

# Cairo Office Market Update 2023

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# Economic Overview

## Economic Environment

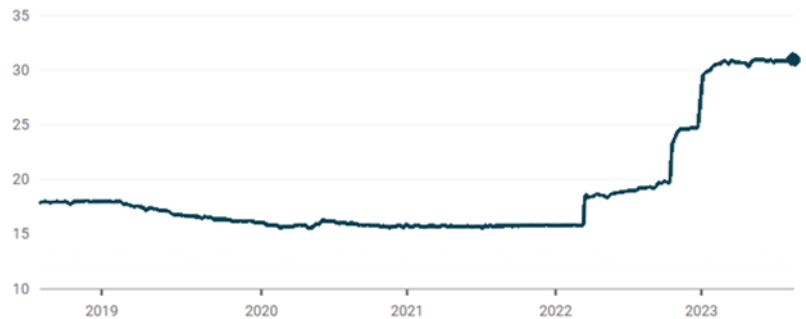
Amidst a series of substantial hurdles, the Egyptian economy is going through a transformative phase, requiring robust reform initiatives.

The aftermath of the Ukrainian conflict has exacerbated these challenges, contributing to a significant capital flight exceeding \$20 billion, which has reverberated across Egypt's sovereign debt and overall economic stability.

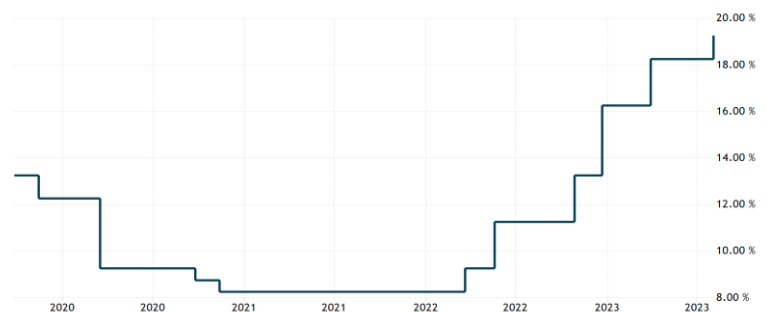
The abrupt outflow of capital has led to a depletion in foreign currency reserves, constraining the nation's ability to fulfill external commitments and uphold steady exchange rates.

In response to these pressing economic hardships, Egypt has embarked on a collaborative journey with the International Monetary Fund (IMF) to secure a crucial financial injection of \$3 billion. This arrangement is tailored to mitigate immediate fiscal strains, giving the nation the essential breathing space to executing pivotal reforms.

To address the underlying factors at the core of its economic challenges, the Egyptian government has embarked on a forward-looking course of economic reform. Central to these strategic reforms is the encouragement of private sector investments to invigorate an economic resurgence.



USD to EGP rate



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

A keystone of this approach encompasses restructuring subsidies with an emphasis on curtailing fuel subsidies which have historically strained the national budget. Furthermore, the government is actively fostering the reduction of both state and military

presence within the domestic economy, an endeavor designed to cultivate a more vibrant and competitive economic terrain, heralding an era of increased diversity and dynamism.



# Market Overview

## Office Market Overview

The Cairo office real estate market presents a dynamic and evolving landscape within Egypt's commercial sector. With its strategic location as the nation's capital and a significant regional business hub, Cairo attracts a diverse range of domestic and international companies seeking office spaces tailored to their needs. Over recent years, the market has experienced notable shifts driven by economic trends, technological advancements and changing work preferences.

The demand for office space in Cairo is driven by a variety of industries which has led to the emergence of an assortment of office configurations to accommodate different business sizes and operations. Traditional office spaces, co-working spaces and serviced offices have gained popularity, offering flexibility and cost-effectiveness for companies of all scales.

Key areas within Cairo, such as New Cairo, Sheikh Zayed, Zamalek, and Downtown Cairo, continue to be prime office locations. New Cairo and Sheikh Zayed, with their modern infrastructure and planned developments,

have attracted many multinational corporations and technology startups. Zamalek and Downtown Cairo maintain their historical significance, offering a blend of vintage charm and proximity to government institutions and cultural attractions.

The COVID-19 pandemic has impacted the office real estate landscape in Cairo, as it has globally. Remote working practices and health considerations prompted companies to reassess their office needs leading to a rise in demand for flexible spaces that offer agility and adaptability.

In addition to traditional factors such as location, facilities and lease terms, sustainable and eco-friendly office spaces have gained importance among both tenants (especially multinational corporations) and developers. Energy-efficient buildings and

green design elements are becoming more prevalent as businesses prioritize environmental responsibility.

Looking ahead, the Cairo office market is poised to undergo further transformation, adapting to the evolving needs and preferences of businesses. The integration of technology, the demand for flexible arrangements, the emphasis on sustainable practices as well as the building of the New Administrative Capital are expected to shape the market's future trajectory.

As of today, there are over 2.53 million square meters (sqm) of Grade A office space in Greater Cairo with 65% of it located in New Cairo (1.74M sqm).

| District      | GLA (sqm) |
|---------------|-----------|
| Greater Cairo | 2.53M     |
| New Cairo     | 1.64M     |
| West Cairo    | 517k      |

Total grade A office stock in East and West Cairo, Source: EMC Real Estate Research

# Supply and Demand Dynamics

## Key figures

Due to the current economic environment, the Cairo office market has witnessed a slowdown in construction. Many projects have postponed their delivery dates to 2024 due to construction delays. Only around 27,000 sqm of new office space has been delivered in New Cairo while on the West side of Cairo, around 113,600 sqm of office space has been completed bringing the total office space stock in Greater Cairo to over 2.62M sqm.

There is a notable difference in upcoming office supply in different Cairo districts. Central Cairo, being almost saturated, has virtually no upcoming office supply in the next few years. However, with most governmental entities slated to relocate to the New administrative capital soon, some of these buildings might be converted into grade A office space. The main developments in Cairo are located on the eastern and western sides of the city. In terms of future supply, there is a development pipeline of approximately 703,857 sqm due to come onto the market in New Cairo over the next 3 years in comparison to 290,922 sqm in West Cairo (Sheikh Zayed and 6th of October).

The average occupancy rate for New Cairo is 82.7% and around 89.7% in West Cairo. This represents a slight decrease from last year's average (around a 2% decrease).

However, if we look at absorption rates a different story unfolds, the average absorption rate for units in upcoming developments in West Cairo is around 49.5%, a stark difference from the 71.5% witnessed in New Cairo. This difference in absorption rates, as well as 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.



Office Building in Greater Cairo, Source: newaqar.net, EMC Real Estate Research

| District   | Q2 2023 avg. occupancy rate | Q2 2023 avg. absorption rate |
|------------|-----------------------------|------------------------------|
| New Cairo  | 82.7%                       | 71.5%                        |
| West Cairo | 89.7%                       | 49.5%                        |

Occupancy and absorption rates by district, Source: EMC Real Estate Research

| District      | 2023        | 2024        | 2025        | 2026       |
|---------------|-------------|-------------|-------------|------------|
| Central Cairo | 0 sqm       | 0 sqm       | 0 sqm       | 0 sqm      |
| New Cairo     | 27,000 sqm  | 342,864 sqm | 280,593 sqm | 80,400 sqm |
| West Cairo    | 107,612 sqm | 101,892 sqm | 108,000 sqm | 81,030 sqm |

Upcoming office stock in East and West Cairo, Source: EMC Real Estate Research

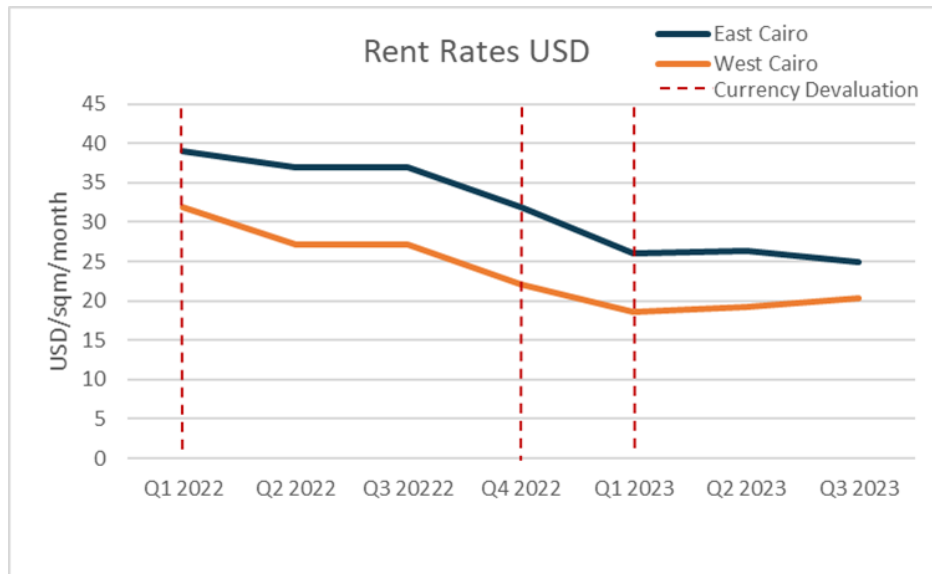
# Rental Rates and Pricing

From a performance perspective, rental rates in Cairo have increased significantly in EGP terms over the past year. The average rent is EGP 771 sqm/month (equivalent to USD 25) in New Cairo and around EGP 630 sqm/month (equivalent to USD 20) in Sheikh Zayed.

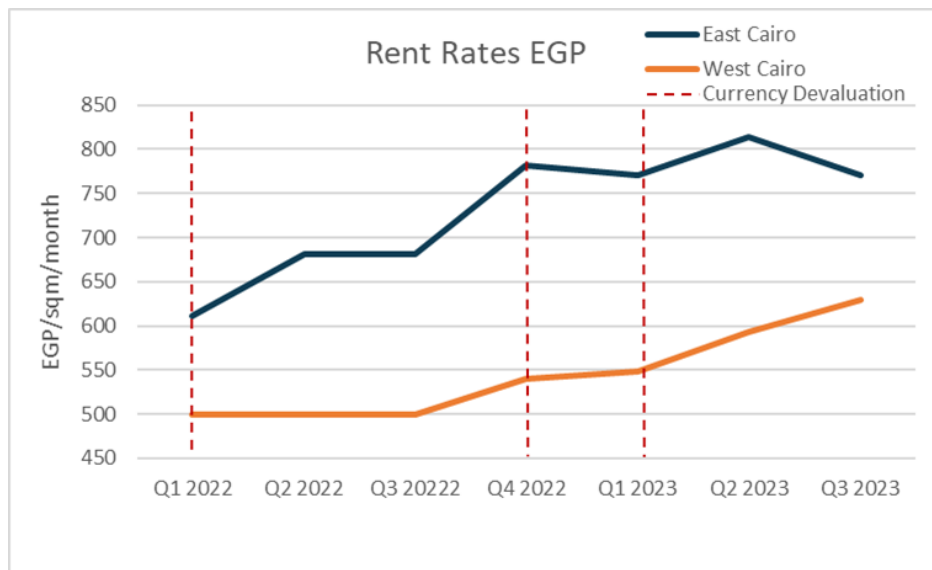
These rates represent a significant increase in terms of EGP (16% and 26% YoY increase respectively) however in USD terms, they represent a decrease due to the multiple devaluations the Egyptian pound has gone through over the past 18 months.

The graphs on the right represent the evolution of rental rates in East and West Cairo in terms of EGP and USD. While quoted EGP rental rates are clearly on the rise, their worth in USD has been declining since Q1 2022, with marked inflection points at each of the three devaluations the EGP has gone through.

The explanation for this discrepancy is that rental rates have not yet caught up with the rising dollar. Amidst rumours of another upcoming devaluation more landlords are quoting their rates in USD instead of EGP to mitigate this risk. It remains to be seen if this will become the market standard in the near future or not.



Evolution of rental rates in terms of USD, Source: EMC Real Estate Research



Evolution of rental rates in terms of EGP, Source: EMC Real Estate Research

# Flexible Offices

## Flexible Over Conventional

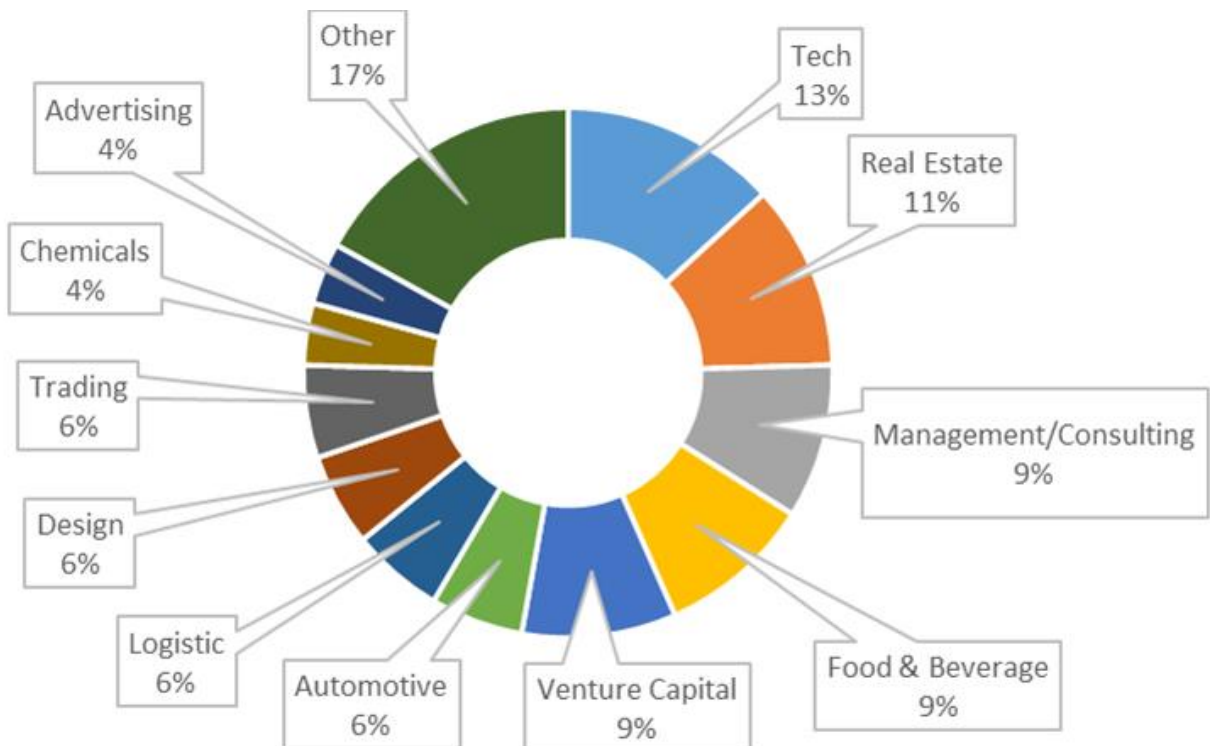
The concept of flexible office space has become a driving force in the evolution of modern work environments, reshaping the landscape of office real estate. Flexible office spaces have emerged as a response to organisations wanting to limit their capital expenditure on fit out, the rise of remote working and the need for adaptable, efficient workspaces.

These spaces come in variety of forms to cater for a range of requirements:

- **Coworking Spaces:** these foster collaboration and networking among freelancers, startups, and remote teams, promoting innovation through shared experiences.
- **Serviced or Managed Offices:** offering ready-to-use, fully furnished solutions, these spaces eliminate the complexities of setting up and maintaining a conventional office.

- **Hot Desks:** ideal for freelancers and those needing short-term workstations, these provide flexibility in a shared environment.
- **Virtual Offices:** providing a prestigious business address, mail handling, and occasional access to physical spaces, these cater to remote businesses.

One of the cornerstones of flexible office spaces is their rich assortment of amenities: high-speed internet, modern meeting rooms, ergonomic furniture, communal areas and advanced technology infrastructure contribute to a seamless and productive work experience. They can also provide a low-cost option for short term requirements and allow companies to redeploy their capital away from real estate and into their business.



Cairo Flex Office Tenant Mix. Source: EMC Real Estate Research

# Flexible Offices

The allure of flexible office spaces over traditional setups lies in their compelling advantages:

**Agility:** Businesses find flexibility in adapting to changing market conditions and workforce requirements.

**Cost Efficiency:** These spaces often offer cost savings compared to long-term leases and upfront capital investment in infrastructure.

**Focus on Core Operations:** Outsourcing facility management tasks allows businesses to concentrate on their primary objectives.

**Networking:** Coworking environments cultivate diverse interactions, fostering collaboration and potential partnerships.

**Talent Attraction:** Flexible workspaces cater to the preferences of a younger workforce, enhancing recruitment and retention efforts.

## Cairo Flexible Office Market

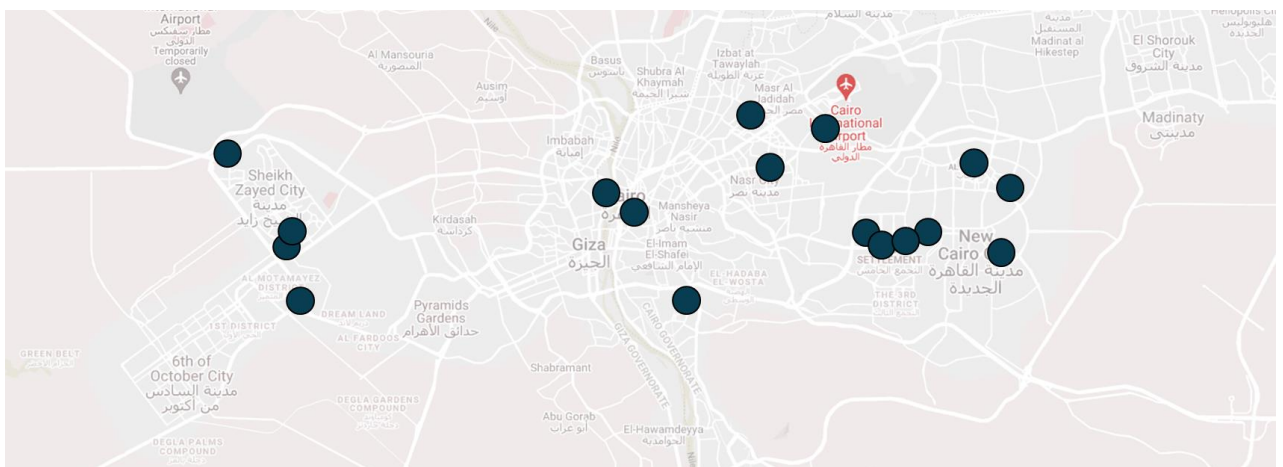
The Cairo office market has seen a huge uptick in flexible office space over the past few years.

| District   | Avg. price per workstation |
|------------|----------------------------|
| New Cairo  | \$350/month                |
| West Cairo | \$250/month                |

Average workstation price. Source: EMC Real Estate Research

Currently there are over 12,000 sqm of office space spread across Cairo. The amount of flex space is increasing at an exponential rate, with many more flex office spaces due to launch soon. These flexible offices are usually located in affluent neighbourhoods with a disproportionate amount of them being located on the city’s western and eastern fronts in 6<sup>th</sup> of October City, Sheikh Zayed and New Cairo.

A typical workstation in New Cairo costs on average USD 350 per month, which is around 40% more than workstations found in the Sheik Zayed district. This is in line with the rest of the office market as rental rates in New Cairo are often much higher than on the west side of Cairo due to limited supply and increasing demand.



Flexible offices in Greater Cairo. Source: ArcGIS EMC Real Estate Research



# Outlook and Future Trends

The Cairo office market is poised for a transformative period as it navigates shifting dynamics in supply, demand, and occupier preferences. The current landscape, characterized by significant office space stock and varying occupancy rates across districts, is undergoing changes that will influence its trajectory in the coming years.

While Greater Cairo boasts a substantial office space stock of over 2.62 million sqm, the distribution of upcoming supply highlights a noticeable shift towards the eastern and western parts of the city. Central Cairo, already nearing saturation, is expected to experience limited new office supply in the foreseeable future. On the contrary New Cairo and West Cairo, are poised for further expansion. The divergence in absorption rates between East and West Cairo indicates a shifting demand landscape. This shift can be attributed, in part, to the impending launch of the New Administrative Capital, which already houses several governmental entities and ministries. This transition is influencing demand patterns, with businesses seeking proximity to this emerging administrative hub.

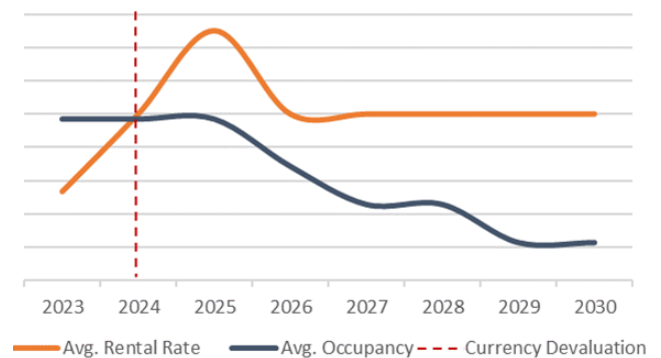
The integration of technology within office spaces is also set to redefine the workplace experience. Smart buildings equipped with advanced connectivity, Internet of Things (IoT) devices and data analytics tools will enhance efficiency, energy management and employee well-being. These establishments are already starting to appear in some of the new buildings coming up in the New Administrative Capital and in New Cairo. Developers and landlords who invest in technology-driven solutions will likely attract a tech-savvy tenant base.

Environmental sustainability is also becoming a priority for both businesses and society at large. Green building practices, energy-efficient designs and eco-friendly amenities are expected to become standard features in office

developments. Companies that demonstrate a commitment to sustainability will likely appeal to environmentally conscious tenants.

In the years ahead, the Cairo office market is set to undergo substantial changes driven by evolving demand dynamics, technological integration and geopolitical developments. As the New Administrative Capital takes shape and as businesses continue to adapt to post-pandemic realities, the market will witness a recalibration of district preferences, rental structures and workspace configurations. Navigating these changes, stakeholders who remain attuned to these trends and responsive to occupier needs will be best positioned to thrive in this dynamic and evolving landscape.

Expected Occupancy and rental Rates in Greater Cairo



Expected occupancy and rental rates in Greater Cairo, Source: EMC Real Estate Research

As the new administrative capital nears its official launch date, we expect occupancy and rental rates across greater Cairo to change over the next few years. As more companies elect to move to the capital, it is expected that the occupancy rates will see a steady decline especially in the west of Cairo. As for rental rates, it is expected that these will see a brief spike as a consequence of another currency devaluation followed by a stabilisation period due to decreased demand.