

COVID-19 STRESS-TESTS

# EGYPT'S COMMERCIAL & ADMINISTRATIVE ASSETS

BY **DINA EL BEHIRY & AYA RADY**

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**S**ince late 2019, the novel Coronavirus has been unfolding at a staggering pace, decimating livelihoods and resulting in unprecedented disruptions in doing business. Indeed, commercial and administrative real estate is no exception.

In a few weeks, the outbreak triggered indelible shifts across the commercial retail world, not to mention roiling workplaces, which are growing steadily accustomed to the new normal that people are not meeting, working, eating, shopping, and socializing like before, according to McKinsey and Company's latest article on April 9.

Experts agree that the COVID-19 epoch could forever change buyer behavior and preferences, which may consequently affect demand for commercial and administrative spaces. This also constitutes dining and recreational outlets, which are left shuttered globally for public safety, operating with limited services to takeout and delivery.

Under the current circumstances, our world has been changing from doing business as usual to office closures and working from home, alongside cautious travel. Consumers' habits have changed as well; people are now more inclined to stay in house and save up, spending mainly on fulfilling their necessities, primarily food, medicine, and home supplies - and getting these delivered much more often, according to the US-based consulting firm.

Conversely, grocery stores and pharmacies, which logged sharp hikes in sales and directed profit rises to staffing, supply chain shocks, and temporary pay increases for frontline workers during the outbreak, serve as an anchor for footfall to malls and commercial centers for remaining active despite shelter-in-place restrictions and mandatory closures, according to Colliers International's report, "Retailing in Unprecedented Times."

On the other end of the spectrum, looking at the administrative market, more companies were compelled to institute work-from-home policy due to the pandemic,

which will soon enough impair office demand, according to market professionals. They also affirm that many tenants are negotiating rent deferrals and reductions with landlords, while some others fail and go out of business, hence higher unemployment rates.

Generally speaking, sales of administrative/commercial units, says Al Futtaim Group Real Estate Managing Director Ashraf Ezz El-Din, during Invest-Gate's "New Real Estate Product" virtual roundtable, will drop in the coming period, due to an upward trend for leasing to have the flexibility of changing spaces whenever possible or necessary.

Online shopping, in parallel, will boom to doom numerous brick-and-mortar businesses. Zara, for example, will close as many as 1,000-1,200 stores worldwide over two years and focus on digital growth instead, after the clothing giant's sales went down 44% from last year, in light of the chaos wrought by the crisis.

And this is the takeaway of the lingering fears over a contagion that continues to haunt all nations, pairing with physical distancing becoming the new norm. Customers forced to not shop in-store, and go online instead, are permanently adjusting their buying habits for certain categories toward e-commerce, spelling gloom for retailers, McKinsey and Company further states.

All in all, consumer confidence has been dampened by ongoing concerns surrounding the COVID-19 deadlock, dropping consumption rates, and contracting sales and profits of the commercial and administrative sphere as a result.

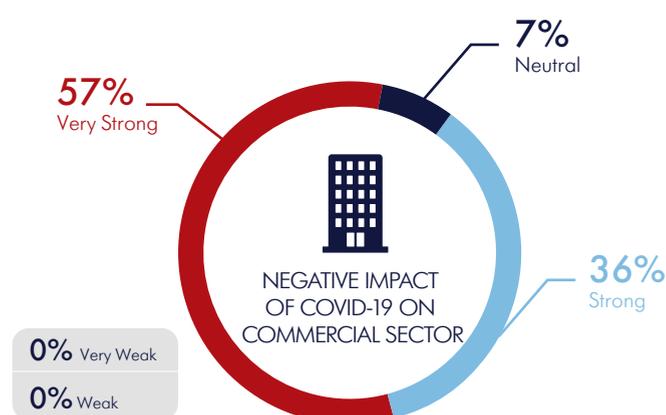
## Closer Look at Commercial & Office Spaces

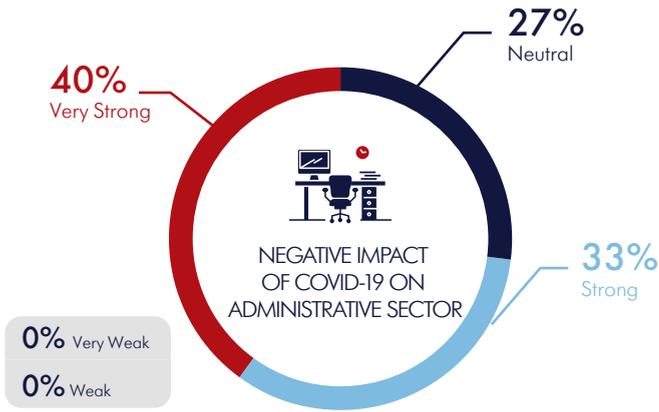
Against the foregoing backdrop, Invest-Gate's R&A team takes a pulse check on Egyptian commercial and office assets, surveying 15 local property developers to highlight the influence extent of the outbreak's odds and ends on the market landscape, in a bid to identify their aptitude to revive this fundamental chunk of the real estate market.

### Whatever Happened to Business?

In the aftermath of Coronavirus, commercial and administrative spaces were buffeted with the imposing of government-dictated precautionary measures, severely limiting the ability of many nonessential outlets to operate.

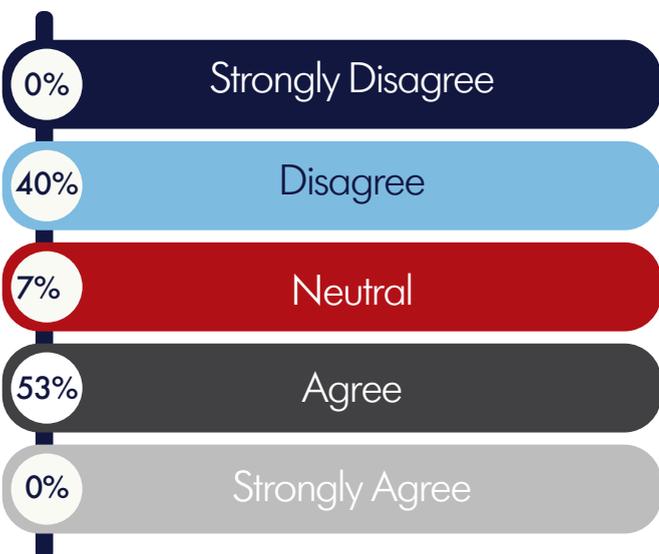
Based on Invest-Gate's research, 57% of responding companies strongly believe that the commercial sector is reeling with the germ episode's woes, whereas another 40% are fully confident that the office market has been hit hard by the crisis.





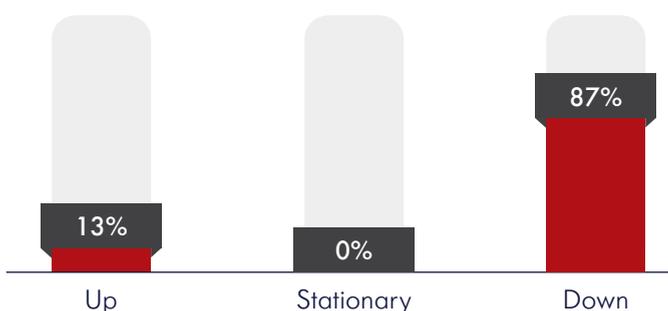
Owing to the COVID-19 wave, which already upended many facets of the property industry, 53% of respondents agree that demand for commercial and administrative units will drop in the near future, in the wake of the new social distancing norms.

**OFFICE & COMMERCIAL DEMAND SHRINK DUE TO CRISIS**



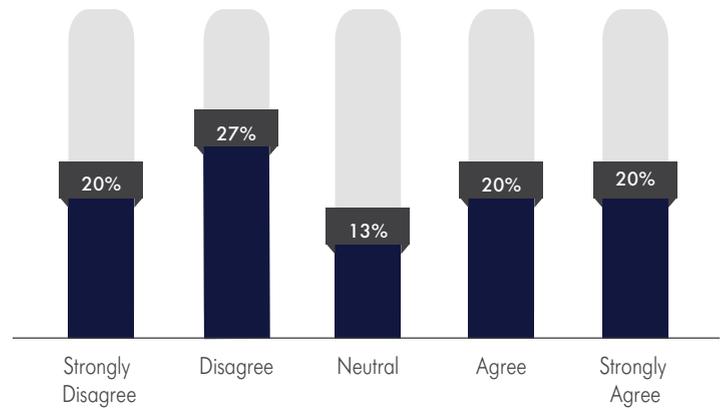
Due to the low demand, together with delayed installment payments, developers are falling short of sales volume and net profit. In numerical terms, 87% of those surveyed assume drawdown of revenues in Q1 2020, compared to the year-ago period.

**COMPANIES' REVENUES IN Q1 2020 VS. Q1 2019**



Several industry-related companies are seemingly absorbing the headwinds posed by Coronavirus, aiming to bounce back from losses to rivals. In the face of the pandemic, 47% of interviewed developers sort of managed to hand over some commercial and administrative projects nationwide. Another 40%, however, experienced some delays or disruptions due to the crisis, which hindered on-time deliveries.

**PROJECT DELAYS DUE TO CORONAVIRUS**



**Gov't Response**

As many countries face unprecedented challenges due to the COVID-19 shock, the strain on governments is extreme, and the impact on people all over the world keeps growing steadily. Thanks to the Egyptian state, a range of facilities and measures were extended to reinvigorate local virus-hit industries.

Among these are relaxations on income tax payments, pushing by three months the deadline for corporate real estate taxes. The government also allowed developers to settle existing real estate tax liabilities in monthly installments till next September. This comes in addition to postponing all credit dues for businesses and retail clients for six months, including small- and medium-sized enterprises (SMEs), corporates, and individual borrowers.

On top of that, the New Urban Communities Authority (NUCA) began cutting late fees on residential and commercial properties in new cities for the next two months to urge owners to pay their arrears. Starting June 4, those who pay 75% of past dues will see the total amount reduced by 70% - or even edged down by 45% and 20% when settling 50% and 25% of the required charges, respectively.

Moreover, as of May 24, the Local Development Ministry mandated banning construction permits in several urban cities for six months, including Greater Cairo and Alexandria. This is to ensure working in compliance with building codes and requirements, while also imposing strict measures against violators.

Based on Invest-Gate's R&A study, 27% of those surveyed agree on the effectiveness of the government response to help real estate developers stay on track to stem the virus and blueprint new layouts for recovery.



# Market Outlook

Keeping fingers crossed, property developers reckon on the Egyptian real estate market's potential to complement hazard control measures with resilience-based approaches, besides warding off any boomerang effects.

Accordingly, 40% of respondents assume rents to remain stationary despite the uncertainties, thereupon gradually resuming activities to full pace. Further, another 87% are keen on launching new commercial and office developments when the crisis begins to recede.

Misr Italia Properties (MIP), for example, vows to deliver its newly-launched administrative building in New Cairo's Cairo Business Park, called "Allure Executive Office," in the coming December. With the latest launching, the Egyptian developer plans to effectively and positively contribute to the country's property sector, introduce an excellent model of administrative and commercial projects, and provide an efficient work environment to attract local and international business professionals.

Having said that government support is crucial during the calamity, Invest-Gate's responding developers - namely 29% - propose a few recommendations to jumpstart the recovery efforts, in addition to strategies mentioned during Invest-Gate's virtual roundtable.

For the commercial sector, rolling out more warehouses within such areas have become crucial as online sales requires bigger inventories. Moreover, as the demand for commercial/retail centers goes down, developers must react by creating new recreational activities to lure more shoppers and tenants, hence fill in the gap. Adding to that, the provision of safe/contactless services to maintain productivity such as delivery and drive-thru services.

On the other hand, developers should tend to design multi-functional/mixed-use administrative buildings to combine business and leisure under one roof, driving acceleration for digital transformation. Some innovative/creative ideas can also help property companies meet the new consumer tastes and provide flexible options to buyers, including cloud kitchen and flex buildings for businesses to share spaces and provide proper storage. Most importantly, administrative buildings have to be certified as environmentally-friendly to promote healthy and eco-friendly work settings.



## EFFECT OF OUTBREAK ON RENTS IN NEAR FUTURE



## POST-CRISIS NEW PROJECT LAUNCHINGS



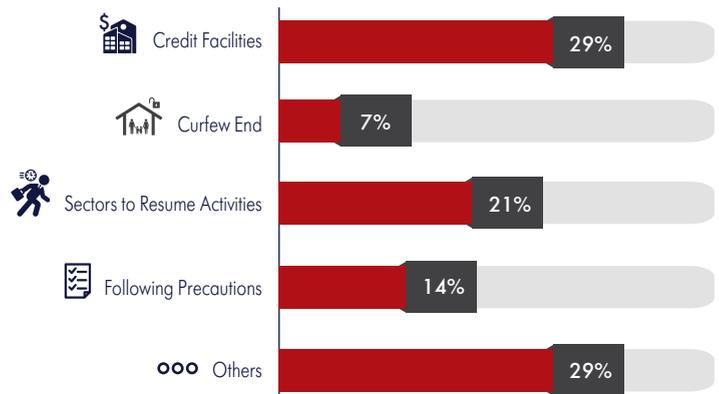
Regardless of the odds, 40% of surveyed companies forecast commercial and administrative markets to turn the corner and regain the spirit of the post-crisis era within at least six months.



## PROSPECTS FOR MARKET RECOVERY



## RECOMMENDATIONS FOR MARKET REVIVAL



According to Invest-Gate's findings, there is no question that this germ episode will lead to huge shifts in industries and working dynamics, especially for real estate. As the sector presses forward, digital transformation will be incredibly important for commercial and administrative spaces, in specific, to remain afloat during the current fallout and prepare for the inevitable changes that will emerge from industry disruption. Indeed, such businesses have the opportunity to gain a competitive edge and reap long-term benefits by becoming digital now, more than ever, as the world hunkers down to overcome the crisis. Nevertheless, it also appears like changes in design and architecture of these projects, in tandem with the reconsideration of rental collection models, will cater for recurrence of COVID-like situations.

In conclusion, Coronavirus is an inflection point for commercial and administrative real estate, with most developers struggling to strike a balance between ensuring compliance to policy regulations, financing, market demand, and labor shortage. However, an immediate response to this turbulence is required to keep pace with market changes, while also innovating for a future beyond this crisis.