



**MARKET
IN
MINUTES**

Savills Research

Egypt Commercial - H1 2019

Cairo Office Market



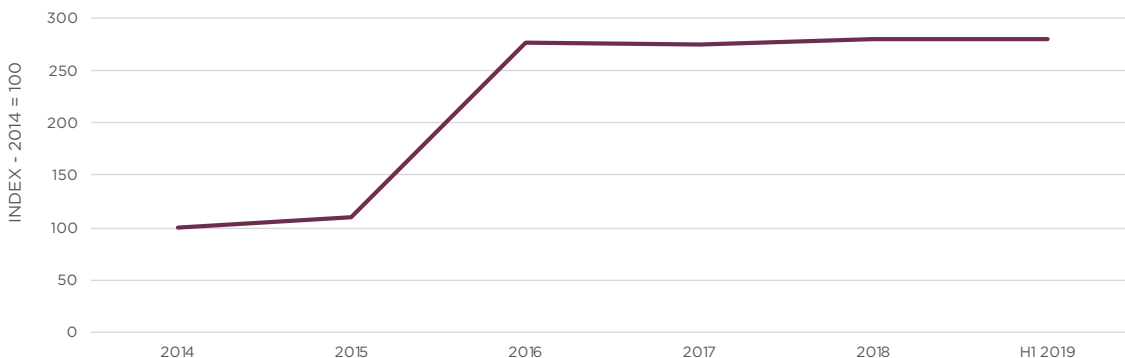
Image Courtesy: Arkan Plaza

Egypt's macro-economic situation continues to improve on account of prudent policy measures. Headline inflation is projected to decline from an estimated 20.9% in FY-18 to approximately 15.8% in FY-19, while real GDP is set to accelerate to 5.5% in FY-19 from 5.3% during the previous year. The recovery in growth is underpinned by a pick-up in private sector activity and investments and improvements in net exports. Even though the country's PMI slipped to 48.2 in May, it registered a growth of 50.8 in April, indicating a positive outlook driven by strong domestic demand and an uplift in exports. The country's tourism sector has also rebounded, with revenues estimated at USD 12.5 Bn up by 28% from USD 9.8 Bn in FY-18.

Positive developments across these key economic indicators have improved the country's attractiveness as a place of

business. It is reflected in the FDI inflow which is projected at USD 9.5 Bn in FY-19 compared to USD 7.9 Bn in FY-18. On the back of positive macro-economic changes, the local business sentiments have improved and demand for Grade A office space has increased. As a hub for trade and commerce in the country, Cairo was at the epicenter of this growth. During the review period, demand for office space in the city was driven by a mix of relocation, expansion and expansion led consolidation exercise. Leasing activity was concentrated across Grade A projects in New Cairo in the East and Sheikh Zayed City in the West. As a trend, we are witnessing an increase in enquiry levels and also deal closures across business parks as opposed to stand-alone developments. Their relatively recent development timeline well designed and maintained layouts and integrated development approach are among the key driving factors for their success.

CAIRO GRADE A OFFICE RENTAL INDEX



Source Savills Research

Demand

for office space in the city was driven by a mix of relocation, expansion and expansion led consolidation

Companies

from the pharmaceutical sector, technology, banking and financial services and media were among the primary drivers of demand

Grade A

space of approximately 155,500 sqm is likely to be handed over across New Cairo and Nasr city over the next six months.

The cost

of commercial land in Cairo has more than doubled over the last twenty-four to thirty-six months

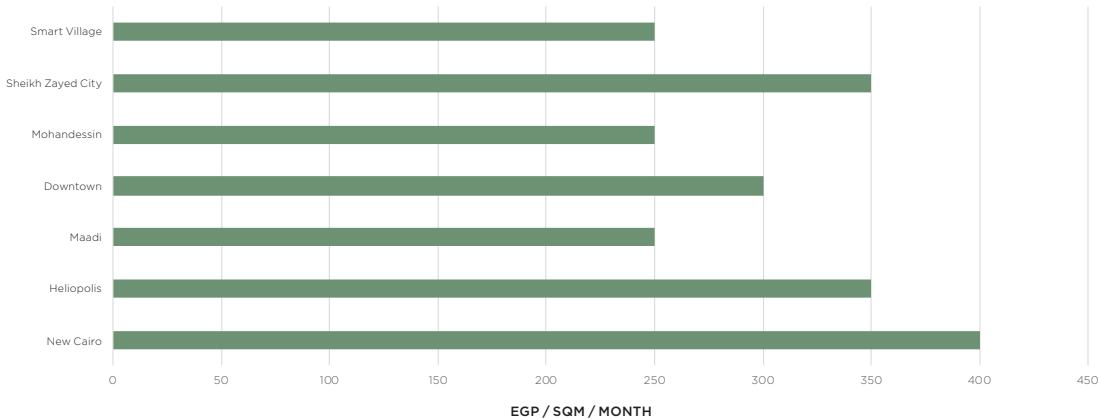
FDI

inflow is projected at USD 9.5 Bn in FY-19

The IMF

has recently extended an additional USD 2 Bn as part of the USD 12 Bn EFF program

CAIRO GRADE A OFFICE RENTS - H1 2019



Source Savills Research

Companies from the pharmaceutical sector, technology, banking and financial services and media were among the primary drivers of demand during the first half of 2019. Majority of the transaction closures were observed from existing occupiers of office space within the city while demand from new market entrants remained limited. Bulk of the requirements were aimed at servicing the rapidly expanding domestic market while few companies from select sectors have leased space to also service the North African market.

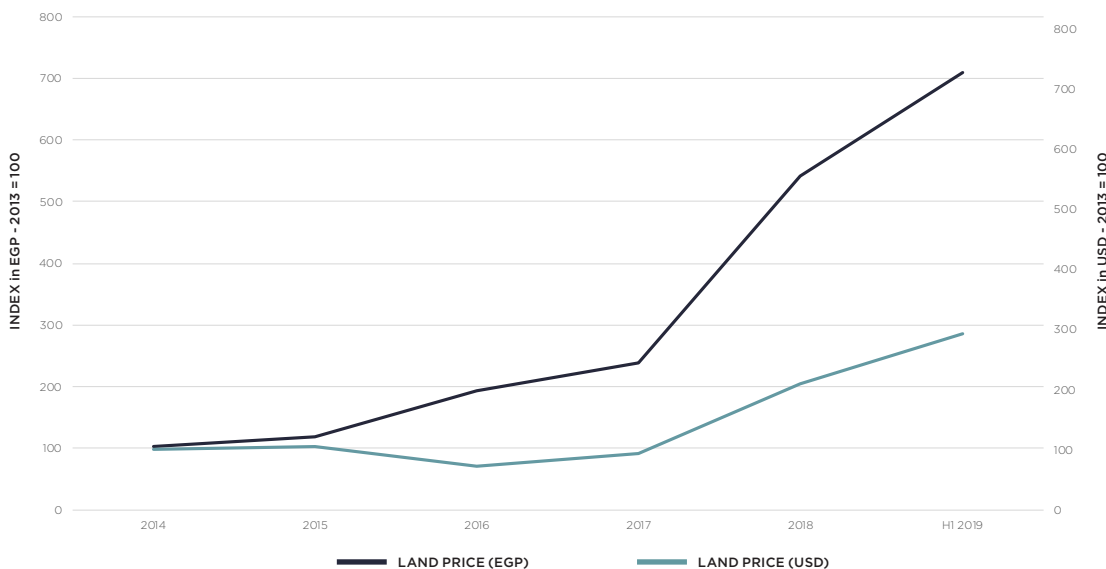
The sustained demand for office space has led to a spurt in project launches and completions over the past few quarters. This increase in availability of Grade A options has created a short-to-medium term pressure on rental values across most markets. However, headline rental values continue to remain stable but we have noticed enhanced flexibility among landlords with regards to incentives and lease terms. During H1 2019, rents for Grade A stock across Heliopolis ranged between EGP 300 – 350 / sqm / month while in New Cairo and Sheikh Zayed City it ranged between EGP 350 – 400 / sqm / month. In terms of new supply, no new projects were completed during the current review period, however, approximately

155,500 sqm of Grade A space is likely to be handed over across, New Cairo and Nasr city over the next six months.

Going forward, it is anticipated that a further decline in inflation may spur domestic consumption and drive growth. The IMF has recently extended an additional USD 2 Bn (bringing total disbursements to about USD 10 Bn) as part of the USD 12 Bn Extended Fund Facility (EFF) program. This will further ameliorate international and domestic confidence in the market and drive investments into real estate along with other key sectors.

Supply and demand dynamics across the city's office sector is likely to remain largely stable, however an upside to short-term oversupply remains on account of steady supply of Grade A projects. However, the cost of commercial land in the city has more than doubled over the last twenty-four to thirty-six months. This may lead to consolidation of projects and limited launches of new speculative developments from unorganised players. As a result, rental values for Grade A projects are likely to continue their upward trend over the next few quarters.

CAIRO COMMERCIAL LAND PRICE INDEX



*Trend based on average actual achieved values across the whole of Cairo

Source New Urban Communities Authority (NUCA)

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