

Market Watch Report

**REAL ESTATE DEVELOPERS
AND CONSTRUCTION
IN EGYPT**



DECEMBER 2016

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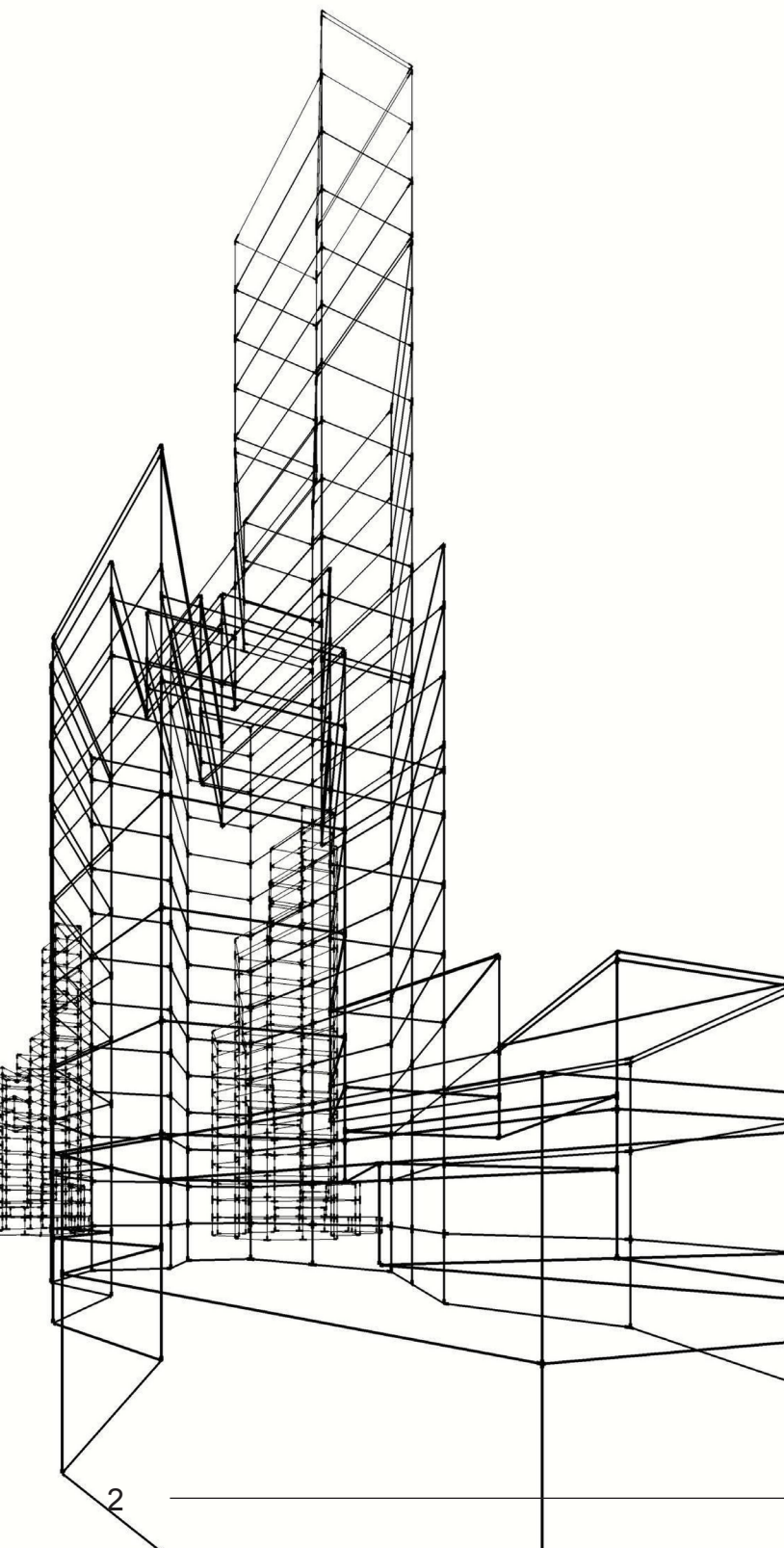


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Edmag Misr Pumps EGP 205 mn for Projects in North Coast, Matrouh

Egyptian real estate company Edmag Misr is set to provide EGP 205 mn in investments for projects in Matrouh and the North Coast next year, according to Mahmoud Zayed, the company's CEO, reported Al Borsa. The company seeks to build a strong presence in Matrouh, due to the boom in tourism investments currently pouring into the region, according to Zayed.

Amer Group Acquires License to Build 23,000 Units in North Coast

Egyptian developer Amer Group has received licenses to build an additional of 23,000 units in the North Coast, reported Al Borsa. Among the company's most prominent developments are projects in Ain Sokhna and Sharm El Sheikh, both of which contain thousands of units.

El Batal Group to Launch Residential Project in New Cairo

A new residential project worth EGP 300 mn will be implemented in New Cairo by El Batal Group for Housing and Development, according to Emad Doss, the company's Chairman, reported Amwal Al Ghad. The project will include 250 hotel units with sizes ranging from 50 to 100 square meters, and will be offered for sale by the end of 2016, according to Doss.

Amaer to Increase Prices of Nasr City Properties

Amaer for Real Estate increased the prices of units in one of its Nasr City projects by 10% in the past two months, according to Hany Mokhtar the company's Chairman, reported Al Mal. Mokhtar attributed to increase to the heightening prices of building materials and production costs in recent months.

SODIC Appoints US-based Sasaki for East Cairo Project Master Plan

SODIC has assigned US-based design firm Sasaki to develop the master plan for its new project in east Cairo, set to be built on 655 acres, reported Al Mal. The project is expected to be offered mid-2017 according to SODIC's Managing Director Magued Sherif. He added that this partnership is ideal for actualizing the company's vision for the project.

SODIC Predicts Delivery of 900 Units, 15% Price Increase Next Year

SODIC projects that it will deliver 900 residential units by the end of the year, and that property prices will increase by 15%, but that this will not impact stable demand on real estate in the market, Al Borsa reported. The company has made progress on its 2016 sales plan, and looks forward to major revenues from its partnership project with Heliopolis for Housing & Development.

DMA, CallisonRTKL Launch Strategic Partnership to Manage New Cities

Dar Al-Mimar Architects (DMA) has signed a strategic partnership agreement with CallisonRTKL, a global management company, to manage smart cities and undertake smart urban development, according to a press release. This partnership aims to provide a new tool to reduce costs and time consumption in various projects, and a unique strategy for real estate companies and developers who work in several projects.

New Residential Projects Planned in Upper Egypt

Ardic for Real Estate Development (Zizinia) has requested land plots in the cities of Upper Egypt that are operated by the New Urban Communities Authority (NUCA) to develop a new residential project with facilities, reported Al Mal. The company aims to implement projects in Upper Egypt to meet the need for such investments and public services, according to Ashraf Dowidar, the company's Chairman.

Dispute Between Qatari Diar and Egyptian Government Ongoing

Qatari Diar is not entitled to resort to international arbitration against Egypt, unnamed sources told Shorouk News, following previous reports that the Qatari company would resort to international arbitration in an ongoing dispute over a New Cairo project. Qatari Diar contracted with a law firm in Qatar to seek international arbitration against the Egyptian government, amid allegations that forces have taken over the land allocated for its City Gate project in New Cairo.

Palm Hills Q3 Net Profit Up 59% y-o-y, Negotiating with NUCA for 6th of October City Land

Palm Hills announced its financial results for the third quarter of 2016 in a statement, reporting net profit after tax and minority interest of EGP 235 mn, up 59% year-on-year, exceeding the first two quarters of the year combined. Quarterly revenue was up 34% year-on-year to EGP 1.5 bn. Palm Hills Developments is also negotiating with NUCA to develop a plot of 6,000 acres in 6th of October City.

Al-Futtaim to Build 2 New Hotels in Cairo Festival City

UAE-based Al-Futtaim will be constructing two new hotels in Cairo Festival City Mall in New Cairo, reported Amwal Al Ghad. The four- and five-star hotels will cost EGP 1.2 bn in construction and buildings. Further, the Egyptian branch of the company has received the final approval from the parent company located in Dubai to start designs and tenders.

MHND Launches Sarai Compound in New Cairo

Madinet Nasr for Housing & Development Holding (MNHD) has announced sales of the first phase in its new residential compound Sarai in New Cairo, Al Borsa reported. The total value of down payments has recorded EGP 815 mn for 463 units thus far. The project will be built on an area of 5.5 mn square meters, and will include residential units, office spaces, and entertainment centers.

Emaar Misr Records 9M 2016 Net Profits of EGP 1.0 bn

Emaar Misr recorded net profits of approximately EGP 1.0 bn in the first nine months of 2016, compared to about EGP 745 mn during the same period last year, marking an approximate 43% year-on-year increase, according to its most recent financial statement. Net profit during the third quarter of 2016 recorded approximately EGP 372 mn, compared to last year's EGP 222 mn.

Al-Futtaim to Invest EGP 3 bn in Developments in Egypt

Dubai-based developer Al-Futtaim Group plans to invest EGP 3 bn to complete its projects in Egypt, including its Oriana development in New Cairo which will alone receive EGP 1 bn in investment, according to Managing Director Mohamed El Mikawi, Amwal Al Ghad reported. Oriana will feature 620 villas spread over an area of 850,000 square meters, with the first phase delivered in 2014 and about 45% of the second phase completed.

Administrative Court Rejects Qatari Diar's Lawsuit to Cancel Sinai Project

The Administrative Court has rejected an appeal lodged by Qatari Diar to cancel its 30 mn square meter project in Sinai, Al Borsa reported. The company purchased the land before the issuing of a new law that prohibited foreigners from owning land in Sinai. The company has been embroiled in a dispute with the Egyptian government, and it was said to be considering resorting to international arbitration against the Egyptian government.

Heliopolis Housing Records Sales of EGP 25.4 mn in October

Heliopolis for Housing and Development's three projects, in the Sheraton neighborhood in Heliopolis, in Obour City, and in New Heliopolis City, have recorded total sales of EGP 25.4 mn in October, Al Borsa reported. The company has sold seven residential units in the Sheraton area for EGP 12 mn, seven residential units in New Heliopolis City for EGP 4.5 mn and a villa for EGP 4.3 mn.

El Massa to Develop 26 Acres of Land in Beni Suef

El Massa for Real Estate Development will begin developing 26 acres of land in Beni Suef that the company bought in a public auction last year, Al Borsa reported. The company has already begun works on the foundation on site, with the project scheduled to take up to three years to be completed, according to Nour Ismail, Head of the Beni Suef Authority.

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 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.

Pyramids Heights Units Earn EGP 1.1 bn in Sales Since October

Samcrete Engineers and Contractors' Pyramids Heights Residences in 6th of October City have already recorded sales of EGP 1.1 bn since the project was first promoted starting from last month, reported Amwal Al Ghad. The project's 358 residential units will be delivered by 2020, according to the company's CEO Hisham El-Kheshen.

1,100 Residential Units to be Constructed in Gulf of Suez

The New Urban Communities Authority (NUCA) allocated 1,100 residential units to be constructed by International Construction for Contracting and El Shark Real Estate, as part of the second phase of the social housing project located in the Gulf of Suez City, Al Borsa reported. NUCA signed development contracts worth EGP 135 mn with the two companies.

Palm Hills to Postpone Projects to Avoid Cannibalizing Sales -Analyst

Palm Hills Development will postpone the launch of its projects to avoid cannibalizing sales, in light of its wide geographical expansion and diverse projects, according to Mohamed Marei, Equity Research Analyst at Prime Holding, Al Borsa reported. The company is currently working on 17 projects at a cost of EGP 3.8 bn, including the development of 500 acres of land in collaboration with NUCA in the second half of next year.

Talaat Mostafa Group Records 10.5% Q3 Growth y-o-y

Talaat Mostafa Group has recorded an unaudited net profit of EGP 184.3 mn in the third quarter of 2016, compared to a net profit of EGP 166.8 mn in the same period last year, Al Borsa reported on Thursday. Net profit in the first nine months of 2016 amounted to EGP 616.4 mn compared to last year's EGP 532.1 mn, recording approximately 16% in growth.

AREH for Real Estate records Profit Growth in Q3 2016

Real Estate Egyptian Consortium (AREH) has recorded 10% growth in the third quarter of 2016, according to its financial statements, as reported by Mubasher. The company stated that it recorded a total of EGP 3.47 mn in net profit in the third quarter of 2016, compared to EGP 3.16 mn in the same period last year.

Developers Postpone Sales to Re-price Products

Several real estate companies have suspended sales of residential units to reprice amid increases in interest rates nationwide, reported Al Mal. This follows a directive from the New Urban Communities Authority (NUCA) demanding developers pay the difference on purchased land following the 3% increase on interest rates following the Central Bank of Egypt's decision to increase the interest rate to 15.75%.

Karma Reveals Plans for New Residential Projects

Karma for Real Estate is planning to implement touristic residential projects in several areas across the North Coast and Ain Sokhna, according to the company's Chairman, Ahmed Mostafa, reported Al Mal. The company is also launching a 1,500 square meter compound in New Cairo called Karma Trio at an investment cost of EGP 40 mn.

Samcrete Invests EGP 3.2 bn in Egypt's Real Estate Market

Samcrete Development will build residential units in its Pyramids Heights development in 6th of October City at a cost of EGP 1.2 bn and an office space complex at a cost of EGP 2 bn, according to the company's Chairman Hisham El Kheshen, Amwal Al Ghad reported. The office complex will be built on an area of 210,000 square meters and feature retail, office, banking, and dining outlets overlooking the pyramids of Giza.

Egypt's Arab Contractors Completes Major Hospital in Kuwait

Egypt-based Arab Contractors Company has completed the construction of Sheikh Jaber Al-Ahmad Al-Sabah Hospital in Kuwait, considered the world's sixth largest hospital, reported Amwal Al Ghad. The investment cost of the project is \$1 bn, according to Mohsen Salah the company's Chairman in the opening ceremony of the project.

MNHD to Progress Work on Projects through Bank Loans

Madinet Nasr for Holding and Development (MNHD) is seeking an EGP 2 bn loan through a banking alliance to implement various projects in the upcoming period, according to Ahmed El Hitamy Managing Director of the company, in an interview with Daily News Egypt. The projects include commercial and touristic projects across the country, he added, noting that the flagship Sarai project located in New Cairo has a total investment cost of EGP 900 mn for its first phase.

ERC Records EGP 49.5 mn Revenues in Q3 of 2016

The Egyptian Resorts Company (ERC) has recorded revenues of EGP 49.5 mn in the third quarter of 2016, compared to last year's EGP 16.7 mn, according to its latest financial statement. Moreover, it registered total revenues of EGP 65.5 mn in the first nine months of 2016 recording a 79% year-on-year increase, according to a financial statement.

SODIC Q3 2016 Net Profit up 38% y-o-y

Sixth of October Development and Investment Company (SODIC) has recorded EGP 108 mn in net profit, marking a 38% year-on-year increase in the third quarter of 2016, according to an earnings release from the company on Tuesday. The company also earned EGP 530 mn in revenues during the same quarter, up 74% over the same period last year, with revenues over the last nine months recording EGP 1.1 bn.

Capital Group to Begin Construction for Alburouj First Phase

Capital Group Properties will launch construction in the first phase of their project Alburouj, under the name Acamar, at an investment cost of EGP 40 bn, according to Walid El-Hindi the company's CEO, reported Al Borsa. The project will include townhouses, duplexes, and apartments, and will be located east of Cairo. The company will also provide feasible payment methods, whereby it recently approved a payment plan spanning eight years from date of purchase.

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 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.

AMG to Oversee Green Area Project in 10th of Ramadan City

Amar Consulting Group (AMG) will supervise the execution of Green Area residential project in the 10th of Ramadan City, at a total investment cost of EGP 120 mn, reported Al Borsa. The project will be built on an area of 8.5 acres and will include residential towers, entertainment areas, and office building, as well as a shopping mall and a public service buildings. The project is set to be developed over two phases.

Government Studies Possibility of Compensating Developers

Ten different ministries in the Cabinet are studying the possibility of compensating real estate developers for losses incurred due to recent economic decisions, in cooperation with the committee for compensations at the Ministry of Housing, reported Shorouk News. The committee has vowed to work collaboratively with the ministries and other authorities to reach a resolution, according to Mohamed Nasser, head of the committee.

CHD Q3 Profits Increase 226% y-o-y

Cairo for Housing and Development (CHD) recorded a 266.2% profit increase in the third quarter of 2016, according to a financial statement released on Sunday, Mubasher reported. The company has recorded profits of EGP 137.5 mn in the period between July and September, compared to the EGP 37.6 mn that was recorded during the same period last year.

Samcrete Records EGP 3.15 mn Profit in Q3 2016

Samcrete for Real Estate Development recorded a total profit of EGP 3.15 mn within three months, compared to last year's EGP 514,200, according to a financial statement released on Sunday, reported Mubasher. The company recorded a total of EGP 3.93 mn in profits in the first nine months of 2016, and total revenues of EGP 694.15 mn, compared to last year's revenues that amounted EGP 447.3 mn.

Palmier to Construct Resort in Matrouh

Palmier Real Estate Investment & Project Management will construct a resort in Matrouh governorate, measuring 10 acres with a total investment cost of EGP 140 mn, according to Mohamed Abdel Aziz, the company's Chairman, Daily News Egypt reported. The first phase of the project will be constructed within the next few months, following the acquisition of land permits and authorities' approval, he added.

Heliopolis Housing Appoints Consultants to Create Master Plan for Helio Park

Heliopolis Housing & Development (HHD) appointed Associated Consultants to draw up the master plan for its new 7.14 mn square meter project Helio Park, Al Borsa reported. HHD selected Associated Consultant to prepare the master plan for the project from among three other competitors, according to Hany El Deeb, HHD's Chairman.

Capital Group to Develop Smart Village in Alburouj

Capital Group Properties (CGP) has signed a MOU with Smart Villages company to build a smart village in its new project Alburouj, at a cost of EGP 1 bn in Shorouk City, according to a company statement, as reported by Al Borsa. The two companies had previously been reported to have signed a preliminary agreement in August. Smart Villages has previously built its flagship on the Cairo-Alexandria Desert Road, west of Cairo.

Mountain View Sells Units in iCity for EGP 4 bn

Mountain View for Real Estate recorded EGP 4 bn in sales from the first and the second phase of its iCity development in New Cairo, Al Borsa reported. Prices for units in both phases have ranged from EGP 7,500 to EGP 11,000 per square meter. The company says it has not yet decided on increasing prices for the third phase, but any such increase would be based on price increases for building materials.

Porto Group to Deliver Contracted Units in 2017 without Price Increases

Porto Group will deliver its remaining contracted units by the end of 2017 without demanding any additional costs, reported Al Borsa. The company decided not to raise costs as the current prices are commensurate with the budget drafted for this fiscal year. Porto Group recorded profits amounting to EGP 2.01 bn in the first nine months of 2016.

Palm Hills New Cairo Units Phase 1 Sell Out for EGP 1.01 bn

Palm Hills Development sold 100% of the 157 standalone units from its Palm Hills New Cairo project, developed in partnership with the New Urban Communities Authority (NUCA), for a total of EGP 1.01 bn in sales revenue, according to a company statement on Tuesday. The 2.1 mn square meter development features 100 acres targeted for commercial properties; with the construction of units set to begin in 2017 to meet the schedule of delivering all units by 2021.

Rowad Tourism Losses Continue in Q3 2016

Rowad Tourism Company recorded a net loss of EGP 391,000 in the third quarter of 2016, compared to a loss of EGP 1.5 mn in the same period last year, according to the company's statement to the EGX, Mubasher reported on Wednesday. The company also posted a loss of EGP 2.35 mn in the first nine months of 2016, compared to EGP 4.43 mn during the same period last year.

Samih Sawiris: Real Estate Sector Could be Heading Toward Bubble

Due to the current decline in purchasing power amid the depreciation of local currency and a large supply, the Egyptian real estate market could potentially be heading towards a bubble, Chairman of Orascom Development Holding Samih Sawiris said. He added that the real estate sector is currently at a relative standstill and could decline if inflation continues to rise and homeowners become wary of potential losses.

3 Hotel Companies to Manage City Stars Al Sahel

Al Arabia Real Estate and Development (ARCO) has signed contracts with Fairmont Hotels, Raffles Hotels & Resorts, and Swissotel to handle management for City Stars Al Sahel in the North Coast, reported Amwal Al Ghad.

ARCO Launches Final Phase of Le Reve Development in Kattameya

Al Arabia Real Estate and Development (ARCO) has launched the final phase of its project Le Reve at a total investment cost of EGP 1 bn, Al Borsa reported. The project is reportedly 6% completed thus far and is set to include 120 villas over a 487,000 square meter area, according to Ayman Ibrahim, the company's CEO.

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.

Micro Castle to Deliver Second Phase of Porto Perla in May 2017

Micro Castle Co. for Real Estate Investment will be finalizing the second phase of its Porto Perla project in Alexandria in May 2017, reported Al Mal. The project will be built on an area of three acres located in Alexandria, at a cost of EGP 12 mn. The second phase is expected to include six residential buildings that contain a total of 170 residential units with floor plans ranging from 63 to 115 square meters.

Orascom Development to Build Residential Project in Senegal

Orascom Development Holding will be finalizing an agreement with the Senegalese government to build a new project, similar to the company's previous project Haram City, according to Samih Sawiris, the company's CEO. The project will be targeted towards citizens with low or limited income, added Sawiris in the American Chamber of Commerce conference dubbed "Sustaining the Real Estate Industry in Egypt".

Developers Extend Payment Plans to Offset Price Increases

Amid increases in the prices of construction inputs due to the flotation of the pound, various real estate developers have resorted to different measures in order to compensate the additional costs, with increases in unit prices announced almost universally, while some developers have chosen to offset these price increases by extending installment plan periods.

Memaar Al Morshedy to Launch Residential Compound in 6th of October City

Memaar Al Morshedy will launch a residential compound in 6th of October City, with investments exceeding EGP 1 bn in 2017, reported Al Mal. The company seeks to market the project by the end of 2016, while the project includes 640 residential units, including duplexes and apartments, with floor plans ranging from 160 to 320 square meters, featuring greenery and full services.

Redcon to Build 200 Units in Emaar Misr's Mivida

Redcon Construction has contracted with Emaar Misr to construct 200 residential units in Emaar's Mivida project in New Cairo, reported Al Borsa. The units will include twin house villas and apartments, whereby villas will have floor plans of 240 square meters, according to Hossam Nassar, Board Member at Redcon.

SODIC Waiting on Tenders for Land in Sheikh Zayed

SODIC plans to compete for the development of 410 acres of land located in Sheikh Zayed, part of the second phase of projects offered by the New Urban Communities Authority (NUCA), reported Al Borsa. The company is currently waiting for NUCA to offer tenders for the new lands that are expected to be developed, according to Magued Sherif, Managing Director of SODIC.

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.



Real Estate Debate Tackles Main Concerns Affecting Industry

By Fatma Khaled

Approximately 2,000 to 2,500 acres of land will be offered in the new Administrative Capital, said Mostafa Madbouly, Minister of Housing, Utilities, and Urban Communities, during a press conference dubbed 'The Real Estate Debate' held on Sunday.

The conference tackled several issues, including legislation governing real estate projects, projections on real estate prices, government tenders, challenges facing the real estate sector, the foreign currency shortage, and the supply of utilities.

Madbouly began his keynote address by announcing updates on the new capital city as well as other government plans, and emphasized the importance of the role played by the New Urban Communities Authority (NUCA).

"A total of 10,500 acres are being finalized in the capital city and will include modern features, such as streets as wide as 120 meters and 30,000 units in each neighborhood," Madbouly said.

He added that the new lands will be offered with incentives to encourage developers to build, saying land prices will be announced soon, following experts' studies.

"Developers and private companies did not take part of the capital city from its start because the basic infrastructure was not developed yet. The government sought to develop it as fast as possible to meet the needs of companies' projects," Madbouly said.

Madbouly also emphasized NUCA's role, saying the authority's main objective is to supervise the quality and rate of develop-

ment. However, he noted the authority has taken on a greater role in developing communities and urban planning through the social housing program, from which it shared the revenues with the ministry.

He concluded his speech by saying that affordability is one of the sector's key challenges, as the middle class is currently unable to purchase new units because there is an oversupply in high-end properties — units which also present challenges in resale.

"I urge developers and private companies to consider offering 100 to 150 square meter units and to facilitate payments for the upper and middle class, [in addition to the ministry] developing social housing units dedicated for these classes. I also urge private companies to participate in the Dar Misr projects," he added.

The Real Estate Debate

A public debate followed the minister's speech, including developers, the Housing Ministry's spokesperson, and the Chairman of Mortgage Finance Fund, to discuss future public-private partnership (PPP) plans, developers' perception of the state's role, risks of a real estate bubble, boosting economic growth, challenges in expanding luxury properties, and the deficit in foreign currency reserves.

Participants in the debate all agreed that there are several factors that determine the prices of real estate, such as the use

of state assets, price of lands, prices of building materials, the interest rate for financing set by developers, and supply and demand in the market.

“Real estate selling prices and even the financing rates that are given out are not always accurate and are always subject to change, as they are based on a combination of the given financing rate set by the bank, the mortgage fund or authority, and developers,” according to Sherif Samy, Chairman of Egyptian Financial Supervisory Authority.

Challenges and Developments

Some, such as architect Hisham Shoukri, Executive Present & CEO of Rooya Group, agreed that developers could make use of the current challenges and dynamics within the sector to their advantage. Current levels of overpopulation result in the creation of new segments that can be involved in the real state sector, he added.

“There are several ways we could make use of the current situation and encourage real estate investment, including increasing hotel units in North Coast to accommodate tourists all year, restructure pricing of land and offer land in partnership with the private sector,” said Khaled Abbas, Assistant Housing Minister for Technical Affairs.

A real estate bubble could be avoided if developers, investors, and the state make good use of the current dynamics that include facilitating real estate legislation, increasing the rate of construction, and providing good financing options via mortgage, which could allow buyers to pay in installments over 20 years, according to Ahmed Shalaby Managing Director of Tatweer Misr.

In efforts to tackle affordability, the Mortgage Finance Fund usually receives part of the financing from the Central Bank of Egypt, usually earmarked for housing projects, such as its EGP 5 bn initiative to build homes for middle income citizens.

“We can tackle affordability through the funds we offer; however, the size of funding does not meet the demand for real estate properties,” Mai Abdel Hamid, Chairman of the Mortgage Finance Fund, told Invest-Gate.

Partnership between State and Private Developers

Both the state and private real estate developers are affected by the nature of the sector, including the project revenues, down-payment and allocation of resources, and prices of lands, according to Tarek Abdel Rahman, CEO of Palm Hills.

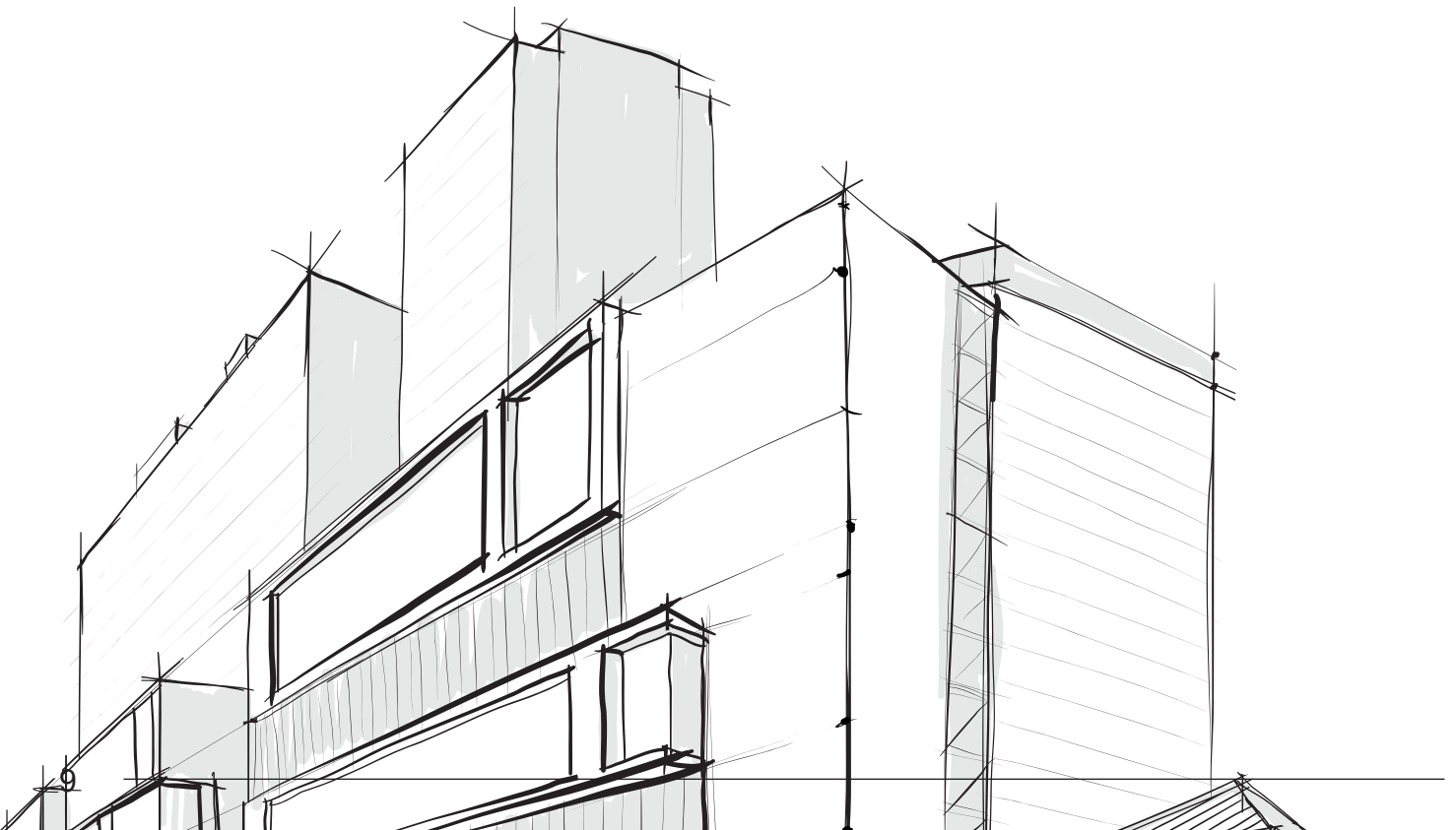
“Because these types of partnerships are considered crucial, Palm Hills has partnered with NUCA to develop 500 acres in New Cairo and 6,000 acres in 6th of October City,” added Abdel Rahman.

One advantage of such a partnership is ensuring the affordability of projects in the face of increasing prices of building materials, which could only be resolved by such a partnership, according to Ayman Ismail, Chairman of the New Administrative Capital.

Plans to Enhance Developers' Performance

Several developers at the debate asked for updates on the real estate bylaw, which is currently under review by the Cabinet, and also asked for the development of a new lease rental law where developers could make use of the rental revenue to develop more projects and use rent payments to pay for construction costs.

“The ministry is currently examining the real estate bylaw and is also drafting the Union of Developers law that should be released in the first quarter of 2017,” Khaled Abbas, Assistant to the Minister of Housing for Technical Affairs, said in response to the questions.





Egypt's Real Estate Sector Poised to Benefit from Depreciating EGP

By Karim Mohy

For domestic investors facing the economic vagaries of the past few years and the hopeful but volatile immediate term, Egypt's real estate sector remains a popular hedge against inflation and a sliding currency. The Central Bank of Egypt's decision earlier this month to float the overvalued Egyptian pound should see property prices more or less track the pace of inflation. Devaluation should have a mostly positive outcome for developers on the whole, with investors in equities keeping an eye out for which companies are best positioned to mitigate increasing costs of building materials.

Developers bullish on real estate market amid devaluation

By and large, devaluation certainly doesn't appear to be hurting developers. While we're still in the midst of earnings season with a number of major players yet to release third quarter earnings this month, in the past week both Palm Hills Developments and Emaar Misr reported healthy results, with Palm Hills posting a 59% year-on-year increase in third quarter net profit after tax and minority interest, for a reporting period ending at a time when the parallel rate for the Egyptian pound was around 13 to the dollar versus the official rate of EGP 8.88.

In the second quarter of the year, covering the period in which the central bank devalued the official rate for the pound by 14% and in which the parallel rate for the US dollar had already reached EGP 11, Palm Hills recorded sales of EGP 1.2 bn, on par with the same period the previous year, and an EBITDA of

EGP 142 mn, up 25% y-o-y. Meanwhile, Emaar Misr reported a third quarter net profit of EGP 372 mn, up about 68% y-o-y.

Over the third quarter for the sector as a whole, "average sales prices for both apartments and villas increased... exacerbated by increased demand from [domestic] speculators ahead of the expected currency devaluation in October," noted real estate advisory JLL in their Q3 2016 Cairo Real Estate Market Overview, published last month before the flotation which ended up taking place in November.

"We still see the effect of the devaluation of the Egyptian pound as a positive function in increasing our sales figures," said SODIC Managing Director Magued Sherif during the developer's 2Q 2016 conference call in August, for a reporting period in which they recorded EGP 435 mn in revenue, up 44.5% y-o-y, with a net profit of EGP 97 mn, up 38% from the same period last year. "People still love real estate, they believe that real estate is a very good, safe way to store value against devaluation. So we are bullish about the market," he added.

How might foreign investors respond to increasing costs of building materials facing developers?

"The market remains volatile but valuations of real estate companies have recently picked up on the flotation news," said Jan P. Hasman, Sector Head of Real Estate Research at CI Capital. "Increasing costs of building materials are now the main concern of many investors, who fear an impact on future profit

margins, especially in projects that have been already pre-sold in previous years and where space for increasing prices of the remaining inventory is limited. We favor companies with good execution discipline, limited legacy backlogs, low leverage and direct land ownership.”

Will contractors attempt to pass on some of the increased costs of inputs onto developers?

Hampered by import restrictions that saw dollars allocated to essential items such as medicine and baby formula, contractors had in recent months been forced to resort to an ever escalating black market rate to source dollars to buy imported inputs for building materials. Just last month, the government announced it was forming a committee to resolve issues facing contractors stemming from the currency crisis, including the possibility of compensation to affected contractors as being on the table.

“We expect that some contractors would attempt to renegotiate their existing contracts with developers due to increasing cost of materials,” said Hasman. “Some developers will inevitably need to bear some of this burden and attempt to reflect these increases in prices of their remaining inventory. Others could mitigate these pressures with heftier down payments for future construction works or awarding greater volumes to their contractors of choice.

“Companies with stronger cash flow discipline and no construction delays should fare better, in our view. Paradoxically, increasing material costs can sometimes trigger additional demand, with people rushing to buy their required units before

developers begin repricing new product to compensate for increasing construction costs,” he added.

From the point of view of homebuyers, how will devaluation impact pricing and floorplans for different market segments?

With regard to already contracted sales, the possibility of developers restructuring or extending payment plans is not likely, said Hasman. “Overall, a seven year payment plan is becoming a market norm right now, with some developers offering a 0% down payment option on a six-year plan instead. For the time being, we do not expect the market to extend these plans further due to increased costs of funding, making speedy collections and execution a priority.

“It is more likely that average apartment sizes and land plots for stand-alone units begin shrinking again, in order to reduce the ticket size. We have already seen one developer stacking two villa-like dwellings on top of each other and making them accessible from different land levels on the opposite sides, in order to reduce land use and, thus, the unit price. We would not be surprised to see more of similar innovations in the coming months.”

As for the middle and upper-middle income segments, where “competition is becoming fierce as many large-scale projects and government-sponsored co-developments are now launching,” Hasman notes, “we initially expect that price growth in these segments could be capped next year. Price growth in the luxury segment is more likely as development land for such projects is increasingly scarce, capping immediate supply.”





Is Egypt at Risk of a Housing Bubble?

By Tim Nanns

In 2016 Egypt's housing market has gained some momentum, seemingly offering endless opportunities for investment. With a massive undersupply in the low- to mid-market segments exists, the same time the market is nonetheless simultaneously fueled by a young population, economic growth, and a high birth rate.

However, with more competitors having recently entered the market, most prominently a number of Saudi and UAE companies starting to invest into Egypt, a trend has begun to emerge whereby the distribution of supply seems to largely favour up-scale housing developments.

Such foreign investors have imported their know-how in large master plan developments, bringing along with them large sums of capital. Figures by Egypt's General Authority for Investment and Free Zones (GAFI) indicate a tenfold increase in foreign investment into the Egyptian real estate market in 2016, with six times as many foreign companies active in the market than during the previous year.

All of this points to an acceleration of the market with prices in the residential sector rising during the past years, and new developments being set up more and more frequently. With this in mind, it bears the question of whether this boost is sustainable, or whether it will lead into stagnation again. Moreover, will the replication of Gulf housing models bring with them the same housing trends, saturating the market with inaccessible housing?

Bubbles and Stagnation

A real estate bubble is by definition the overrating of real estate assets, pushing their price far beyond their intrinsic value. This usually occurs after a land boom, and a rapid increase in prices.

Historically, bubbles have been driven by widespread bank credits and a rampant mortgage system. However, as Yahia Shawkat, Co-Founder and Research Coordinator at 10 Too-ba, states, the Egyptian real estate sector largely runs on down-payments and installments, rather than mortgages and bank credits.

This essentially means that a textbook real estate bubble is not a risk for the Egyptian market anytime soon due to the underdevelopment of the market. It would take a great boost of the mortgage market and many years in order to even see the possibility of the development of a traditional bubble.

What nonetheless remains is the possibility of a rapid drop in prices, such as in 1998 and 2011, or the stagnation of prices, both of which in the past have led to dramatic consequences for the Egyptian real estate market.

For example, in 1997-98, construction and building had registered an 11.2% growth rate, marking a massive leap from the 0.2% rate recorded in 1991-92, according to a study entitled "Egypt's New Cities: Neither Just nor Efficient" by Tadamun, citing figures from the Central Bank of Egypt. Meanwhile, the real estate sector registered an increase from 1% to 6.2% in the same period of comparison, which eventually transpired into an economic bubble that burst in 2001-02, in conjunction

with the global recession.

The Egyptian Housing Market

Yet, what can be observed in recent years on the Egyptian market can be described as the opposite of an overly euphoric rapidly growing market: the residential supply in Egypt grows by 1% each year, according to Colliers International, while the population grows by 2% at the same time. This means that the market so far has mainly been driven by a large demand across all income levels, with a relatively limited supply available, especially in the low- to mid-income range. The formal housing market meanwhile recorded greater increases in supply in the Greater Cairo area, with JLL putting the figure for new supply in 2016 at 20,000-25,000 units, marking a major increase from the existing 118,000 after a predominantly stagnant supply in the previous years.

A major problem that arises, however, is the informal sector, which Yahia Shawkat estimates constitutes 70% of the total number of units in the market. This means that any kind of forecast on the market development is extremely difficult due to a lack of reliable data and figures on the market, often forcing anyone trying to actually make a serious forecast to rely on estimates and guesses.

As such, it is difficult to judge where these developments might lead: so far, there have not been any extreme price increases on the market, with certain areas even registering declines in prices. This nonetheless does not mean that a land rush can be completely ruled out, if growth and foreign investment continue flowing throughout 2017. Nonetheless, current indications of a rush are sparse, but yet again, the large informal sectors makes precise predictions extremely difficult.

Shawkat predicts that, after stagnation in the informal market in 2013 and 2014, it will take some time for the market to soak up the large supply available there. While this largely affects the lower end of the housing sector, he also sees indications for a slight decline of demand on the upper end, though this is something that could eventually be negated by the floatation of the pound, whereby experts largely predict that people will flock to housing as a safe investment amid sharp fluctuations in currency.

High-End Demand Begins to Taper Off

Thus far, the Egyptian property market is largely deregulated. While the luxury segments and state-sponsored housing projects follow certain regulations, a great deal of real estate in most sectors is largely unregulated. This, of course, is in addition to the large informal sector.

In terms of prices and demand, the lower end of the scale is largely served by the informal sector, while the upper end mostly relies on larger scale and master planned developments. In this segment, market activity, especially through foreign direct investment, has dramatically increased in 2016 and according to Shawkat, there are already signs of demand tapering off. He also says that in the segment in between – meaning people who are in a position to afford informal units but not most of the formal ones – there is still a lot of room for growth since most of these people are usually not willing to buy into the informal market.

As a consequence he calls for a better regulated property market “that addresses all income levels and shows smaller, but sustainable, growth.”

Critical Consequences

As explained previously, it is difficult to make an educated guess on when stagnation may occur, since reliable figures are practically nonexistent. Nonetheless consequences can still be described, based on past experiences. Shawkat states that in the past stagnations have led to mass layoffs of workers and engineers. This is critical, not only for the real estate sector itself, but for the economy as a whole, due to the decline in purchasing power for many households. Examples here once again include the strong drops in 1998 and 2011.

In the unlikely event of a real estate bubble, the consequences are even more dire, with severe influences on GDP, eventually triggering a long-lasting crisis. Historically, such bubbles have led to huge economic problems, depending on the size of the country and its global economic influence. The most notorious recent example was the US subprime mortgage crisis, a scenario though which is even more unlikely than any other kind of bubble, due to the underdevelopment of the mortgage market in Egypt.

Unpredictability Overshadows Market Expectations

While predictions on bubbles as well as price and market developments are hard to make, we can nonetheless make a few educated judgements on the nature of the market. One lies in the aforementioned unpredictability of the market, which leads to largely uncontrolled and hard to predict developments and crises. Secondly, the consequences of drops and stagnation in the market are largely known; most prominently unemployment and economic problems.

Finally, while it is relatively safe to project that the risk of a housing bubble is low, which is positive on one hand, there are nonetheless indications of underdevelopment in areas that could be in a position to enable the country to bridge the broad housing gap on the Egyptian market.





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