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REAL ESTATE Q1 **FINANCIAL RESULTS**

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Despite Pound Devaluation, Q1 Financial Results Show Confidence in Real Estate Market

Nayrouz Talaat

Although a state of uncertainty dominated Egypt's real estate market as the purchasing power of Egyptians declined, Q1 financial results of top developers demonstrate confidence in the sector since new projects launched and strong demand continues to be recorded.

The EGP float has had a direct impact on the real estate sector, increasing the costs of construction materials and consequently, residential units, as well as perplexing the calculations of big developers about their existing and future projects.

In the beginning of 2017, prices of units increased by 20% on average, with the expectation of another 40% hike by the end of this year.

Despite increased prices, local demand for residential units continued to be strong and is expected to remain steady, as shown in the Q1 financial results of top developers in Egypt. According to the overall results trend, the float of the local currency last November has created a more stable operating environment, which developers say will boost the real estate sector and increase investor confidence in the market.

Notably, the market has also been boosted by Egyptian expat and foreign consumers, for whom purchasing land became increasingly cheap overnight.

Spotlight on top developers financial statements

Despite the uncertainty and rise in construction costs, the financial statements of top real estate developers for first quarter of FY2017 indicate that Egypt's property market remains resilient.

SODIC

SODIC net sales hit EGP 1.2bn in the first quarter of the fiscal year 2017, rising 64% year-on-year, a bourse statement says. The company had earlier announced that it plans to invest EGP 3 bn during 2017.

"With the devaluation behind us, we look forward to a more stable operating environment. We are aware of the challenges ahead for the economy but we believe that challenging operating environments create opportunities for well capitalized and experienced companies like us with our strong track record of performing in even the most turbulent of times," SODIC's financial report notes.

The report adds, "We continue to believe in the depth of the real estate market in Egypt and the value of our brand equity that will continue to set us apart from the competition."

During the month of February, SODIC successfully launched two new projects in West Cairo; One16 in SODIC West and October Plaza on the 30 acre plot in 6th of October. Both launches have been met with strong demand despite the different price points for each project, according to the real estate company.

"The strong uptake reaffirms the strength of demand across our target segments and the fact that our products continue to enjoy the market's favor."

SODIC will target EGP 5.6 bn in net contracted sales in 2017 and it expects to continue its timely delivery of 1,150 units across its projects.

Palm Hills

Palm Hills Developments recorded net sales of EGP 3.1 bn in Q1 of 2017. Palm Hills Developments Company says records net new sales of EGP 3.1 bn in Q1 of 2017 grew 58% y-o-y. The company reports that increases in the 2017 full-year new sales target to EGP 9.5 bn from EGP 8.5 bn previously announced.

"Despite the challenging market conditions following the floatation of the EGP and the resulting inflation, we still expect sales growth in FY2017, buoyed by the launch of Palm Hills New Cairo in November 2016, where we sold 157 standalone units worth EGP1.0 bn in one week," says Palm Hills Chairman Yasseen Mansour.

According to the Palm Hills recent report on its performance, the company "continues to reap the benefits of its strategic direction of increasing construction spending while delivering record results driven by the accelerated construction program".

It adds, "In January 2017, the company acquired 190 feddans in West Cairo from the Egyptian Ministry of Housing, which is considered a natural extension to Palm Hills Golf Views and Golf and Golf Extension. We are in discussions to acquire several new parcels of land including land in Alexandria and the 6,000 feddan in West Cairo.

"We expect to launch the first phase of apartments in Palm Hills New Cairo, the second phase of Capital Gardens, Hacienda West, and the 190 feddan during FY2017. The company expects to finalize all construction works of Village Gate and VGK Malls during FY2017, and to be operational during FY2018. It is currently in active negotiations to acquire on co-development basis 130 feddan in Alexandria, the company's financial report said.

"We are still negotiating the terms and conditions of the 6,000 feddan co-development project of West Cairo with NUCA via a jointly formed committee, and hope to finalize the definitive agreement during 1Q2017," according to the report.

Ismailia Development and Real Estate

Losses of Egypt-listed real estate company Ismailia Development and Real Estate narrowed in Q1 of 2017 as the net loss totals EGP 438,305 versus loss of EGP 593,328 one year ago, according to Reuters.

With a paid-in capital of EGP 563 mn, Ismailia currently owns around 20 buildings in downtown Cairo.

The real estate company is focusing on the acquisition of prime real estate in downtown Cairo for the purpose of restoring the buildings and upgrading the infrastructures to suit contemporary requirements for residential, commercial, and cultural spaces while celebrating the original edifices that comprise downtown's architectural significance.

Emaar Misr for Development

Emaar Misr for Development posted 72% y-o-y increase in profits during Q1 of 2017, according to the company's financial statement.

Emaar Misr for Development's net profit during the first quarter in 2017 totaled EGP 437.9 mn, compared to EGP 254.48 mn in the same period a year earlier, the company's financial statement adds.

Revenues for Q1 of 2017 increased to EGP 668.69 mn, up from EGP 597.42 mn in the same period last year.

New Ismailia Urban Development

New Ismailia Urban Development's losses for 1Q of FY 2017 shrank 26.1 % to EGP 438,300, compared to losses worth EGP 593,300 for first quarter of 2016, according to bourse data.

The company earlier reported a net loss of EGP 1.02 mn for FY16, 21.14% up from EGP 842,840 for FY15.

Analytic Overview

According to Mohamed Bahaa Eddin, the Head of Research and Investment in Al Marwa Brokerage, there are main economic variables that has a key impact on all sectors, and the real estate sector is one of them. "The main variables were the Egyptian pound devaluation versus the USD, as it reflects on the costs of the real estate developers due to the rise of cement, steel, and design prices as Egypt's inflation rates hits 33 %," says Bahaa Eddin, giving an in-depth analysis how real estate developers reacts to this.

Why Developers Are Still Gaining?

Financial expert Bahaa Eddin says that most developers were keen to avoid any financial losses during a period of new monetary decision taken by the Central Bank of Egypt.

"To avoid this, developers directed their attention to new markets that will help such plan be achieved. The Gulf market was the most attractive to big developers, as many Arab investors found that the Egyptian real estate sector was a safe haven due to the devaluation of the local currency versus most of the stable Gulf currencies," notes Bahaa Eddin.

"Moreover, real estate developers started to diversify their products and focus on more touristic destination in the North Coast for example, rather than focusing only on new cities such as New Cairo and October 6 City," he says.

How Developers Deal with Local Purchasers?

Bahaa Eddin confirms that developers started to set installments on a longer period, reaching up to 10 years instead of five and three years previously, in order to counter reduced sales levels and help purchasers cope with the high prices of residential units.

Developers have their say on EGP float, future projects

Yasseen Mansour, Palm Hills Chairman

"As we continue to spend on construction and accelerate the pace of handovers, the Company expects to fully complete a number of projects during FY2017 including Palm Hills Katameya, Palm Hills Katameya Extension, Village Gate, Casa and Hacienda White 2."

Samih Sawiris, Chairman of Orascom Development

"Egypt's decision to float its currency can already be declared a success but it will take time for investment flows to return and revive its battered economy ... now the investment appetite has become bigger ... people will start looking at the various opportunities given to them."

Hadeel Saleh Kamel, Vice Chairman of New Ismailia Urban Development

"The pound floatation decision has not affected the company's financial results for the financial year ending on December 31 ... the firm's accounts do not have balances in foreign currency; consequently it has not been affected by foreign currency differences."

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