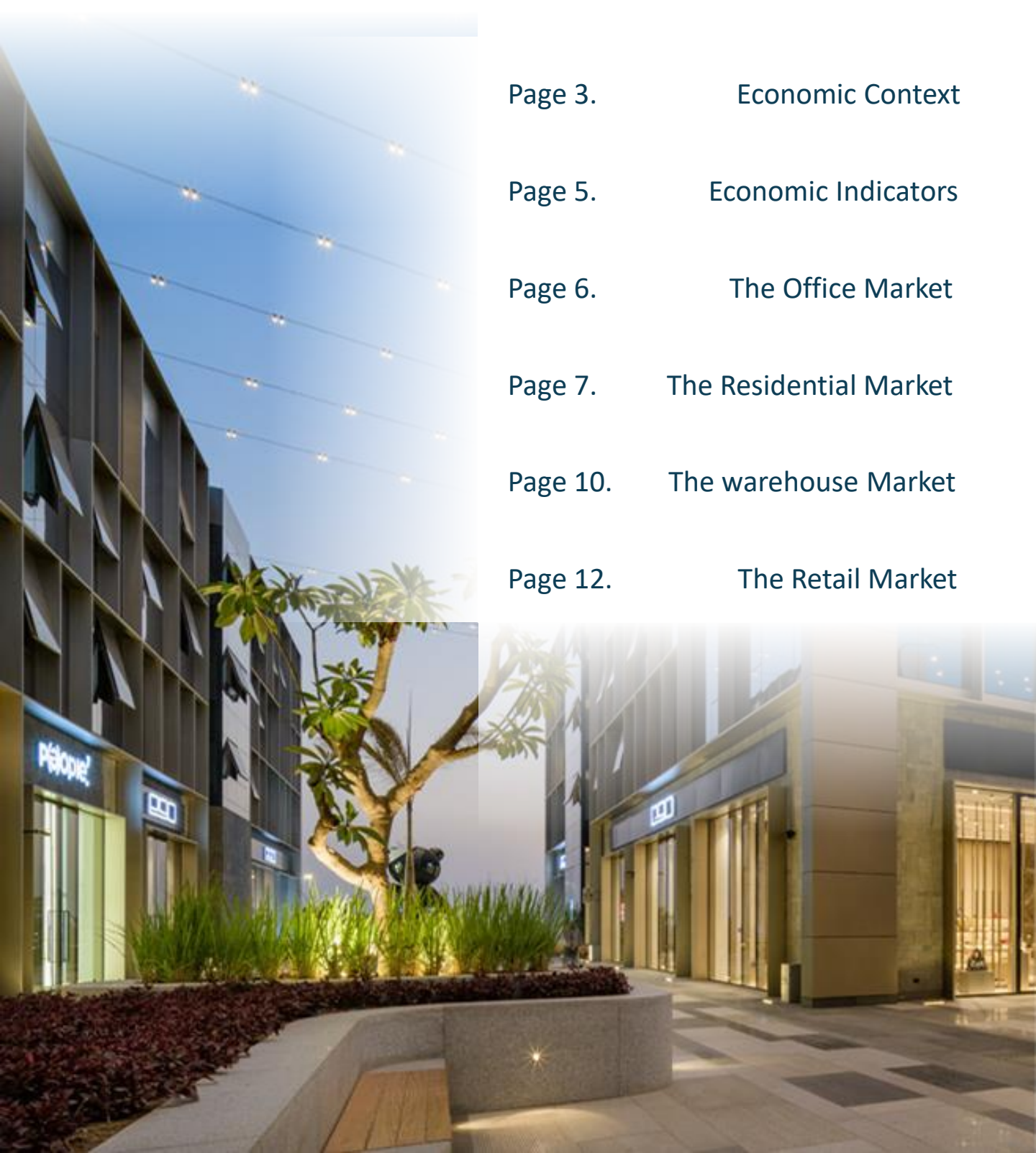


# Uncertainty and Opportunities

Cairo, Egypt | H2 2023



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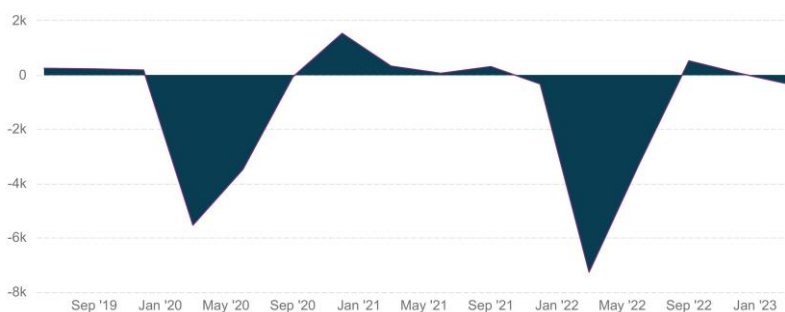
# Economic context

## Economic Environment Overview

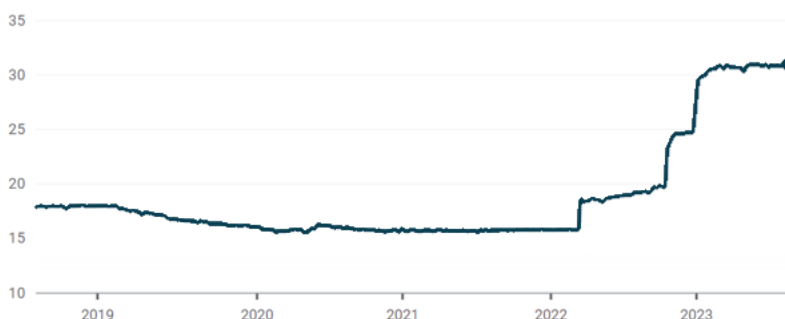
The Egyptian economy is currently grappling with a series of significant challenges that have required substantial reforms. The aftermath of the conflict in Ukraine exacerbated these issues, resulting in a massive capital flight of over \$20 billion, which had a profound impact on Egypt's sovereign debt and overall economic stability.

The sudden outflow of capital created a shortage of foreign currency reserves, hindering the country's capacity to meet external obligations and maintain stable exchange rates. In response to these pressing economic concerns, Egypt engaged with the International Monetary Fund (IMF) to secure a \$3 billion financial lifeline. This agreement aims to alleviate immediate fiscal pressures and provide breathing room for implementing essential reforms.

To address the root causes of its economic challenges, the Egyptian government has embarked on an ambitious path of economic reforms. Central to these reforms is the promotion of private sector investments to invigorate economic growth. A critical component of this strategy involves restructuring subsidies, with a focus on reducing fuel subsidies, which have historically strained the national budget. Additionally, the government aims to lessen the presence of both the state and the military in the local economy, a move designed to foster a more diverse and competitive economic landscape.



Balance of Payments Performance (USD Mn) Source: CEICDATA, Central Bank Of Egypt



USD to EGP rate

One of the significant considerations in this reform agenda is the adoption of a flexible exchange rate system. While discussions are ongoing, the implementation of such a system could enhance the country's ability to absorb external shocks and maintain competitiveness in the global market. However, challenges remain in effectively executing these reforms, including managing the social impact of subsidy reductions and navigating the complexities of altering the role of the state and military in the economy.

Amidst these reform efforts, a parallel currency market has emerged, where the exchange rate can deviate significantly from the official rate. The official exchange rate is pegged at EGP 30.9 to the dollar, while the parallel market rate can fluctuate upwards of EGP 40 at times. This duality in exchange rates highlights the complexity of Egypt's economic situation and underscores the importance of the ongoing reform measures to stabilize the economy, attract investments, and ensure sustainable growth.

# Economic context

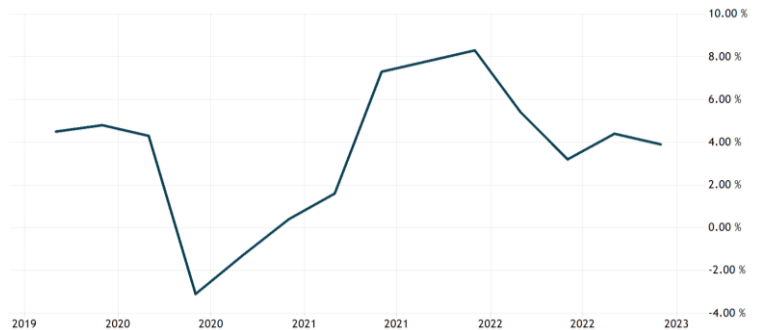
## Economic Indicators

The Egyptian economy is navigating a complex landscape, influenced by a range of economic indicators and trends. In the first quarter of the fiscal year 2022/2023, the GDP growth rate stood at 4.4%, showing a stark decline compared to the robust growth rate of 9.8% observed in the same period of the previous year. This decrease can be attributed to various factors, including the aftermath of the Ukrainian conflict and its impact on capital flows.

Egypt's GDP, which stands at \$476.75 billion, reflects the scale of its economic activity. However, this should be seen in conjunction with the 2022 GDP per capita figure of \$4,295.40, indicating the distribution of wealth and well-being among the population.

In February 2023 CAPMAS reported the unemployment rate at 7.2%. Amidst these challenges, the country is also grappling with soaring inflation rates. The annual urban inflation rate reached a staggering 36.5%, with core inflation at 40.7% as of July 2023. This marked increase from around 15% the previous year underscores the financial strains faced by the population due to rising prices.

The IMF's revised forecast for GDP growth, which now stands at 3.7% for 2023, reflects the ongoing challenges the economy faces and the expected impact of the various economic measures taken.



GDP Growth Rate, Source: *Trading Economics, Central Bank Of Egypt*

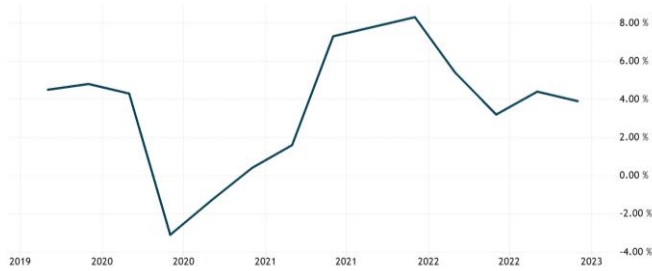
The Central Bank of Egypt (CBE) made an unexpected move in August 2023 by raising the overnight deposit rate by 100 basis points to 19.25%. This decision, the highest rate since 1992, underlines the CBE's commitment to manage inflation and stabilize the economy.

The cumulative 1100 basis points increase in interest rates since March 2022 highlights the central bank's proactive approach to managing economic imbalances. Credit rating agencies have also weighed in on Egypt's economic situation. Fitch downgraded the country's credit rating from B+ to B with a negative outlook, reflecting concerns about its economic performance. S&P, while maintaining the B rating, shifted its outlook from stable to negative, indicating apprehensions about Egypt's economic trajectory. Moody's B3 rating is under review,

suggesting an ongoing evaluation of the country's creditworthiness.

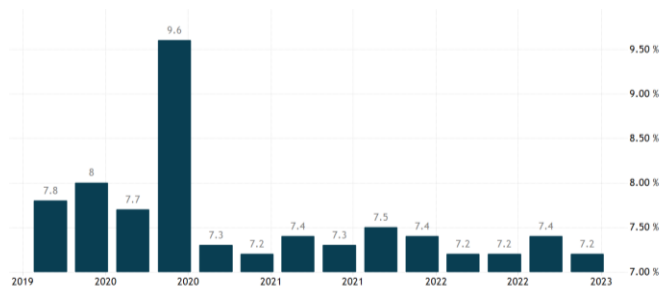
In summary, Egypt's economic challenges, as mentioned earlier, are intricately linked to these trends. The decline in GDP growth, coupled with rising inflation, and credit rating downgrades, have prompted a series of economic reforms and policy adjustments, as evidenced by the IMF's revised projections and the CBE's interest rate decisions. These measures aim to address the multiple issues affecting Egypt's economic landscape and steer the country towards a path of stable and sustainable growth.

# Economic indicators



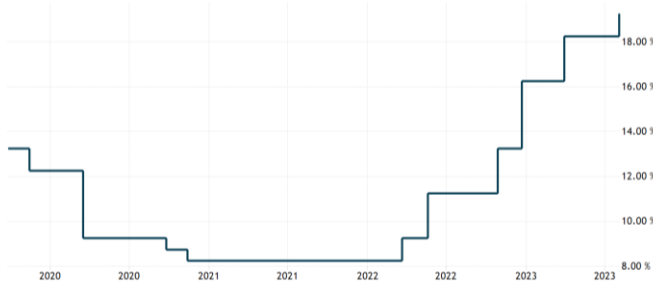
GDP growth rate, Source: *Trading Economics, Central Bank Of Egypt*

In the first quarter of the fiscal year 2022/2023, the GDP growth rate was at 4.4%, showing a decline of 55% compared to the growth rate of 9.8% observed in the same period of last year



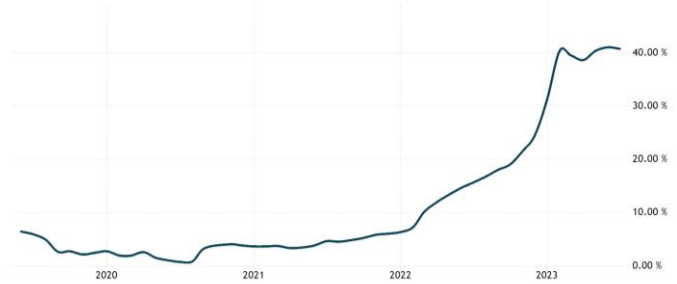
Unemployment rate, Source: *Trading Economics, CAPMAS Egypt*

In Q2 of FY 22/23 the total unemployment rate fell to 7.2%, a decrease from the previous year's rate of 7.4%. This is the lowest it's been since 2004.



Overnight deposit interest rate, Source: *Trading Economics, Central Bank Of Egypt*

In August 2023, the Central Bank of Egypt raised the overnight deposit rate by 100 basis points to 19.25%. This is the highest rate it's been since 1992. Since March 2022 the interest rate has increased by a cumulative total of 1100 basis points.



Core inflation rate, Source: *Trading Economics, CAPMAS Egypt*

The annual core inflation rate reached a staggering 40.7% as of July 2023. This is a huge increase from around 15% the previous year, highlighting the financial strains faced by the population due to rising prices.

# The office market

## Office Market Overview

With the slowdown in construction, the Cairo office market has seen little new activity in 2023 in comparison to previous years. Over 27,000 sqm of new office space has been developed in New Cairo. Meanwhile, on the West side of Cairo, over 113,600 sqm of office space has been developed in 2023, bringing the total office space in Cairo to over 2.2M sqm.

In terms of future supply, there is a development pipeline of approximately 623,400 sqm in New Cairo over the next 2 years and 209,892sqm of office space in West Cairo (Sheikh Zayed and 6<sup>th</sup> of October).

The significant difference in upcoming supply illustrates shifting demand between East and West Cairo. This can mainly be attributed to the building of the New Administrative Capital which has already seen 14 government entities and ministries move to it, with more to follow.

From a performance perspective, rental rates in Cairo increased significantly over the past year in Egyptian Pound terms. While this does represent a significant increase in terms of EGP (16% and 26% YoY increase respectively) it does however represent a decrease in terms of USD due to the multiple devaluations the Egyptian pound has gone through.

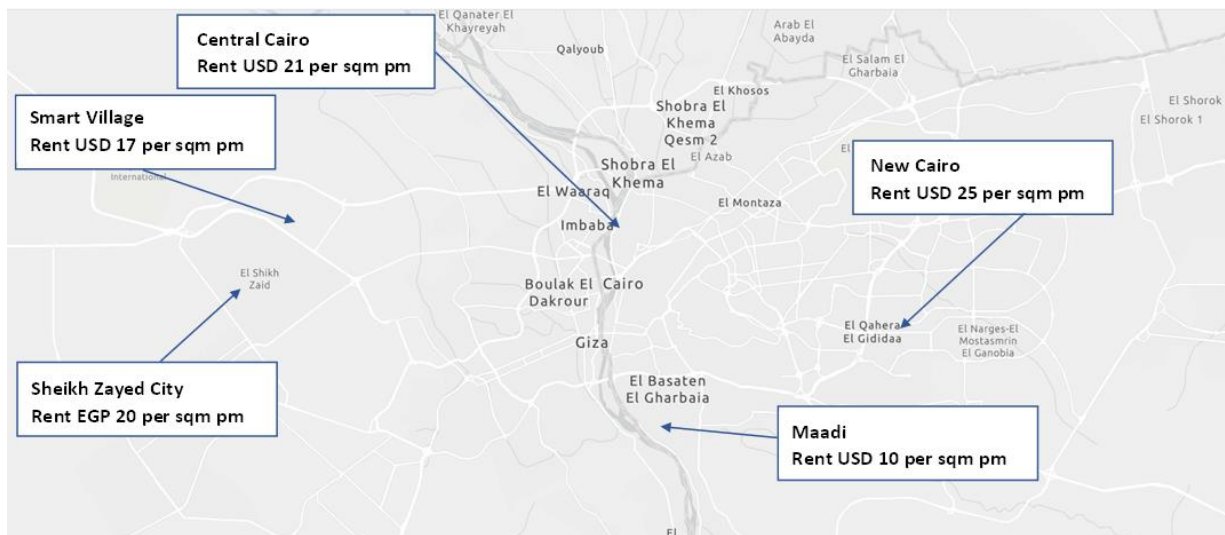
The average rent is USD 25 /sqm /month in New Cairo and around USD 20 /sqm /month in Sheikh Zayed.

It is not clear if there has been a fall in rental values in real terms or if rates have simply not caught up yet to the rising dollar. To overcome this and mitigate the risk of further devaluations, more and more landlords are quoting their rates in USD instead of EGP (transactions are still conducted in EGP as it is illegal to do otherwise). It remains to be seen if this will become market standard in the near future.

As for asking sale rates they have also seen significant hikes in EGP terms over the past year. On average the price per sqm of office space is USD 2,826 in New Cairo and USD 2,540 in West Cairo (a 38% YoY increase in terms of EGP).

District	Avg. Rent Price (sqm/month)	Avg. Sale Price (sqm)
New Cairo	USD 25	USD 2,826
West Cairo	USD 20	USD 2,540

Office Rental & Sale Rates in New and West Cairo, Source: EMC Real Estate Research



Average Office Rental Rates in Different Neighbourhoods, Source: EMC Real Estate Research

# The residential market

## Residential Market Overview

In the face of general economic instability, the performance of the Cairo residential real estate sector has yielded mixed results over the past year. Certain pockets, including New Cairo situated on the city's eastern flank, have strengthened as demand has grown.

The western side of the city has displayed a parallel trend, with property values on the rise due to amplified demand for investment real estate as well as the increase in occupancy rates.

Essentially, the unstable economic environment has triggered a flight-to-quality, as more and more investors are choosing to invest in residential real estate, an investment they deem safe. On average, rental and sale rates have increased by almost 20% and 40% respectively year over year.

The ongoing emergence of new developments on the city's eastern and western extremities continues to exert a draw on residents, coaxing them away from the congested center.



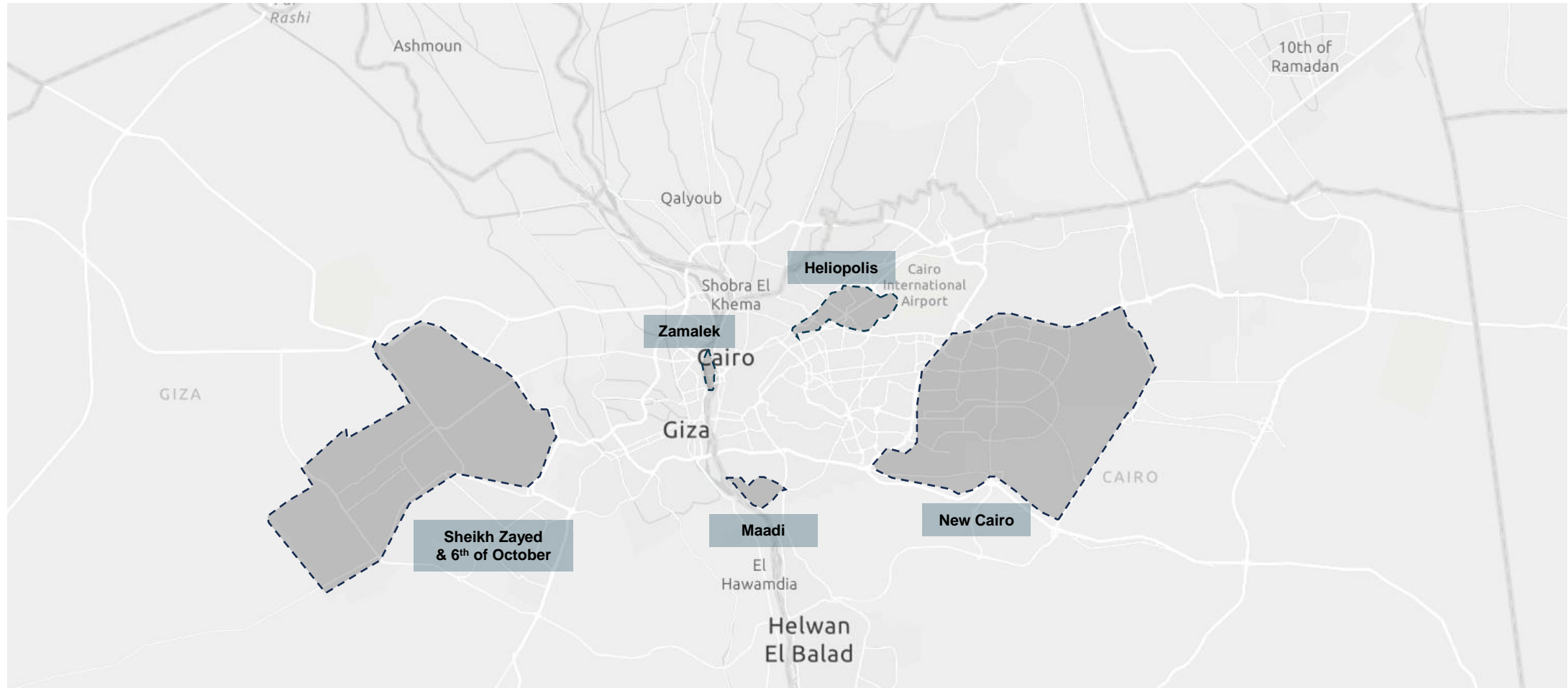
Residential villa, New Cairo district, Source: Propertyfinder.com, EMC Real Estate Research

This shift has inevitably impacted demand, leading to subdued pricing in the city centre. While areas such as Zamalek have observed upward trends in rental rates their ascents have been at a more tempered pace in comparison to East and West Cairo.

## Payment Plans

Amidst economic uncertainty, there has been a notable shift in the way developers are selling their units. Development companies are no longer willing to take on big risks while offloading units. The 15-year financing plans that were commonplace just a few years ago are no longer available on the market. Most residential units are now sold on 5-7 year financing plans.

# Residential districts



Cairo residential districts. Source: ArcGIS, EMC Real Estate Research



# Residential performance

## Pricing & Rates

The below table provides average rents for the principal residential compounds in East and West Cairo. Rents shown below are per month, exclusive of service charge. These rates mark a significant increase from last year's averages in terms of EGP (almost 20% YoY increase).

## Outlook

Amid economic volatility, real estate remains an appealing investment avenue for its relative stability. Investors, including local and international parties, continue to view the sector as a viable long-term asset. The market has captured the interest of investors seeking capital appreciation and rental income potential.

District	3BR Apartment	Town House
New Cairo	USD 855	USD 1,230
West Cairo	USD 565	USD 948
Heliopolis	USD 485	N/A
Maadi	USD 675	N/A
Zamalek	USD 1,510	N/A

Main residential areas' average monthly rental rates, Source: *EMC Real Estate Research*

Item	Detail
Duration	Minimum 12 months, renewable
Rent payment	Monthly in advance
Deposit	1-2 months' rent
Yearly escalation	10%

Typical Rental Terms, Source: *EMC Real Estate Research*

# The warehouse market

## Warehousing Market Overview

The warehouse sector in Cairo remains in its early stages of development with units typically family-owned or owned by local businesses. Most factories often have their own warehouses situated either nearby or within the confines of their manufacturing facilities. This inclination is rooted in the preference of factory owners to maintain the proximity of raw material storage for streamlined processing.

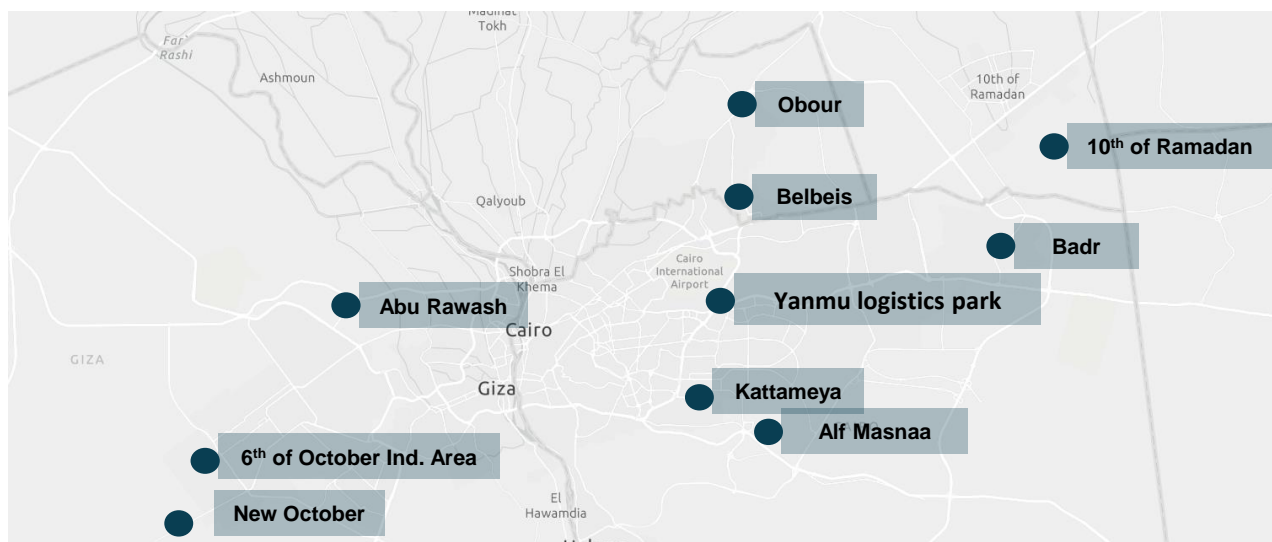
The concentration of most warehousing premises in Cairo is on the eastern and western outskirts of the city, mainly located in heavy industrial areas. In total there are around 10 major warehousing nodes in greater Cairo that vary in terms of quality of the offerings and size.

## Supply

Supply in Cairo is dominated by unlicensed Grade C and on-premises warehousing. Currently, Grade A and B warehousing represent only around 13% of the total Cairo stock. A number of industrial parks are expected to house Grade A supply and due to be operational within the next couple of years; Orascom's and Al Ahly Capital's industrial park in Abu Rawash (circa 2.3 Mn sqm) and Agility and Hassan Allam Utilities' state of the art Yanmu logistics park in New Cairo.

## Demand

Demand for Grade A warehousing space is still relatively modest although this has increased over the past few years and will most likely continue in the near future. This is in part due to the government's recent crackdown on all unlicensed storage facilities. Unlicensed storage facilities still represent most of the warehousing space in Egypt.



Major warehousing nodes in Cairo. Source: EMC Real Estate Research

# Warehouse performance

## Pricing & Rates

The below table provides indicative average rents for the principal warehouse locations in Cairo. Rents shown below are per sqm per month, exclusive of service charge. New state of the art high bay warehousing can fetch considerably more than the average Grade A rates.

## Outlook

While the market is predominantly made up of owner-occupied industrial units, there is a limited supply of very high quality Grade A warehousing in Cairo. We estimate this segment of the market to increase over the next three years, mainly driven by the rise in e-commerce.

Warehouse			Factories
Grade A	Grade B	Grade C	
6.4%	6.4%	2.6%	84.5%

Industrial distribution in Greater Cairo, Source: EMC Real Estate Research



Grade A warehouse in Greater Cairo, Source: EMC Real Estate Research

District	Grade A	Grade B	Grade C
Abo Rawash	USD 4.37	USD 3.24	USD 2.1
6 <sup>th</sup> of October	USD 4.69	USD 3.72	USD 2.75
Alf Masnaa	USD 3.72	USD 2.91	USD 1.62
10 <sup>th</sup> of Ramadan	USD 2.27	USD 1.62	USD 1

Key warehousing nodes' average rental rates /sqm/month Source: EMC Real Estate Research

# The retail market

## Retail Market Overview

On the retail front, we can also measure the exodus towards the city's eastern and western sides.

Units in central areas such as Maadi and Mohandessin on average are leased for USD 15.50 and USD 12.50 /sqm respectively. Despite the relatively limited supply, these rates are much lower than those found in West Cairo (USD 24 /sqm /month) and New Cairo.

New Cairo commands the highest premium in all of Cairo at approximately USD 36 /sqm /month.

The discrepancy in pricing between New Cairo and West Cairo mainly due to the comparatively limited supply in New Cairo and the building of the New Administrative capital, making it a more attractive destination on the long term.

## Pricing & Rates

The below table provides average rents for some of the principal neighbourhoods in Greater Cairo. Rents shown below are per square metre per month, exclusive of service charge.

District	Avg. Rent (sqm/month)	Status
New Cairo	USD 36	Core & Shell
West Cairo	USD 24	Core & Shell
Heliopolis	USD 15	Fully Finished
Maadi	USD 15.5	Fully Finished
Mohandessin	USD 12.5	Fully Finished

## Outlook

Moving forward we expect rental rates for units in central Cairo to remain relatively stable despite a slowdown demand. On the other hand, with the ongoing expansion towards the city's Eastern and Western fronts, rental rates in these areas are expected to rise further. These price hikes are also fuelled by instability of the local currency which has pushed some landlords to quote their prices in USD. This is leading to conflicts with tenants who receive their revenue in Egyptian Pounds.

Retail units' average monthly rental rates Source: EMC Real Estate Research

## Typical Lease Terms

Duration	Minimum 12 months, renewable
Rent payment	Monthly in advance
Deposit	1-2 months' rent
Yearly escalation	10%

Typical Rental Terms Source: EMC Real Estate Research