

*Market Watch Report*

**GOVERNMENT POLICIES  
AND INVESTMENT  
IN EGYPT'S REAL ESTATE**



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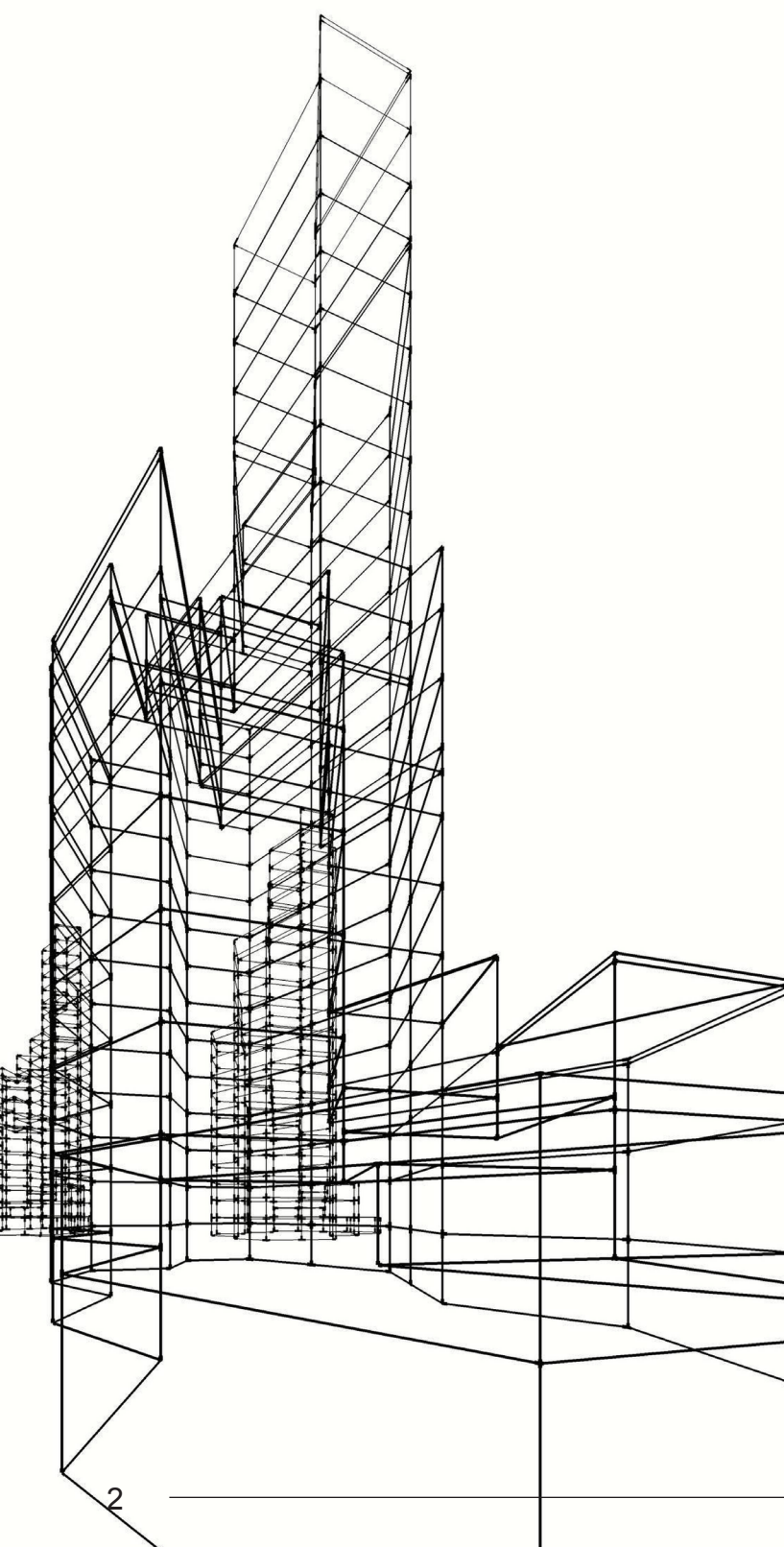


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## Housing Ministry to Promote Projects in New Alamein City

Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly met with several tourism investors to discuss plans to promote new projects in New Alamein City. The investors declared their readiness to implement several projects in the city, including at least 18 new hotels in special locations. The discussion also included the general plan for the city, the potential uses of lands offered.

## Obour City Continues Campaign to Resolve Building Violations

A total of 64 cases of building violations have been resolved or removed amid a larger campaign to remove any types of violation across Obour City, according to Amin Ghoneim, head of the Obour City Authority. The campaign was launched on October 20, in efforts to address violations that were found in residential and commercial buildings, as well as misuse of electricity facilities.

## Mortgage Finance Fund Loans Remain Steady Amid Interest Hikes

The loans provided by the Mortgage Finance Fund for real estate, targeting middle- and low-income citizens, will remain steady amid a 3% increase in key interest rates at banks, Mai Abdel Hamid, Chairman of Mortgage Finance Fund told Invest-Gate. Her statement comes following the Central Bank of Egypt's decision to raise key interest rates by 3% in the aftermath of a long-anticipated move to liberalize the value of the Egyptian pound against the US dollar.

## Developers fear Government Competition in Real Estate Market -Sources

Small and medium-sized real estate companies are reportedly growing concerned following the Housing Ministry's offering of units at an unsubsidized cost of EGP 198,000, which will result in taking away a huge number of a buyers from a certain class from developers, reported Al Borsa. Developers have in the past aired their fears regarding the ministry's use of New Urban Communities Authority's (NUCA) lands to offer units at a cheap rate of EGP 2,000 per square meter, which is 50% lower than the actual price in the real estate market.

## China and Egypt Joint Projects Total \$7.5 bn

The total value of the joint projects between Egypt and China currently underway amounts to \$7.5 bn, according to the Cabinet's Spokesperson Hossam El Qawish, Mubasher reported. The projects are focused on several sectors including electricity, housing, sewage, transportation and solar energy, El Qawish added. Chinese officials previously met with Prime Minister Sherif Ismail to review top priority joint projects in development and services, according to Shorouk News.

## Housing Ministry to Offer Residential Units in Dollars

The Housing Ministry will be offering land and residential units in US dollars to target Egyptian living abroad in the upcoming weeks, Assistant to the Minister of Housing for Technical Affairs Khaled Abbas told Invest-Gate. The ministry has already began preparing some of its reserved land to offer, and is moreover studying the potential of building special residential units in the new cities on offer for dollars in efforts to attract more foreign currency into the country.

## Land Plots in New Cities to be Offered through Lottery Starting November 17

Land plots for luxury housing projects in the New Cities will be offered through a series of public lotteries starting on Thursday, November 17, according to Mostafa Madbouly, Minister of Housing, Utilities, and Urban Communities, Al Borsa reported on Friday. The land plots will be offered for applicants who were previously unable to reserve lands, and are located in 6th of October City, Sadat City, New Borg El Arab, 10th of Ramadan City, Badr City, New Aswan City, New Beni Suef and New Sohag.

## Egypt Invests EGP 24 bn in 6th of October City

The total value of investments in 6th of October City has reached EGP 24 bn thus far in 2016, according to Hany Younis Spokesperson for the Ministry of Housing, Utilities, and Urban Communities, reported Shorouk News. Approximately 116,000 units are being built this year in the city, which is double the units built in the past 35 years, according to Younis. Moreover, several development and facilities projects are being undertaken, such as commercial developments, health care units, and entertainment areas, which commenced in April.

## Housing Ministry to Offer New Land Plots in Upper Egypt

New land plots will be offered to real estate investors this month in Assiut City and Qena City, according to Mostafa Madbouly, the Minister of Housing, Utilities, and Urban Communities, reported Al Mal. Additionally, land plots will be offered in El Alamein and East Port Said at the beginning of next year. The Ministry of Housing is developing a strategy to build the cities using smart technology to be able to compete with other cities internationally, he added.

## Ministers of Investment, Housing Discuss New Investment Law

Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly met with Minister of Investment Dalia Khorshid to discuss the newly drafted investment law that is currently being prepared by the Cabinet and is expected to be submitted for parliamentary approval. The law includes incentives, exemptions, and measures to facilitate investment in land belonging to the New Urban Communities Authority (NUCA).



## **CFLD to Discuss Capital City Land Pricing with Housing Ministry**

Representatives from China Fortune Land Development (CFLD) will be meeting with the Egyptian Ministry of Housing, Utilities, and Urban Communities in the upcoming days to discuss the pricing for the first phase of land offered in the new Administrative Capital, reported Al Borsa. The total area of land in the first phase measures 14,000 acres, at an investment cost of \$20 bn.

## **Dar Misr Unit Prices Increase Following Pound Flotation**

The Ministry of Housing, Utilities, and Urban Communities has increased the price per square meter in the cities included in the third phase of the Dar Misr project as a result of the flotation of the Egyptian Pound and the increasing prices of building material, Al Borsa reported on Tuesday. The move is reportedly putting such units in direct competition with those provided by private developers.

## **Housing Ministry Offers Land to Build Hospital in Upper Egypt**

The Ministry of Housing, Utilities, and Urban Communities plans to offer land tenders in one of the new cities located in Upper Egypt to build a branch of Abo El Reesh Children's Hospital in efforts to meet demand of residents in the area, according to Minister of Housing Mostafa Madbouly. The New Urban Communities Authority (NUCA) will provide half of the cost for constructing the hospital. It previously dedicated one of its land plots in New Aswan City to build the Aswan Heart Centre of the Magdi Yacoub Foundation.

## **NUCA Extends Deadlines for Cooperative, Syndicate Housing Projects**

The Ministry of Housing, Utilities, and Urban Communities agreed to extend the deadline for year for cooperative housing associations and professional syndicates who received lands from New Urban Communities Authority (NUCA) to finalize projects that have not yet been completed. This applies to all plots of land in new cities that have been allocated to the associations and syndicates. Moreover, the associations or syndicates must not have any financial dues owed to NUCA, and if they do, they must be settled within two months of approval.

## **Contractors Federation Suggest Resolutions to Economic Challenges in Construction**

The Egyptian Federation for Construction and Building Contractors offered a number of suggestions to Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly in efforts to tackle challenges faced in the construction sector due to the pound flotation, including extending the period for executing current projects for an additional six months, repricing contracts according to the new prices of materials, and urging the ministry to compensate contractors' loss for the differences in prices.

## **Hill International Seeks to Manage New Administrative Capital**

US-based Hill International, a real estate management firm, is in negotiations with the Egyptian Armed Forces Engineering Authority over managing the development of the New Administrative Capital, according to Waleed Abdel Fattah, Senior Vice President and North Africa Regional Manager of the firm, Amwal Al Ghad reported. The Administrative Capital was announced in 2015 at the Egypt Economic Development Conference, and was set to be developed by a UAE firm headed by construction tycoon Mohamed Alabbar.

## **8 Tenders Offered for 97 Housing Units in Upper Egypt**

Eight tenders were offered for 97 houses in villages in Assiut, Minya, Sohag and Qena, according to Mohamed Nasser, Head of the Central Agency for Development in the Ministry of Housing, Utilities, and Urban Communities, reported Al Mal. The tenders come as part of a project funded by the Social Fund for Development, which received the funding from the World Bank. The project is expected to be offered to real estate developers in the private sector.

## **New Negotiations Commence over Administrative Capital Land Pricing**

The Ministry of Housing, Utilities, and Urban Communities has begun negotiating with real estate companies over land pricing in the New Administrative Capital, in efforts to sell the first phase of the city after re-pricing it in accordance with the previously announced 25% discount, reported Al Borsa. The ministry is also currently preparing to offer 2,500 acres that will be offered following the Supreme Council for Investment's approval to offer lands in East Port Said, El Alamein, Al Galala, and New Ismailia City.

## **Landlords Discuss Amending Old Rental Law with Parliament**

Several citizens who own residential units that operate under the old rental law have launched a lobbying group to discuss their issues with the old rental law with parliament, reported Al Borsa. The group has prepared a list of suggestions to address the old law, which has been sent to the parliament speaker and the president. A date has been set to discuss the draft law with parliament, according to Murad Munir, head of the lobbying group.

## **Real Estate Sector Struggles Under Current Mortgage Law**

As the Egyptian government struggles to tackle the country's affordable housing shortage, a number of officials and developers have put forth solutions to existing problems, reported Daily News Egypt. A shortage in affordable houses has triggered the construction of 500,000 units in violation of current laws, whereby they have constructed without permits over the past three years, according to the Ministry of Housing, Utilities, and Urban Communities.

## Public Land Auction for Coastal Sites

A public lottery took place on November 23 to allocate 12.5 mn square meters of land in the North Coast, Ain El Sokhna, and South Magawish, according to Youm7. Approximately 52 investors are set to participate in the auction, said Serag El Din Saad, Chairman of the General Authority for Tourism Development. The Authority previously offered 42 tourism sites last August to develop tourism projects, where around 59 investors competed at the time, he added.

## Housing Ministry Demands More Clout in New Investment Law -Sources

The Ministry of Housing, Utilities, and Urban Communities is seeking to expand its authority in offering lands through the General Authority for Investment and Free Zones (GAFI), as well as a greater role for the New Urban Communities Authority (NUCA) in the upcoming investment law currently being drafted, unnamed government sources told Al Borsa on Wednesday.

## Housing Ministry Signs Protocol with Real Estate Chamber to Resolve Developers' Issues

Mostafa Madbouly, Minister of Housing, Utilities, and Urban Communities and Tarek Shoukry, Head of the Chamber of Real Estate Developers at the Federation for Egyptian Industries, signed a cooperation protocol aiming to resolve challenges facing real estate developers, Al Mal reported. The federation is further seeking to sign agreements with the ministries of tourism and investment to push forward real estate development.

## El Alamein to be Demarcated as Separate Governorate -Source

The government is planning to demarcate El Alamein as a separate governorate from its current jurisdiction of Matrouh, an unnamed source at the Ministry of Housing, Utilities, and Urban Communities speaking told Invest-Gate. The ministry will also expand currently existing roads and prepare land plots in the industrial area to prepare for offer next year, added the source. Developers were ordered to accelerate construction to meet the designated schedule.

## New Administrative Capital Company to Float Shares in IPO -Chairman

Up to one third of the shares of the Administrative Capital for Urban Development, the company responsible for building the new administrative capital in East Cairo, will be floated in an upcoming IPO at a date yet to be determined, according to the company's Chairman Ayman Ismail, speaking at a conference organized by the American Chamber of Commerce in Egypt.

## Madbouly: NUCA's Investment Budget for 2016 Registers EGP 37 bn

The investment budget of the New Urban Communities Authority (NUCA) has grown from EGP 5 bn for 2013/2014 to EGP 6 bn at the end of 2014 to EGP 37 bn for 2016, according to Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly speaking at a conference held by the American Chamber of Commerce in Egypt dubbed "Sustaining the Real Estate Industry in Egypt".

## CBE Announces Unified Conditions for Real Estate Financing

The Central Bank of Egypt (CBE) has announced unified conditions that banks should abide by when providing real estate financing for citizens with limited incomes, according to a statement released by the CBE, reported Al Borsa. The conditions were issued in efforts to tackle challenges that are faced by retired citizens and people with freelance professions in securing financing for housing as a result of low incomes or difficulty in documenting their incomes.

## New Residential Compound to be Launched in New Nubaria

A new residential compound is expected to be launched in New Nubaria City at a total investment cost of EGP 50 mn, according to Mahmoud El Nagdy, Head of the New Nubaria City Authority, reported Al Mal. The project will have an area of 6,000 square meters, and tenders will be offered to several investors soon to develop the project. The authority is set to offer a total of 15 land plots for investments through the upcoming period.

## Contractors to be Compensated for Losses on State Projects

The Egyptian Federation for Construction and Building Contractors has reached agreements with official bodies to compensate contractors for losses incurred due to the increase in prices of building materials following the flotation of the local currency, according to Hassan Abdel Aziz head of the Federation, reported Al Mal. He further noted that the federation is working on mitigating the costs of building materials following the enforcement of the value-added tax (VAT) to ensure the completion of ongoing projects.

## Madbouly Approves Extending Project Deadlines for Contractors

Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly approved extending project deadlines for contractors working on state projects for three months, and six months for projects involving electromechanical equipment, according to Hassan Abdel Aziz Chairman of the Egyptian Federation for Construction and Building Contractors, reported Al Mal.



# The Mortgage Finance Fund and Bridging Egypt's Housing Gap

By Fatma Khaled

Over the past decade, Egypt's population has increased by approximately 2.5%, having reached 91 million citizens, with more residing abroad, according to statistics from Egypt's Central Agency for Public Mobilization and Statistics (CAPMAS). This has caused the housing gap to widen further, and despite the high demand on residential units, investors and developers have at times struggled to finance new projects or obtain lands at attractive prices. Khaled Abbas, Assistant to the Housing Minister for Technical Affairs, pointed out that Egypt witnessed an annual of 950,000 marriages that require accommodation, hence raising demand on real estate.

Residential units must meet several criteria to be called "affordable" and feasible to demanding buyers, including a robust lending system that will make long-term transactions easy, large investment costs, and fixed interest rates, all of which are largely unavailable in Egypt's market, according to a study by Olivier Hassler, entitled "Housing and Real Estate Finance in Middle East and North Africa Countries". In such an economic system that lacks all or most of the abovementioned techniques, lending and funding remains short-term and restricted, as the study suggests. Due to the lack of market resources that are required for real estate investments, lending real estate investments such as commercial and development may reduce stability in the financial system.

## Egypt's Main Real Estate Fund

Egypt's Mortgage Finance Fund remains one of the most important funding programs offered by the state, seeking to support funding activities in real estate, specifically for low-income citizens and middle-income citizens, and was established in

2003 to support financial needs in efforts to ensure the right to housing by reducing the construction costs of housing, to allow developers and investors to pay for the building process, hence contributing to meeting the housing demands and stabilizing the real estate fund market.

"We provide support to the people who need it; therefore, real estate developers that we partner with must be really accurate and clear about the prices of their properties and payment methods to avoid any challenges in boosting the real estate funding," Chairman of Mortgage Finance Fund Mai Abdel Hamid told Invest-Gate.

There are several duties associated with being the manager of the fund, a position that is currently filled by Abdel Hamid. These responsibilities include preparing a thorough study for any real estate project the fund plans to invest in, signing contracts with the developers and management companies, and ensuring the needed precautions to reduce project risks that could result from an increase in costs and delays in construction.

The fund manager must also appoint two real estate appraisers to handle the appraisal of real estate assets before transacting.

## How the Fund Operates

The Mortgage Finance Fund, like any fund in Egypt, operates on an investment policy that is based on "types of properties, concentration ratio of each category of assets, nature of targeted revenues, geographical diversification, and dividend distribution policy" according to the American Chamber of Commerce's report on behalf of the Egyptian Financial Supervisory Authority (EFSA). The fund provides financial aid through as-



sets that it owns, such as buildings, lands, completed or under-development properties that will be offered for sale or rent, certificates of real estate investment funds, and shares in companies with 80% real estate assets.

Other duties of the fund also include assigning an official party to be responsible for evaluating real estate projects, whereby the developer is informed of the results and the evaluation fees. The Mortgage Finance Fund is able to finance up to 90% of the total value of the property for developers, in return for offering housing to low-income citizens. However, in some cases, the rate of financing ranges from 50% to 70% of the total value of the property.

### Criteria to Provide Support/Funding

The real estate fund is able to finance individuals who meet certain eligibility criteria, including an annual income of no more than EGP 30,000 for single citizens, and EGP 42,000 for married citizens. Applicants must also be Egyptian citizens, cannot have prior ownership of any other residential unit, and must submit documents of any previous loans taken out. Applicants must also be aged between 21 and 50 years old.

As for developers seeking financing, the fund demands that units that have not been finalized be priced at no more than EGP 130,000, while it sets EGP 150,000 as the cap for units that have been finalized. Moreover, the fund demands that the unit is registered and has been evaluated by an official committee that is a division of the EFSA.

### Advantages of the Mortgage Finance Fund

A potential buyer will be able to enjoy several advantages from the fund, including immediate delivery of his/her house upon receiving approval for financing from the fund, obtaining a maximum of 90% of the value of the new unit in the form of a loan. The buyer will then repay the loan in monthly installments to the fund over a period that could extend to 20 years, which far surpasses any other financing tools available on the market, most of which extend for a maximum of 10 years.

Eligible applicants and buyers of these middle-income and low-income housing units may choose a house from either those offered from the fund's projects, or any other desired unit on Egyptian lands.

### Efforts to Meet the Housing Gap

The Mortgage Finance Fund operates in a planned framework to meet its goals, which revolve around housing facilitations. The fund's goals include receiving land plots that the government decides on offering for no profit, that the fund can then use for constructing affordable housing.

The fund also coordinates with the EFSA and New Urban Communities Authority (NUCA) to implement residential units that target Egyptian with low- and middle-incomes, according to the available resources and the current demand. The fund moreover sets plans to receive applications for housing projects that will support low income citizens, following which it decides on the support rate that it will provide, and afterwards the fund contracts with the developer.

If citizens are unable to pay the fund due to unemployment or

disability, the fund is then responsible for covering a part of the housing costs, whereby the fund covers a maximum of three months in installments within every five years of the repayment period.

### The Fund's Previous Projects

The Mortgage Finance Fund has implemented a residential project in Shorouk City where it partnered with the General Egyptian Company for Buildings to build 207 units; where each unit cost EGP 99,000 and a maximum of 25% interest rate on installments, with variation based on the buyer's income. The units are offered at a 7% interest rate that is valid for 20 years, and potential buyers were asked to make a down-payment worth 15% of the total price of the unit.

The fund also specifies 46 residential buildings that contain 1,380 units that were constructed by the Arab Contractors Company in New Damietta City, where each unit costs EGP 94,000 and units were offered at an annual interest rate of 12% and a 7% increase in monthly installments over seven years.

### Ongoing Projects

The fund is currently working on several projects that include building 12,500 residential units in 6th of October City, where each unit measures 90 square meters, in addition to 5,737 social housing units in Badr City at 90 square meters each, and 8,700 social housing units in 10th of Ramadan City. Another 493 units are underway in Zaher City that are being built in partnership with Misr Express for Development, whereby each unit measures 63 square meters and is sold at EGP 109,000.

"We are also working on social housing based on 350,000 applications that have been submitted to the fund, and 6,000 applications submitted for units to rent," Abdel Hamid added, predicting that the number of applications for rentals would increase as many Egyptians cannot afford to buy units.

Abdel Hamid also stated that larger segments of society are expected to be supported and other projects will be announced soon. The fund also seeks to increase the number of projects that contain units offered for rent, wherein the three-bedroom homes have a monthly rental price of EGP 410 and the two-bedroom units have a monthly rental price of EGP 300.

### The Housing Gap

Egypt's housing gap has been a long-term issue that is still being tackled; according to Colliers International report on Egypt's real estate market in 2016, approximately 90,000 to 100,000 units need to be constructed per year to meet the housing demand. Meanwhile, 52% of society can afford units ranging from the \$26,000 to \$35,000 price range.

As the fund seeks to provide financing resolutions, the government is also willing to tackle the gap of affordable housing through partnerships with the private sector; however, private developers have thus far preferred to dedicate their efforts toward the high-end market in Egypt. Efforts like those undertaken by the fund have begun to fill the gap; however, the private sector has largely been absent from the scene thus far, signaling room for expansion of efforts.



# Egypt's Contractors Push Back on Value-Added Tax

By Ahmed Mostafa and Karim Mohy

While rising costs due to currency depreciation and inflation are seen as largely positive for real estate demand in Egypt in general, and neutral to positive for developers in particular, rising costs due to the recent and long-delayed imposition of the value added tax (VAT) are being deeply felt by the country's contractors.

VAT, imposed based on the value added to goods and services at each stage of production and in place in most countries of the world, was passed into law in Egypt in late August by the House of Representatives (full text, Arabic). While there was some confusion as to the law being applied starting from October, the law actually went into immediate effect upon its publication in the Official Gazette on September 8 at a standard rate of 13% on most goods and services, set to increase to 14% next year.

## How Will VAT be Applied to the Industry?

While VAT will not be applied to the buying, selling or financing of vacant agricultural or non-agricultural land plots or finished residential or non-residential units, a 5% rate is applied to all construction contracts, which are classified under Schedule No 1 of the new VAT law, and the same rate will also apply to machinery and equipment. All imported construction materials, however, will be taxed after custom duties at 13% this year and 14% in the following year. And while VAT is set to replace the old Goods and Services Tax (GST), one should keep in mind that VAT in no way affects or abolishes the flat real estate tax, which is still in place at 10%.

The 5% VAT rate on construction contracts applies to all contractors, regardless of their size or annual revenue. Contrac-

tors have not had to register for VAT if they are already registered under the old GST, but they will need to submit a monthly Schedule Tax return, due within two months from the end of each month, with the exception of April returns, which must be submitted within 45 days of the end of the month.

## Contractors Less Than Enthused with VAT

The imposition of the VAT amid an already high rate of inflation, set to increase from 14% this year to 17.3% next year, along with a devalued EGP, has prompted a major lobbying pushback by the industry, aimed at getting the government to reduce the rate applied and possibly provide other ameliorating measures. In response to contractors' concerns, the Ministry of Housing, Utilities, and Urban Communities last month promised to form a committee to address the industry's demands, including possible compensation.

The Real Estate Investment Division at the Federation of the Egyptian Chambers of Commerce has for months demanded the reduction of the 5% levied on construction to 4%. Contractor heavyweight Orascom Construction previously called for an exemption from VAT altogether for ongoing projects, according to its Executive Director Osama Beshay last month, who said the rate should instead only apply to new projects, as current projects were priced without having taking VAT into account.

The application of the VAT in its current form, prescribed at 5%, is expected to have negative effects on the construction sector, said Daker Abdellah, Member of the Construction Committee at the Egyptian Businessmen's Association and Member of the Egyptian Federation of Construction and Building Contractors, speaking to Invest-Gate.



“The tax will add new burdens on companies working in the sector, who have faced continuous challenges since 2011, contributing to heavy losses incurred and the closure of many of contractors,” Abdellah said. “The sector has faced further challenges in recent months as a result of the decline of the pound relative to the US dollar, and the consequent impact on construction material and input prices such as iron, which has witnessed increases of up to 50% in price per tonne,” he added.

Abdellah pointed to the importance of paying heed to these challenges to save the industry, especially given the state's ambitions to implement major national projects that require the rehabilitation of the sector and the increase, rather than the closure, of contracting firms.

“There is a need to reconsider the prescribed percentage of the VAT on construction and to reduce it in line with current market conditions and to help fully realize potential investment, support companies and to reduce the serious challenges and financial burdens which they face,” Abdellah added.

Taxation will reduce the volume of investment as a result of its direct impact on expected returns, he said, adding: “The private sector will resort to reducing its expenditures as much as possible in an attempt to reduce the impact of tax on profitability. Companies may resort to laying off workers and or reducing their wages, which will only exacerbate the country's unemployment crisis.”

Abdellah further noted that the private sector is cognizant of the challenges facing the state, and as such is willing to contribute to aid the state in executing its development plans.

## Devaluation Also Weighs on Construction Sector

Meanwhile, the Egyptian Federation for Construction and Contractors held a conference last Tuesday to call on the government to intervene to reduce the losses suffered by contractors after the devaluation of the Egyptian pound.

“The union submitted a memorandum to the prime minister, which calls on the government to take into account all construction inputs when considering differences in prices between the time contractors were hired, the devaluation of the EGP earlier this month, and the present. The memorandum further asks the government to adjust prices on government work contracts, as such agreements are currently limited to taking into account recent price increases in steel and cement only, despite that

all building materials witnessed major prices increases,” said Hassan Abdul Aziz, the Federation's chairman.

The union would instead like to see the government price all inputs according to the most recently documented retail prices, as reported by the Central Agency for Public Mobilization and Statistics, as well as disbursement of 15% of the value of the work carried out from mid-March until the committee finalizes its calculation of compensation owed to contractors.

“I received a phone call from Mustafa Madbouly the Housing Minister, in which he promised to form a committee to re-price and review contractors' contracts with the government within a week,” Abdul Aziz added.

Abdul Aziz called for the prompt adoption of a balanced contract to protect the interests of companies, and also to compensate the contractors for previous contracts that do not take into account the differences in prices, and to extend deadlines by six months for the existing contracts so the contracting companies would not be subject to fines for delay.

Construction companies have moreover had to suspend their work in water and sanitation projects due to the lack of dollars.

He added: “There are approximately 80 facilities project threatened by delays on the schedule agreed upon, because of the difficulty to acquire USD by the contracting companies operating these projects.”

## Looking Forward

There remains a number of uncertainties with regard to the VAT's full impact on contracting companies: the law's oft-delayed executive regulations have yet to be released, though will reportedly be submitted for public discussion sometime this week. While contractors attempt to individually re-negotiate with developers on an ad hoc basis, eyes will be on whether the industry can succeed in securing concessions from the state on government projects on behalf of the entire sector.

Whether increased pressures from the VAT, along with devaluation and inflation, will be enough to push smaller contractors to go under or consolidate with other firms also remains to be seen. The bottom line for property investors, however, with regard to the ability of contractors to pass their costs down to developers and possibly homebuyers, as noted previously, is that considering competition, it is likely that the pricing of the luxury segment is the only aspect that has room left to grow.



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