Fitch Solutions

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Egypt

Real Estate Report

Includes 5-year forecasts to 2024

Contents

Key View

Key View: *Egyptian commercial real estate assets have been somewhat resilient to the Covid-19 pandemic due to previous higher government investment spending, rising natural gas production and an improving regulatory environment. Also, with a dearth of investment grade assets restricts available options for occupiers and investors and limited new supply in 2020 will help narrow the supply gap and support demand for commercial real estate stock, although this new, we expect supply will be absorbed by the market fairly quickly. Rental rates are set to increase across all three cities in all three sub-sectors despite bleak global economic conditions.*

Egypt's real estate market is seeing robust demand, and as a result, the country has begun to introduce new cities with scope for large-scale real estate projects, including the New Administrative Capital, New Alamein City and New Mansoura City. The ongoing development and construction of 20 new cities, in addition to the development of the 23 existing new cities, present attractive investment opportunities in Egypt. Egypt is the second biggest recipient of FDI in Africa and the Arab world, according to the UN's World Invest Report. China, recognising Egypt's potential, is investing significantly in the business district of the New Administrative Capital, with works carried out by **State Contracting Engineering Corporation** and financed largely by Chinese banks. **China Fortune Land Development Company** plans to invest USD20bn in the second stage of the project. China is financing the development of 20 skyscrapers, one of which will become the tallest tower in Africa at 345m once completed. Saudi Arabia has been investing at an all-time high, with USD10bn invested by the Saudi Public Investment Fund and USD44bn by private companies, totalling USD54bn.

As a result, headline growth in Egypt's economy is stable despite the pandemic. Real GDP will continue to outperform the region, averaging 2.6% in FY2019/20 (ending June 30) and 3.6% in FY2020/21. This would place Egypt as one of the strongest growing emerging market economies in the long run, which we believe will boost the demand for commercial real estate.

Cairo remains the epicentre of commercial real estate market activity, with investors actively looking for opportunities in the New Cairo sub-market, where there is a steady delivery of investment grade office assets. While Giza benefits from a strong tourism sector that boosts demand for retail facilities, the Covid-19 pandemic has dragged on tourist arrivals and dampened spending activity in the city. This has further put a drag on demand for retail developments as occupiers shore up risk. Alexandria maintains a robust industrial property market thanks to its industrial trade links with the Suez canal and the rich oil and gas pipelines that run through the city. Warehouse demand is steady here, and with exports poised to maintain strong growth in the medium term, we believe that there will continue to be good demand for industrial assets in Alexandria.

In terms of market trends, the office market has continued to witness good demand for prime developments across the board, though a persistent dearth of quality supply has led some tenants to alternatives, subsequently dragging on rental rate growth. We note that most of the demand for office facilities has been focused on Cairo, specifically assets in the New Cairo sub-market where a number of large international institutions and domestic firms are quickly absorbing prime properties. Banks and financial institutions are leading the demand for these assets, and following new reforms, we expect these occupiers to remain the primary demand drivers going forward. However, the lack of fresh supply will dampen demand in the near term, as tenants hold out for new quality offerings due to reach the market in the medium-to-long term. Nonetheless, stable rental rates and favourable yields still provide good opportunity for new and emerging players in the market. We see investment potential in the office sub-sector in Egypt, with the continued expansion of the non-oil sector and favourable reforms providing the necessary stimulus to drive business activity, and leading to stronger demand for office spaces. A lack of investment grade assets has intensified competition, particularly in the Cairo market. Nonetheless, the minimal arrival of new stock in 2020 should offer some opportunity for property managers, while the current under-supply of stock provides room for developers to introduce new offerings.

We see household spending to be flat through 2020 and spending mostly on essential items and healthcare. Limited new supply in 2020 will place no pressure on rental rates, as demand picks up, we expect supply to be usurped fairly quickly. Rental rates are forecast to experience a determined recovery and follow an upward trajectory over the medium-to-long term.

The industrial real estate market activity is focused heavily on the industrial hubs close to Alexandria and Cairo. We expect industrial property rental rates to rise in Alexandria in 2020 as conditions remain favourable for landlords. Cairo will benefit from the introduction of a new logistics village by Cairo International Airport that should bring in new demand to the market, although the rise in vacant spaces will limit growth in rental rates in the near term. Giza continues to support only a modest industrial property market with moderate demand and minimal development activity taking place, limiting opportunities for market players.

Covid-19 Impact

- We expect real GDP growth in Egypt will come in at 2.6% in FY2019/20 (ending June 30) and 3.6% in FY2020/21.These forecasts represent a significant slowdown from the 5.6% recorded in FY2018/19, driven by the negative effects of Covid-19 on economic activity both locally and abroad.
- Egypt's economy is heavily reliant on remittance inflows, estimated to account for 8.9% of total GDP in 2019. We project the economies of Saudi Arabia and the United Arab Emirates (UAE) have significant numbers of Egyptian migrant workers, to contract by 2.7% and 4.5% respectively in 2020. A decline in remittances from these countries will weigh on spending power of many Egyptian households over the coming quarters. This projected fall is largely due to a decline in the wages and employment of migrant workers, who tend to be more vulnerable to loss of employment and wages.
- 12.2% of Egypt's total workforce worked in the hotel, food and transport sectors in 2019. With travel restrictions across the globe we expect the tourism industry to be heavily affected due to the Covid-19 pandemic. Fitch Solutions forecasts a decline of 35.4% in total inbound arrivals into Egypt.

Short-Term Slow Down in Growth

Real GDP Forecast (2018-2024)

e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Egypt, Fitch Solutions

SWOT

Real Estate SWOT

SWOT Analysis	
Strengths	• Unemployment and inflation are decreasing boding positive development for consumer spending • Favourable price points for foreign investors support good demand for domestic commercial real estate stock. • Great land capacity allows for the development of new stock in each of the markets we cover.
Weaknesses	• Hot cash flows prop up market liquidity, while turbulence in emerging market assets makes an impact on overall commercial real estate market liquidity and could cause investments to stagnate. • A lack of quality supply undermines occupier demand; a number of occupiers are resorting to alternatives such as expanding current premises or holding on for the arrival of fresh stock. • Corruption and bureaucracy levels are reportedly still high.
Opportunities	• A dearth of investment grade assets and growing demand for prime income-producing assets provide room for capitalised developers. • The introduction of a new logistics facility in Cairo and the integration of more modern stock are boosting demand for industrial assets, placing upward pressure on industrial property rental rates.
Threats	• Heightened global trade tensions from Covid-19 can impact industrial assets in the medium term. • Reduction in remittances from GCC workers can have an impact on household spending. • Closure of commercial flights has already impacted the tourism industry and we can expect these disruptions to last till Q420 at the very least, causing job loses.

Industry Forecast

Office Forecast

Key View: *Despite the Covid-19 pandemic induced global recession, we forecast real GDP growth rate and and office rental growth rate to remain in the positive, albeit at a lower rate. Cairo maintains its focus on occupiers. A lack of available stock and strong competition are seeing demand move to regional locales.*

Latest Updates

- We expect real GDP growth in Egypt will come in at 2.6% in FY2019/20 (ending June 30) and 3.6% in FY2020/21.These forecasts represent a significant slowdown from the 5.6% recorded in FY2018/19, driven by the negative effects of Covid-19 on economic activity both locally and abroad.
- These growth rates are still fairly robust on a regional comparison though, largely because Egypt will avoid a full, 24-hour lockdown and because the brunt of the economic impact will be split between two fiscal years.
- There is little future supply in the pipeline over the near term, with 150,000sq m of space due to be completed in 2020, it is highly likely that some of this space will face delays due to Covid-19.
- Developments offering fully integrated office space continue to receive high levels of interest. New Cairo continues to be the preferred office location, with the majority of future office space located within mixed-use gated communities.
- While demand for office space in New Cairo is much higher due to its proximity to the international airport and the country's New Administrative Capital, the development of New Alamein City close to Alexandria will provide stronger demand for office facilities there over our forecast period to 2024.

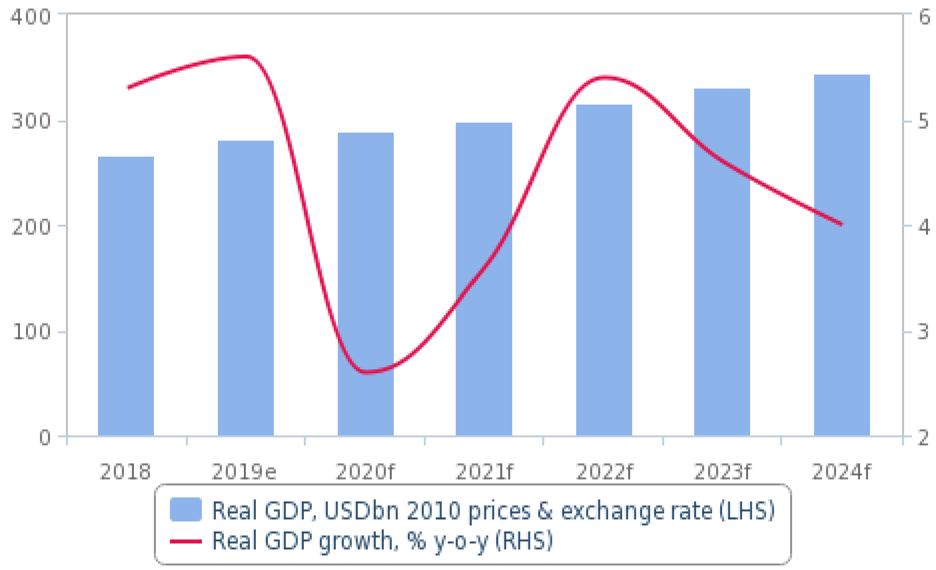
Structural Trends

From 2017 until the Covid-19 crisis hit, Egypt's positive growth story was effectively one of pent-up demand that had been unleashed by increased macroeconomic and political stability. This process will not necessarily be nullified by the crisis, but perhaps dampened and delayed. Tenants continue to vie for space in Cairo, where the highest quality stock can be located. The New Cairo market continues to see the highest demand for space out of the three cities we cover and their respective sub-markets.

International tourism will bear the brunt of the Covid-19 pandemic. Total inbound arrivals into Egypt are projected to nosedive in 2020 (Fitch Solutions forecasts a decline of 35.4%). We highlight that this puts employment in sectors that are reliant on tourism at risk, with 12.2% of Egypt's total workforce working in the hotel, food and transport sectors in 2019. Job losses or wage cuts within these sectors would put significant downward pressure on total household spending over the short term.

Short Term Decline Due To Covid-19

Egypt - Real GDP Growth (2018-2024)

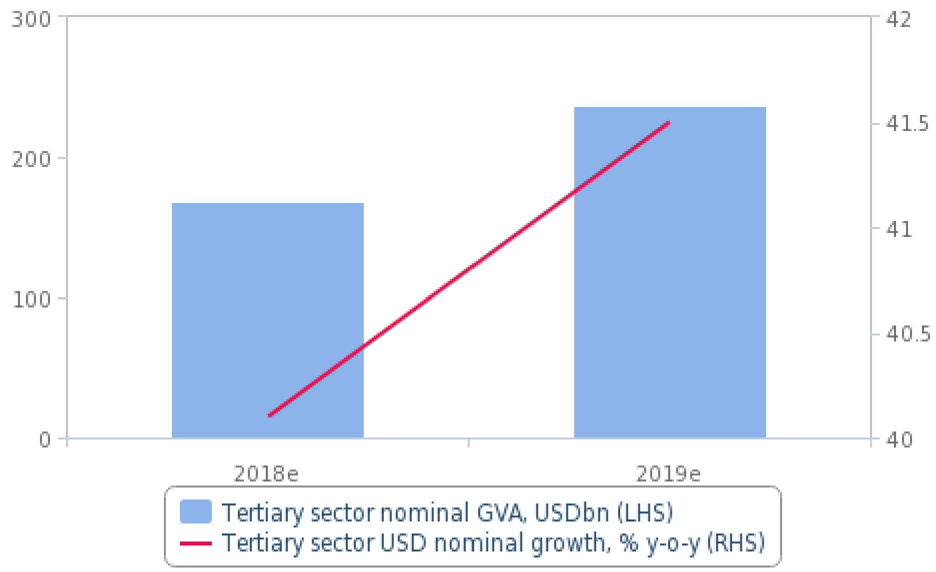


e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Egypt, Fitch Solutions

Egypt's transport, business process outsourcing and ICT sectors are major cogs in the country's economic growth and diversification path. Egypt's large pool of skilled graduates coupled with low operating costs are major factors contributing to the growing interest from ICT investors, and they have enabled the sector to buck broader trends during the worst of Egypt's economic crisis. The tertiary sector accounted for 55% of GDP in 2017 according to the World Bank. We forecast tertiary sector gross-value-added (GVA) contribution in nominal terms at USD237.8bn in 2019. Typically, services institutions look to acquire office developments close to key infrastructure and central business district zones that offer a skilled workforce and transport efficacy. We believe that this will encourage strong demand for office developments in the areas around the new administrative capital close to Cairo, and the New Alamien City development near Alexandria.

Tertiary Services

Egypt - Tertiary Services (2018-2024)

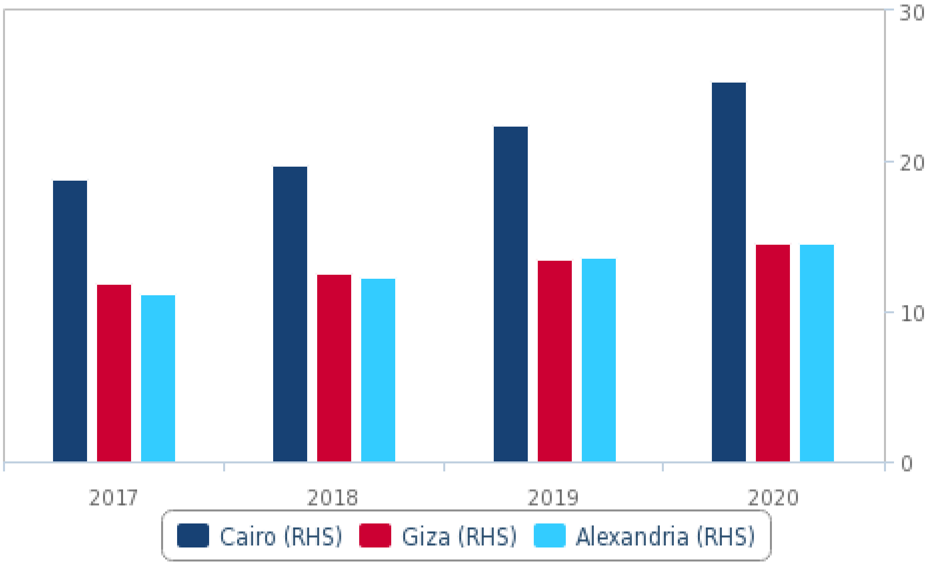


e = Fitch Solutions forecast. Source: National Statistics Office, Fitch Solutions

The office market in Cairo is currently stable owing to high demand and limited supply. Industry experts advise that the market is starting to witness a slowdown in activity, which will be further exacerbated by the Covid-19 pandemic. Good demand has been observed from smaller companies, particularly in the East of Cairo. There is also a growing decentralisation theme, where are a number of companies are moving out of the CBD to the east and west of Cairo, which offer a number of appealing factors, such as less traffic congestion and modern offices. China State Construction Engineering Corporation has completed capping work on the first tower, known as C03, in the central business district (CBD) project in Egypt's New Administrative Capital. The CBD project is scheduled to be completed by 2022. Rates are forecast to come in between USD19.1/sq m and USD31.7/sq m, averaging USD25.4/sq m, up by 13.4% y-o-y.

Cairo Leading in Rentals

Egypt - Average Office Rental Rates, USD per sq m



Source: Fitch Solutions

The majority of office space in the Giza metropolitan area consists of 20-30 year-old developments. Its outdated nature has deterred occupiers from expanding into the local market. That said, there is still demand for office space in the city from domestic and foreign occupants, mostly due to the lower price points for quality supply compared to Alexandria and Cairo. Sheikh Zayed Road in the satellite location of 6th of October City is the most sought-after location in Giza. However, our in-country sources believe that there is a trend of tenants locating to fringe districts and sub-markets in the city due to the high levels of traffic congestion in the central business district, which may open opportunities for developers as there is currently a short supply of prime properties in these locations. In terms of rental rates, rates for office space in Giza are forecast to remain steady in 2020, coming in at a range between USD11.6/sq m and USD17.7/sq m, averaging USD14.6/sq m, up by 8.9% y-o-y.

OFFICE RENTAL RATES (EGYPT 2017-2020)

	2017	2018	2019	2020f
Cairo USD per square metre min	14.62	15.76	17.89	19.05
Cairo USD per square metre max	23.06	23.64	26.83	31.68
Average rent per square metre (USD)	18.84	19.70	22.36	25.37
% growth y-o-y	na	4.57	13.51	13.44
Cairo EGP per square metre min	260.00	280.00	300.00	300.00
Cairo EGP per square metre max	410.00	420.00	450.00	499.00
Giza USD per square metre min	9.56	10.13	10.73	11.56
Giza USD per square metre max	14.06	14.92	16.10	17.65
Average rent per square metre (USD)	11.81	12.52	13.42	14.60
% growth y-o-y	na	6.04	7.13	8.85
Giza EGP per square metre min	170.00	180.00	180.00	182.00
Giza EGP per square metre max	250.00	265.00	270.00	278.00
Alexandria USD per square metre min	8.44	9.29	10.14	10.79
Alexandria USD per square metre max	14.06	15.20	16.99	18.41
Average rent per square metre (USD)	11.25	12.24	13.57	14.60
% growth y-o-y	na	8.84	10.81	7.65
Alexandria EGP per square metre min	150.00	165.00	170.00	170.00
Alexandria EGP per square metre max	250.00	270.00	285.00	290.00

f = forecast; na = not available. Source: Fitch Solutions

In Alexandria, moderate demand and limited supply of office space are keeping rental costs in check. However, industry experts have stated that the infrastructure boom near Alexandria is gradually increasing interest for spaces in the city. In particular, the significant New Alamein City construction, located approximately an hour from Alexandria, is driving tenant interest in the area, and with a new high-speed rail line due to be introduced between Almein and Alexandria, we expect greater demand for office developments in the city going forward. We expect rental rates in 2020 to experience growth as a result, with rates ranging between USD10.8/sq m and USD18.4/sq m, averaging USD14.6/sq m, up by 7.7% annually.

OFFICE YIELDS (EGYPT 2017-2020)	2017	2018	2019	2020f
Cairo Net Yield %	10	10	8-10	8-10
Cairo Yield Spread %	-8.2	-8.8	-7.5--5.5	-3.8--1.8
Giza Net Yield %	8-10	8-10	8-10	8-10
Giza Yield Spread %	-10.2--8.2	-10.8--8.8	-7.5--5.5	-3.8--1.8
Alexandria Net Yield %	5-5.5	5-5.5	5-5.5	5-5.5
Alexandria Yield Spread %	-13.2--12.7	-13.8--13.3	-10.5--10	-6.8--6.3
Egypt Interest Rate (%)	18.2	18.8	15.5	11.8

e/f = estimate/forecast. na = not available. Source: Fitch Solutions

We have lowered our interest rate forecast, as the government seems set to ease monetary tightening. We thus see loan premiums on commercial assets falling, and lower operational costs for both tenants and landlords. In terms of yields, Cairo and Giza (8-10.0%) will maintain the highest net yield, followed by Alexandria (5-5.5%). Spreads will narrow across the board, although they remain in negative territory and indicate a level of risk that can affect total return on investment.

We expect sustained interest for prime office space in Egypt from companies in the banking, oil & gas, food & drink, internet and fast-moving consumer goods sectors, with Cairo set to remain the city of choice and Alexandria to experience a pickup in demand over the medium term.

Retail Forecast

Key View: *The impact of Covid 19 is expected to be far less than other western counterparts as Egypt never went in to full lock down during its first wave in H120. Hence, despite lower GDP and household spending levels remaining flat, we expect growth in rentals to remain positive in 2020. Demand for retail units will subsequently improve, with rental rates increasing across all three cities.*

Latest Updates

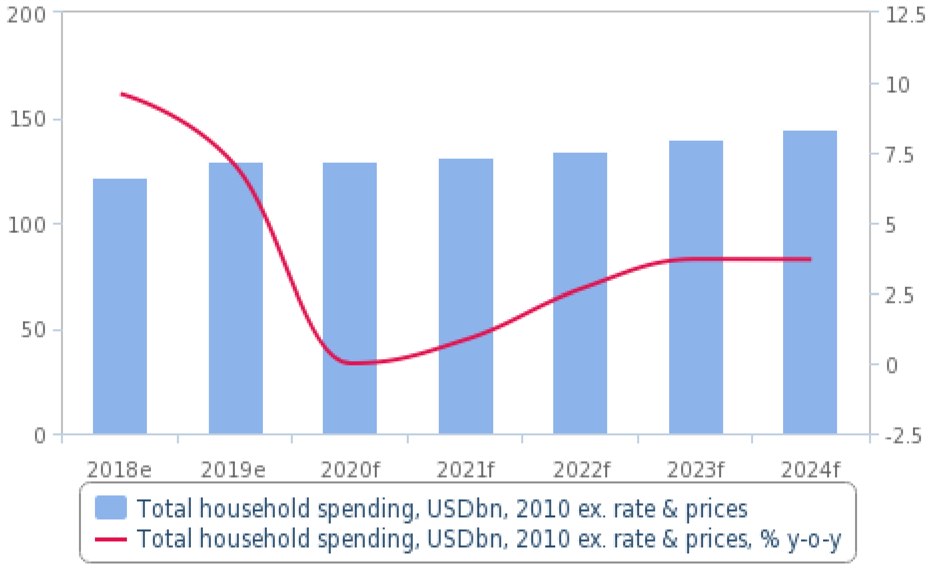
- **Nestlé** plans to invest USD52.6mn in expansion in Egypt by 2021. It will invest in new factories and product innovation.
- Nigeria-based **Jumia**, Africa's leading e-commerce player, plans to expand rapidly in Egypt, aiming to grow tenfold on a revenue basis and sixfold in the number of products it sells to 12mn by 2021
- We are now forecasting real household spending to fall flat in 2020, significantly down from our pre-coronavirus forecast for 2020 of 7.2% y-o-y growth.
- During the pandemic and in its immediate aftermath, we expect consumers to continue to focus their spending on priority purchases (which includes food, non-alcoholic drink and spending on health), due to economic uncertainty.

Structural Trends

The projected impact of Covid-19 on Egypt, leads us to now forecast real household spending to fall flat in 2020, the worst performance since 2016 (when real household spending fell by 2.0% y-o-y). Spending will mainly revolve around essentials such as food and healthcare. Occupier focus will continue to be on premium grade multi-use and mall spaces with access to high consumer footfalls.

Flat Household Spending In 2020

Egypt - Total Household Spending (2018-2024)



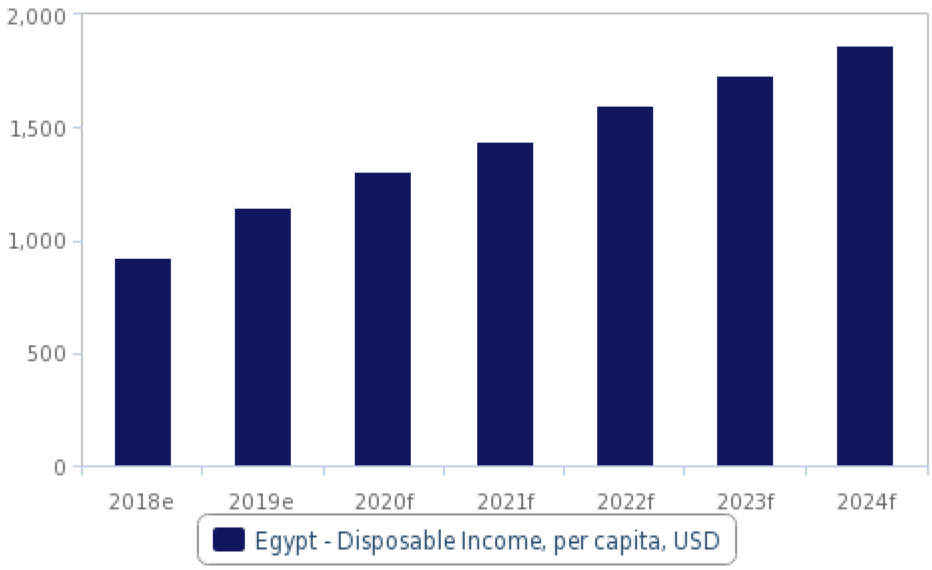
e/f = Fitch Solutions estimate/forecast. Source: Egypt CAPMAS, Fitch Solutions

We expect to observe the strongest demand for space in the Cairo and Giza markets, with the former, a mega city, noting a particularly strong increase in demand and supply. However, as tourism numbers are severely impacted from Covid-19 and remittances from GCC countries decline, we expect retail projects to be delayed.

Favourable consumer market conditions will continue to drive consumption growth in the medium-to-long term, and we are optimistic about the potential returns gained through the development and management of retail stock. Underpinning consumer market growth is the drive in wages and jobs creation. Higher business investment is allowing for more lucrative working contracts and opening up new opportunities for workers. As a result, we forecast disposable incomes per capita to increase by 10.0% y-o-y from USD1,310 in 2020 to USD1,443 in 2021.

Disposable Incomes Keeping Steady

Egypt - Disposable Incomes (2018-2024)

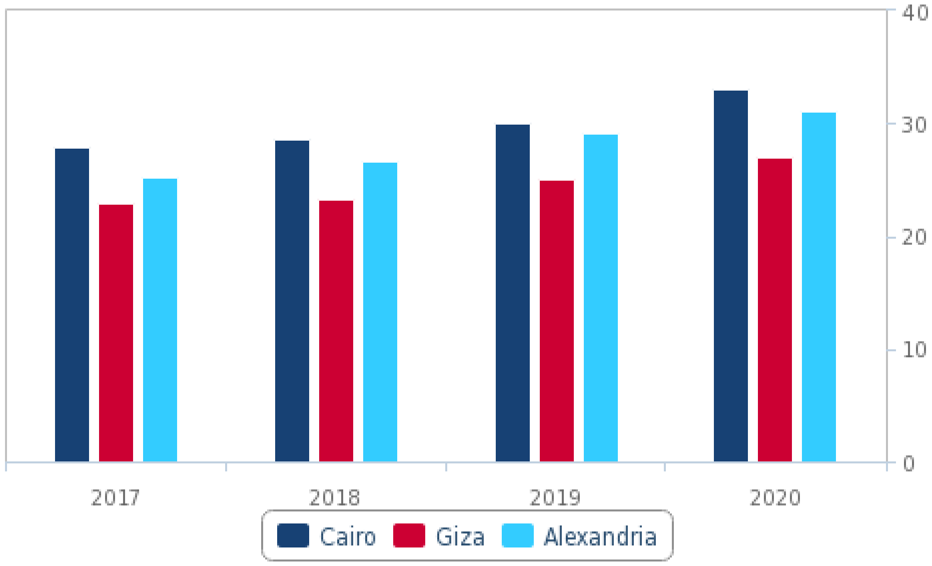


e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

The rental rate for retail space in Cairo is witnessing an increase owing to good demand and supply. Strong demand has been observed from the Food and Beverage sector. Egypt benefits from healthy consumer spending levels. Approximately 180,000sq m of retail space is expected to be delivered by the end of 2020, however, a number of projects are expected to be pushed back due to the pandemic. Furthermore, President El-Sisi issued a directive to postpone construction for major projects as well the opening of the highly anticipated Grand Egyptian Museum. The pandemic poses a key risk to this outlook, as local and global restrictions will weigh on demand for retail assets. Overall, rental costs are expected to increase over 2020 owing to increased demand and supply particularly in newer additions. Rental costs are forecast between a range of USD23.5/sq m and USD42.5/sq m in 2020, averaging USD33.0/sq m, up by 9.6% y-o-y.

Cairo Maintains Pole Position

Egypt - Average Retail Rental Rates, USD per sq m



f = forecast. Source: Fitch Solutions

Giza will see rental costs stable as vacancies incrementally decline due to a lack of new developments in the market in the short to medium term. Developers are yet to introduce quality stock to the market, though the bleak economic environment could postpone the introduction of more premium grade products further down the line. In 2020, we expect rental rates to range between USD19.8/sq m and USD34.4/sq m, averaging USD27.1/sq m, up by 8.3% y-o-y.

RETAIL RENTAL RATES (EGYPT 2017-2020)	2017	2018	2019	2020f
Cairo USD per square metre min	19.68	20.82	21.47	23.49
Cairo USD per square metre max	35.99	36.58	38.76	42.54
Average rent per square metre (USD)	27.84	28.70	30.11	33.02
% growth y-o-y	na	3.12	4.90	9.64
Cairo EGP per square metre min	350.00	370.00	360.00	370.00
Cairo EGP per square metre max	640.00	650.00	650.00	670.00
Giza USD per square metre min	16.31	16.88	18.48	19.81
Giza USD per square metre max	29.52	29.55	31.60	34.41
Average rent per square metre (USD)	22.92	23.22	25.04	27.11
% growth y-o-y	na	1.31	7.87	8.25
Giza EGP per square metre min	290.00	300.00	310.00	312.00
Giza EGP per square metre max	525.00	525.00	530.00	542.00
Alexandria USD per square metre min	21.09	22.23	23.85	25.40
Alexandria USD per square metre max	29.52	30.96	34.58	36.95
Average rent per square metre (USD)	25.31	26.59	29.22	31.17
% growth y-o-y	na	5.09	9.87	6.70
Alexandria EGP per square metre min	375.00	395.00	400.00	400.00
Alexandria EGP per square metre max	525.00	550.00	580.00	582.00

f = forecast. na = not available. Source: Fitch Solutions

Alexandria's economy revolves around the shipping industry. A large and growing population increases the long-term potential in the retail sector here, but most international retailers opt for more popular markets such as Cairo and Giza. Rentals for retail property in Alexandria will remain stable due to moderate demand and limited supply. Vacancy rates are declining as growing demand for premium retail property outpaces new development activity. In 2020, the rental rate for retail premises in Alexandria is forecast to come in between USD25.4/sq m and USD37.0/sq m, depending on the scale and quality of the asset. We expect the average rate at USD31.2/sq m, a 6.7% increase annually.

RETAIL YIELDS (EGYPT 2017-2020)	2017	2018	2019	2020f
Cairo Net Yield %	5-10	5-10	5-10	5-10
Cairo Yield Spread %	-13.2--8.2	-13.8--8.8	-10.5--5.5	-6.8--1.8
Giza Net Yield %	5-10	5-10	5-10	5-10
Giza Yield Spread %	-13.2--8.2	-13.8--8.8	-10.5--5.5	-6.8--1.8
Alexandria Net Yield %	5-10	5-10	5-10	5-10

	2017	2018	2019	2020f
Alexandria Spread %	-13.2--8.2	-13.8--8.8	-10.5--5.5	-6.8--1.8
Egypt Interest Rate (%)	18.2	18.8	15.5	11.8

e/f = estimate/forecast. Source: Fitch Solutions

Cairo, Giza and Alexandria share the same net yield range (5-10%). Yield spreads will remain in negative territory, declining in accordance with a 3.7% drop in the interest rate, and indicating the lower investment returns on offer in comparison to income-producing office assets. Difficult operating conditions ahead will challenge developers and property owners, particularly as retailers look online in order to expand. There are almost 50mn internet users in Egypt and an internet penetration rate of 40%, and the rise of e-commerce may reshape demand for mall retailing going forward. However, even as advances in retail technology and e-commerce growth transform the industry, industry players say that the modern retail trade in Egypt remains a key growth sector with significant future expansion opportunities. Prime and super prime mall operators will continue to see strong demand and high footfalls.

Industrial Forecast

***Key View:** Businesses in Egypt benefit from some of the lowest energy costs globally, while the domestic building materials industry boasts some of the world's cheapest suppliers, including cement and steel producers, making developing new industrial space affordable especially with the effect that the devaluation of the Egyptian pound will have on boosting export competitiveness. Egypt's strategic location between Africa, Asia and Europe, a large population and a well-established, diverse industrial base with labour force, which is internationally recognised for its high skills base and its low cost also attracts businesses. Although there is demand for modern industrial facilities close to new infrastructure, undersupply continues to limit opportunities for tenants and investors in the industrial sub-sector.*

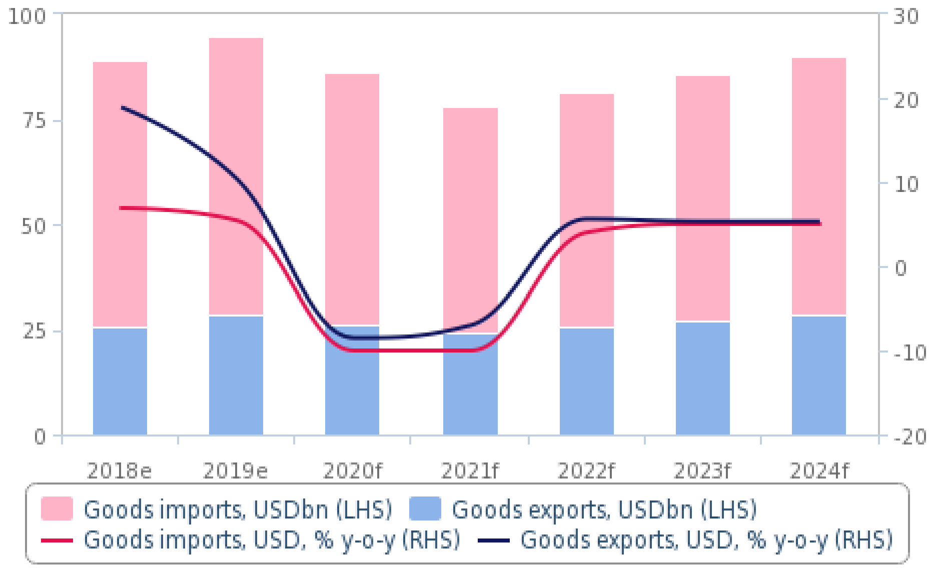
Latest Updates

- As supply chains get disrupted and a global recession looms, we expect overall trade to decline in growth, although at a lower pace compared to other countries in the MENA region.
- Currency weakness is boosting export competitiveness, however, Egyptian manufacturing firms are still highly import reliant for their core inputs (such as grains and capital goods), as continued devaluation or risk of foreign exchange (FX) challenges (as seen in 2016 and 2017) point towards still-high supply-side costs.

Structural Trends

Total trade real growth is forecast to come in at -1.5% in 2020, with total exports declining by 2.6% y-o-y to USD60.5bn, and total imports also declining by 0.5% to USD88.7bn. The negative external account balance will certainly contribute to the troubling fiscal deficit that the state is currently tackling. However, in terms of commercial real estate, due to low quality stock, we forecast increased demand for more industrial stock.

Slight Dip In Trade Due To Covid-19
Egypt - Goods Imports & Exports (2018-2024)

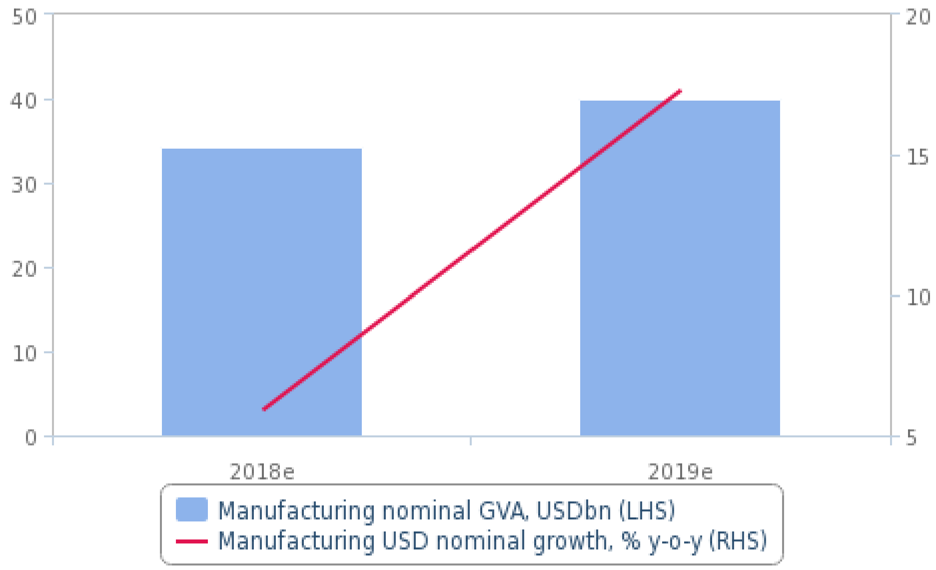


e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Egypt, Fitch Solutions

Activities such as manufacturing represent a smaller share of output, with manufacturing accounting for 16% of GDP in 2017 according to the World Bank. The demand for manufactured goods was relatively buoyant through 2019. However, mounting global trade pressures and regional instability have dampened some external demand for domestic goods, which has led to an adjustment of our growth forecast for the sector. Manufacturing nominal GVA contribution is forecast to come in at USD40.1bn to reach the GVA of USD17.1bn in 2019. We continue to observe good demand from manufacturers for quality stock, particularly in the industrial zones close to the port of Alexandria and the subsequent new infrastructure development that is taking place in the city. While this will yet transfer to positive pressure on rentals, we are confident about the stable operating conditions for commercial real estate developers and managers.

Manufacturing Output

Egypt - Manufacturing Output (2018-2024)



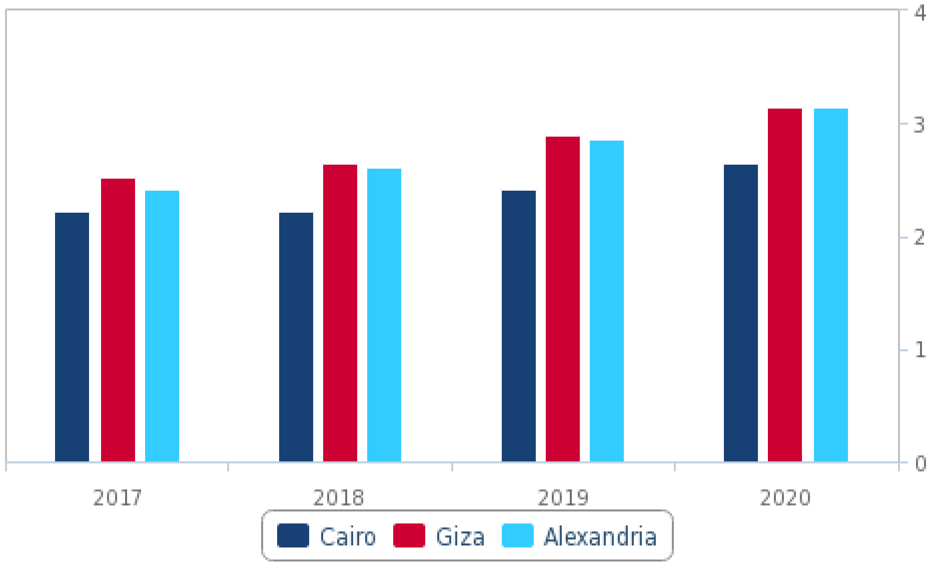
e/f = Fitch Solutions estimate/forecast. Source: National Statistics Office, Fitch Solutions

The rental rate for industrial property in Cairo is currently stable owing to moderate demand and limited supply. Demand is driven by manufacturing, e-commerce and third party logistics providers. Egyptian Prime Minister, Moustafa Madbouly, announced a decision that will allow factories to postpone the repayment of the due real estate tax. All companies operating in the industrial and tourism sectors will receive a three-month delay for repaying their real estate taxes, as part of the country's effort to boost the local economy amid the outbreak of Covid-19. A similar outlook is expected over 2020. We forecast a range between USD2.0/sq m and USD3.3/sq m, averaging USD2.7/sq m, up by 9.8% y-o-y.

In the longer term, opportunities for the market can be seen in the new dry ports being developed on the outskirts of the city. However, strong competition for these developments will likely price out under-capitalised firms and limit the amount of new space to the open rental market.

Alexandria The Preferred Location

Egypt - Average Industrial Rental Rates, USD/sq m



Source: Fitch Solutions

The rental rate for industrial property in Giza is stable due to moderate demand and limited supply. Rental rates are expected to increase marginally over 2020 owing to the limited availability of stock, but also because the Industrial Development Authority is promoting industrial activity by offering land for sale or lease, discounted rates and free land in certain areas in 2019. Flexible lease terms and up to one rent-free month are also appealing for industrial tenants. Rates can be expected to come in between USD2.1/sq m and USD4.2/sq m, depending on the quality of the asset. The average rental cost will be USD3.1/sq m, up by 8.7% y-o-y.

INDUSTRIAL RENTAL RATES (EGYPT 2017-2020)

	2017	2018	2019	2020f
Cairo USD per square metre min	1.63	1.63	1.79	1.97
Cairo USD per square metre max	2.81	2.81	3.04	3.33
Average rent per square metre (USD)	2.22	2.22	2.41	2.65
% growth y-o-y	-36.19	0.09	8.63	9.77
Cairo EGP per square metre min	29.00	29.00	30.00	31.00
Cairo EGP per square metre max	50.00	50.00	51.00	52.50
Giza USD per square metre min	1.69	1.74	1.91	2.10
Giza USD per square metre max	3.37	3.55	3.88	4.19
Average rent per square metre (USD)	2.53	2.65	2.89	3.14
% growth y-o-y	n.a.	4.53	9.32	8.68
Giza EGP per square metre min	30.00	31.00	32.00	33.00
Giza EGP per square metre max	60.00	63.00	65.00	66.00
Alexandria USD per square metre min	1.41	1.69	1.79	1.90
Alexandria USD per square metre max	3.43	3.55	3.94	4.38
Average rent per square metre (USD)	2.42	2.62	2.86	3.14
% growth y-o-y	n.a.	8.23	9.36	9.81
Alexandria EGP per square metre min	25.00	30.00	30.00	30.00
Alexandria EGP per square metre max	61.00	63.00	66.00	69.00

f = forecast. Source: Fitch Solutions

In Alexandria, the expansion of the TEU capacity at the port and the fresh infrastructure development taking place around the city are driving strong demand for industrial premises. Positive operating conditions are positioning landlords favourably in the market, allowing land owners to roll back incentives and gradually increase rental costs for their offerings. We continue to see demand growing for stock in the local market here, with a limited supply of stock placing further upward pressure on rental rates. Rates are forecast to rise in 2020 on the back of these conditions, coming in at a range between USD1.9/sq m and USD4.4/sq m, averaging USD3.1/sq m, up by 9.8% y-o-y.

INDUSTRIAL YIELDS (EGYPT 2017-2020)

	2017	2018	2019	2020f
Cairo Net Yield %	5-7	5-7	5-7	5-7
Cairo Yield Spread %	-13.2--11.2	-13.8--11.8	-10.5--8.5	-6.8--4.8
Giza Net Yield %	5-7	5-7	5-7	5-7
Giza Yield Spread %	-13.2--11.2	-13.8--11.8	-10.5--8.5	-6.8--4.8
Alexandria Net Yield %	6-7	6-7	6-7	6-7
Alexandria Yield Spread %	-12.2--11.2	-12.8--11.8	-10.5--8.5	-5.8--4.8
Egypt Interest Rate (%)	18.2	18.8	15.5	11.8

f = forecast. Source: Fitch Solutions

Alexandria (6-7%) will offer a slightly higher net yield range than Cairo (5-7%) and Giza (5-7%) in 2020, with all three cities seeing a firming up of the industrial yield for premium grade facilities. Easing interest will see spreads move downward by 370 basis points between 2019 and 2020. Investment potential in the industrial sub-sector is limited by supply constraints, but industrial stock in Alexandria presents itself as the greatest opportunity for market integration and long-term investment.

Residential/Non-Residential Building

Key View: *Going forward, greater macroeconomic stability will lead to an increase in international investment into Egypt's non-residential sector, breathing life into the government's various economic diversification projects spanning industrial, tourism and commercial infrastructure. Residential development will largely remain the domain of the state, owing to the fact that large-scale housing projects must be affordable enough for the average Egyptian.*

Latest Developments

- In February 2020, **Ora Developers** acquired a 1.6sq km plot of land in New Cairo from Egyptian New Urban Communities Authority for the development of an integrated urban project in the country, according to Zawya. The EGP100bn (USD6.32bn) project comprises an integrated residential complex with a mix of villas, apartments, duplexes and penthouses, with both commercial and administrative units. It will also include a sports club, swimming pools, public areas, restaurants and cafés, among others amenities. The EGP6bn (USD378.96mn) phase one of the project, which will deliver 1,000 units including villas and apartments, is scheduled to be launched in Q220.
- In November 2019 Egypt's Ministry of Housing, Utilities and Urban Communities allocated nearly USD169.5mn in funding for the phase one of New Mallawi City project in the country. As per the executive plan of the new city, an investment of USD21.7mn will be allocated for infrastructure networks (such as water, wastewater, roads and irrigation) on the 3.7sq km phase one. New Mallawi City Development Authority has allocated USD28.6mn for developing a 714,000sq m segment of the city, which is planned for completion by June 2020. In addition to 106 buildings with 3,292 residential units, the 77.4sq km new city forms part of the JANNA housing project.
- **Arabtec Construction** has won a AED366mn (USD99.7mn) contract from **Emaar Misr** for the construction of residential units in Greek Village, Egypt. The Greek Village is the first of six phases in Emaar Misr's development called Marassi. Under the contract, Arabtec will build 42 townhouses, 18 residential buildings and seven bungalows, along with supporting infrastructure and landscaping. The works will start immediately and be completed in three years, according to a press release from Arabtec.
- We have previously highlighted the potential for Russian companies to play a growing role in Egypt's infrastructure sector, Russia's **MetProm Group** is considering undertaking two steel projects in Egypt. The first project will see construction of a rolling mill for producing steel and wires in the Russian industrial area. The EUR60mn (USD67.9mn) mill is estimated to have an annual production capacity of 150,000 tonnes. The EUR150mn (USD169.8mn) second project involves refurbishing an iron and steel complex in Helwan over five stages. The aim is to increase the production capacity of the complex to 500,000 tonnes of billets annually.
- As tourism begins to recover there will be growing opportunities in tourism-related infrastructure. For example, the **Radisson Hotel Group** has signed an agreement with **Zaghloul Holdings** for six new hotels in Egypt. These include the 425-key Radisson Collection Hotel Cairo Heliopolis, Radisson Blu Serviced Apartments Cairo Heliopolis, the 255-key Radisson Blu Hotel Cairo Golf City (to be located in Obour City), Radisson Hotel New Cairo, Radisson Hotel & Resort Ain Sokhna and the 670-key Radisson Blu Hotel & Resort Makadi Bay (located in Hurghada). The hotels are all stated to open by 2021.
- Egypt's new capital city currently under development will be a source of contract opportunities in the coming years. Illustrating this, **El Attal Holding** plans to build a residential project in the New Administrative Capital (NAC). Designed by **Raef Fahmi Architects**, Park Lane residential compound will be built in the new capital's R7 area and comprise 1,100 housing units. The project, which will entail an investment of EGP4bn (USD228.4mn), will be implemented in three phases.
- Nevertheless, the ambitious nature of the plans for the new city, the lack of a clear budget and the high costs involved lead us to adopt a cautious view towards its full realisation over the next decade. This has been reinforced by recent announcements of negotiation breakdowns with potential contractors and partners, including **China Fortune Land Development**, which planned to invest USD20bn in the city, and UAE-based **Emaar**. Further negotiation and financing difficulties are likely, and ultimately, we do not believe that the NAC will be completed per the government's vision over the next decade.

Structural Trends

An ambitious economic diversification agenda, a brightening macroeconomic outlook and strong structural demand will combine to sustain outperformance in Egypt's residential and non-residential building sector in the coming years. Given the importance of tourism to Egypt's economy, we expect investment into Egypt's tourism sector will be particularly robust.

2020-2024: Robust Long-Term Housing Demand

Although residential demand will slow in the coming year as the currency devaluation erodes the purchasing power of Egyptian citizens, the long-term fundamentals of Egypt's residential construction market remain favourable. The key underlying factors informing this long-term view are an economic diversification agenda allied to strong population fundamentals and an urbanisation rate growing at 2% a year. With a young and growing population of around 91mn, Egypt is the most populous country in the Middle East and North Africa (MENA) region and, consequently, offers a level of housing demand that is sustainable over the medium-to-long term.

Additional factors, such as the soaring rate of marriages in the country, as well as rising levels of rural to urban migration, accentuate the issue. However, despite the potential, only 10% of Egypt's housing is supplied by professional property developers, according to Global Property Guide, with the rest built informally. We note that while mid- to high-end property developments continue to spring up around the country, particularly around Cairo, developers have been largely unable to exploit this pent-up demand from Egypt's poor.

This inability to match supply with demand has resulted in a housing shortage estimated in as much as 500,000 units a year. A major factor behind the limited supply has been the lack of low-income housing expertise among the country's largest housing developers, as well as inadequate incentives to undertake low-income projects over more lucrative mid- to high-end developments. Furthermore, with an underdeveloped mortgage market (the share of mortgages-to-GDP is only 0.5%), there has been little to attract private developers to the affordable housing sector.

That said, the government is taking steps to address the issue. Egypt's residential sector will continue to derive support from government policy that aims to deliver social housing as a means to address the country's persistent housing shortage. As a point of reference, the governorate of Cairo provided 7,380 housing units to slum-dwellers in Mokattam district, as part of the third phase in Al Asmarat slum dweller project. The project, estimated to cost about EGP14bn (USD769.1mn), aimed to relocate citizens from slum areas to residential units. Furthermore, then prime minister of Egypt Sherif Ismail Mohammed unveiled plans for a USD1.6bn project to develop the Sinai, Portsaid, Ismailia and Suez governorates in the country. The Sinai Development Authority, together with the Ministry of Housing, plans to build 5,000 houses, while the water reserve network in El-Arish and electricity networks in Rafah and Sheikh Zuweid will also be replaced.

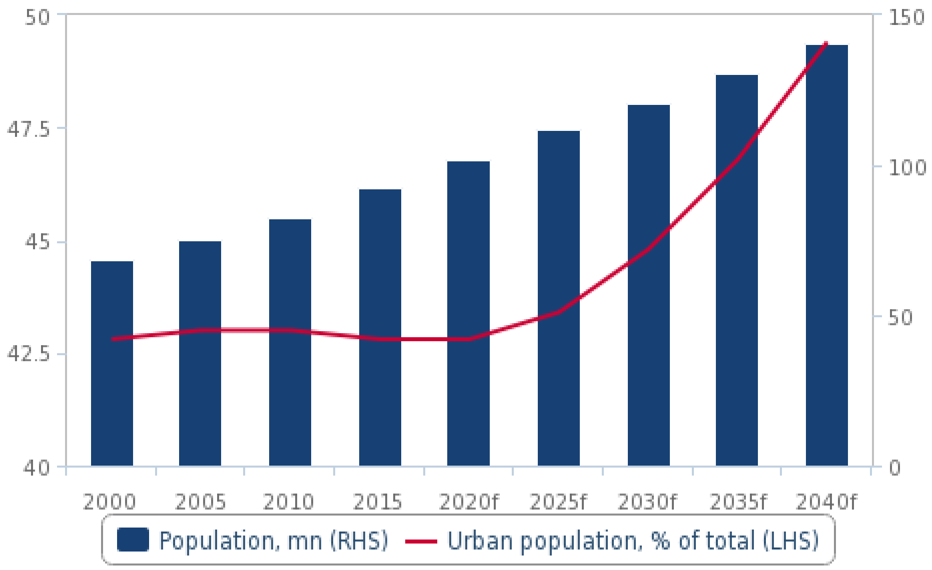
In light of the housing deficit, there are a variety of high-profile residential projects in the pipeline. Most prominent among these is that of UAE-based construction firm **Arabtec Holding**. It has signed a memorandum of understanding with the Egyptian army to construct 1mn housing units in Egypt in 2015. The ambitious USD40bn programme to build 1mn houses in Egypt has been making progress with the government having signed four financing contracts worth EGP3bn (USD381mn) to help fund the project. According to government officials, the contracts have been signed with the **Housing and Development Bank**, the National Bank of Egypt, **Banque Misr** and **Banque du Caire**. In addition, the World Bank has also agreed to provide a USD500mn loan to the Egyptian government for the project, expecting a repayment in five years. However, the status of the project is unclear, and there have been reports that the project has either been scaled back or cancelled altogether; hence, we have declined to incorporate the project into our forecast at this time.

A number of other projects have recently been announced, most of which align with the trend of private developers targeting higher-end residential projects:

- El Attal Holding plans to build a residential project in Egypt's NAC. Designed by Raef Fahmi Architects, Park Lane residential compound will be built in the new capital's R7 area and comprise 1,100 housing units. The project, which will entail an investment of EGP4bn (USD228.4mn), will be implemented in three phases. Construction is scheduled to start in June 2019, with completion expected in two and a half years.
- **Master Builders Group** has obtained the ministerial approval for the four-phase Pukka project in the NAC. First phase works are now under way for the 210,000sq m project. The EGP2bn (USD113.2mn) project will include 1,680 housing units and 50 buildings. Phase one involves an investment of EGP500mn (USD28.3mn).
- **Catalyst for Real Estate Consultancy** plans to start building a housing project, First Home, in the new Galala city, located between Ain Sokhna and Zafarana, at the end of 2018. The 360,000sq m project will include 3,000 housing units. The project will involve an initial investment of EGP5bn (USD282.7mn) and targets about EGP6bn (USD339.2mn) returns. The firm's total investment in the project in 2018 will be about EGP300mn (USD17.0mn).
- **Hyde Park Real Estate** has launched Park Corner, a USD563.2mn residential project in New Cairo. The project, covering 533,000sq m, will have 205 independent villas, townhouses and twin houses, 1,400 apartments, 300 duplexes and family villas.
- Egypt-based **Wadi Degla Developments**, part of **Wadi Degla Holding Company**, is set to build a EGP350mn (USD39mn) residential project, called Promenade Maadi Compound, in the country's Zahraa Maadi region. Work is expected to take more than five years to complete.
- Egypt-based **Palm Hills Development Company** has entered an agreement with the New Urban Communities Authority to develop an integrated residential project in eastern Cairo on a revenue sharing basis. The 2.0sq km scheme is being co-developed with Egypt's Ministry of Housing and is expected to attract more than USD4.4bn of investment.

Housing Demand Driven By Demographic Growth

Egypt - Population & Urban Population



f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

Security Risk Buffet Tourism Sector

One of the key sources of growth in non-residential construction in previous years was Egypt's large tourism industry, particularly in Cairo and in Red Sea resort areas. The tourism industry has suffered a significant setback in the wake of several high profile terrorist attacks, including the downing of a Russian flight over Egypt's Sinai Peninsula in November 2015, and several attacks on museums and hotels in various tourist destinations. Normal flights have yet to resume to Sharm El Sheikh and overall tourism arrivals to the country have fallen, particularly from the UK and Russia.

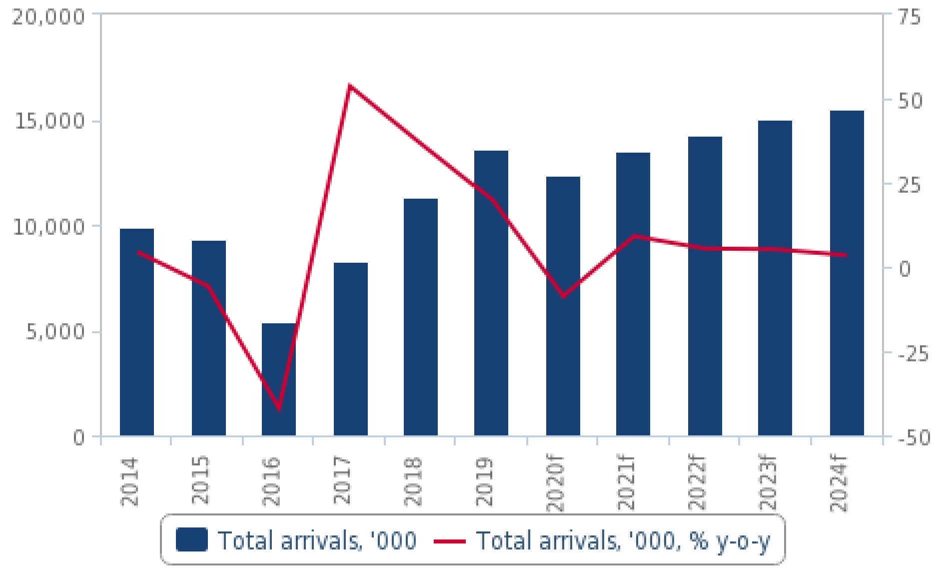
It is important to note that this incident is not the end for Egypt's tourism sector. The country has experienced two revolutions in the past four years, as well as numerous other terrorist attacks, and the sector has recovered fairly quickly. While this is perhaps more damaging than terrorist attacks in the early 2000s given the high-profile nature of a plane crash, the sector has been surprisingly resilient, eventually recovering over a matter of months.

Indeed, we have seen a variety of tourism-related projects moving forward, which underpins our positive outlook for the commercial construction sub-sector in Egypt:

- Saudi Arabian businessman Al-Waleed Bin Talal plans to invest USD800mn in hotel projects in Egypt. The projects involve the expansion of Four Seasons Resort Sharm El Sheikh and the construction of two hotels in al-Alamein and Madinaty. A total of 800 rooms will be added to the resort, increasing the total to 1,400. Talal's **Kingdom Holding Company** and **Talaat Moustafa Group** will develop the projects.
- In June 2017, water innovation firm **Crystal Lagoons** signed a contract with **Tatweer Misr** for the USD117mn North Coast Fouka Bay development in Ras Al Hekmah. The development will be positioned across an 800m-long coastline. The scheme, designed by 5+1AA, is slated to be completed by 2022.
- **Jumeirah Real Estate Investment** and **General Trading Company** has partnered with **Sakan Developments** to launch a USD1.7bn mixed-use waterfront project in the Ras El Hekma Bay on the northern coast of Egypt. The scheme includes construction of 3,500 housing units, a five-star hotel, marina park, mall, pools, restaurants and cafes.
- **Abraj Misr** unveiled a new phase of The Shore mixed-use project, which includes tourism resorts and residential and entertainment options, on the north coast of Egypt. The project, about 240km from Cairo, covers an area of 728,434sq m and involves a total investment of up to USD224.6mn. Abraj Misr contracted **Mena For Engineering Consultation & Development** to undertake a portion of the work.
- In July 2016, **Maxim Investments Group** unveiled a USD736mn project at Bo Islands in Sidi Abdel Rahman. The 1.3sq km project, dubbed Bo Sands, will include a range of facilities offering commercial brands, four- and five-star hotels, a club house, sports facilities and a fun park. Maxim has started excavation work for Bo Sands phase one, which will be completed by 2019, while the entire project will be delivered by 2022.
- Earlier in 2016, Crystal Lagoons partnered with Egyptian real estate company Tatweer Misr to develop man-made lagoons in Egypt's Sokhna mountains. The USD250mn first phase of the IL Monte Galala-Sokhna project will deliver more than 1,600 residential and hotel units by 2019. The entire project is expected to take 10 years to complete.
- **Saudi Egyptian Construction Company** (SECON) has reportedly laid the foundation for its Riyadh SECON residential project in New Cairo. The development will cost between EGP2.8bn (USD315.28mn) and EGP3bn (USD337.8mn) and will consist of 120 residential buildings, which will have a total of 1,928 units.

Toursim Recovery Boosts Non-Residential Investment

Egypt - Total Arrivals & Growth, 2014-2024



e/f = Fitch Solutions estimateforecast. Source: National sources, Fitch Solutions

Suez Canal Emerging As Investment Bright Spot

The Suez Canal Economic Zone will increasingly function as a focus for infrastructure development in Egypt, as investors gravitate towards strategically located projects supported by the requisite logistics and export capabilities. Investment pledges in the Canal region continue to accelerate:

- The European Bank for Reconstruction and Development (EBRD) will lend USD200mn to upgrade an oil refinery owned by **Suez Oil Processing Company** and improve its energy efficiency. Located at the entrance of the Suez Canal, adjacent to the city of Suez, the refinery currently has the capacity of 68,000 barrels per day. The EBRD loan will finance technical upgrades at the refinery.
- Egypt and Russia signed a contract in May 2017 to set up a USD20bn Russian industrial zone in the Gulf of Suez. The zone is expected to focus on the production of trucks, tractors, chemicals and reinforced concrete products.
- Contracts were also signed with UK-based **Ecobat** and Egypt-based **Raya** to develop an additional 4sq km of industrial zones.

These come right after high-value Russian investments were announced on November 25 2016, with Egypt granting an 80 hectares area in Port Said to develop an industrial port project. Russian firms, who will design and construct the new facility, are expected to invest roughly USD4.6bn in the zone out to 2035. Furthermore, Egypt's Suez Canal Authority signed a deal with **Saudi International Expertise Association Academy** to build an iron and steel factory in Ain Sokhna, Egypt. The deal is worth USD500mn, while the contracted upon investments are estimated at USD1bn.

Project activity over the past year informs our expectation that the Suez Canal and the special economic zone surrounding it will assume a greater role in anchoring infrastructure investment in Egypt. Investors, particularly in the industrial infrastructure and manufacturing segments, will continue to gravitate towards projects supported by the logistics, port and other ancillary infrastructure necessary in facilitating export activities. As one of the largest maritime and trading hubs globally, the Suez Canal possesses these capabilities in abundance, with continued government support for additional development offering grounds for further upside. The flurry of project announcements in the canal zone underscores that private investors will respond favourably when the natural advantages of a strategically located port are paired with the pro-business tax and regulatory regimes of special economic zones, a trend we have highlighted in MENA markets like Oman as being crucial in sustaining construction sector growth.

Industrial Construction Gaining Steam

More broadly, we expect the de-pegging of the Egyptian pound from the US dollar and the attendant currency devaluation to increase the competitiveness of Egyptian exports, and by extension, the attractiveness of Egypt as a base to establish industrial operations. Accordingly, we are witnessing an uptick in project activity in the sector:

- It was announced in H217 that German automaker **Mercedes-Benz** plans to build a 50,000sq m distribution facility in the economic zone near the Suez Canal. The facility will mean Mercedes-Benz's re-entry in the Egyptian market, where the automaker had ended local production of passenger vehicles in 2015 over fears of non-profitability owing to a free trade agreement signed between Egypt and the EU.
- The Egyptian Ministry of Petroleum plans to invest USD6.8bn for the construction of a petrochemical complex near Ain Sokhna Port in Suez Governorate, the investment will be made over five years. The complex, which will be developed on a 3sq km area, will provide raw materials for current and upcoming petrochemical projects, while the surplus will be exported.
- On April 25 2017, it was announced that **Bechtel** had won two contracts from **Carbon Holdings** in Egypt. The first one involves the provision of project management services for the Tahrir Petrochemicals Complex, at Ain Sokhna, while the second contract is for building two polypropylene units on an adjacent site.
- **Al Nouran** plans to develop a USD360mn sugar plant in Sharqia Governorate, Egypt. The facility, covering an area of 1.8mn sq m, will reportedly become the largest sugar plant in the MENA region. The plant will feature four production lines of 14,000 tonnes of beet per day.
- Egypt plans to offer USD173mn worth of industrial and farming projects in the Sinai Peninsula to investors in 2017. The projects include a 6,000sq m limestone crushing plant, soda and paper factories, a unit to produce sodium silicate and a marble factory. Primary feasibility studies for the projects have reportedly been completed.

New Capital City Outlook Uncertain

On February 17 2017 **China State Construction Engineering Corporation** announced it had withdrawn from a NAC construction project 45km east of Cairo over price disagreements. This move validates our decision to not incorporate the USD45bn megaproject into an otherwise bullish construction sector growth forecast for Egypt. Although the company had originally secured a USD3bn loan to build government offices in Egypt's planned new capital city, no final agreement was ultimately reached. Moreover, a memorandum of understanding expected to be signed in December 2016, involving a USD15bn pledge from China Fortune Land Development, similarly failed to materialise. In the wake of these setbacks, the government announced that the proposed scheme will now be developed by Egyptian contractors. However, the apparent loss of Chinese backing raises the prospect that funding will need to be financed by the government, which is already stretched to its fiscal limits. These developments, along with the numerous risks associated with delivering large-scale megaprojects in Egypt, mean that we remain pessimistic that the project will ultimately be delivered in its current form.

Macroeconomic Forecasts

Egypt's Growth To Halve On Covid-19

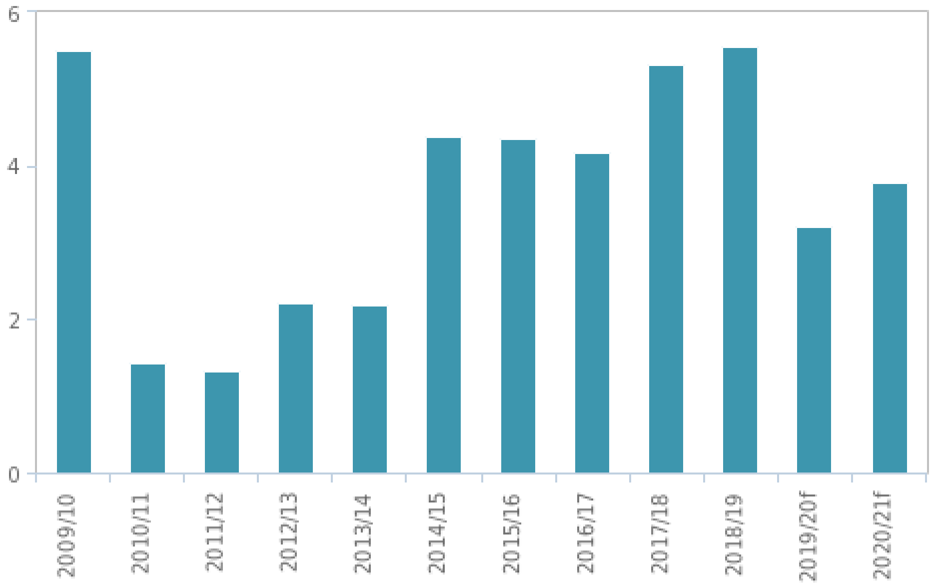
Key View:

- Real GDP growth in Egypt will come in at 2.6% in FY2019/20 (ending June 30) and 3.6% in FY2020/21.
- These forecasts represent a significant slowdown from the 5.6% recorded in FY2018/19, driven by the negative effects of Covid-19 on economic activity both locally and abroad.
- These growth rates are still fairly robust on a regional comparison though, largely because Egypt will avoid a full, 24-hour lockdown and because the brunt of the economic impact will be split between two fiscal years.
- Downside risks are of course substantial, especially given the lack of high-frequency data and uncertain trajectory of the virus in Egypt.

Growth will slow substantially in Egypt in the current and next fiscal years. We now forecast growth at 3.2% in FY2019/20 (ending June 30) and 3.8% in FY2020/21, down from 5.6% in FY2018/19. These forecasts represent the slowest rates of growth since FY2013/14 when Egypt was roiled by social discontent and instability, starkly highlighting the severity of the ongoing Covid-19 crisis.

Growth Slumping To Lowest Levels Since Turbulent Early 2010s

Egypt - Real GDP Growth, %

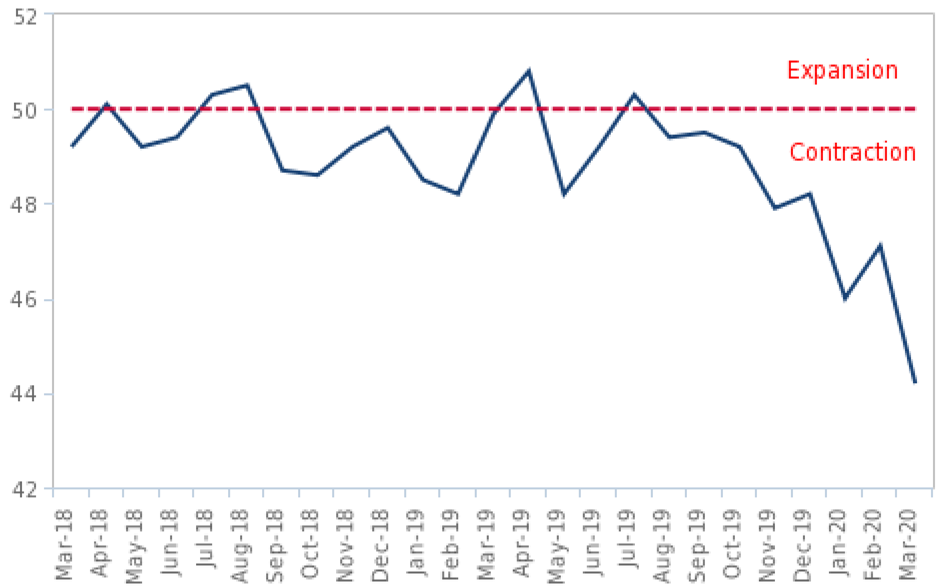


f = Fitch Solutions forecast. Source: CBE, Fitch Solutions

As we have argued previously, **exports and remittances will likely suffer the most**. Flight bans in Egypt since mid-March have led to mass cancellations in the tourism industry, which represents about a tenth of GDP when accounting for induced spending and employment. As a result, the tourism ministry estimates that the economy will lose USD1bn (0.3% of GDP) of revenue per month while these restrictions remain in place. We also expect remittances (7.9% of GDP) to slump as GCC non-oil activity faces several strong headwinds, and non-oil exports (5.3% of GDP) to weaken from collapsed global demand.

Covid-19 Mounts Pressure On Already-Weak Private Sector

Egypt - Purchasing Managers' Index



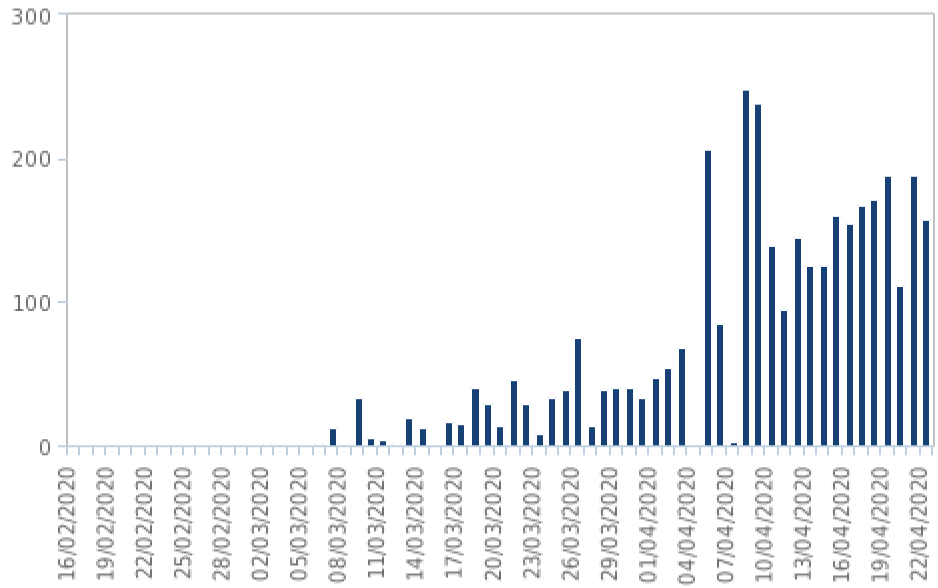
Source: Bloomberg, Fitch Solutions

This will have knock-on effects on the wider economy. Tourism has important implications for private consumption (80% of GDP) since the industry employs a tenth of the total workforce, and many of these jobs are likely to disappear at least temporarily despite government support (see below). Similarly, remittances from relatives working abroad form an important source of income for many households. The Purchasing Managers' Index fell to 44.2 in March from 47.1 in February, well below the 50 delineating contraction from expansion. Given that the index has only edged above 50 in five of the last 24 months (see chart above), Egypt arguably also faces the Covid-19 crisis from a position of some weakness.

That said, **our forecasts for Egypt still suggest it will come out ahead of most other MENA economies.** This is predicated on a few key factors that act in Egypt's favour:

- **Milder lockdown:** Egypt continues to avoid a full lockdown like those seen in many major European countries and in the GCC. A curfew lasting from 8pm to 6am and on weekends was imposed on March 24 but was eased on April 23 to 9pm-6am and partial weekend openings. With new cases seemingly stabilising (see chart below) we think the authorities are unlikely to tighten restrictions again.
- **Calendar Effects:** The impact of Covid-19 will probably be felt most acutely in Q1-Q3 of the 2020 calendar year, with economic activity likely to pick back up in Q4. However, because Egypt reports its GDP by fiscal years, this effectively means that the impact is split up between FY2019/20 (ending at mid-2020) and FY2020/21. Growth stood at 5.6% year-on-year in the first quarter of FY2019/20 (Q319 in calendar year terms, latest data available) and likely remained strong in the following quarter, which helps prop up the full-year growth rate.
- **Stimulus:** While hardly unique to Egypt, fiscal and monetary stimulus will nonetheless play a part in cushioning the blow of Covid-19 on growth. The government is implementing a EGP100bn (1.8% of GDP) fiscal stimulus package, which includes extended social transfer schemes and EGP500 per month grants to irregular workers in the worst-hit sectors (such as tourism). The tourism industry is also getting EGP50bn of targeted loans from the Central Bank of Egypt (CBE) on concessional terms. The CBE also slashed the policy rate by 300 basis points on March 16.

Number Of Fresh Cases Possibly Stabilising, But Still Uncertain
Egypt - Daily Confirmed Cases Of Covid-19 (As Of April 23)



Note: March 3-6 and 8 are data gaps. Source: European Centre for Disease Prevention and Control, Fitch Solutions

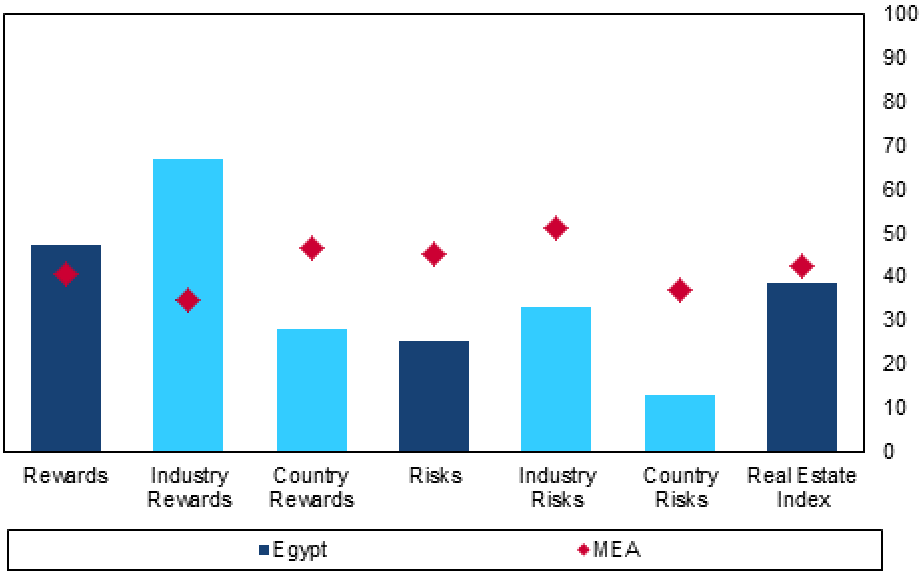
Downside risks are nevertheless significant. Limited high-frequency data makes it difficult to accurately assess the impact of the crisis on the non-tourist economy as well as the efficacy of the government's stimulus measures. Moreover, although confirmed cases seem to have stabilised since early April (see chart above), at least as of April 24, the World Health Organisations local Egypt official has said more tests are needed, and we believe there is likely a significant degree of underreporting (as there is in most countries). This implies a high risk of a fresh wave of cases that forces the government to impose stricter restrictions on economic activity, which would cause us to revise down our forecasts.

Industry Risk/Reward Index

Egypt Real Estate Risk/Reward Index

Egypt Faring Better Than Regional Peers

Egypt vs MENA Average - Real Estate Risk/Reward Index



Note: Scores out of 100; higher score = lower risk. Source: Fitch Solutions

Rewards

Overall, Egypt will fare better compared to its regional peers as it avoided going in to a full lockdown when the pandemic started in the region. All three sub sectors are forecast to see growth as the economy continues to operate, albeit at a lower rate, and a low supply of quality units will see rents increase.

Industry Rewards

We expect Egypt to perform better compared to its regional peers as undersupply was an overlying issue pre-Covid-19. As the country avoided going in to a full lock down, demand for quality assets will remain in the market particularly for F&B companies. The real estate market is strong and this gives the industry an overall score of 66.9 out of 100.

Country Rewards

The country rewards score takes in to account the large population coupled with continued foreign investment. However, lack of urbanisation and lack of clarity on the efficacy of the government's stimulus measures give it an overall lower score of 27.9 out of 100.

Risks

The main major blow from the Covid-19 pandemic lies on the tourism industry which contributes a significant amount to the GDP. Commercial flights and passenger arrivals dropped massively in H120 and we expect this trend to continue for the rest of 2020 even if commercial flights restart as the global recession will impact western arrivals in to the country. Furthermore, a drop in remittances from Egyptian workers living in the Gulf region will impact household spending and private consumption.

Industry Risks

Red tape and long bureaucratic processes taken for planning and development of real estate assets can deter the arrival of quality assets to the market giving an industry risk score of 33.0.

Country Risks

A high risk of a fresh wave of cases can force the government to impose stricter restrictions on economic activity in the short term, which could cause GDP forecasts to fall further, leaving Egypt with a low country risk score of 13.0.

Market Overview

The government's privatisation programme will continue to gradually roll back the presence of the state in the economy and boost investor confidence post-coronavirus. Cost-effective price points of commercial real estate stock brought in good foreign direct investment over 2019, and we expect this to continue through 2020 as domestic institutions grapple with economic pressures.

Stable real GDP growth, will continue to outperform the region thanks to higher government investment spending, rising natural gas production and an improving regulatory environment. Egypt managed to keep the economy buoyed during the first wave of the pandemic by not going in a full lockdown and keeping businesses open, albeit at shorter trading hours.

Investment into hydrocarbons and public infrastructure will remain a key driver of headline growth and will continue to create opportunities for firms in construction and heavy industries as well as supporting industries such as transport, banking and financial services.

New bankruptcy and insolvency laws should provide a buffer for firms looking to expand into the commercial property sector. The rate of corporate insolvencies has reduced significantly in recent quarters, thanks to the new laws and a more supportive business environment. As the economy continues to recover, we expect strengthening trade ties between Egypt and China, as the latter's Belt and Road Initiative includes massive development plans for the Suez Canal area. China has stated its interest in providing Egypt with a trade stimulus package, opening the door for the development of new industrial and manufacturing facilities that will benefit the industrial property sector.

The strength of the real estate sector is encouraging investment in the market due to the ongoing development and construction of 20 new cities, in addition to the development of the 23 existing new cities. The new cities provide potential investors with attractive, large-scale real estate project opportunities, including in the New Administrative Capital, New Alamein City and New Mansoura City, to name a few. Demand is predominantly for income-producing office and retail assets, though there is increasing interest in industrial facilities on the back of positive market conditions. Foreign direct investment continues to drive market investment as domestic institutions adopt strategies to mitigate economic risks, both global and domestic.

REITs Egypt remains the dominant entity in the real estate investment trust (REIT) sector. There have been talks of the introduction of a new REIT by **Naeem Holding**, although there are no further updates at the moment. Thus, REITs Egypt will continue to dominate the REITs market until the proper framework and regulatory environment is established.

Competitive Landscape

Incumbent domestic and regional firms will continue to dominate the commercial property landscape in the short term. Relaxed foreign policy and a weaker Egyptian pound are seeing foreign firms gradually integrate into the market, but supply constraints will limit the options for new players. A significant amount of investment is coming from Saudi Arabia, totalling around USD54bn in 2019, of which USD44bn was from private companies and the remaining USD10bn was invested by the Saudi Public Investment Fund.

Property Developers

Egyptian Resorts Company (ERC) focuses on the tourism industry. Transparent financial reporting and substantial project developments mean that investors and developers are interested in forming partnerships with it. ERC has a landbank of 32mn sq m, which provides a large proportion of the firm's income. However, the downturn in the global tourism industry poses some risks for the firm.

ERC's current focus is the development of the Bay of Sahl Hasheesh on the Red Sea, and on delivering effective infrastructure for its assets, as this will pave the way for greater revenues and higher confidence from international partners. Sahl Hasheesh is 18km from the airport at Hurghada, one of Egypt's key tourist gateways. Development of the area includes almost 12.5km of beachfront (about four times the length of Nemaa Bay at the well-known Sharm el-Sheikh resort). The development will include more than 850,00sq m of retail space and more than 385,000sq m of office space. According to its website, net revenues stood at EGP 81.0 million in H1 2019, up by 29% y-o-y from EGP 63.0 million in H12018. Net loss reached EGP 12.8 million for the period, down from EGP 9.3 million in recorded in H1 2018

Saudi Egyptian Construction Company (SECON) is a joint stock company established in 1975 by an agreement between Egypt and Saudi Arabia. Its primary concern is in investments and construction in the broader real estate sector. This includes residential and commercial buildings, utilities and services. It has diversified into the tourism industry. SECON does not publish financial information regularly. This, and a lack of transparency, makes foreign investment uncertain for the foreseeable future.

Key projects include the Fifth Compound Zahra Project. The company has said that this residential/retail project reflects the 'state's efforts to expand the development of new urban communities'. The development has 288 villas and the project value is reportedly some EGP400mn. The Zahrat El Obour development in El Obour City, north east of Cairo, includes 528 housing units and a large shopping mall. A third key project is Nile Towers in Cairo. The development has two 23-storey towers, each with some 10,000sq m of luxury retail and residential space. The second tower also has a five-star resort, including business-related services.

TMG Holding is a holding company for the **Talaat Moustafa Group**, and has a significant presence in the residential real estate market. Recent portfolio diversification into hotel and resort projects creates potential for more retail space. TMG says that it is a pioneer in development of luxury hotels and associated tourism infrastructure. Key projects include Al Rehab II in greater Cairo, an extension to TMG's flagship Al Rehab I project, which opened in 1996. It will be home to 80,000 residents. The project includes four schools, seven mosques, a church, an office park and two shopping malls. A second key project is Nassamt Al-Riyadh, in Saudi Arabia's capital. The office market in Cairo is currently stable owing to higher demand and limited supply. The market has not witnessed any additional space which kept rental costs fairly stable. Looking ahead, about 180,000sq m of office space is expected over the next two years, with approximately 23,000sq m of this space expected by the end of 2019. Overall, rental costs are expected to increase over 2020 owing to increased demand and limited supply, particularly of Grade A quality space. For 2019, the group reported a gross profit of EGP1.7bn from its real estate, hospitality and services arm.

Capital Group Properties (CGP) was established in 2015 with the aim of creating affordable, sustainable integrated communities in Egypt. CGP is owned by **Abu Dhabi Capital Group** and **Al Ain Properties**, global developers with diversified investment portfolios and an extensive land bank of locations worldwide. Currently, CGP is busy developing the 1,200-acre Alburouj integrated community in East Cairo, which will feature education, healthcare, business, residential, hospitality, sports and culture facilities. As part of this project, CGP is investing EGP1.5bn in phase one of the business park Smart Village East, which is expected for completion by 2020.

Founded in 1990, Saudi Arabia-based **Fawaz Alhokair** entered the Egyptian market in December 2010 with the launch of Mall of Arabia. With the success that followed the launch, the group invested extensively in the retail development sector. The group is injecting EGP15bn over the next four years to expand the Mall of Arabia brand into Tanta, New Cairo and the New Administrative Capital.

Property Managers

Al Ahly was founded in 1994. The National Bank of Egypt has a 40% share and the Sabbour family has 60%. Its projects are spread across Egypt, from Cairo and its satellite cities to the Red Sea and the north coast. The company operates in commercial, residential and tourism real estate. It established a management arm **ECETA Management Services** in 1999. Key projects include The Square, a 404,685sq m retail/commercial development in New Cairo. Another key project is Il Centro, with retail and restaurant space, in one of Sharm el-Sheikh's business districts.

Emaar Properties was established in 1997 as a public joint stock company. **Emaar Misr** is the Egyptian real estate subsidiary. Emaar Properties is seen as one of the largest and most progressive property developers in the world. Emaar Misr focuses on investment and management in Egypt. It is heavily involved in the residential market. Key projects include Uptown Cairo, a 4.5mn sq m development that represents a total investment of EGP12bn. It is in central Cairo and offers residential, commercial and office units to an increasingly affluent population as well as companies such as regional construction firms and administrative institutions. In total it is estimated to be worth up to EGP2.5bn. A second key project is Emaar Square, a counterpart to Uptown Cairo that mainly comprises retail and commercial facilities, and will be managed by **Emaar Malls Group**, the operator of the Dubai Mall.

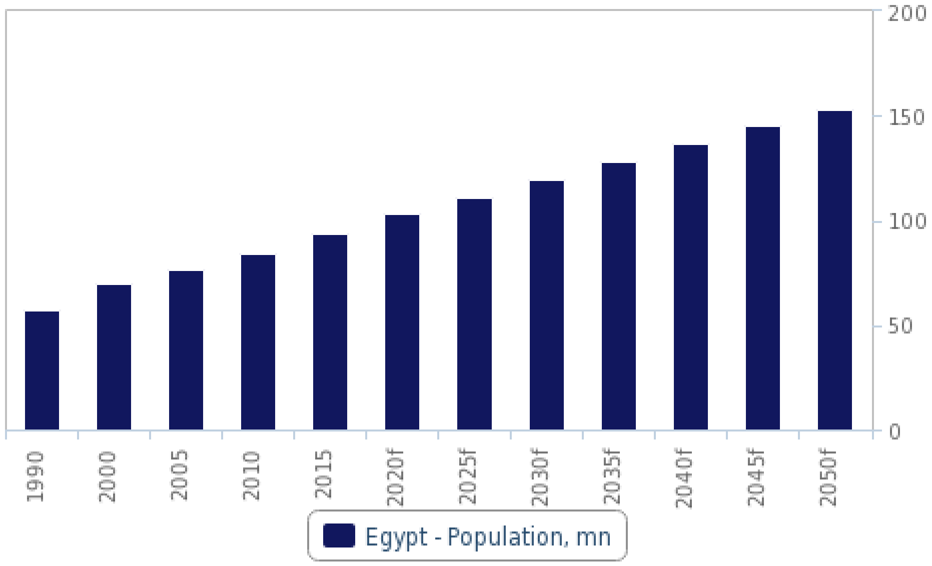
Established in 1992, **Majid Al Futtaim Group** (MAF) has diversified into leisure and retail, with a focus on shopping malls, which are increasingly popular in the Middle East and North Africa. The Dubai-based firm has ties to a number of countries in the wider region, including Lebanon, Saudi Arabia, Oman, Bahrain, Jordan, Pakistan, Egypt and other gulf states. One notable Egyptian asset is the City Centre Maadi, in Cairo.

Egypt Demographic Outlook

Demographic analysis is a key pillar of our macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

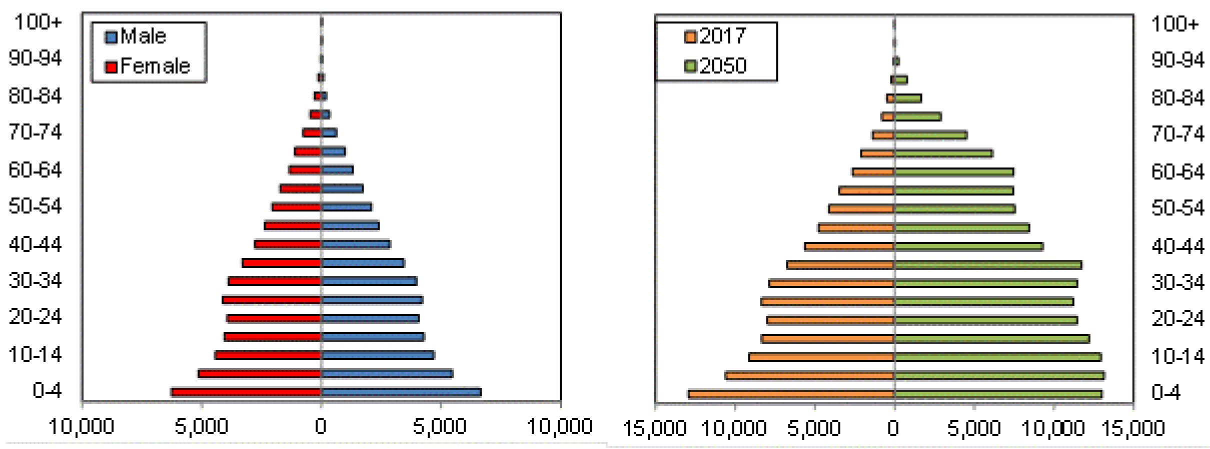
The accompanying charts detail the population pyramid for 2017, the change in the structure of the population between 2017 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

Population
Egypt (1990-2050)



f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

Egypt Population Pyramid
2017 (LHS) & 2017 Versus 2050 (RHS)



Source: World Bank, UN, Fitch Solutions

POPULATION HEADLINE INDICATORS (EGYPT 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, total, '000	57,412.2	69,906.0	76,778.1	84,107.6	93,778.2	102,941.5	111,470.9
Population, % y-o-y		1.86	1.85	1.99	2.14	1.75	1.52
Population, total, male, '000	28,822.4	35,164.3	38,706.6	42,466.0	47,408.9	52,045.8	56,328.9
Population, total, female, '000	28,589.8	34,741.7	38,071.5	41,641.6	46,369.2	50,895.7	55,142.0
Population ratio, male/female	1.01	1.01	1.02	1.02	1.02	1.02	1.02

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

KEY POPULATION RATIOS (EGYPT 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Active population, total, '000	31,281.9	40,922.9	47,429.1	53,104.5	57,954.8	63,320.2	68,959.6
Active population, % of total population	54.5	58.5	61.8	63.1	61.8	61.5	61.9
Dependent population, total, '000	26,130.3	28,983.1	29,349.1	31,003.1	35,823.3	39,621.3	42,511.4
Dependent ratio, % of total working age	83.5	70.8	61.9	58.4	61.8	62.6	61.6
Youth population, total, '000	23,542.7	25,553.4	25,604.9	26,988.9	31,075.1	34,135.7	35,948.1
Youth population, % of total working age	75.3	62.4	54.0	50.8	53.6	53.9	52.1
Pensionable population, '000	2,587.6	3,429.7	3,744.1	4,014.2	4,748.2	5,485.6	6,563.3
Pensionable population, % of total working age	8.3	8.4	7.9	7.6	8.2	8.7	9.5

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

URBAN/RURAL POPULATION & LIFE EXPECTANCY (EGYPT 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Urban population, '000	24,961.7	29,917.7	33,035.3	36,182.3	40,451.2	45,070.9	50,121.8
Urban population, % of total	43.5	42.8	43.0	43.0	43.1	43.8	45.0
Rural population, '000	32,450.5	39,988.3	43,742.8	47,925.4	53,327.0	57,870.6	61,349.1
Rural population, % of total	56.5	57.2	57.0	57.0	56.9	56.2	55.0
Life expectancy at birth, male, years	62.2	66.2	67.1	68.2	69.1	69.9	70.6
Life expectancy at birth, female, years	67.0	71.1	71.8	72.6	73.6	74.6	75.5
Life expectancy at birth, average, years	64.6	68.6	69.4	70.4	71.3	72.2	73.0

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

POPULATION BY AGE GROUP (EGYPT 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, total, '000	9,041.1	8,272.6	9,000.9	9,868.7	12,374.4	12,071.6	11,678.5
Population, 5-9 yrs, total, '000	7,855.5	8,425.5	8,209.0	8,940.2	9,797.3	12,302.0	12,005.3
Population, 10-14 yrs, total, '000	6,646.0	8,855.3	8,394.9	8,180.1	8,903.4	9,762.1	12,264.2
Population, 15-19 yrs, total, '000	5,580.0	7,781.1	8,822.7	8,357.4	8,137.2	8,861.8	9,720.1
Population, 20-24 yrs, total, '000	4,877.1	6,482.2	7,729.7	8,696.6	8,206.0	7,990.3	8,713.8
Population, 25-29 yrs, total, '000	4,212.2	5,236.6	6,404.2	7,550.6	8,431.6	7,948.0	7,734.5
Population, 30-34 yrs, total, '000	3,659.1	4,577.0	5,176.4	6,302.6	7,389.9	8,271.5	7,792.2
Population, 35-39 yrs, total, '000	3,055.6	4,123.0	4,553.8	5,146.2	6,316.8	7,402.0	8,280.1
Population, 40-44 yrs, total, '000	2,857.8	3,624.2	4,100.9	4,530.3	5,214.7	6,379.3	7,457.7
Population, 45-49 yrs, total, '000	2,041.6	2,975.1	3,572.8	4,047.4	4,567.5	5,246.8	6,397.7

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 50-54 yrs, total, '000	1,868.1	2,694.7	2,864.6	3,451.6	3,956.9	4,469.7	5,138.3
Population, 55-59 yrs, total, '000	1,696.2	1,832.2	2,528.0	2,698.5	3,256.3	3,746.1	4,249.0
Population, 60-64 yrs, total, '000	1,434.2	1,596.7	1,675.9	2,323.3	2,477.9	3,004.8	3,476.1
Population, 65-69 yrs, total, '000	1,060.2	1,354.7	1,395.3	1,470.1	2,036.9	2,183.3	2,671.8
Population, 70-74 yrs, total, '000	732.2	1,012.7	1,096.8	1,133.5	1,193.7	1,669.4	1,810.6
Population, 75-79 yrs, total, '000	452.9	607.4	719.8	781.9	809.3	863.5	1,232.0
Population, 80-84 yrs, total, '000	231.7	301.8	355.3	421.3	460.7	485.5	532.9
Population, 85-89 yrs, total, '000	86.3	116.3	134.2	157.9	188.8	211.6	230.8
Population, 90-94 yrs, total, '000	21.0	31.2	36.1	41.7	49.6	61.0	71.0
Population, 95-99 yrs, total, '000	3.0	5.1	6.1	7.1	8.4	10.3	13.1
Population, 100+ yrs, total, '000	0.2	0.4	0.6	0.7	0.8	1.0	1.2

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

POPULATION BY AGE GROUP % (EGYPT 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, % total	15.75	11.83	11.72	11.73	13.20	11.73	10.48
Population, 5-9 yrs, % total	13.68	12.05	10.69	10.63	10.45	11.95	10.77
Population, 10-14 yrs, % total	11.58	12.67	10.93	9.73	9.49	9.48	11.00
Population, 15-19 yrs, % total	9.72	11.13	11.49	9.94	8.68	8.61	8.72
Population, 20-24 yrs, % total	8.49	9.27	10.07	10.34	8.75	7.76	7.82
Population, 25-29 yrs, % total	7.34	7.49	8.34	8.98	8.99	7.72	6.94
Population, 30-34 yrs, % total	6.37	6.55	6.74	7.49	7.88	8.04	6.99
Population, 35-39 yrs, % total	5.32	5.90	5.93	6.12	6.74	7.19	7.43
Population, 40-44 yrs, % total	4.98	5.18	5.34	5.39	5.56	6.20	6.69
Population, 45-49 yrs, % total	3.56	4.26	4.65	4.81	4.87	5.10	5.74
Population, 50-54 yrs, % total	3.25	3.85	3.73	4.10	4.22	4.34	4.61
Population, 55-59 yrs, % total	2.95	2.62	3.29	3.21	3.47	3.64	3.81
Population, 60-64 yrs, % total	2.50	2.28	2.18	2.76	2.64	2.92	3.12
Population, 65-69 yrs, % total	1.85	1.94	1.82	1.75	2.17	2.12	2.40
Population, 70-74 yrs, % total	1.28	1.45	1.43	1.35	1.27	1.62	1.62
Population, 75-79 yrs, % total	0.79	0.87	0.94	0.93	0.86	0.84	1.11
Population, 80-84 yrs, % total	0.40	0.43	0.46	0.50	0.49	0.47	0.48
Population, 85-89 yrs, % total	0.15	0.17	0.17	0.19	0.20	0.21	0.21
Population, 90-94 yrs, % total	0.04	0.04	0.05	0.05	0.05	0.06	0.06
Population, 95-99 yrs, % total	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Population, 100+ yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

Real Estate Methodology

Industry Forecast Methodology

Our industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case determined, as per standard practice, by the prevailing features of the industry data being examined.

Common to our analysis of every industry is the use of vector autoregressions. These allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA). In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

We mainly use OLS estimators and in order to avoid relying on subjective views and encourage the use of objective views, we use a 'general-to-specific' method. We mainly use a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example poor weather conditions that affect agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. We select the best model according to various different criteria and tests, including but not exclusive to:

- R2 tests explanatory power; adjusted R2 takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value);
- All results are assessed to alleviate issues related to auto-correlation and multi-collinearity.

We use the selected best model to perform forecasting.

Human intervention plays a necessary and desirable role in all of our industry forecasting. Experience, expertise and knowledge of industry data and trends ensure that analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Sector-Specific Methodology

In each of the countries surveyed, local real estate agents are contacted and asked questions regarding monthly rental costs per square metre net yields, terms of contract (length of a lease and rent-free months) and a general overview of the market, across the following three commercial real estate sub-sectors:

- Office
- Retail
- Industrial

In each sector, a standardised approach is employed to ensure comparability and consistency in the data. The maximum monthly rental values refer to prime/grade-A quality space and the minimum monthly rental values refer to non-prime/grade-B quality space. The net yields data refer to the rate of return on the investment after expenses have been deducted.

The answers have been combined into the data tables and text that form part of the market overviews and industry forecast scenarios. In taking this grass-roots approach, we ensure that we identify, in a timely fashion, key issues that will likely drive rents and yields over the short, medium and long term. A framework has been developed that facilitates comparisons between sectors in different countries.

Sources

Sources used in real estate reports include UN statistics, national accounts, housing and economy ministries, officially released company results and figures, trade bodies and associations, international and national news agencies and international real estate companies.

Real Estate Risk Reward Index

Our Real Estate Risk/Reward Index (RRI) quantifies and ranks a country's attractiveness within the context of the Real Estate industry, based on the balance between the **Risks** and **Rewards** of entering and operating in different countries.

We combine industry-specific characteristics with broader economic, political and operational market characteristics. We weight these inputs in terms of their importance to investor decision making in a given Industry. The result is a nuanced and accurate reflection of the realities facing investors in terms of: 1) the balance between opportunities and risk; and 2) between sector-specific and broader market traits. This enables users of the Index to assess a market's attractiveness in a regional and global context.

The index uses a combination of our proprietary forecasts and analyst assessment. As forecasts change, so the Index scores change providing a highly dynamic and forward-looking result.

The Real Estate Risk Reward Index universe comprises **44 countries**.

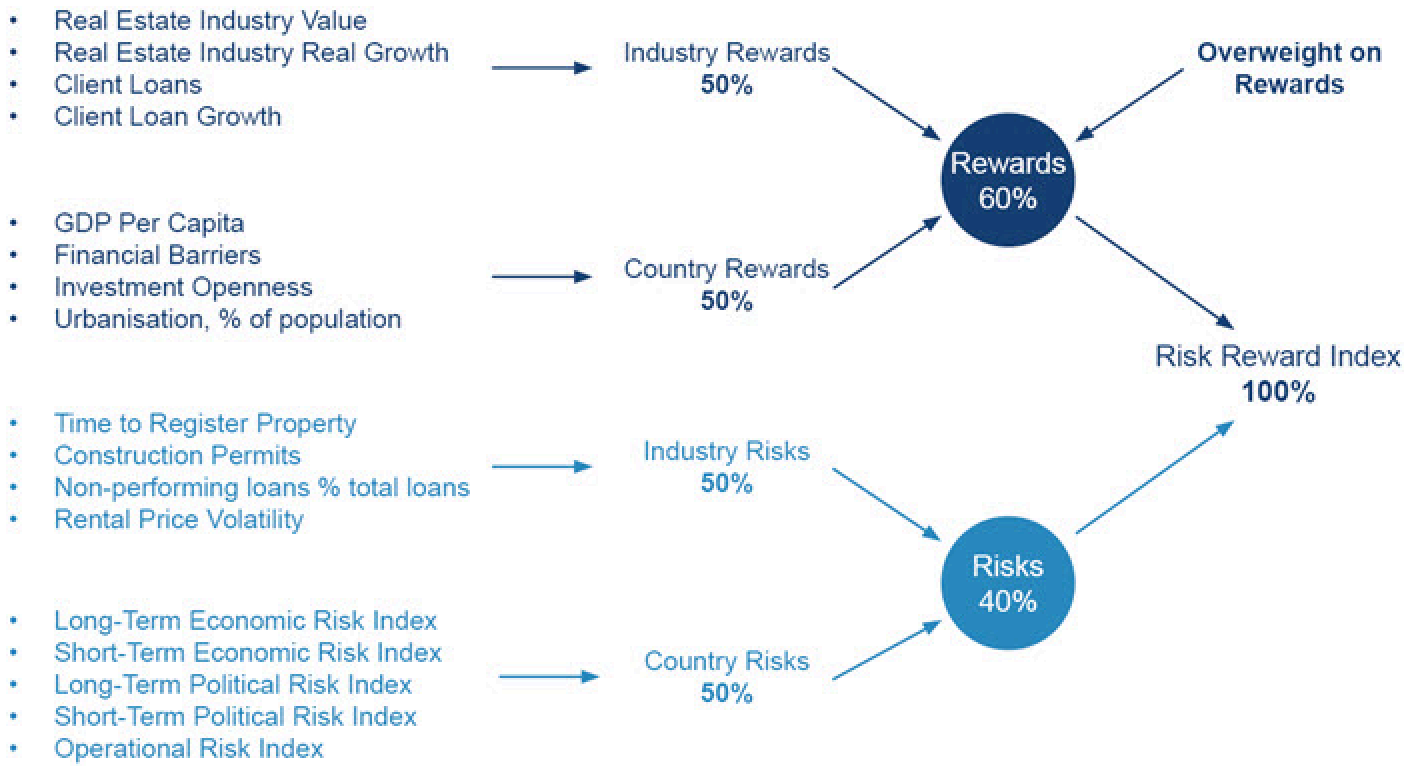
Benefits of using Fitch Solutions' Real Estate RRI

- **Global Rankings:** One global table, ranking all the countries in Fitch Solutions' universe for Real Estate from least (closest to zero) to most attractive (closest to 100).
- **Accessibility:** Easily accessible, top down view of the global, regional or sub-regional Risk/Reward profile.
- **Comparability:** Identical methodology across 44 countries for Real Estate allows users to build lists of countries they wish to compare, beyond the confines of a global or regional grouping.
- **Scoring:** Scores out of 100 with a wide distribution, provide nuanced investment comparisons. The higher the score, the more favourable the country profile.
- **Quantifiable:** Quantifies the Rewards and Risks of doing business in the Real Estate sector in different countries around the world and helps identify specific flashpoints in the overall business environment.
- **Comprehensive:** Comprehensive set of indicators, assessing industry-specific risks and rewards alongside political, economic and operating risks.
- **Entry Point:** A starting point to assess the outlook for the Real Estate sector, from which users can dive into more granular forecasts and analysis to gain a deeper understanding of the market.
- **Balanced:** Multi-indicator structure prevents outliers and extremes from distorting final scores and rankings.
- Methodology is a combination of proprietary Fitch Solutions forecasts, analyst insights and globally acceptable benchmark

indicators (eg, World Bank's Doing Business Scores, Transparency International's Corruption Perceptions Index).

Weightings of Categories and Indicators

Real Estate Risk/Reward Index



Source: Fitch Solutions

The RRI matrix divides into two distinct categories:

Rewards: Evaluation of an Industry's size and growth potential (**Industry Rewards**), and also macro industry and/or country characteristics that directly impact the size of business opportunities in a specific sector (**Country Rewards**).

Risks: Evaluation of micro, industry-specific characteristics, crucial for an industry to develop to its potential (**Industry Risks**) and a quantifiable assessment of the country's political, economic and operational profile (**Country Risks)**.

Assessing our weightings

Our matrix is deliberately overweight on **Rewards** (60% of the final RRI score for a market) and within that, the **Industry Rewards** segment (50% of final **Rewards** score). This is to reflect the fact that when it comes to long term investment potential, industry size and growth potential carry the most weight in indicating opportunities, with other structural factors (demographic, labour statistics and infrastructure quality) weighing in, but to a slightly lesser extent. In addition, our focus and expertise in Emerging and Frontier Markets has dictated this bias towards industry size and growth to ensure we are able to identify opportunities in countries where regulatory frameworks are not as developed and industry sizes not as big as in developed markets, but where we know there is a strong desire to invest.

INDICATORS, RATIONALE AND SOURCES		
Indicator	**Source**	**Rationale**
	Industry Rewards	
Real Estate Industry Value	Fitch Solutions	Size of the real estate industry indicates potential for opportunities and scale of operations. USDbn, Five-Year Average Forecast.
Real Estate Industry Growth	Fitch Solutions	Growth of the real estate industry indicates potential for increased opportunities. Five-Year Average Forecast.
Client Loans	Fitch Solutions	Real estate projects are long term and capital intensive, with most finance obtained from commercial banks. Indicates funding availability.
Client Loans Growth	Fitch Solutions	Assesses the prospects of finance stability over a five-year period. A growth in client loans indicates a favourable lending environment.
	Country Rewards	
GDP Per Capita	Fitch Solutions	The wealth of the population indicates demand for real estate. Higher GDP per capita correlates with the expansion of the middle class, which is a key market for real estate. USD, Five-Year Average Forecast.
Investment Openness	Fitch Solutions Operational Risk Index	Measures how open a country is to investment inflows and the opportunities to realise investment benefits.
Financial Barriers	World Bank EDB Index	Measures difficulties faced by businesses in accessing financing on both domestic and international markets.
Urban Population, % of Total	United Nations Population Statistics	High and growing concentration of population in urban areas are more conducive to real estate development, as they have more mature markets. Five-Year Average Forecast.
	Industry Risks	
Time to Register Property	World Bank EDB Index	Measures the time, cost and number of procedures required to register a property. A useful indicator for any investors looking to purchase property
Construction Permits	World Bank EDB Index	Measures the time, cost and procedures necessary to build a property, which includes obtaining the required licenses and permits. Additionally, this evaluates the quality of building regulations in a country.
Non-performing loans % of total loans	Fitch Solutions	Measures the risk of non-performing loans on the banking system as well as real estate markets. High non-performing loan ratios affect lending policies by banks, leading to restrictive lending policies.
Rental Price Volatility	Fitch Solutions	Measures the volatility of rental prices over the short term. Volatile rental prices pose a risk to investors looking to acquire property with the aim of making a return on investment.
	Country Risks	
Long-Term Economic Risk Index	Fitch Solutions Country Risk Index	The Long-Term Economic Risk Index takes into account the structural characteristics of economic growth, the labour market, price stability, exchange rate stability and the sustainability of the balance of payments, as well as fiscal and external debt outlooks for the coming decade.
Short-Term Economic Risk Index	Fitch Solutions Country Risk Index	The Short-Term Economic Risk Index seeks to define current vulnerabilities and assess real GDP growth, inflation, unemployment, exchange rate fluctuation, balance of payments dynamics, as well as fiscal and external debt credentials over the coming two years.

Indicator	Source	Rationale
Long-Term Political Risk Index	Fitch Solutions Country Risk Index	The Long-Term Political Risk Index assesses a country's structural political characteristics based on our assumption that liberal, democratic states with no sectarian tensions and broad-based income equality exhibit the strongest characteristics in favour of political stability, over a multiyear timeframe.
Short-Term Political Risk Index	Fitch Solutions Country Risk Index	The Short-Term Political Risk Index assesses pertinent political risks to investment climate stability over a shorter time frame, up to 24 months forward.
Operational Risk Index	Fitch Solutions Operational Risk Index	The Operational Risk Index focuses on existing conditions relating to four main risk areas: Labour Market, Trade and Investment, Logistics and Crime and Security.

Source: Fitch Solutions

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