THE CAIRO REAL ESTATE MARKET

2016: A Year In Review
Increased costs and uncertainties resulting from the devaluation of the EGP have negatively impacted most sectors of the Cairo real estate market during 2016.

The Central Bank of Egypt (CBE) floated the Egyptian Pound (EGP) on 3rd of November to allow its value to be determined by supply and demand factors, omit the parallel rate and channel foreign currency into official channels. The Egyptian Pound subsequently declined significantly, dropping from the previous CBE-fixed rate of EGP 8.88: USD 1 to EGP 18.5:USD 1 in December, losing 52% of its value. This significant drop in the value of the local currency resulted in a lot of confusion and uncertainty which has negatively impacted most sectors of the real estate market in the short term.

In the residential market, developers have faced higher construction prices as nearly all imported materials have increased in cost significantly. Developers have chosen to pass on these increases to home buyers through higher EGP prices in November, with further price hikes of 25-30% expected in early 2017. To help offset the full impact of these increases, some developers have introduced more flexible payment plans to improve affordability, and others are looking at more efficient unit designs and higher density land usage.

Most office rentals are quoted in USD and following the currency flotation has therefore resulted in an effective doubling of occupancy costs in EGP terms. In addition to increased rentals, companies also face increased imported raw materials prices and pressure to increase wages. Some landlords have subsequently agreed to exchange rate caps lower than the prevailing market rate, to mitigate increased costs on tenants.

Similar to the office market, retail rentals are typically quoted in USD, resulting in the doubling of rentals in EGP terms. Retail tenants are currently facing numerous obstacles such as import restrictions, increased prices of imported goods and reduced demand from consumers as a result of high levels of inflation. To try and alleviate some of the pressures on retail tenants, some mall developers have agreed to cap the exchange rate, whilst others have changed their quoting currency to EGP.

The hotel and tourism industry is the only sector of the real estate market to have benefited from the currency flotation. Demand is expected to pick up, as Egypt has become 52% cheaper for foreign visitors. In the short term, most hotel owners are looking to renovate existing, older and inefficient properties in Cairo to increase profits from operational efficiencies, rather than investing in the construction of new hotels.
Cairo Prime Rental Clock

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

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Office Market Summary

SUPPLY

Just 37,000 sq m of additional office space was completed in Cairo in 2016, with the Majarrah Business Complex in 6th October (17,000 sq m) being the only completion in Q4.

With rentals increasing in EGP terms, many smaller companies have cancelled plans to upgrade to grade A office space and are now seeking poorer quality space in a less prime areas.

Vacancy rates remained more or less stable (at around 27%) in the areas monitored by JLL throughout the year. New Cairo continues to be the most sought after destination for office occupiers, with activity in 6th October (mainly Smart Village) remaining more limited. Vacancies are expected to increase as new supply is added to the market while demand remains subdued.

Five new office buildings are expected to be completed within Cairo Festival City in 2017, adding 60,000 sq m of grade A office space to the New Cairo supply.

Office rents have remained largely unchanged in USD terms during 2016, with the exception of New Cairo (sector 1) that recorded a Y-o-Y decrease of 7%. Rentals could see a further softening in 2017.

Over the medium term, stronger demand could be generated by improved business conditions as a result of the structural and economic reforms being introduced.

Performance

The cheaper EGP could create opportunities for manufacturing companies to expand their operations in Egypt and capitalize from cheaper labor and a competitive export market. Another potential area of growth could come from service and support centres serving the European and African markets.

CBD Rents (per sq m) / Annual Change

Source: JLL

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Around 13,000 new units were completed during 2016, with Q4 seeing the completion of several new projects in both 6th October and New Cairo. In 6th October, significant apartment deliveries were recorded in Ashgar City, Palm Parks and October Park. In New Cairo, significant deliveries were recorded by TMG’s Rehab and Madinaty, Emaar’s Mivida and SODIC’s Eastown.

There remains demand for the right product as demonstrated by the launch of the SARAI project by MNHD in New Cairo. Sales of EGP 1.4 bn were recorded with sales of a wide portfolio of units recorded, ranging from detached and semi-attached villas to duplexes and apartments.

Higher construction and financing costs are likely to reduce future supply levels, with some developers delaying or downsizing their new launches.

As a result of the currency flotation average sales prices for both apartments and villas decreased significantly, in USD terms, over the fourth quarter in both New Cairo and 6th October.

Although average unit prices increased by an average of 30% in EGP terms over the full year 2016, this increase was not enough to overcome the 61% decrease in the value of the Egyptian Pound.

Developers are likely to seek further price increases in EGP terms during 2017 to offset increases in both imported materials and local produced steel (where the reduction of fuel price subsidies has increased costs of production). The ability to pass these costs on to end purchasers is however limited, resulting in lower development margins and profit levels for developers.

Rentals have proved to be more resilient to the currency flotation than sales prices as many projects are targeted towards foreigners, with rents quoted in USD in some cases. Even though the exchange rate used is generally capped below the market rate, this has allowed landlords to curb the full effect of the currency devaluation.
No additional retail space was completed in 2016, leaving the current stock at 1.3 million sq m. Capital Mall (45,000 sq m) located in Heliopolis was expected to be completed in Q4, but has now been delayed to 2017.

The long anticipated opening of ‘Mall of Egypt’ (which will include “Ski Egypt”) has also been delayed, with the official opening now scheduled for Q1 2017. On a similar note, the opening of Madinaty Mega Mall has also been pushed back from Q1 2017 to 2018.

AlHokair Group has announced plans to invest EGP 9 bn into three new malls in Egypt. These malls will be located within the new Administrative Capital, Ain Al Sokhna, and Tanta. The construction contract on the first of these centres (within the Administrative Capital) is expected to be let within 2017.

Vacancy rates have marginally increased Y-o-Y (from 15% in Q4 2015 to 17% in Q4 2016).

While rents for prime units remained stable at USD 1,600 per sq m per annum, the number of units that can achieve these levels has declined. Average rentals are expected to remain under downward pressure due to continued declines in consumer spending and retail sales. JLL expect average rents to decline over the next 6 months before a possible recovery in the second half of 2017 providing sufficient foreign currency is available and the current economic reforms have resulted in more positive sentiment and retail spending by this time.

The major opportunity for the retail market lies in the expansion of convenience, value and local brands. An opportunity will arise for local brands to improve quality and expand to cater for the increased market segment no longer able to afford international brands following the currency flotation.
500 hotel rooms were added in Cairo in 2016. The fourth quarter saw no completions due to the delayed opening of the refurbished and rebranded Steigenberger Tahrir Square, which was pushed back to 2017.

The openings of the St. Regis Cairo and the Radisson Blu Nasr City have also been postponed until early 2017.

In the short term, hotel owners are expected to focus more on the renovation of older buildings and creating value from more efficient operations, rather than investing in new buildings in the current uncertain business conditions.

As the central Cairo hotel market remains oriented towards the upper upscale and luxury segments, there is currently a shortage of serviced apartments and 3 to 4 star concepts. These segments are expected to attract increased attention in the future.

Cairo City Centre supply is mainly oriented towards the upper-upscale and luxury segment. Upcoming properties are expected to reinforce this positioning with the Steigenberger Tahrir Square and the Sheraton Hotel. Leisure source of demand has been primarily coming from GCC families and budget-conscious travellers over the year.

Rebranding opportunities lie within the midscale and upscale properties along with the development of serviced apartments. The market is falling short of those types of assets, thus demonstrating an opportunity within the high quality 3 to 4 star concepts.

Occupancy rates increased by 5 percentage points to 59% in the year to November 2016 when compared to the same period of 2015 as the market is continuing its recovery after several years of instability. Improvement in airport security and development of inbound tourism from Arab countries are some of the reasons for increased occupancy rates.

ADRs declined slightly throughout the year and in comparison to 2015 data with a 3% decrease to USD 102 in YT November data. Once travel bans are lifted and more foreign tourists are attracted back, ADRs are expected to increase.

The longer term future of the market will be dependent upon the opening up of new outbound markets. India has emerged as a key market for Cairo hotels (with a double digit rate of growth of tourists from India recorded in 2016).
## Cairo Construction Costs

<table>
<thead>
<tr>
<th>Ref</th>
<th>Built Asset</th>
<th>Cost Range USD</th>
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<th>Cost Range USD</th>
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<td></td>
<td>Low</td>
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<tr>
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<td>3 Star Hotel</td>
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<td>4 Star Hotel</td>
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<td>5 Star Business Hotel</td>
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<tr>
<td>1.4</td>
<td>5 Star Hotel (Resort &amp; Destination)</td>
<td>2,154</td>
<td>2,435</td>
<td>2,730</td>
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### RESIDENTIAL VILLAS (Including FF+E, OS+E; Excluding Parking)

<table>
<thead>
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<th>Ref</th>
<th>Built Asset</th>
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<td>Low</td>
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<tr>
<td>2.1</td>
<td>Villa - Low Specification</td>
<td>561</td>
<td>605</td>
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<tr>
<td>2.2</td>
<td>Villa - Medium Specification</td>
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<td>Villa - High Specification</td>
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<td>Apartment - Low/Medium Rise - Low Specification</td>
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<td>Apartment - Low/Medium Rise - Medium Specification</td>
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<td>2.6</td>
<td>Apartment - Low/Medium Rise - High Specification</td>
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<td>1,217</td>
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<td>Apartment - High Rise - High Specification</td>
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### COMMERCIAL OFFICES (Shell and Core, Excluding Parking)

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<td>3.1</td>
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<td>3.4</td>
<td>Offices - High Rise - Low Specification</td>
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<td>856</td>
<td>885</td>
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<td>3.5</td>
<td>Offices - High Rise - Medium Specification</td>
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<tr>
<td>3.6</td>
<td>Offices - High Rise - High Specification</td>
<td>1,181</td>
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### CAR PARKING

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<td>Low</td>
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<tr>
<td>4.1</td>
<td>Surface Parking</td>
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<td>52</td>
<td>63</td>
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<tr>
<td>4.2</td>
<td>Surface Parking with Shading</td>
<td>74</td>
<td>96</td>
<td>111</td>
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<tr>
<td>4.3</td>
<td>Above Grade Parking - Approximate 4 levels</td>
<td>369</td>
<td>516</td>
<td>664</td>
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<tr>
<td>4.4</td>
<td>Below Grade Parking - Approximate 3 levels</td>
<td>546</td>
<td>642</td>
<td>694</td>
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### Tender Price Inflation (Estimate Average)

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<th>Year</th>
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<tbody>
<tr>
<td>2017</td>
<td>8.0%</td>
<td>11.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>2018</td>
<td>8.0%</td>
<td>11.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>2019</td>
<td>8.0%</td>
<td>11.0%</td>
<td>14.0%</td>
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2017 and Beyond

OPPORTUNITIES

Potential for increased exports
With a devalued currency lies the potential for increasing agricultural and manufacturing exports due to increased competitiveness and relatively cheaper labour.

A project to keep a close look on in the future is the 1.5 million Feddan Land Reclamation Project introduced and stressed by the President and the government. The project is targeted to investors and SME’s with an aim to increase employment levels in addition to increasing the country’s share of agricultural and agro-industrial products. Other initiatives in the pipeline include the enhancement of more locally manufactured goods to meet export standards.

Increase in direct and portfolio investments
This has been initiated by the formation of the Supreme Investment Council led by the President to adopt a basket of 17 measures designed to promote investment. These measures will be targeted mainly to attract foreign investment and capital expenditure in the country. The measures include policies including five-year tax exemptions for strategic industrial and agricultural projects that have export value or that are imported; holding off on the capital tax for another three years; discounts on land for urban development; temporary one-year permits for unlicensed factories; free land in Upper Egypt for industrial projects. These incentives will be the building blocks of the newly anticipated Investment Act.

An increase in portfolio investments (particularly by foreign investors) has been witnessed following the 3rd of November currency flotation in both the equity and debt markets.

RISKS

High inflation levels and risks of social unrest
Soaring imported products, as result of the devaluation, coupled with a decrease in fuel subsidies and a hike in electricity prices will lead to increased levels of inflation and reduced purchasing power. Consumers in 2017 are expected to channel most of their incomes to convenience goods and services whilst demand on most imported goods and services will be restrained.

The phasing out of subsidies and deregulation of electricity prices has left low-earners vulnerable with increased possibility of social unrest. The government has tried to combat such effects by increasing the budget for pensions, which has been raised to EGP 15 billion (a four-fold increase over last year). In addition, retirement benefits under the government sponsored program will now be extended to retirees aged 60 and above (from a previous age of 65).

Slow implementation of acts introduced by the government as part of the economic reforms
A major drawback to the economic reforms introduced by the government will be the bureaucracy of lower-ranked government officials and the delay in trickling down of legislations from decision makers to execution officials. One of the main legislations introduced is the Industrial Permits Act that is expected to minimize the wait time for industrial licences to as little as 30 days. The slow rollout and implementation of such acts can delay the positive effects of the economic reforms announced.
Future Supply
JLL estimates of future supply are updated quarterly based on physical inspections and data received from developers. We remain cautious of the ability of many projects to meet completion deadlines and therefore expect further delays in project delivery leading to a low materialisation rate.

Interpretation of market positions in the rental 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.
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.
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.
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.

Residential
The supply and stock data is based on our quarterly survey of 100-gated communities in New Cairo and 6th October. Completed buildings refer to those handed over for immediate occupation. Residential performance data is based on two separate baskets of projects, one for rentals (of two bedroom units and 3 bedroom apartments) and one for sales of villas and apartments. Sales prices relate to fully finished units and not those handed over in a shell and core condition.

Office
Supply data is based on quarterly survey of Grade A office space located in Downtown Cairo, New Cairo and West Cairo. Completed buildings refer to those handed over for immediate occupation. Future supply is based on projects in the announced and under construction phases.

Prime Office and average Grade A Rent represents the top openmarket net rent (exclusive of service charge) for a new lease that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date. Data relates to headline rents, exclusive of incentives.

Vacancy rate is based on estimates from the JLL Agency team in relation to a basket of office buildings that represents over 80% of all completed Grade A office space in Cairo.
Retail

Classification of Retail Centers is based upon the ULI definition and based on their 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
- Neighbourhood Malls have a GLA of 3,000 – 10,000 sq m
- Convenience Malls have a GLA of less than 3,000 sq m

Malls are categorised based on their turnover levels. Primary Malls are the good performing malls with high levels of turnover. Secondary Malls are the average performing malls with lower levels of turnover.

Prime Rent Shopping Centre represents the top open market net rent that could be expected for a notional standard line unit shop situated in a specified shopping centre, as at the survey date.

Vacancy rate is based on estimates from the JLL Retail team, and represents the average rate across standard in line unit shops within regional and super regional malls.

Hotels

Hotel room supply is based on existing supply figures provided by the Egyptian Hotel Associations well as future hotel development data tracked by JLL Hotels. Room supply includes all graded supply and excludes serviced apartments.

Hotel performance data is based on a monthly survey conducted by STR Global on a sample of international standard midscale – upscale hotels.
Cairo
Star Capital 2
14th Floor, Office 141
2 Aly Rashed Street
Heliopolis
Cairo, Egypt
Tel: +20 2 2480 1946
Fax: +20 2 2480 1950

For questions and inquiries about the Cairo real estate market, please contact:

Ayman Sami  
Country Head  
Egypt  
ayman.sami@eu.jll.com

Andrew Rotteveel  
Head of Project & Development Services  
MENA  
andrew.rotteveel@eu.jll.com

Dana Williamson  
Head of Agency  
MENA  
dana.williamson@eu.jll.com

Craig Plumb  
Head of Research  
MENA  
craig.plumb@eu.jll.com

Andrew Williamson  
Head of Retail  
MENA  
andrew.williamson@eu.jll.com

Tarek El Kady  
Research Analyst  
Egypt  
tarek.elkady@eu.jll.com

Marko Vucinic  
Senior Vice President (Hotels)  
MEA  
marko.vucinic@eu.jll.com

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