

JLL Research Report

The Cairo Real Estate Market

A Year In Review 2019

Cairo

Overview

Economic and Market Overview

In 2019, Egypt embarked on an intriguing roller coaster ride, addressing a wide range of booms and busts. Exchange rate liberalization, improvement of the investment framework (such as releasing the second phase of investment map), and further domestic gas production have contributed to mitigating external imbalances over the year.

The Central Bank of Egypt's move of cutting consecutive key rates a couple of times has proved positive, as a slow recovery in consumption levels and lower debt interest payments were brought about. After the shock of fuel subsidy reforms wore off, price pressures alleviated in recent months, with domestic demand forecast to strengthen in the forthcoming period.

Given December's higher inflation print (reaching 7.1% year-on-year) however, a projected reversal of the Egyptian pound's appreciatory trend from April onward is

likely to result in a sharp step up in prices over the months to come. All in all, inflation is slated to touch an average 7.9% in 2020, while posting approximately 9.8% in 2021, according to Oxford Economics.

Consequently, real GDP growth is predicted to decelerate marginally to 5.5% in the 2019/20 fiscal year (FY), before stabilizing at an average of 5.4% over the next three years. Meanwhile, fiscal deficit will possibly dwindle to 7.2% of GDP in FY 2019/20, down from 8% of GDP in the previous year.

The government is currently undertaking extensive strategic plans to ease doing business, lure more foreign direct investments, reinforce the role of the private sector through partnerships (PPPs), and enhance the country's overall investment climate. Perhaps most importantly, extensive efforts are being exerted to export Egypt's real estate abroad, with Egypt participating in MIPIM 2020 for the second time in a row, in addition to reportedly taking part in Dubai Expo 2020. Having

said that the real estate sector is a main driver of the Egyptian economic growth, these initiatives are seen to spur a positive comeback and boost demand over the coming months, hence market performance heavily relying on the pace of their on-ground application.

Expansionary 2019/2020 Budget

Egypt's parliament approved the FY 2019/20 budget with spending set at EGP 1.6 trillion, up EGP 160 billion compared to last year, marking the biggest state budget in the country's history. The government endeavours to remain bound to achieving the goals of Egypt Vision 2030, with a special focus on sustaining urban development, while bolstering the advancement of Upper Egypt.

Public investment is expected to inflate by 40% to reach EGP 140 billion in the FY 2019/20 budget (the highest surge in investments in 10 years). The new budget shall also support local development sectors with nearly EGP 4.9 billion (mainly directing EGP 3.9 billion for the Social Housing Program to carry out 120,000 residential units). An unprecedented uplift in sums to be pumped into health and education industries is on the table as well, recording EGP 326.8 billion in the 2019/20 fiscal year against EGP 257.7 billion a year earlier.

Expanding Urban Spaces

Ongoing developments will somewhat leave a positive imprint on the economy's medium-to-long term performance, especially following the delivery of the first phase of more than 20 new cities. After the New Urban Communities Authority nodded the involvement of private developers in the establishment of social housing projects in 2019, we expect further investment opportunities and incentive programs to be presented to the private sector.

Overall, this comes as part of the efforts to expand the country's urban space as well as build new modern communities. The government envisages to roll out a diverse range of well-crafted inhabitable areas that meet international standards. Several foreign operators were selected for the provision of facility and hospitality management services across state-owned properties. Besides, partnerships for the execution of international educational projects were announced throughout 2019 (including Swiss-based University of Lausanne in New Alamein), suggesting that the vision is likely to be adopted elsewhere.

The concept of smart cities was talk of the town over the year, particularly because a plethora of technological developments planned to be put forth by an array of well-qualified companies to welcome a brand-new batch of fourth-generation cities. With the majority mainly found in the New Administrative Capital (NAC), MasterCard will provide electronic payment services, Honeywell will develop several security systems, Telecom Egypt will install smart

and security services networks, among many others.

Substantially, local authorities vow to continue working toward improving market transparency and refining the investment climate through the introduction of new technologies and innovative solutions (such as the e-filing system, unified smart card, online property registration, and more to be announced in 2020). Considering such adjustments, we can also anticipate more tourism receipts in the wake of the inauguration of the Sphinx International Airport, on top of additional interest rate cuts throughout the year.

Egypt Macroeconomic Indicators

	2018	2019	2020F	2021F
GDP Growth (%)	5.3	5.6	5.5	5.5
CPI Inflation Rate (%)	14.4	9.4	7.9	9.8
Unemployment Rate (%)	9.9	7.7	8.1	8.5

Source: Oxford Economics

Egypt Government Budget

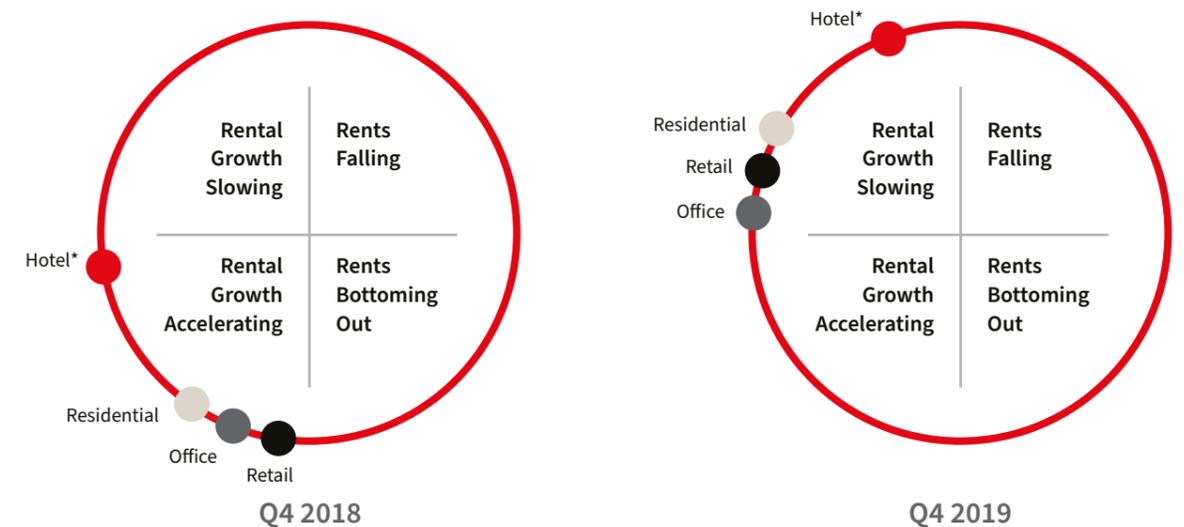
	2018	2019	2020F	2021F
Government Revenue (EGP/billion)	821	977	1,134	1,398
Government Spending (EGP/billion)	1,244	1,412	1,574	1,765
Fiscal Balance (EGP/billion)	-9.5	-8.0	-7.2	-6.4

Source: Ministry of Finance

Market Summary

Cairo's real estate market continued to improve in the fourth quarter of 2019. Due to the limited supply over the past 12 months, primary **office** rents remained stationary, whilst average rents augmented by 9% year-on-year. Meanwhile, vacancy rates declined significantly to reach 12% year-on-year. In the **residential** sector, further progress on the New Administrative Capital is driving the continued shift to East Cairo, which is applying upwards pressure on New Cairo rental rates. Secondary sale prices continued to grow in New Cairo over the quarter, with prices of 6th of October villas jumping on-board. However, limited supply is anticipated in the next 12 months. The **retail** sector was slightly challenged in Q4, with retailers either consolidating or limiting their expansion plans. Vacancies decreased to 12% but are expected to shoot up in the medium term as rents hike and demand on retail space drops. The Cairo **hotel** market demonstrated mixed performance, with average daily room rates (ADR's) logging minimal declines of an average 2% whilst occupancy rates hiking to 75% in the YT December.

Cairo Prime Rental Clock



* Hotel clock reflects the movement of RevPAR (Revenue per available room: ADR * occupancy rate)

Note: The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle. These positions are not necessarily representative of investment or development market prospects. It is important to recognize that markets move at different speeds depending on their maturity, size and economic conditions. Markets will not always move in a clockwise direction, they might move backwards or remain at the same point in their cycle for extended periods. Source: JLL

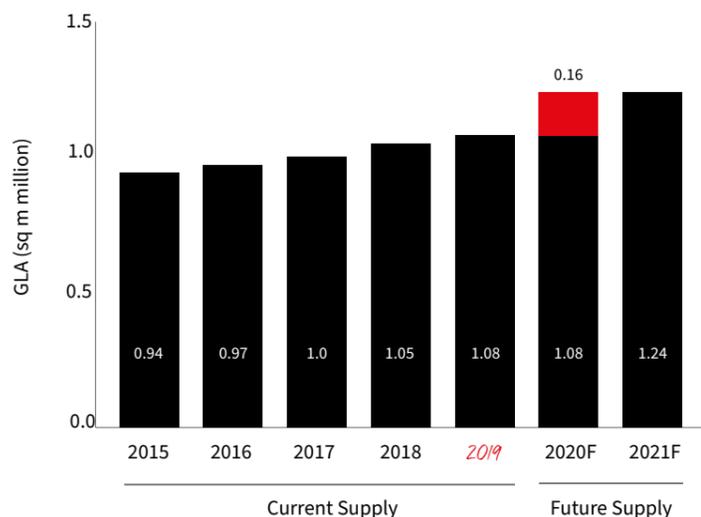
Office

Supply

Merely three Cairo office buildings were delivered in Q4, adding up almost 20,000 sq m of GLA. In 2020, office inventory will heighten to at least 1.24 million sq m, with over five complexes in the pipeline. The steady growth in supply was matched by a healthy demand for offices in 2019, which will keep the positive absorption levels consistent with that of the past three quarters, albeit uncertainty surrounding prices and interest rates.

West Cairo was the market's top pick in Q4, hence some upscale projects and extensions were carried out such as the latest phase of Dorra Group's Capital Business Park. Major mixed-use projects with different office, medical, retail, and recreational units were unveiled in New Cairo too (namely 5A and Stone Street).

However, we remain cautious on the delivery of projects within their time frame.



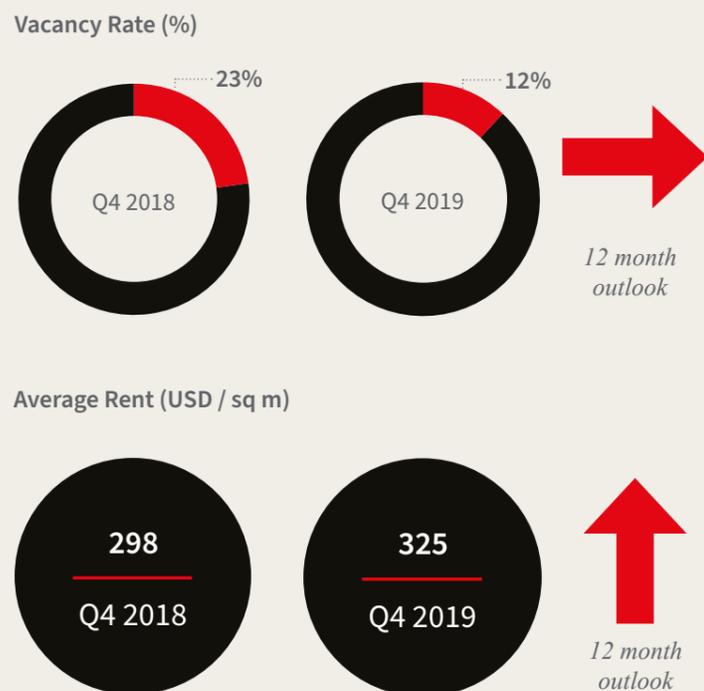
Source: JLL

Performance

Rental rates were relatively stationary in Q4, despite the striking fluctuations on an annual basis. At heart, a steady demand toward office spaces in East Cairo was determinable. This is mostly driven by occupiers willing to resettle in close vicinity of the new capital and an array of neighbouring key spots (such as the Cairo International Airport).

Despite the limited new supply across Cairo, Q4 saw average vacancy drastically dwindling to 12% compared to the the same period last year, signifying high demand for grade A business space. As the first phase of projects based in new cities rolls out, offices are poised to witness an unprecedented demand nationwide.

Developers are turning to the optimization of real estate development with artificial intelligence and other innovative technologies, including the first international business hub in New Cairo's iCity (called Heartwork).



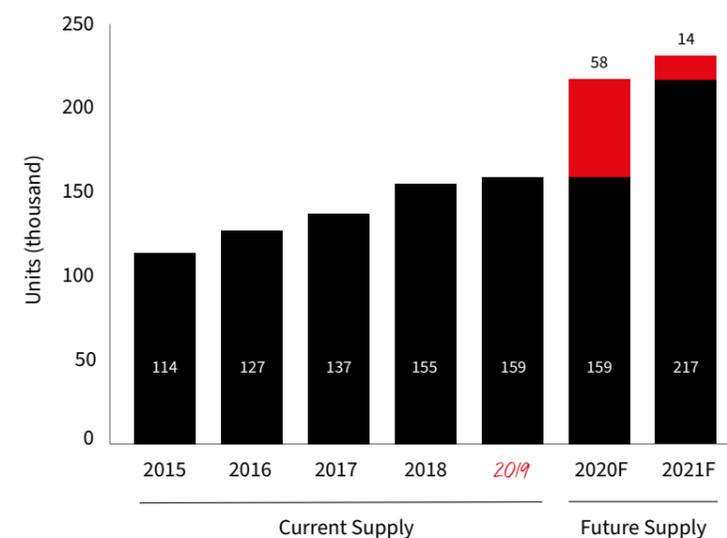
Source: JLL

Residential

Supply

Only 581 apartments in New Cairo's Cairo Festival City were handed over in Q4, out of the 3,868 residential units completed in 2019. This represents an average annual increase of 2.5%, marking the capital's lowest gain in a decade. With the total stock currently standing at around 159,000 homes, a few gated communities were announced during the final quarter of 2019.

Most of the supply pipeline is poised to enter the market by 2020, as the government verges to deliver some of the newly-introduced cities. Roughly 58,000 residences are underway and scheduled for completion later this year. Yet, we remain cautious on the delivery of projects within deadlines due to the developers' budgetary matters and overall market stagnation. The first residential deliveries are supposedly Il Bosco and iCity in East Cairo, redirecting focus toward the area as new national infrastructure projects open to the public (including the expansion of Cairo-Suez Road), alongside the expansion of existing road links.



Source: JLL

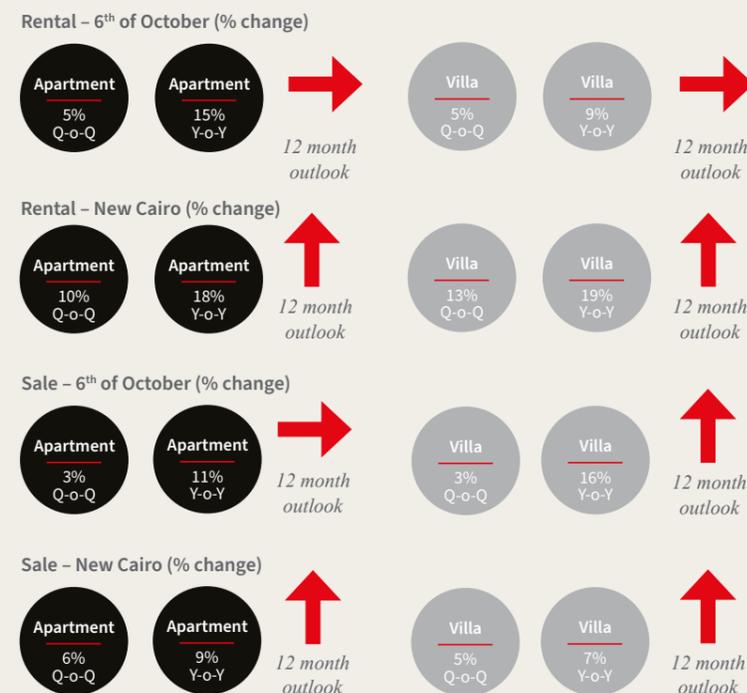
Performance

In Q4, price tags of secondary units rose a little across New Cairo and 6th of October, following the consecutive interest rate cuts and stability of exchange rates, which drove owners to boost their asking prices. In general, average prices of apartments and villas picked up by 7% and 10%, respectively, across the capital in 2019.

Sale value of resale apartments and villas jumped equally by 3% in 6th of October when compared to the previous quarter, whereas almost doubling in New Cairo over the same period. Higher leaps were logged on an annual scale, with villa prices edging up by 16% in 6th of October.

Meanwhile, the market's year-long performance is far from being tenant friendly, especially in New Cairo, where average rental rates of apartments and villas spiked by 18% and 19%, separately. Likewise, an upward trend was notably demonstrated within 6th of October, with apartment rents ascending by an average 15% year-on-year.

Residential Performance (% change)



Source: JLL

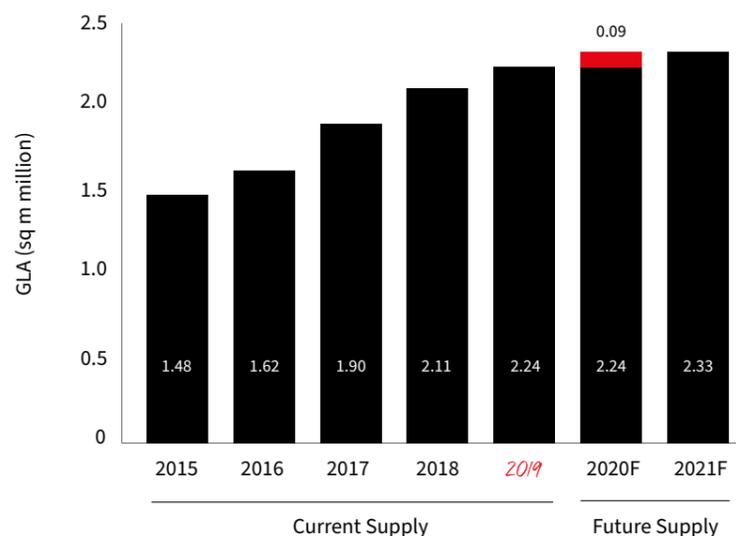
Retail

Supply

Around 8,200 sq m of retail GLA were added to Cairo's retail supply in Q4 2019, following the delivery of a couple of mixed-use developments in New Cairo, namely White by The Waterway. This brought the total GLA to 2.24 million sq m. A further 92,400 sq m of retail space will probably be supplemented after several other projects open in the near term, including Madinaty Open Air Mall in East Cairo.

While e-commerce gains ground worldwide, local consumers are becoming more cautious with their spending, hence minimising their retail consumption and interacting with retailers through new technologies. Accordingly, retailers were compelled to revamp their stock inventories, while also further expanding to cater to changing consumer trends.

Despite the limited supply, Cairo's retail market is predicted to maintain a robust foothold in the market, exhibiting a strong potential demand over the coming year. East Cairo will remain the most preferred area for retail development in 2020.

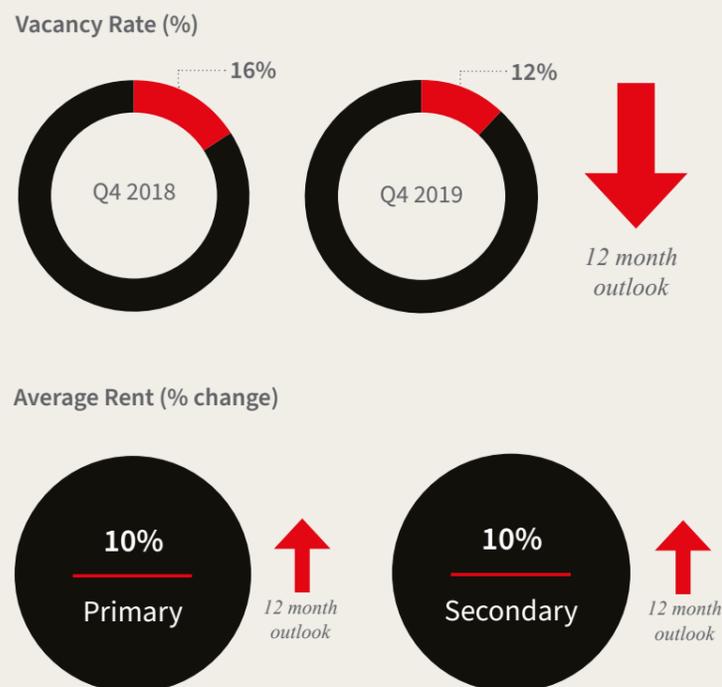


Source: JLL

Performance

On an annual basis, rents of primary retail areas rose by 10%, which represents the annual raise in rents of prime super-regional malls in USD terms. Secondary rentals elevated by an equal percentage, demonstrating a uniform demand on retail in general. This is because various global heavyweights are either setting foot into the market or rebooting operations in Cairo as the country's overall business climate ameliorates.

For the forthcoming year, Cairo's retail market is seen to enjoy additional footfall on the back of the recent inauguration of City Centre Almaza in Q3 2019, which already encompasses over 260 local and international fashion and lifestyle brands. Besides, an insatiable demand for F&B outlets was manifested over the final quarter and is anticipated to continue next year. Yet, developers need to be able to retain the strong demand for Cairo retail, and thus create a more appealing industry and maintain healthy growth (such as feasible revenue-sharing schemes).



Source: JLL

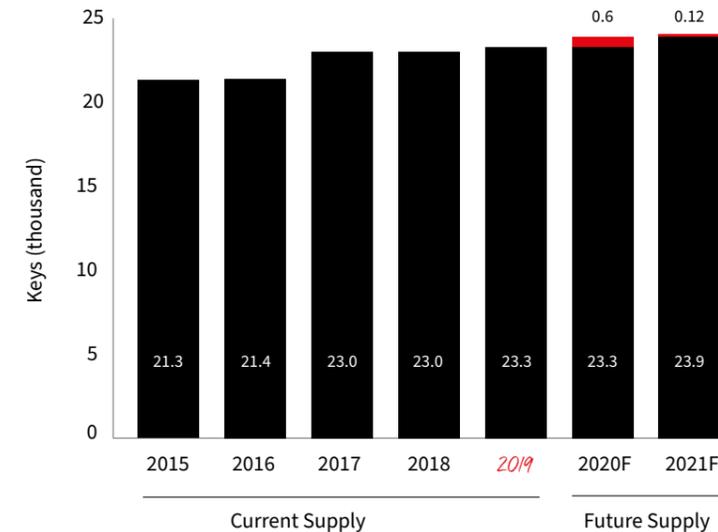
Hotel

Supply

New foreign branded hotels were announced in Q4 2019, including St. Regis (NAC) and W Cairo (New Cairo). Cairo's hotel supply remained intact (at 23,300 keys), with no major additions revealed over the quarter.

Overall, developers are turning to new areas like New Cairo, bidding to deviate from the city center and introduce new tourist hubs to the capital. The long awaited - for St. Regis in Downtown Cairo is slated for inauguration in Q3 2020, along with the opening of Hyatt Regency Cairo West in the subsequent quarter.

Additional hotel supply may reach around 600 keys by the end of 2020, with notable projects including Hilton Maadi Nile Towers and Element Hotel in East Cairo, reflecting a potential shift in focus toward the area.



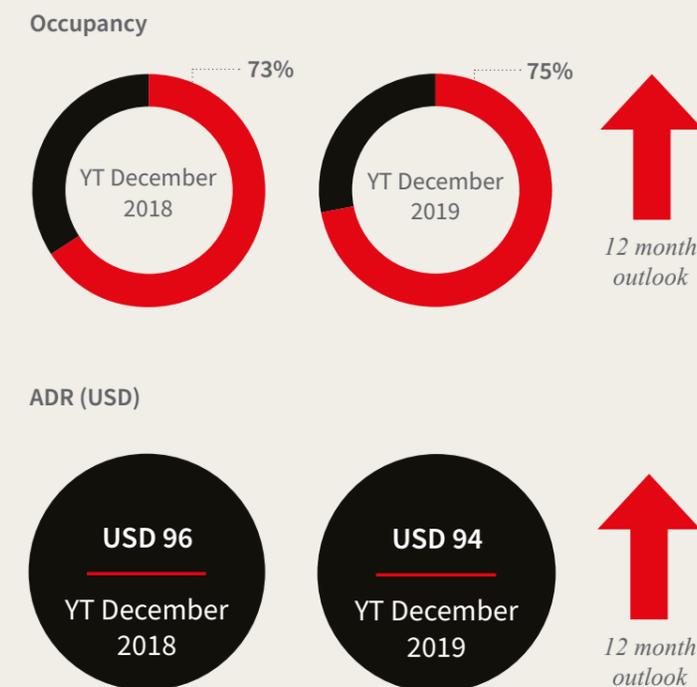
Source: JLL

Performance

Hotel performance was slightly stable in the YT December 2019, with occupancy rates rising to 75%, compared to 73% in the corresponding period of 2018 (a 200 bp improvement). The pickup in occupancy levels reflects the steady demand and is predicted to continue throughout 2020.

However, YT December 2019 Average Daily Rates (ADR's) dropped 2% from YT December 2018 figures, to register USD 94. Accordingly, revenues per available room (RevPAR's) remained almost stationary in Q4, standing at roughly USD 70 (YT December 2019).

On the back of strong visitor arrivals growth associated with the latest tourism support initiatives, leaving out the resuming of direct British flights, the demand for Cairo hotel market is slated to recover soon. Besides, there were multiple moves undertaken by the government in 2019 to boost the hospitality sector, including the ratification of residency and citizenship laws.



Source: STR Global

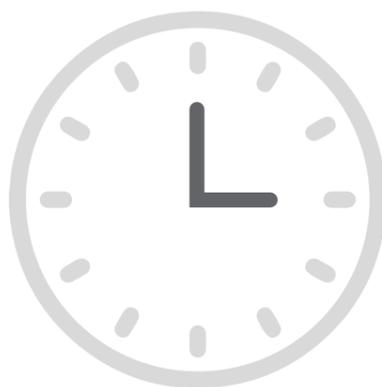
Property Clock

12 O'clock

12 o'clock indicates a turning point towards a market consolidation / slowdown. At this position, the market has no further rental growth potential left in the current cycle, with the next move likely to be downward.

9 O'clock

9 o'clock indicates the market has reached the rental growth peak. While rents may continue to increase over coming quarters the market is heading towards a period of rental stabilisation.



3 O'clock

3 o'clock indicates the market has reached its point of fastest decline. While rents may continue to decline for some time, the rate of decrease is expected to slow as the market moves towards a period of rental stabilisation.

6 O'clock

6 o'clock indicates a turning point towards rental growth. At this position, we believe the market has reached its lowest point and the next movement in rents is likely to be upwards.

Definitions

Definitions

Office

Supply. The current supply of completed office GLA is based on a comprehensive list of office buildings within certain areas in Cairo that have been handed over for immediate occupation. This includes standalone office buildings and office space within mixed-use buildings. Our project list excludes owner-occupied and government office buildings.

The certain areas within Cairo we cover include: Downtown Cairo, New Cairo, and West Cairo.

The future supply of office GLA is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of office GLA is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance. The weighted average rent (WAR) is based on lease transactions from the JLL Offices and Business Space team. It reflects the average rates across a basket of Grade A buildings.

Grade A buildings are defined as high quality office spaces, well located, with good access to infrastructure and amenities including F&B and retail.

The WAR of Grade A buildings represents the top open-market, net rent (exclusive of service charge and incentives) for a new lease that could be expected for a notional office unit.

Vacancy rate is based on estimates from the JLL Offices and Business Space team. It reflects the average rate across a basket of buildings. This basket represents approximately 86% of the current supply of quality office space in Cairo.

Residential

Supply. The current supply of completed residential buildings is based on residential units in New Cairo and 6th of October, that have been handed over for immediate occupation.

Our definition of residential units includes apartments, villas, and townhouses.

The future supply of residential units is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of residential units is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance. Data on residential performance in Cairo is based on the asking prices and rents of a basket of selected residential units within selected areas.

Retail

Supply. The classification of retail centers is based on the Urban Land Institute (ULI) definition and based on their Gross Leasable Area (GLA):

- Super Regional Malls have a GLA of above 90,000 sq m
- Regional Malls have a GLA of 30,000 - 90,000 sq m
- Community Malls have a GLA of 10,000 - 30,000 sq m
- Neighborhood Malls have a GLA of 3,000 - 10,000 sq m
- Convenience Malls have a GLA of less than 3,000 sq m

The current supply of completed retail GLA is based on a comprehensive list of mall-based retail in Cairo that have been handed over for immediate occupation. Our project list excludes street retail and retail within mixed-use buildings.

The future supply of retail GLA is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of retail GLA is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance. Weighted average rents (WAR) are based on lease transactions from the JLL Retail team. It reflects the rents across a basket of super regional and regional centres.

WAR represents the top open market net rent expected for a standard in line unit shop of 100 sq m in a basket of centers. Given the variation in rentals, we quote percentage change for retail rents rather than actual figures.

Vacancy rate is based on estimates from the JLL Retail team. It reflects the average rate across regional centres in Greater Cairo.

Hotels

Supply. The current supply of hotel rooms is based on data from the Egyptian Hotel Association. It reflects hotel rooms that have been handed over for immediate occupation. Our project list includes all graded supply and excludes serviced apartments.

The future supply of hotel rooms is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of hotel rooms is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance. STR performance data is based on a monthly survey conducted by STR Global on a sample of international standard midscale and upscale hotels. Average Daily Rates (ADR) and Revenue Per Available Room (Rev Par) are the key performance metrics.



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