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Market Watch Report

GOVERNMENT POLICIES AND INVESTMENT IN EGYPT'S REAL ESTATE



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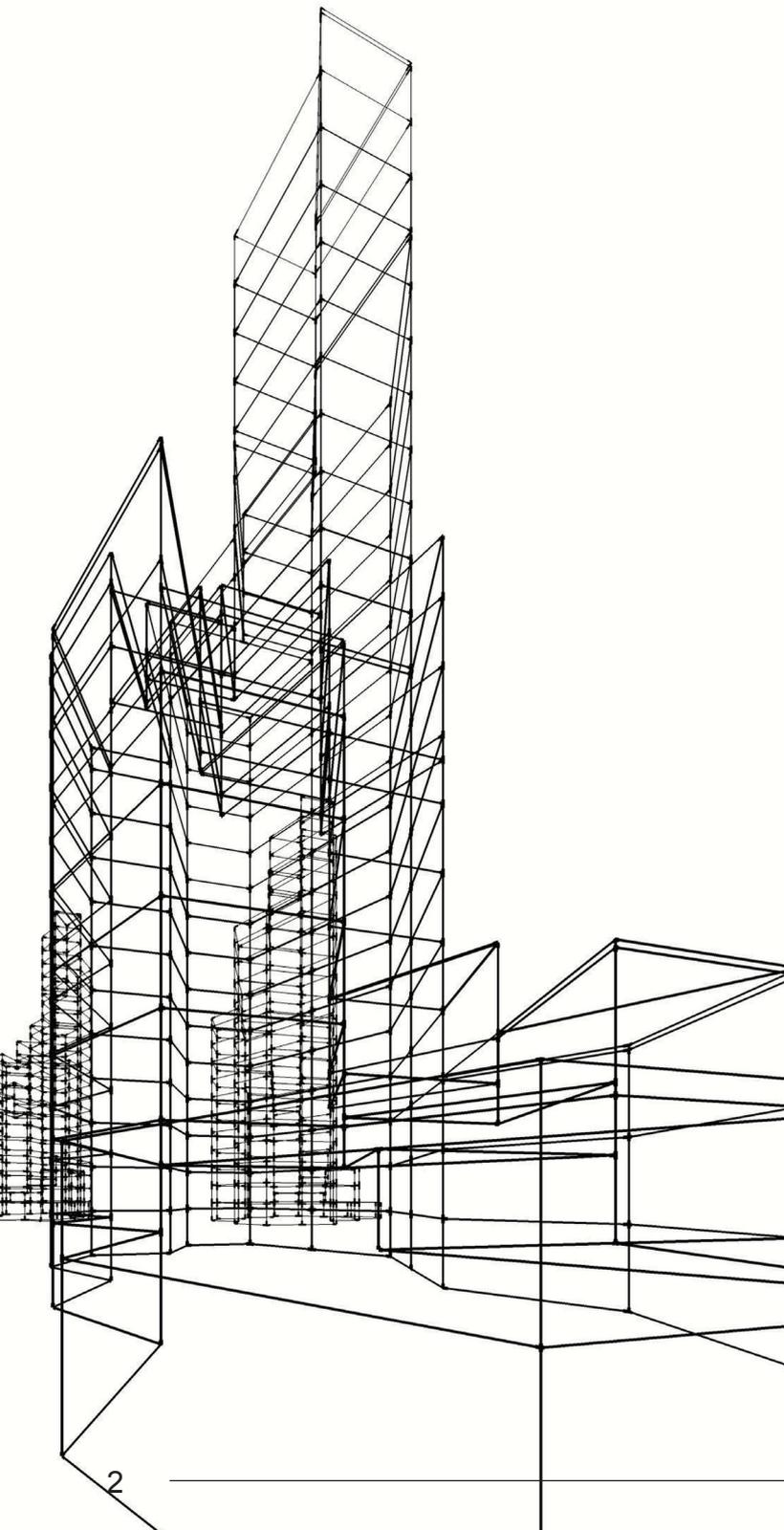


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5,706 Units to be Offered for Rent for Low-Income Citizens

Residential units will be offered for low income citizens starting October 9 in several governorates and cities, in addition to new units in the Dar Misr housing project, according to Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly, reported Invest-Gate. Citizens will be able to rent the units within 10 governorates if their income is below EGP 1,500. Unit contain either two or three bedrooms, and a living room.

Egypt Partners with France to Develop Sustainable Cities

The Egyptian Ministry of Housing, Utilities, and Urban Communities will partner with France's Sustainable Cities Task-Force to build a joint technical office designated for sustainable cities, reported Amwal Elghad. A protocol was signed by Egyptian Minister of Housing Mostafa Madbouly and President of the Sustainable Cities Task-Force Gerard Wolf, in Cairo.

World Bank Follows Up on Social Housing Projects

A World Bank delegation visited Egypt to follow up on the progress of the Social Housing Project, to which it has provided with financing worth \$500 mn, reported Al Mal News. Minister of International Cooperation Sahar Nasr welcomed the delegation, emphasizing the importance of the project and mentioning that it was launched by Egyptian President Abdel Fattah Al Sisi.

Infrastructure, Housing Projects to be Launched in Damietta

A total of 45 water sewage and drinking water projects will be implemented in Damietta at a cost of EGP 1.5 bn, as well as social housing units and road developments to be completed in the governorate, reported Invest-Gate. Three water projects at are being implemented at a cost of EGP 166 mn, including a water plant expansion that will serve the Damietta, Al Zarka, and Farscor centres.

Housing Ministry Closes Reservation of Social Housing Lands

The Ministry of Housing, Utilities, and Urban Communities will close reservations of 34,800 land plots dedicated for social housing projects on Wednesday, reported Al Borsa. The lands are distributed as followed: 9,415 plots in Sadat City, 17,698 in 10th of Ramadan City, 1,999 plots in Badr City, 382 in New Salhya City, 469 plots in New Assiut City, 3,013 plots in New Sohag, 325 plots in New Tiba City, and 1,540 plots in New Qena.

2 Water Stations to be Expanded in South Giza

Two water projects will be expanded in areas of Al Saf and Al Ayat in South Giza, according to Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly. The projects aim to resolve drinking water problems and serve half a million citizens at a cost of EGP 165 mn. The water station located in the

Al Saf area was enhanced to double its capacity from 60,000 cubic meters to 120,000 cubic meters per day, at a cost of EGP 85 mn.

Water Projects to be Finalized in Several Governorates in 2018

The Egyptian government is working on sewage projects in 818 villages that will be finalized 2018, according to Mostafa Madbouly Minister of Housing, Utilities, and Urban Communities, reported Invest-Gate. The projects are expected to raise Egypt's sewage availability in villages to a 32.5% coverage rate by 2018, compared to the current rate of 15.3%. This is expected to be further boosted to 50% within 24-30 additional months.

5 Construction Tenders to be Offered in Fayoum

The Fayoum governorate is preparing five construction tenders to be offered to contractors next month in efforts to implement residential projects worth EGP 300 mn, reported Al Borsa. The tenders are expected to include the construction of three roads on areas ranging from 1.8 to 2.5 km, according to Ali Zein El-Abdin, a representative of the Housing Ministry in Fayoum. Additionally, contractors will be bidding for the development of electricity networks for nine villages within the governorate.

Housing Ministry Offers 16,000 Units in Dar Misr, Rehab and Madinaty

The Ministry of Housing, Utilities, and Urban Communities is offering 16,000 housing units within the Dar Misr housing project, as well as in the Rehab and Madinaty compounds, Al Borsa reported. The terms and conditions for reserving units in the two compounds were revealed, along with the prices per square meters, which have recorded an increase since the last offering.

Giza to Offer Land for Investment in New Industrial Areas

New lands will be offered to investors in the industrial areas of Al Ayat, Al Saf, and other areas on the desert road in Giza, according to Governor of Giza Kamal Al Daly, reported Al Mal News. Procedures and plans for the investment opportunities are being finalized, as the governorate's current budget for the fiscal year 2016/2017 amounts to EGP 280 mn.

Madinaty, NUCA Reach Settlement Over 8,000 Acres

The New Urban Communities Authority (NUCA) and Talaat Moustafa Group have settled a dispute over 8,000 acres in the Madinaty compound, following the Cabinet's approval, according to Ragaa Fouad Head of the Project and Planning Department in NUCA, reported Al Mal News. The committee specialized in resolving investment disputes presented the conflict over the land to the Cabinet, which agreed to a settlement over the disputed area.

Several Developments to be Constructed in New Tiba City

Construction has commenced on several developments in New Tiba City, including three roads that will cost of EGP 22 mn, reported Al Mal News. The developments also include enhancing the desert road, developing a road on 480 acres and another on 680 acres in the area designated for the social housing project. New Tiba City is located north-east of Luxor, and lies 10 kilometers away from Luxor International Airport.

Lands to be Offered in New Administrative Capital

The government has approved offering lands for various activities to investors in the New Administrative Capital, Al Mal reported. The report notes progress in the construction of basic facilities, infrastructure, and road networks, affirming that the area will not only be exclusively dedicated to investment, but also aims to provide middle-income housing. Although no contractor or real estate company has applied for ownership over land within the city, the first land plot is expected to be sold soon.

7 Project Tenders to be Offered in New Cities

A number of new projects are set to be tendered in the Greater Cairo area as well as a number of other governorates, including the development of a road lighting network, the development of Street 90 in New Cairo and other roads and developments in several other Cairo districts, Al Borsa reported. The projects will be offered to companies registered with the Egyptian Union for Building and Development Contractors.

EGP 2.3 bn in Housing, Infrastructure Projects Underway in Kafr El Sheikh

Over EGP 2.3 bn in infrastructure and housing projects are set to be built in Kafr El Sheikh, according to Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly. The projects include 42 water and sewage projects, road projects and 3,000 social housing units. The water projects include a station in Dessouk at a cost of EGP 375 mn, a water station at Qaleen at a cost of EGP 252 mn, and a water station in Sidi Salem at cost of EGP 282 mn.

8,592 Social Housing Units Completed in New Assiut City

A number of housing, water, sewage, agriculture, electricity and communications projects have been completed in New Assiut City at a total cost of EGP 3.2 bn, according to Mostafa Madbouly, Minister of Housing, Utilities, and Urban Communities, Al Shorouk reported. The housing sector was allocated a cost of EGP 1.37 bn.

New Obour City Authority Launches Property Code Enforcement Campaign

New Obour City Authority launched a campaign to enforce property codes in the city, removing and demolishing structures and encroachments found in violation of the codes, according to the authority's head Amin Ghoneim, Al Mal reported on Wednesday. The campaign was executed by the authority's Department of Security and Violations, in coordination with the construction and utilities police.

Awqaf Investment Arm to Begin Construction on Faraskour Compound in Damietta

Ibrahim Mahlab, presidential adviser for national strategic projects, has demanded construction begin on a residential compound in Faraskour, Damietta under the supervision of Damietta's governor and the Ministry of Religious Endowments' investment arm, El Watania Group for Awqaf Investments, Al Borsa reported on Wednesday.

Infrastructure Projects on Track in New Cities

Five residential buildings have been completed as part of the social housing program in New Fayoum City, according to Mostafa Madbouly Minister of Housing, Utilities, and Urban Communities, Al Borsa reported on Friday. Various infrastructure projects are also underway in New Damietta City, including the expansion of a water station set to serve 300,000 residents upon its completion in 2017.

Several Contractors and Developers Involved in New Administrative Capital City

The New Urban Communities Authority announced that approximately 20 requests have been offered by various contractors and developers to work on the capital, according to a statement by Mostafa Madbouly, Minister of Housing, Utilities, and Urban Communities. Several facilities, including water and sewage stations, electricity and roads are being built in in the government, residential and business districts within the capital, including the development of the Mohamed bin Zayed corridor.

Cabinet Approves New Conditions for Social Housing Reservations

The Cabinet has approved amendments to the prerequisite conditions to reserve social housing units in an effort to facilitate the process for applicants, according to a statement by Mostafa Madbouly, the Minister of Housing, Utilities, and Urban Communities. The amendments include changing the rule that whereby applicants should be residents of the governorate where the units are being offered in order to qualify, to instead allow applicants from surrounding cities or governorates to apply.

Housing Minister, MPs Discuss Oversight Mechanisms for New Cities

Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly met with parliament members to discuss possible oversight mechanisms for the public on new cities, according to a statement by the housing ministry. The parliamentarians also suggested amending the rules on the forming popular representative councils for the new cities that would allow them wider authority in the supervision and oversight of new cities.

Water, Sewage Projects to be Implemented in Dakahlia

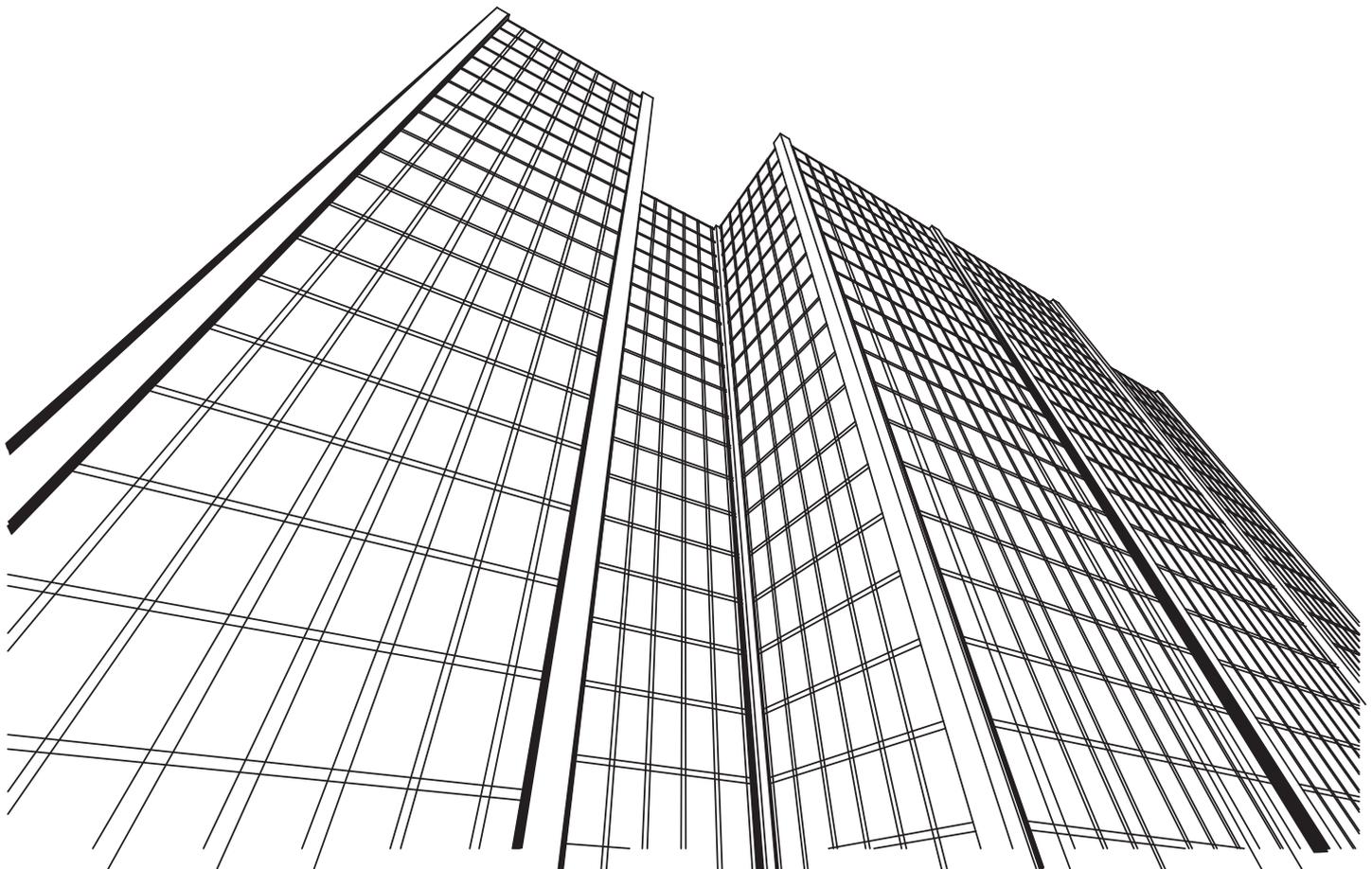
A total of 31 sewage and water projects will be developed in the governorate of Dakahlia at a cost of EGP 2.4 bn in addition to a number of social housing units, according to a statement by Mostafa Madbouly, Minister of Housing, Utilities, and Urban Communities. He added that 3,072 units will be built in the area of Gamasa as well as 476 units throughout Dakahlia.

Kattameya International Capital Airport to be Completed Soon

Construction continues apace on the new International Capital Airport in Kattameya, expected to serve the new Administrative Capital and encourage tourism, reported Al Mal reported on Thursday. Work on the 5,000-square meter airport is being supervised by the Armed Forces Engineering Authority and includes 45 buildings, as well as an airfield comprising a runway of 3,650 meters in length and 60 meters in width.

Housing Ministry to Offer New Lands through Partnerships

The Ministry of Housing, Utilities, and Urban Communities plans to offer land plots soon under the public-private partnership system, according to Khaled Abbas, Assistant to the Minister of Housing for Technical Affairs, reported Al Mal News. The prices of the lands may be reconsidered only if the price of the currency changes within the next period, Abbas added.





The Evolution of the Old Rental Law

by Fatma Khaled

In light of the housing gap in Egypt, citizens have increasingly resorted to renting residential units instead of owning, due to the increasing prices of real estate in the past few years and the effect of recent economic factors on their lives, such as the devaluation of the Egyptian pound against the dollar and inflation.

One advantageous arrangement for citizens is renting according to the Old Rental Law, particularly in a country where the poverty rate recorded 26.3% in 2012/2013, according to UN figures. However, the continuation, and in some cases manipulation, of this law has resulted in a great tension between tenants and landlords who own houses in old buildings that are regulated under the old law.

To this day, a large proportion of Egyp-

tians continue to rent these properties at the same rates as when the law was introduced, with some renting apartments for as little as EGP 10 per month in the older districts of Cairo and other areas.

History

The Old Rental Law stipulates that the annual rental value should not exceed 7% of the actual value of the land and building where the house is located, according to a study conducted by Shimaa El Sharkawy in the Swedish Institute Alexandria, entitled "Reformation of housing sector: Egyptian Rental Law".

The law was introduced in post-World War II Egypt, and obliged landlords to reduce rental prices by between 15% to 20%. Under the rule of late President Gamal Abdel Nasser, more than 60 res-

idential complexes were nationalized, alongside many other institutions, an additional 20% reduction was included.

According to a research paper by Financial Analyst Salma Mansour at Citadel Capital under the name of "New Law, Old Problems: The Egyptian Rent Control Dilemma", the law also included inheritance of rental contracts to other generations following the death of original tenant, leading to the properties being passed on over decades. The law advanced further in President Anwar Sadat's ruling to allow tenants to sublet or exchange the occupied house without referring to the landlord.

Today, the monthly rents under the old law are a mere fraction of the market value of the homes, and do not correspond with their sizes. Moreover, in light of the

developments and inflation in the market, landlords have long denounced the continued validity of the Old Rental Law.

Existing Cases of Old Rental Properties

Despite the old law serving many low-income citizens over the years, landlords were more harmed by the law than any other party. State-owned Al Ahram newspaper released an investigative report where it mentioned several cases where landlords have been unable to capitalize off of their properties, including Reda Abdelazim, the owner a 500 square meter villa located in Maadi that has a rental value of EGP 20 per month, and another property in Kasr El Aini that she has owned since 1930 with a rental value of EGP 30 per month.

Wafaa Morad was another case in the report, who said that she owns an apartment in Heliopolis that was rented by a tenant for EGP 16. The tenant passed away, sending the rental contract to his son, who also died and passed the contract to his daughter. Morad filed a lawsuit against the tenant's daughter ordering her to evacuate the house; however, the court's verdict declined Morad's lawsuit, upholding the validity of an open-ended rental contract under the old law.

On the other hand, some tenants were able to maintain a friendly agreement with the owners as they managed to "buy" a rental contract. Mohamed Sabbagh, who lives as a tenant in an apartment in Kasr El Aini, told Invest-Gate that he pays a monthly rent of EGP 250, as he is renting under the old law, although in a slightly adjusted manner.

"I pay about the equivalent to half the price of the apartment I live in for the owner to provide me a rent contract that would last for 59 years, whereby I pay a modest rent price, excluding the gas and electricity bills, and I inform the owner of any changes I plan to make in the house," Sabbagh said.

Based on the Housing Ministry's actual statistics and facts, the number of units that are still operating under the old rental law are over 5 mn units.

Landlords and Tenants' Rights

According to Mansour's research, the government has previously established general policies to preserve the rights of both parties within a housing contract. Although the policies were not imple-

mented in reality, the policy stipulated that landlords should provide a healthy residence to tenants, guarantee assistance for deserving citizens, establish a national housing policy in parallel with the country's national plans, contribute positively to the housing sector, control problems of inflation, and encourage investment in real estate.

Tenants' rights included the right to healthy residence, opportunity to transfer from one house to another at a free cost, and the right to reasonable housing and utility costs that can be afforded by the tenant.

In time, as landlords' complains mounted, the state issued the "New Rental Law" in 1996 that was applied on the units that had not been rented prior to that year and was applicable to those whose contracts had expired and had no new occupants. The law was amended again in 2006 to include a rental price commensurate with the current value of unit and some articles from the old law; however, this resulted in high rental prices due to lack of supervision on the rental market.

The government has made efforts to balance tenants' and owners' right together through combining both laws; however, according to El Sharkawy's research on the Egyptian rental law, the two current rental laws did not ensure tenants' rights, such as the correspondence between the rental price and the size and quality of the housing unit.

The two laws also did not ensure owners' rights to regular payment of rent, property protection, and legal action against tenants seizing property. Moreover, it did not allow them to adjust the rental price as stipulated by the old law.

Further disadvantages of the combination between the two laws and shifting from the old and the new law includes that tenants were by default provided virtual ownership of the property and full control over it. Owners also have no right to evacuate existing tenants, according to the law.

"Passing on the rental contract from one generation to the next according to the rental law should not be applicable because the tenant does not actually own the unit," Amro Hejazi, Head of Association of Old Rent Owners and Chairman of EgyVision, told Invest-Gate.

He added that having an open-ended contract whereby the tenant can remain

in the unit indefinitely has a negative effect on capitalism.

Invest-Gate has tried to reach the Ministry of Housing for comments on the matter; however, the ministry was unavailable to give out further statements.

Suggested Legal Amendments

Following mounting complaints from property owners, the government has discussed further solutions to repeal the old rental law, while several amendments were suggested last February and await parliament approval.

The suggested amendments include setting clear mechanisms, such as documenting the exact rent and exact annual increase, giving tenant two or three months' notice before evacuation or contract termination, a guarantee that owners get their properties back in good condition, imposing penalties on tenants who seize properties, and guaranteeing rights to both parties in case of disputes that can be included in the contract.

More suggestions were also made by the Housing Ministry, potentially affecting more than 3 mn families living in rented units, including the owner relinquishing the property in return for an agreed-upon fee, forming a special fund for citizens who are unable to pay rent, annual increases of 5% on rental price, increasing rental price for units rented before 1952 by 330%, and 300% for units rented before 1958, and 240% for units rented before 1973.

The amendments also include passing on the rental contract to one generation which is tenant's wife or children, or parents who have lived with tenant prior to death by at least one year. Otherwise the contract ends with the tenant's death.

Some, such as Hejazi, believe that the delay in issuing the legislation benefits some factions, such as real estate developers, who will benefit from the old law as it affects the supply and demand on units, hence raising prices for their newly-developed units.

Monitoring the rental market

In order for the rental laws to be accurately implemented in Egypt and to maintain a good tenant-owner relationship, El Sharkawy's study has suggested a pricing system that would not violate the right to acquiring acceptable housing in accordance with the current economic

conditions, through paying an affordable minimum rent for units, based on their sizes and specifications.

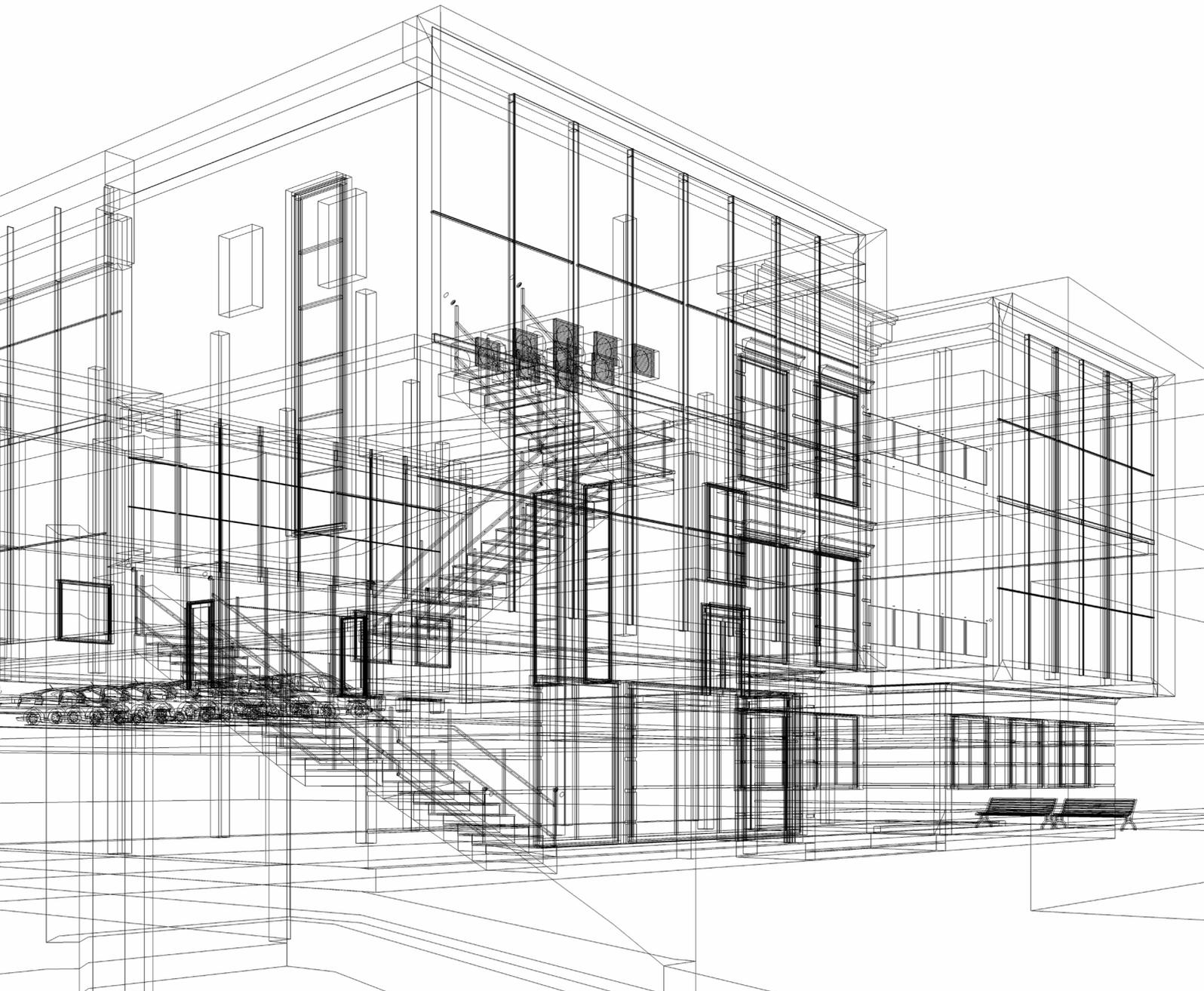
The government could also monitor the rental market by offering a security tenure, which is based on the length of the contract, the owner's willingness to notify a tenant of contract termination, and applicable means to resolve the dispute between owners and tenants.

"Maintaining a good tenant-owner relationship requires guarantees for the

rights of both owners and also tenants in accordance with civil laws and the constitution, such as the full right to ownership and having a right to residence. These are all considerations that should be prioritized by the state," said Hejazi.

In closing, the government continues to work on dissolving the old rental law through new amendments that aim to address the rental price, length of contract, and inheritance of rental contract. According to research, the percentage of Egyptians who own their property is 32%,

while the remaining 68% is rented, as the majority of the units originally fall under the old law. It is also notable that, according to Al Ahram's report, the country's economy loses about EGP 150 bn annually because of the discrepancy between the value of units rented under the old law in comparison with newly built residential units that are rented for thousands of pounds monthly, making the need for a long-term solution that preserves all parties' rights all the more pressing.





VAT and Its Impact on Economy and Real Estate

By Heba Eid

Following the tumultuous events of the 2011 and 2013 uprisings and the socio-political instability of the region, foreign investors and tourism have evacuated Egypt in large numbers – both of which have caused the government’s foreign reserves to drop to an all-time low since 2010. The collapse of tourism and declining revenues from exports and Suez Canal tolls further contributed to the shortage. As a country heavily reliant on imported goods and services, the dwindling foreign reserves have fueled the black market for US dollars, where the dollar is sold at 25% and higher than the official value.

In addition to the dollar crisis, the populous nation recorded a budget deficit of EGP 311 bn in May, constituting 11.2% of Egypt’s gross domestic product (GDP), according to Mada Masr. To cov-

er Egypt’s financing needs, as well as restore investors’ faith in Egypt and resolve the deteriorating dollar crisis, Egypt has opted for international loans.

A three-year, \$3 bn loan from the World Bank was approved in August, and the government has been seeking a three-year \$12 bn loan from the International Monetary Fund (IMF), according to Mada Masr.

The IMF stipulated various economic reform policies to be implemented as pre-requisites for the loans, including the Civil Service Bill, subsidy reform, increasing exports and decreasing imports, and the adoption of the value-added tax (VAT), according to Daily News Egypt.

The Egyptian parliament approved the VAT Law on August 29, setting it at 13%,

which is set to be increased to 14% in the 2017/2018 fiscal year, coming into force on July 1, 2017. The tax law has been applied since September 2016.

VAT

The VAT, a tax on consumer spending, is a composite tax made up of the difference between the manufacturing cost and the selling price of domestic and imported goods. The VAT will be applied to goods and services, except a government specified list of exempted items, according to Daily News Egypt.

Aimed at eliminating tax evasion, the new law will be applied to each step in the production chain of goods and services to replace the current sales tax. Under the previous sales tax, taxes are only paid on the final sale to the consumer

only, according to Al Ahram News.

Some of the VAT exemptions include exported goods and services, goods and services produced in free zones or cities, and free market projects outside Egypt. Certain machinery and equipment will be taxed at the reduced rate of 5%, according to Bloomberg. The list of exempted goods also includes 56 goods and services which include banking services, medicine, medical, health, and education services, certain real estate supplies, and certain staples such as tea, sugar, and milk.

Effect on the Economy

The introduction of the VAT to all goods and services, while it will increase all the values of goods and services, promises to cure the country's financial woes in the long term. The expected revenues to be generated from the VAT law range between EGP 20 and EGP 30 bn.

"The VAT is regarded as a consumer tax, which means those who consume a lot will pay more," Minister of Finance Amr El-Garhy was quoted as saying in Al Ahram News.

The stated advantages of the VAT are expanding the current tax base, increasing tax compliance, and facilitating the inclusion of informal business activities. Egypt's informal economy accounts for up to 68% of the country's GDP, and 48-70% of employment, which is not taxed under the current system, according to Daily News Egypt. Thus, the VAT will streamline tax collection through every step of the supply chain. As a revenue generator for government coffers, it is expected that the VAT law will reduce the country's budget deficit by up to 3%. However, it is also expected to increase inflation by 1.3%, Minister of Finance Amr El Garhy said, according to Mada Masr.

Even though essential goods are exempt from the tax, the overall increase in tax and the incorporation of informal businesses into the system will contribute to price inflation. Egypt's wealthiest will see a 2.3% inflation, while for low income earners, price inflation should not exceed 0.5%, added El Garhy.

"It [the VAT Law] is a tax reform that Egypt needed to begin its economic reform process. This is the start of an economic reform program that will see Egypt have a stronger tax regime that will make the economic system stronger and will allow it to draw foreign investment," Yasser

Omar, an MP on the House Budget Committee, told Reuters.

Disadvantages

While the VAT will bring more money to the cash-strapped government, it will likely lead to price inflation, whereby small and medium enterprises and low to middle-income earners are more likely to feel the crunch due to the extra costs incurred.

Moreover, there is some concern that the VAT law, if inadequately enforced, could strip the law of its relevance. According to Salma Hussein, a researcher at the Egyptian Initiative for Personal Rights, weak enforcement of the law could potentially cause prices of goods to flare up as businesses take advantage of the lax law conditions, according to Mada Masr.

VAT and Real Estate Sector

The real estate sector will see a surge in prices due to the newly enforced law as well. The tax percentage imposed on construction contracts is set at 5%, and consequently, the prices of real estate will increase in all sectors, according to Daily News Egypt. Construction materials will be taxed at 13% though the added tax combined with the already ballooned prices will garner a significant spike in construction material prices. For example, in recent months, steel prices have increased by almost 50% per ton, which will be increased further with the tax added.

A rise in construction material prices will translate into an increase in the cost of implementing projects, unit prices, and, consequently, increasing prices on customers

"The new tax will not affect the real estate projects directly, but it will affect construction work, as well as the prices of construction materials. This is in addition to increasing global steel prices," said Ahmed El-Hitamy, General Manager of Madinet Nasr Housing and Development (MNHD), to Daily News Egypt.

Tarek Bahaa, Sales and Marketing Director at IGI Real Estate, projected that while the VAT tax would definitely result in an increase in the value of residential units, this would not necessarily affect sales significantly.

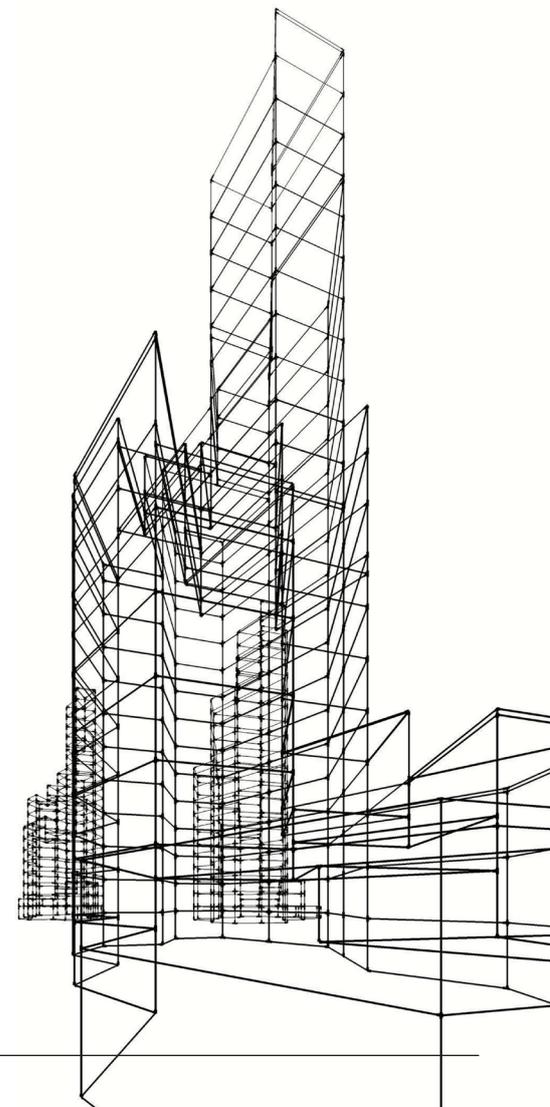
"If there is a decline in sales, it will only be slight," he told Invest-Gate. "There will be an increase in costs of the building

materials, which will naturally translate to an increase in prices. However, demand is still high."

Bahaa further predicted that trends would be similar for off-plan properties, whereby sales would remain largely unaffected by the application of the VAT.

In conclusion, where the VAT is implemented in over 160 countries worldwide, since its inception in France in 1948, it has been a fruitful source of revenue for governments. A populous nation like Egypt will struggle with the price increase for all goods and services, particularly with the high rate of poverty and a population that is largely reliant on subsidies.

However, the pain is anticipated to be short-lived, and if employed correctly, policy-makers have claimed the revenues from the tax will result in services that offset its cost. The economic reforms introduced by the government, including the VAT law, are indicators of the government's efforts to resolve the ongoing financial crisis, particularly to restore investor confidence in Egypt once again.





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