

# A Good Year for Real Estate

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**CAIRO - 1 January 2018:** Real estate has continued to prosper over the past year, despite the straining challenges the sector has faced in recent months following the currency devaluation in November, 2016 and the shortage in foreign currency.

A vibrant and strong demand prevailed across several sectors in the Egyptian real estate market, increasing in 2017 compared to previous years, according to a report by Property Finder, an online platform for buying and renting property in Egypt, the UAE, Bahrain, Qatar, Morocco, Lebanon and Saudi Arabia.

Although gloomy market predictions haunted investors and economic experts at the beginning of the year, several elements have managed to decimate some of these challenges and secure investors' faith in the market.

Among these elements are the country's mega projects that seek to ease the concentration of the population in overcrowded Cairo, including the New Administrative Capital, government-owned affordable housing across other governorates and tourism and industry development in the Suez Canal Economic Zone (SCZone).

"The market is expected to continue to operate normally being a safe investment haven to many buyers, but some components may differ in 2018, for example there is a growing demand on the Administrative Capital city that will continue to rise in 2018," Mohamed Banany, senior vice president at Coldwell Banker, an international real estate franchise that works on analyzing the real estate market, tells Business Today Egypt.

But though real estate experts, including developers, are shying away from determining which products buyers should invest in in 2018; the market is steady as more supply is bound to bring about change in trends, diversity, and smart and affordable solutions and sales.

"Generally it is not really a matter of what to invest in, the question is rather whether there is another safe investment that will ensure that the value of your money will not depreciate other than real estate," CEO of leading real estate developing company Tatweer Misr, Ahmed Shalaby, tells Business Today Egypt.

## **Challenges and market trends**

**In a noticeably short period of time, new opportunities and market trends began to emerge throughout the year despite the challenging atmosphere. Reports have emphasized that the most popular and wanted provinces and areas among investors and tenants are located not only in Cairo, but also in Giza, the Red Sea, Suez and Alexandria.**

**Other investment trends have grown clearly in the second-home market where the North Coast is greatly favored, compared to other areas when buyers and tenants consider purchasing a vacation home. North Coast areas have proven to record the highest occupancy level by tenants and buyers, specifically during the summer season.**

**A demand or a desire to acquire a certain lifestyle has not only grown common among Egyptians abroad and expat investors—who were the first to benefit from the devaluation, which resulted in affordable luxurious housing prices—but it has also benefitted international tourists who can easily afford long holidays at some of the best hotels in the country, thus boosting the tourism industry. Both buying and renting properties have become leading trends of the year, increasing demand in 2017 compared to 2016.**

**Popular trends in purchase have prevailed in certain areas in the capital deemed as prime locations, including Nasr City, Maadi, Sheikh Zayed, Heliopolis, Sixth of October and New Cairo (Fifth Settlement), according to data compiled by Global Property, a website dedicating to providing intelligence for residential property investors.**

**Although 2017 has witnessed a positive boost in market trends, Egypt's population of over 90 million requires an additional 175,000 to 200,000 housing units per year to cater to the housing shortage of 3.5 million. Reports have confirmed the existence of 5.6 million vacant units nationwide, but these properties are beyond the purchasing power of low and middle-income classes.**

**With affordability being a growing issue for these socioeconomic classes, President Abdel Fatah al-Sisi in 2014 announced a plan to build 1 million affordable units for low-income youth across 13 cities in collaboration with UAE-based company Arabtec.**

**A part of the project is expected to be finalized by the end of this year, and the entire project is set to be delivered by 2022. This comes in parallel to the 62,000 homes being developed for the same segment as part of the Central Bank of Egypt's (CBE) initiative to provide affordable housing.**

**The concept of social housing units has been on the rise especially in recent years, however the cheapest units in these projects have increased by 14% per year over the past eight years; most citizens, whose average annual income tends to increase by no more than 1%, can hardly keep up.**

**Providing investment benefits to private companies, the Egyptian government has attempted to attract local private developers to construct such projects. However, the private sector's cheapest housing unit stands at \$13,946, which outweighs the actual purchase power of this class of society; therefore developers do not supply homes to this income group and rather target high-end buyers.**

Shalaby expects that market trends in 2018 will continue as is, rendering real estate as a safe haven that safeguards consumers' confidence from the wavering value of currency and devaluation. He also added that demand for real estate peaks not only when there is a need for housing, but also as a long-term investment.

“The flotation will be positive for the real estate sector and will create an attractive investment climate that brings stability to the market,” Shalaby says. “While we cannot say definitively how the outlook will be at the current time until things become clearer, we do not expect in the short future that demand on housing will vary as there may be increased demand by those seeking investments to offset demand by those seeking housing. Real Estate developers will have to also play their role in finding creative offers and incentives that will attract customers.”

When searching for competitive offerings, buyers should consider two primary factors; the location and the credibility of the developer, according to Coldwell's Banany. Even though considering location is crucial, the current market inventory is experiencing an undersupply, according to Banany, as some locations ran out of supply completely; especially prime locations in Ain Sokhna and the North Coast. He advises home buyers to avoid searching for special locations in Rehab, New Cairo, Sixth of October and Sheikh Zayed because they were all sold out.

#### Market demand and 2017 prices

Demand for housing in these locations grew among Egyptians living abroad as well as resident expat investors where the median price of a one-bedroom apartment amounted to LE 1 million (\$56,180) in 2016, based on the global online market place OLX. Over 30,000 residential units are expected to be delivered in New Cairo and Sixth of October City within the next three years.

New residential projects in Egypt were favored by foreigners and Egyptian expats all year round due to several factors, including currency devaluation, high salaries granted to them abroad, and the ability to formulate a savings plan.

Other factors were provided by developers contributing to increasing investments in the country, including offering customized residential units based on consumer preference, such as smaller units and flexible payment plans. This approach carried out by developers resulted in a higher purchase rate where expats bought residential units in higher-end districts at sensible prices that they couldn't afford before.

Prime locations outside Cairo, such as El Gouna and the North Coast, were recorded in 2017 as having a higher price value than the capital. Average prices for apartments in resorts in El Gouna ranged in 2017 from LE 18,500 (\$1,041) to LE 19,500 (\$1,097) per square meter, according to data issued by Colliers International; while villa prices had a starting price of LE 26,000 (\$1,463) to LE 38,000 (\$2,139) per square meter.

The Red Sea area is mostly demanded by expats, while residents and Egyptians abroad have a higher preference for the North Coast where property prices have become half of those of El Gouna's. Apartment prices range from LE 9,000 (\$507) to LE 21,000 (\$1,182) per square meter, while villa prices have a starting price of LE 10,000 (\$563) per square meter.

Demand has always been driven in Egypt based on the diversified offerings and buyers' needs, according to Shalaby; however he confirmed that preference is mostly given to gated communities and second homes.

Despite eradicating the element of affordability to the majority of local Egyptians who considered rent as an alternative solution, properties in 2017 have recorded a higher rate in sale and rent during the first quarter of 2017 by 179.17% compared to 2016, and have remained steadily strong throughout the first part of the year.

Assessing demand in 2017 and determining the type of projects that accounted the highest demand in retrospect, Banany confirms that a great majority of Egyptians primarily demand apartments while villas account for the second highest demand in the market.

The overall demand for leased apartments in Egypt has increased in 2017 by 78.59% compared to 2016, while the supply offered for rent has decreased by 19.57%. Demand for villas for rent has increased by 124.78%, however supply of villas offered for rent has also seen a 52.43% decrease. The demand for apartments available for sale increased in 2017 by 84.07% accompanied with a 30.3% decrease in supply, emphasizing a clear sign that investors are more willing to pump money in the real estate sector in 2018.

#### **Ambitious projects resolving undersupply**

The increase in demand accompanied with a low or average rate of supply was likely to cause a real estate bubble; however that was not the case in the Egyptian market because several new projects by both the government and private companies have rapidly surfaced in 2017 to bring the gap closer together.

Although all sectors of the real estate market suffer low supply, the supply of residential units in specific falls behind the demand at the demographic landscape of Egypt, according to Shalaby who doesn't expect a market saturation for many years. However, experts predict that the residential sector in specific will face saturation in the short to medium term.

“Considering population growth, Greater Cairo is expected to be undersupplied by approximately 400,000 units by 2020. The majority of the undersupply is expected [to fall] within the middle-income market.

Egypt's mega project, the Administrative Capital, is set to lead the future of accommodation in Egypt. The new capital includes an exhibition city, convention center, medical city, government residential district, international airport, relocation of state institutions and an embassy district.

Another promising project under construction is the Golden Triangle Economic Zone that will boost Upper Egypt. Around 65% of the project consists of modern industrial hubs while the remaining area is completely dedicated to touristic, commercial and residential units.

Spanning 48,000 feddans, New El Alamein City is the recreational version of the North Coast, representing a tangible turning point to the North West Coast region of the country.

The project is already attracting investors and residents who are anticipating the completion of the first phase's 10,000 residential units that will span 8,000 feddans.

A number of key players are also presenting new projects this year, including Palm Hills Development which announced expanding its mixed-use developments in West Cairo. The company plans to launch the first phase of a new project in 2018 that will span 12.6 million square meters and is expected to add a residential build up area ranging from 6 million square meters to 8 million square meters.

The Ministry of Housing's New Urban Communities' Affiliate (NUCA) has been actively developing deserted areas across the country through launching new recreational cities within each governorate.

Resolving the land scarcity crisis that was often the main challenge facing any developer, NUCA has managed to offer several land tenders with feasible payment plans in efforts to encourage private developers to partner with the government on mega projects such as expanding communities in unpopular parts in Cairo and other governorates. Mona Kamel, NUCA's official spokesperson, explains that the authority has launched several projects and land tenders throughout 2017, taking citizens' diverse needs more into consideration.

"Some of the land plots owned by NUCA were offered to real estate companies as part of the public-private partnership (PPP) system; 13 land plots ranging between 58 and 2,800 feddans are located in New Cairo, Sixth of October, and Sheikh Zayed cities," Kamel says.

The NUCA also offered 59 land plots dedicated to residential projects and ranging between 4 and 403 feddans for sale in west Qena, west Assiut, New Cairo, New Qena city, New Minya city, 15th of May city, Badr, New Borg El Arab city, new Sohag and New Damietta.

Those residential projects are part of the government's plan to expand home supplies through social housing, middle-income housing (Dar Misr project), above-average housing and high-end housing units.

NUCA has been applying the concept of mixed-use developments after realizing that Egyptians are willing to relocate only in the presence of operational facilities and amenities near their new homes. Consequently, many lands were dedicated not only for industrial or residential investments, but also for public services.

Land tenders were offered by NUCA throughout 2017 for amenities and an array of facilities ranged in floor plans between 540 and 110,441 square meters. Projects under construction on those lands included sports clubs, hospitals, nurseries, medical centers, conference halls, hypermarkets, offices, commercial markets, entertainment facilities, gas station and bakeries.

Renowned real estate alliance Mountain View-Sisban has also began developing high-end projects in 2017, in collaboration with NUCA.

Both partners have worked to develop iCity October in Sheikh Zayed, a replica of the iCity project in New Cairo. The integrated community project is spread over 500 acres offering 18,000 residential units ranging from apartments, townhouses and standalone villas that will all be completed by 2020.

The Egyptian Armed Forces Engineering Authority has also contributed to the construction of several projects throughout the year and is expected to deliver around 1,350 projects by the end of 2018; estimating its total contribution to the country's GDP to be at about 1% to 1.5%.

New contributors to real estate projects have also recently entered the market such as Capital Group Properties (CGP), which launched Al Bourouj; a joint mixed-use development with Hassan Allam Construction Co.

“New companies entering the market are quite few including CGP; however, established real estate developers have expanded their activities in 2017, acquiring new tenders, diversifying projects, and buying more lands from the government,” Banany says.

#### Anticipating real estate market changes in 2018

Shalaby points out that surprisingly, the Egyptian real estate market is still performing well, despite a rise in inflation. He cites a report by Euromonitor confirming that Egypt is expected to become the world’s fast-growing real estate market in 2017 based on the strong, buoyed demand from both domestic and foreign homebuyers.

“While nobody is holding a crystal ball and can accurately predict the future to see what is in store for 2018, in the real estate sector there is confidence that demand is driven by need; in addition, investments will continue to rise strongly in value in the coming years—and high-end construction is booming to meet demand,” he adds.

Shalaby predicts that 2018 should be interesting in terms of an expected increase in supply, resulting in a change in the trends of offerings and services. With previous predictions of a 3.5% growth in economy throughout 2017, this rate is expected to rise to 4.5% in 2018.

Although homebuyers may fear any sudden negative change in the market, Banany assures that real estate prices in specific will drive a normal annual increase ranging between 10% and 15% saying; “No sudden price increases are expected because the effects of the devaluation are already wearing off,” Banany says.

He also points out that development-related changes should be considered by public and private developers in 2018, emphasizing that some sectors within the real estate market lack development. “At Coldwell Banker we conducted a study that identified a noticeable shortage in education facilities, medical centers, small supermarkets, entertainment facilities and malls.

For example, Alexandria became overcrowded; thus an extension to Borg El Arab city has been made within the past two years and only a few number of citizens have relocated to the new city due to the lack of facilities and services,” he explains.

“Development of other specific areas in real estate would require improvement...including skills to develop hospitals or clinics to standards, manufacturing plants, schools and universities to name just a few.

All those require specific skills which are not the focus of most real estate developers in Egypt at present,” Shalaby concludes.