a two square kilometer area and contain 18,000 housing units.

Other recent public-private partnership deals include a second

PUBLIC PRIVATE PARTNERSHIPS

Mountain View
500 Acres

Sisban Holding
470 Acres

Arabia Group
557 Acres

NEW ADMINISTRATIVE CAPITAL

Total area	700,000
Total cost in EGP billion	400
Ministries	12
No of units	25,000

contract with Mountain View and the Saudi company Sisban Holding for a project on 470 acres in 6th of October City. The Ministry has also contracted Arabia Group to construct an EGP 35 billion, 557 acre, mixed-use project in 6th of October City, called “The City of the Sun.”

Palm Hills inked a deal to build on 500 acres in New Cairo. The project will include 9,000 to 10,000 residential units, a commercial center, and leisure and educational facilities. Revenue is estimated to range between EGP 33 to 35 billion.

On June 1st, M Square Properties announced a new project called M Square Gardens, which will be built in New Cairo’s Fifth Settlement. Estimated investments of EGP 2 billion will be used to build a sustainable and environmentally-friendly community that will also include services such as a community centre, health club, stadium, swimming pool, retail shops, children’s area, and restaurants. Villas should be complete by the end of 2018 or 2019.

Cairo Airport City, a major commercial projects in Cairo, will sprawl across 10 million square meters, and is planned to include a new trade free zone, cargo village, civil aviation factories, food outlets, entertainment area, administrative offices, hotels, and a hospital. The new city will be implemented in multiple phases, with first phase completion expected by 2020.

ALBUROUJ

Total area	5,000,000
Total cost in EGP billion	40
No of units	30,000

Foreign Investments

Foreign companies are also putting up huge investments in Egyptian real estate projects. In mid-April, during a visit from Saudi King Salman bin Abdul Aziz Al-Saud, Egyptian and Saudi officials signed 10 agreements to fund development projects in the Sinai Peninsula. Planned projects include a Red Sea bridge linking Egypt and Saudi Arabia, roads, water and sanitation stations, a university, residential and agricultural complexes, and an economic zone.

UAE's Capital Group Properties aims to develop an EGP 40 billion urban project, called Alburouj, which will include 30,000 residential units on 5 million square meters between the Suez and Ismailia Desert roads. The first phase of construction is likely to begin this summer at an estimated cost of EGP 10 billion.

In late February, the Kuwait-based Amwal Real Estate announced plans to invest EGP 2 billion into Egyptian real estate projects this year. In early May, the Kuwaiti company Al-Juwisry began working with the Ministry of Housing to initiate a social housing project in 6th of October City. 10th of Ramadan for Housing and Construction Company will contract with the Housing Ministry to complete construction on the 14,000 square meter project.

Earlier this year, UAE's Majid Al Futtaim announced that it would expand its Egyptian investments and planned to spend EGP 23 billion over the coming years. Significant projects include the EGP 5 billion project Mall of Egypt, which is scheduled to open in September of this year. The company has also initiated construction on City Centre Almaza in Heliopolis. This project, worth an estimated EGP 4 billion, is expected to be open by early 2019 and will feature 103,455 square meters of retail space, as well as multiple restaurants, a Carrefour, cinema, and Magic Planet family entertainment center.

In a January 2016 press release, Alain Bejjani, CEO of Majid Al Futtaim, said, "Our commitment to Egypt's long term sustainable development means that we are immensely proud to begin work on City Centre Almaza and deliver on our ongoing support of Egypt as it moves towards becoming one of the world's leading economies." Other major projects that Majid Al Futtaim aims to complete in the coming years are an expansion of City Centre Maadi, the development of four new shopping malls in greater Cairo, and construction of four neighbourhood centres in Cairo's residential cities.

Al Futtaim Group, another UAE company, will increase investments in its massive Cairo Festival City project to a total investment figure of EGP 19 billion, which includes a mall, hotels, residential units, and commercial and administrative offices. The company has completed the first phase of the three-part project and is working on the second phase, which includes the mall, a 140,000 square meter commercial building, Kidzania, and hotels. Later projects include adding an additional 50,000 square meters of commercial space. At the end of last year, Al Futtaim Group secured EGP 2.5 billion in investments for three of its Cairo Festival City projects: the first phase of the Oriana project, which will include 243 villas; the Festival Living project, which will include 300 apartments; and five administrative buildings. The company also plans to build its two Festival City hotels for EGP 1.5 billion.

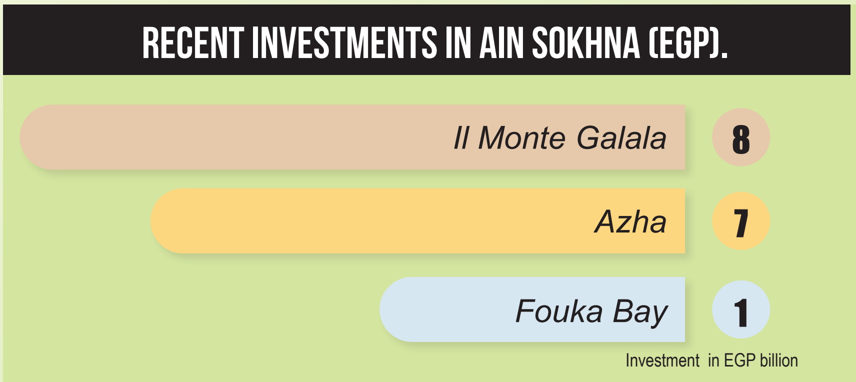
Developments Outside Cairo

Areas outside of Cairo will see major projects in the next few years as well, particularly development along the Suez Canal and residential and hotel construction in the north coast and Red Sea regions.

Egypt has big plans for the Suez Canal Zone. The government aims to create a world-class transport, logistics, commercial, and industrial hub in the area that will support nearly a million new jobs and two million new residents. One aspect of the project will focus on expanding and building new facilities at four ports: East Port Said, Ain Sokhna Port, 10th Ramadan Dry Port, and Ismalia Dry Port. Other plans for the region include expanding agricultural storage and transportation facilities; providing space for light and medium manufacturing; creating a business district and R & D park in Ain Sokhna; and building wind farms, gas turbines, and waste to energy incineration plants. Further schemes include expansion of urban areas in East Port Said, Bardawil City, Qantara, and Ismailia; and developing new residential cities around Ain Sokhna and new Suez Canal.

In early April, a group of Egyptian, Saudi, and Lebanese companies, known as the Ask-Capital alliance, signed a contract with the Suez Canal Economic Zone (SCZone) to develop a 6 million square meter industrial zone that will include factories for building materials, food industries, cars, and logistics areas.

Another ambitious project currently underway is the New Alamein city, located on the western side of the north coast. This city is supposed to eventually house 34 million residents and provide 11 million jobs by 2052. The Ministry of Housing has invested EGP 1.5 billion to begin development on 10,000 acres of New Alamein land. In early February, two contracting companies, Arab Contractors and the Egyptian Contracting Company, agreed to establish infrastructure for the city, including water utilities, sanitation, irrigation, and electricity. Infrastructure work is now underway. The first phase of construction should be completed by 2020.



Tatweer Misr is planning a development called Fouka Bay, located in Ras El Hekmah on the north coast. This residential project will be rolled out in four phases over five years, with estimated investments of EGP 1 billion. The first phase will involve completion of 155 residential units within three years. The company is also working on IL Monte Galala, a mixed-use resort project located on 2.2 million square meters in Ain Sokhna. This three-phase project will cost an estimated EGP 8 billion and is scheduled to be completed in 10 years. The first phase will consist of 1,600 residential and hotel units to be finished by 2019.

Emaar Misr is also investing in north coast development with its Marassi project in the Sidi Abdel Rahman area. The first stage of this project will include 1,105 residential and commercial units.

Madaar Development's EGP 7 billion Azha project, located in Ain Sokhna, will be aimed at first-time homebuyers and feature villas, houses, and restaurants. Azha should be completed within 6 to 7 years, with first phase units expected in 2018. Madaar Development also plans to launch a North Coast project in July.

Talaat Mostafa Group Holding expects to complete an expansion project on the Four Seasons Sharm El Sheikh hotel by early 2019. The project includes the addition of 99 hotel rooms, golf course, villas, meeting room, restaurants and swimming pools.

Al Forat Real Estate Investment, an Egyptian company, is building a residential compound in Alexandria that will include 212 villas spread across 138,00 square meters. The first two phases of construction on Jewar Compound should be completed by November 2018.

Reasons Behind the Real Estate Boom

Egypt's real estate market is flourishing for several reasons, including government incentives, attitudes towards the real estate market, and the country's demographics.

Government efforts to support the real estate market have helped encourage this sector's strong performance. According to Minister Madbouly, who spoke recently with Daily News Egypt, the Egyptian government plans to support the real estate industry through generous land offers to investors and individuals, through partnerships in the private sector, and by working to attract a large pool of foreign investors.

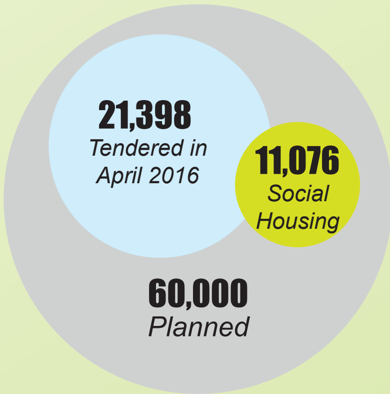
The government has put forth great efforts to attract investors. Last year the government removed lingering restrictions on foreign property ownership in Egypt and introduced rules that allow the government to participate in joint projects with the private sector. The government can now generate revenue from public lands while also easing the challenges of private land acquisition and constraints on supply for private developers. In 2015, the Egyptian government also amended the building tax law. Now, all buildings, whether completed or still under construction, are taxed, so companies have an incentive to quickly complete and rent or sell properties. In mid-April, a presidential decree allowed portions of land located in certain industrial zones to be allocated for free to investors who meet specific technical and financial requirements for development purposes.

At the official unveiling of the Mountain View iCity project, Ali Al Sharif, President of Sisban Holding Group, remarked that the Egyptian government has made great efforts to support foreign investment. "...Throughout the process of signing contracts, receiving land, obtaining licenses, up to and including launching the project, it was tangible to us just how keen the Egyptian government is on encouraging investments and removing any and all possible hurdles, even holding workshops to overcome any obstacles that may arise," said Sharif at the unveiling, according to the MENA Herald.

Also in mid-April, the Ministry of Housing, Utilities and Urban Communities put forth Egypt's largest land tender, which includes 21,398 pieces of land in 21 new cities. In total, the Ministry plans to offer 60,000 pieces of land, of which 11,076 pieces of land will be designated for social housing projects and the remainder for upscale residential projects. The parcel sizes range from 209 square meters to 1,500 square meters.

When asked, Kamal Fahmy, Vice President for the New Urban Communities Authority, commented that new real estate regulations will ease procedures for investors. According to the new regulations, land would not be withdrawn from investors who fail to meet delivery timelines, and a fine would be enforced according to the duration of the delay. New regulations will also ease the licensing procedures, and require the New Urban Communities Authority to provide utilities to the territories that are sold to investors, according to a specific timetable, to ensure that any investment project would not be stopped due to the lack of utilities. Further, he added that the Authority also will ease the procedures of obtaining lands through the unified investment law, which will award lands to companies after the approvals of the ministries of Defense and the Environment and the Antiquities, so as not to disrupt the allocation procedures because of the multiplicity of state bodies.

MINISTRY OF HOUSING LARGEST LAND TENDER



According to Fahmy, the new Council of Communities Authority has the power to grant intervals and additional deadlines to deliver projects, and to issue fines. If investors fail to deliver projects on time or fail to pay dues to the Authority, then they will be fined and may have land withdrawn.

Hany El Assal, Chairman of Misr Italia Group, attributes the flow of new investments into the real estate market to calm political conditions and a housing deficit for young people. The nature of the real estate sector, which allows individuals to pay the purchase price in installments over many years, also contributes to a strong sector, according to El Assal.

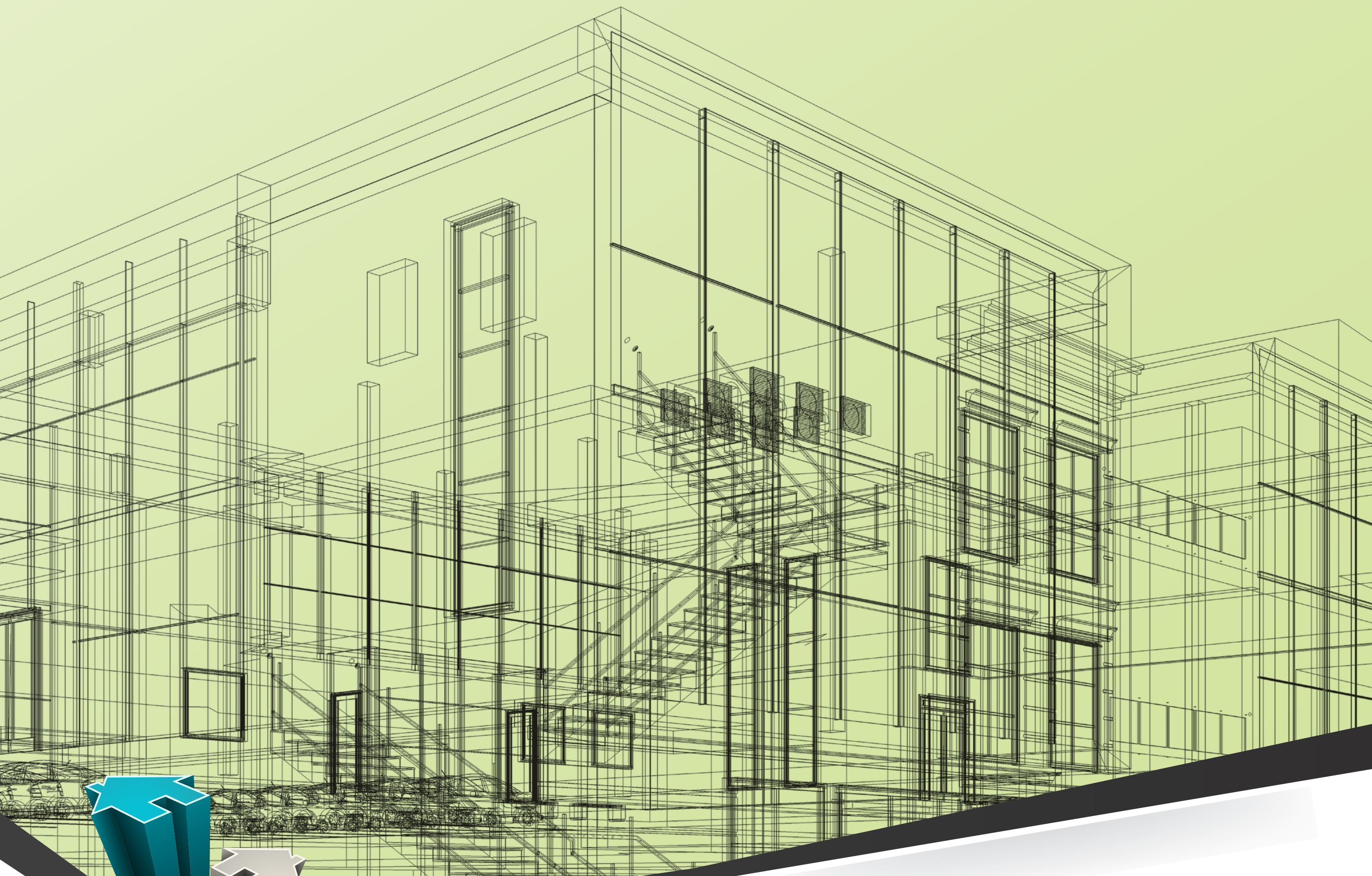
Others have also identified the

housing shortage as a crucial factor. "Residential demand is driven by very strong underlying demographics across all income segments," Magued Sherif, Managing Director of SODIC, told Oxford Business Group last year, "The accumulated housing gap is reported to be 3 million units, with an additional 300,000-500,000 units carried over each year, compared to the less than 20,000 units delivered per annum by private developers."

Attitudes towards real estate have helped maintain a strong residential market. When asked, John W. Salevurakis, Associate Professor of Economics at the American University in Cairo, said that Egyptians view real estate as a way to protect against inflation and depreciation of the Egyptian pound. "Clearly the declining value of the pound will have a positive impact on the real estate sector as Egyptians flee fiat currency in favor of more tangible stores of value," he said.

Salevurakis also identified the practice of purchasing apartments for children as a positive driver in the real estate market. Despite stagnant or even recently declining marriage rates, the demand for housing remains high as the population increases. Also, more than half of the country's 90 million inhabitants are under the age of 25, according to the United Nations Population Fund, and all these young people will eventually need housing. An increase in disposable incomes has also helped bolster the real estate market.

There are plenty of positive factors pushing the Egyptian real estate market on an upward trajectory in 2016 and lots of major projects to watch in the upcoming years. The upper end of the market is witnessing rising prices and increased supply along with growing interest in flipping properties, which Oxford Business Group warns could indicate the start of a bubble forming. On the lower end of the market there is a huge demand for housing coupled with a lack of supply. Given these contrasting trends, 2016 will be an important year for determining the long-term health of the real estate sector.



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