Cairo Real Estate Market Overview

Q1 2017

Cairo

Market Summary

Stabilization of EGP is a positive sign for the real estate industry.

The devaluation of the Egyptian Pound aimed to reduce the impact of unofficial currency channels and correctly account for currency inflows. Following a period of initial volatility, the currency has now stabilized at around EGP 18.2 : USD 1. This stabilization has attracted foreign investment flows on the back of greater economic optimism. Several contractual revisions have also occurred across the real estate sector that have alleviated the negative effects of increased activity costs on market participants.

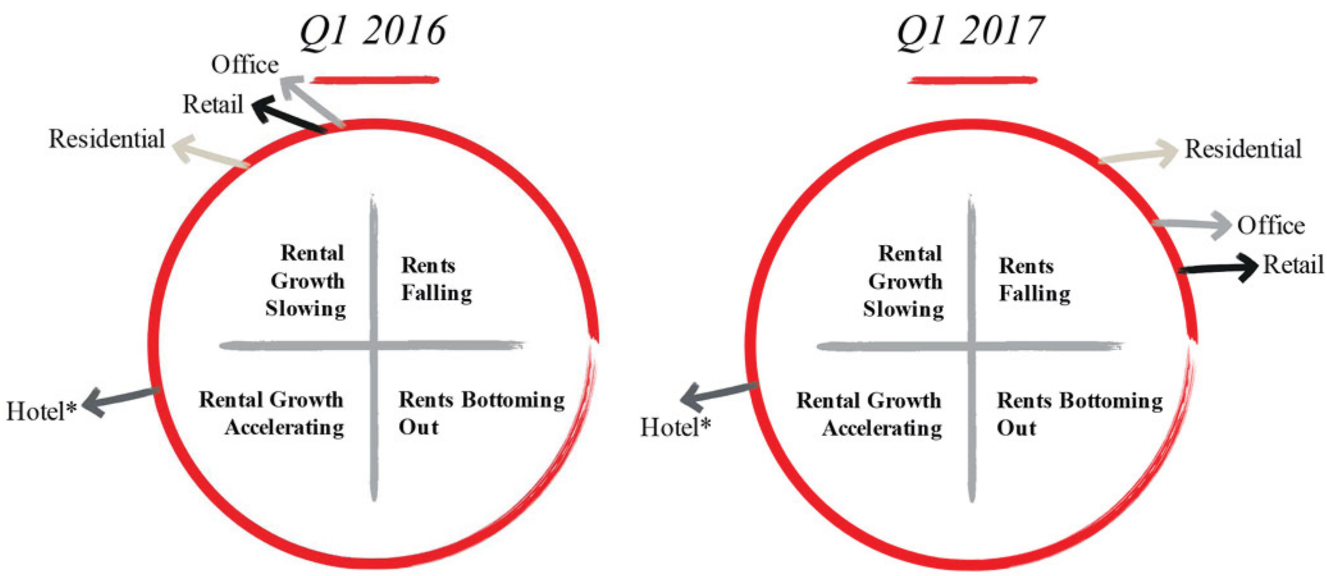
In the *Residential* market, developers are introducing more efficient payment plans, increasing densities and reducing unit sizes in response to the negative impact of higher construction costs as input prices increased drastically.

In the *Office* market, most contracts were quoted in USD and rentals therefore effectively doubled following the currency flotation. Operating costs for office occupiers have been further inflated by increased import prices and pressure to increase wages. Many occupiers have responded by seeking to optimize their performance through consolidation of their real estate holdings. Landlords are responding to the revised market conditions by capping USD rates, offering EGP leases or short term incentives to stimulate demand.

Retail contracts have also traditionally been quoted in USD. Retail tenants have faced numerous other obstacles such as import restrictions, increased prices of imported goods and reduced demand from consumers. To alleviate some of the pressures faced by tenants, some mall developers have agreed to cap the exchange rate whilst others have changed their quoting currency to EGP.

The *Hotel* and tourism industry has benefited greatly from the devaluation, as Egypt has become a more affordable destination for international tourists. With security issues addressed, travel bans removed and increased tourism promoting campaigns, demand is expected to pick up significantly.

Cairo Prime Rental Clock



* Hotel clock reflects the movement of RevPAR

Note: The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle. These positions are not necessarily representative of investment or development market prospects. It is important to recognise that markets move at different speeds depending on their maturity, size and economic conditions. Markets will not always move in a clockwise direction, they might move backwards or remain at the same point in their cycle for extended periods.

Source: JLL

Office

Hot Topic

Smart Village East at Al Bourouj. Capital Group Properties (CGP) announced a new 1,200 Feddan mixed-use community. The development constitutes residential, retail and smart office units.
The Public Private Partnership is planning this project in East Cairo to capture increased demand for office spaces in the area and expand its portfolio. The project is located next to the International Medical Center on the Cairo Suez road and is due for completion in 2021.

Supply

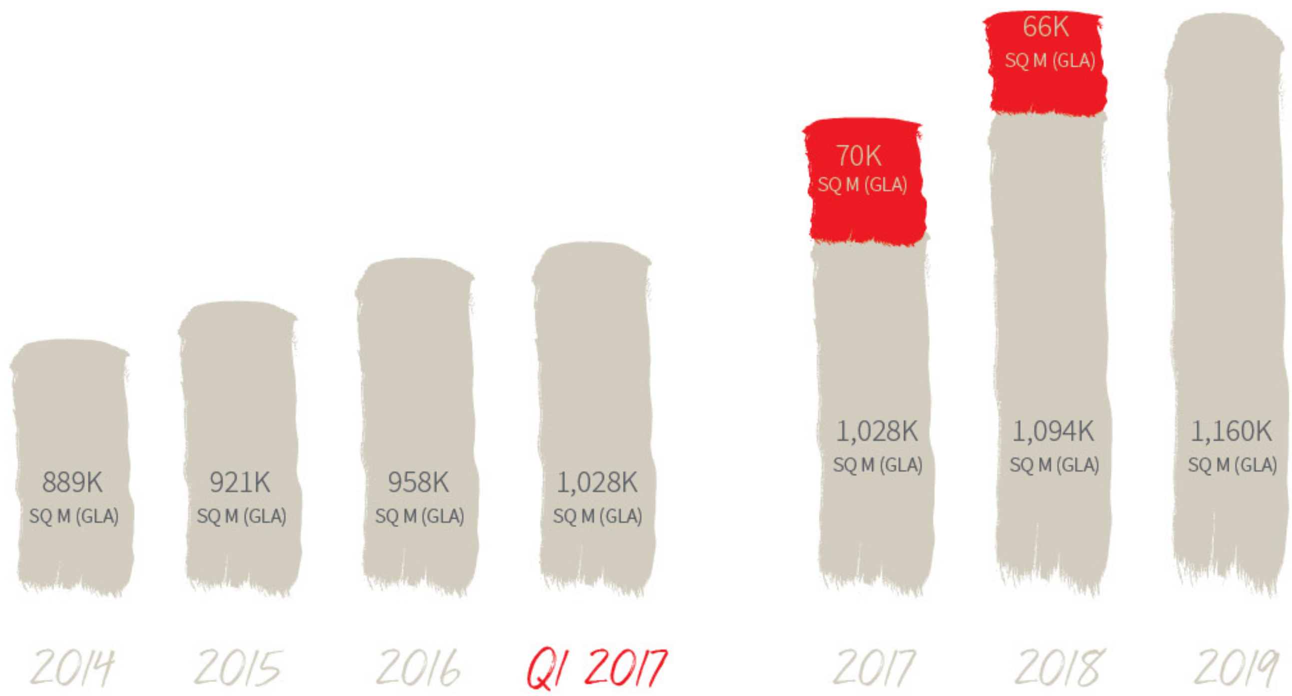
New Cairo continues to be the most active location for new office supply. Along with recently offered and under construction projects located on 90 Road, Cairo Festival City is expected to complete five new office buildings in Q3 2017 adding 60,000 sq m of grade A office space to the New Cairo supply.

In 6th of October city, the most recent development is the Majarrah Business Complex, which added 17,000 sq m to Cairo's office supply. Activity in 6th of October continued to be limited, with no completions in Q1 2017.

The current market supply stands at 1,028,000 sq m, with an additional 70,000 sq m expected during the remainder of 2017. Vacancy rates stand at 27% and are expected to increase as new supply is added to the market.

Current Supply (2014 – Q1 2017)

Future Supply (2017 – 2019)



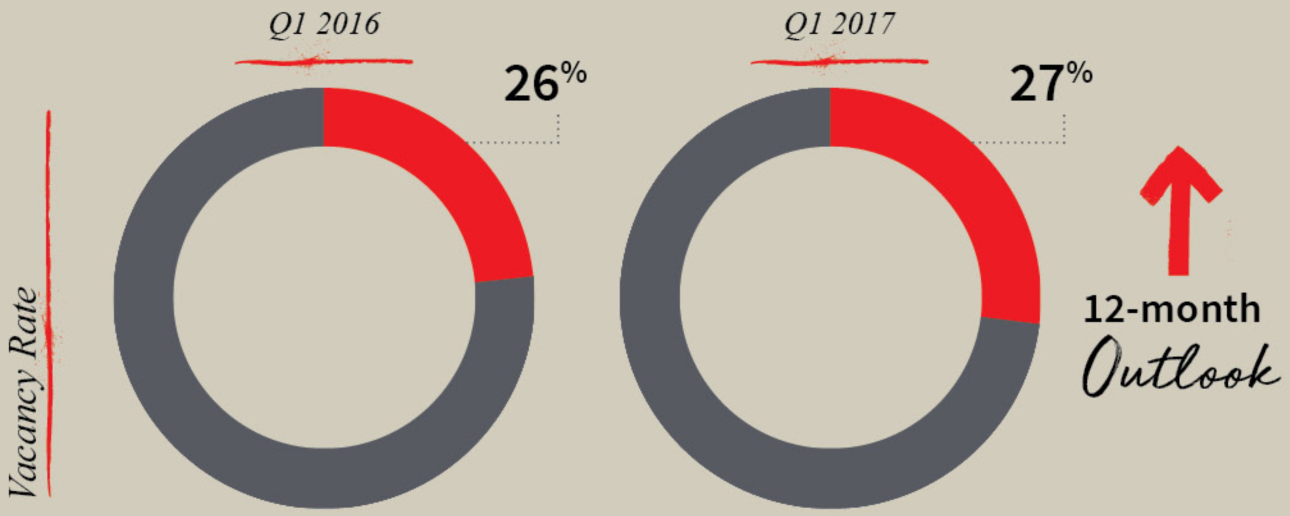
Office

Performance

The effective increase in rental prices following the floatation highly affected smaller companies some of who were forced to cancel relocation plans to grade A office space due to increased financial burdens.

The negotiating power has shifted in favour of tenants, many of who are seeking to renegotiate their lease terms prior to engaging in long term contracts. Landlords are responding to slower market conditions by offering contractual incentives channeled towards exchange rate capping.

Banks are the most active participants in the offices sector at present, while FMCGs are negotiating their lease terms in order to reduce their market exposure. Oil & gas occupiers are generally reducing their activities due to current market conditions but are expected to show increased demand in the medium term on the back of new field explorations. We expect businesses that rely on exports to pick up faster than businesses reliant on the local market.



Cairo rents / per sq m

	Central Cairo	West Cairo	New Cairo (S1)	New Cairo (S2)
Q1 2016	USD 420	USD 240	USD 300	USD 264
Q1 2017	USD 396	USD 240	USD 300	USD 264
Y-o-Y	-5.7%	0%	0%	0%

12-month *Outlook*

Residential

Hot Topic

Strong interest in first tenders from Cairo New Capital City. 200 companies have responded to these tenders including Sodic, Saudi Egyptian, Al Hokair and Talaat Mostafa, and 16 actual submissions have been provided. This significant interest reflects the strong demand to acquire land for new residential projects.

Online platforms are playing a major role in the property market, providing foreign investors and expats with a monitor of performance and a means of engaging in real estate market transactions. Online platforms and concepts are seen as a form of innovation in the real estate market, better connecting the designated parties and eliminating limitations of cooperation.

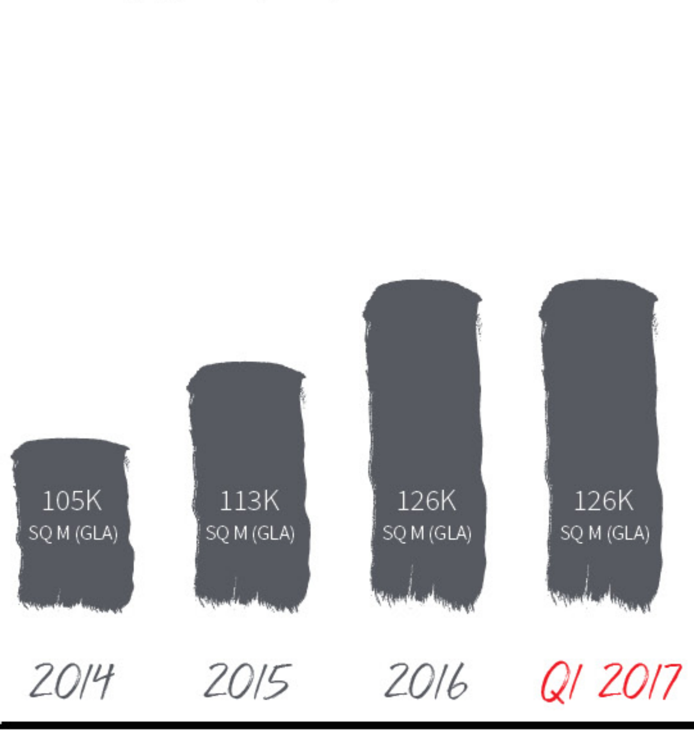
Supply

Q1 2017 saw the announcement of several new projects across 6th of October City and New Cairo. Following the increase in unit prices in EGP terms, many developers are now offering more lenient and attractive payment plans to alleviate the effect of the decrease in purchasing power.

In New Cairo, Sodic's East town and Villete, and Emaar's Mivida, continue to report significant deliveries soon approaching resale phase, while Sarai marks the most anticipated development by MNHD with completion set in 2019. Two new projects have been announced, 90 Avenue (Tabarak Holdings) and Palm Hills New Cairo, which are expected to be completed in 2018 and 2021 respectively.

While there were no recorded completions in Q1, construction continues on a number of projects in 6th October including Ashgar City, Palm Parks and October Park. Sodic announced its latest project in West Cairo (October Plaza), along with further completions in its gated communities.

Current Supply (2014–Q1 2017)



Future Supply (2017–2019)

Residential

Performance

Local demand for residential units continues to be strong through Q1 2017 and is expected to remain steady. However, developers are not able to pass on the whole of the increase in construction costs to the end consumer and margins have therefore reduced.

Residential rentals have remained stable across the market which is primarily targeted to expatriates with contract values expressed in foreign currency in most cases. A recent trend has been increased demand for rental properties from some locals waiting for their own units to be delivered. Even though the exchange rate is generally capped below the market rate, this has allowed landlords to curb the full effect of the currency flotation.

Apartments

New Cairo	Sales 4.2% Q-o-Q	Rents 0.34% Q-o-Q	Sales -45% Y-o-Y	Rents 11% Y-o-Y
6th October	Sales 9.8% Q-o-Q	Rents -0.42% Q-o-Q	Sales -39% Y-o-Y	Rents -13% Y-o-Y

Villas

New Cairo	Sales 0.6% Q-o-Q	Rents 0.34% Q-o-Q	Sales -38% Y-o-Y	Rents 11% Y-o-Y
6th October	Sales 17.8% Q-o-Q	Rents -0.42% Q-o-Q	Sales -35% Y-o-Y	Rents -13% Y-o-Y

** Arrows = 12-month outlook*

Retail

Hot Topic

Majid Al Futtaim continues to expand in Cairo. The opening of the Mall of Egypt and the upcoming Almaza City Center will be accompanied by a major expansion of the Carrefour network to more than 60 branches by end of 2019. Almaza City Center, a 103,000 sq m of regional mall located on Cairo-Suez Road and Nasr Road in Heliopolis is expected to be opened in Q1 2019.

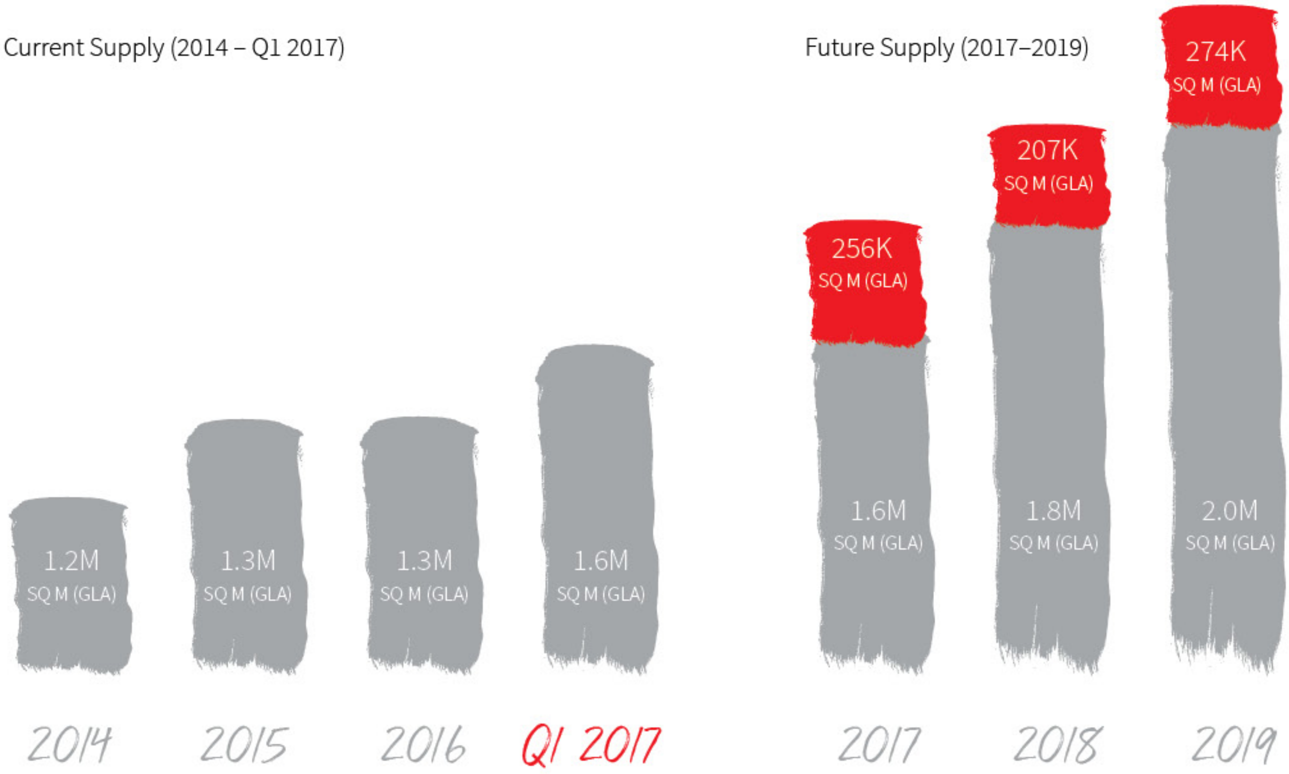
Expansion of Hypermarkets. Saudi Arabian Savola Group opened another Panda Retail hypermarket in Nasr City area in Q1, following its first branch opening in 6th of October in 2015. Similarly, Abdullah Al Othaim Markets continue to expand and now operates 18 branches across greater Cairo. Value retail brands represent the biggest opportunity in the retail market as the population grows more price sensitive due to rising inflation and decreased purchasing power.

Supply

Q1 2017 marked the long anticipated opening of Mall of Egypt in 6th October City, which includes "Ski Egypt" and the country's first VOX Cinemas Cineplex. This investment is estimated to have generated 41,000 direct and indirect jobs and provides a major new attraction to the West of the city.

New Cairo continues to be the fastest growing area for retail developments associated with residential expansions. Q1 2017 saw continued progress of Amer Group's Porto New Cairo which is set for delivery in Q3. Cairo Festival City and Point 90 remain the major attractions for international brands and F&B tenants.

Other retail projects continue to experience delays with the Madinaty Mega Mall pushing its opening back from Q1 2017 to 2018.



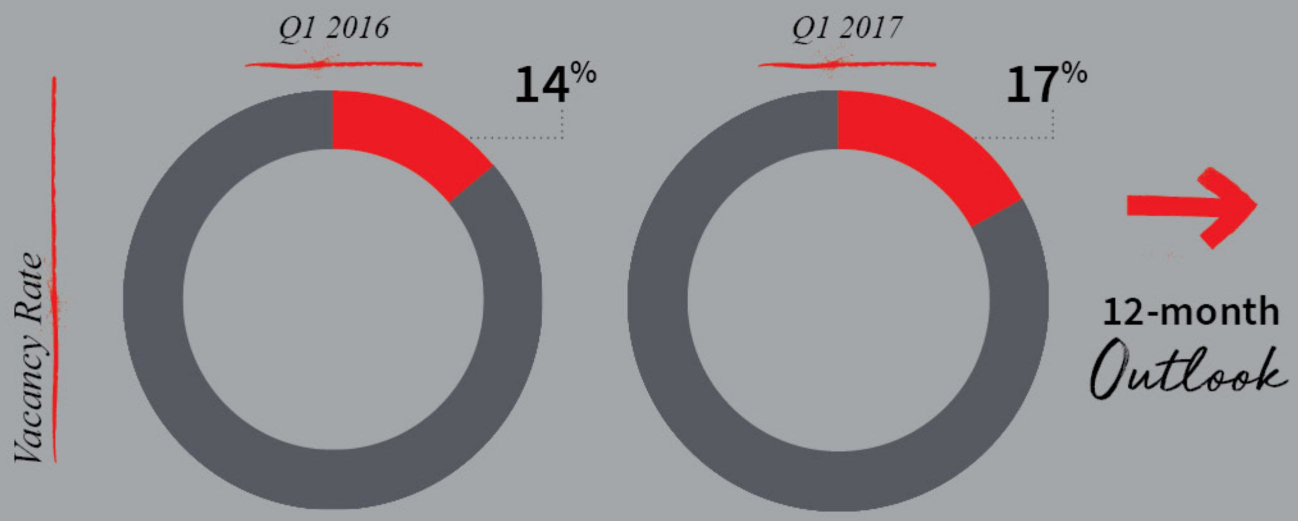
Retail

Performance

Given the economic pressures placed on the retail sector following the devaluation of the EGP, landlords have revised their contractual terms to assist tenants. After correction for prime units' rents and accounting for the applied capping mix, the average rental rate has dropped to USD 800 per sq m per annum.

We expect average rents to decline further over the next 6 months, before a possible recovery in 2018 providing sufficient foreign currency is available and the current economic reforms have resulted in more positive sentiment by this time.

Vacancies in the retail sector remained largely unchanged on a quarterly basis, however they increased marginally on a Y-o-Y basis (from 15% in Q1 2016 to 17% in Q1 2017), on the back of new completions.



Note: The sharp decline in rents (-50%) is primarily due to the devaluation of the EGP against the USD.

Hotel

Hot Topic

Central Bank of Egypt (CBE) proposes new initiative to 'rescue' 50% of hotels nationwide. This initiative aims to fund the refurbishment of establishments that have become worn out as their owners have been unable to renovate them in light of the current tourism downturn. According to the chairperson of the hotel facilities department, almost 50% of hotel facilities have closed down across the country, while others are operating at 50% capacity. CBE announced that as part of the initiative banks will provide EGP 5bn in loans with an interest rate of 10%.

Sphinx International Airport opening in Q1 2017 is expected to accommodate 1.7 million passengers per year. Airport proximity is a vital demand driver in the hotel sector, given the traffic congestion experienced in Cairo and the new airport is likely to stimulate demand for hotels in the 6th of October area of the city.

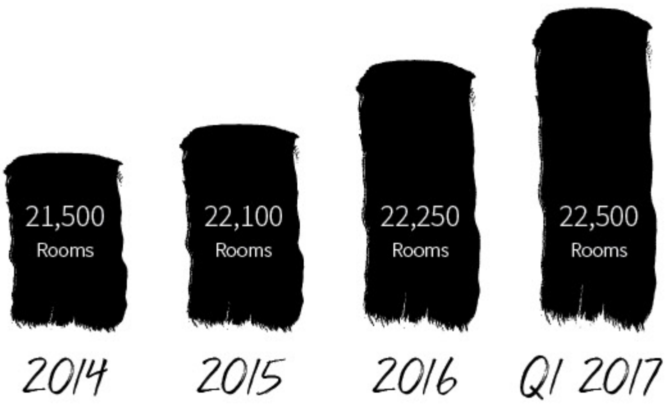
Supply

Q1 2017 saw the opening of the Westin Golf Resort in New Cairo, adding 138 rooms to the hotel supply. In Central Cairo, Sheraton Giza has been undergoing renovation works, while The St. Regis will be opening its doors in Q2 2017.

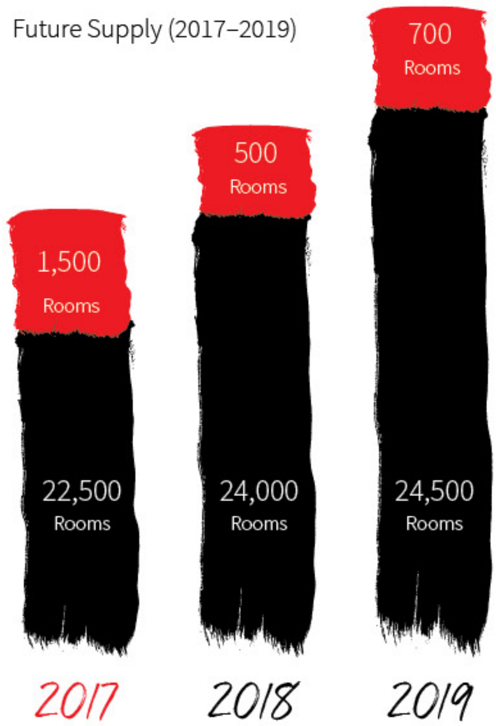
Supply in Cairo has witnessed few new openings since 2010. On the contrary, several properties, most of them locally managed and branded, closed down. As a result, Cairo supply currently stands around 22,500 rooms (excluding floating hotels). Additions to the market in the coming years are expected to be limited with around 2,700 rooms by 2020

In the short term, hotel owners are expected to renovate older buildings and create value from more efficient operations rather than investing in new buildings during this phase of the cycle. In the longer run, the sector is focused on expansions towards 'satellite cities'.

Current Supply (2014 – Q1 2017)



Future Supply (2017–2019)

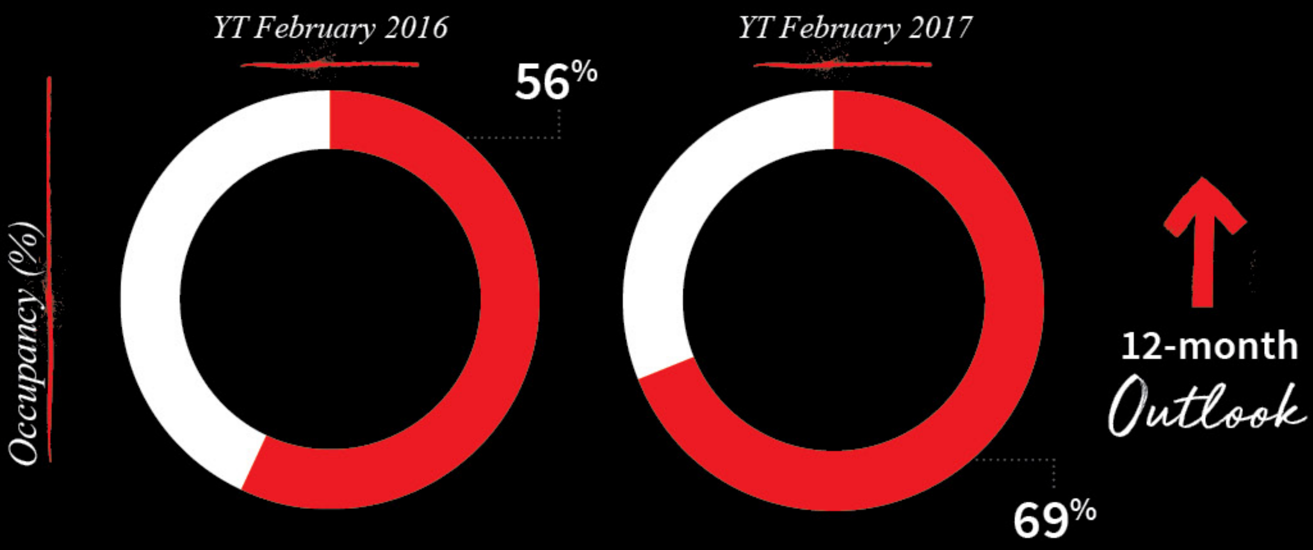


Hotel

Performance

Occupancy rates increased significantly Y-o-Y to reach 69% in year to January 2017, due to the pick-up in tourism activity on the back of the government's efforts to improve airport security as well as the development of inbound tourism from neighboring Arab countries.

Market wide ADRs have declined significantly over the past year to USD 89 following the devaluation, but are expected to gradually improve throughout 2017.

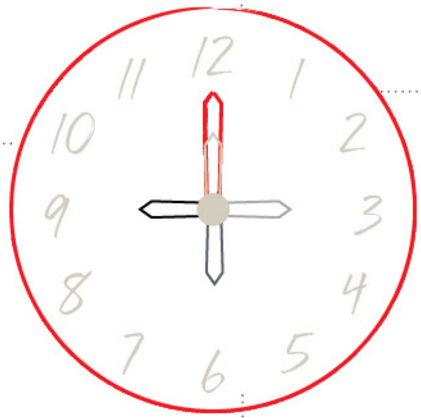


Definitions

Understanding JLL Property Clock

12 O'clock

Indicates a turning point towards a market consolidation / slowdown. At this position, the market has no further rental growth potential left in the current cycle, with the next move likely to be downwards.



9 O'clock

indicates the market has reached the rental growth peak, while rents may continue to increase over coming quarters the market is heading towards a period of rental stabilisation.

3 O'clock

indicates the market has reached its point of fastest decline. While rents may continue to decline for some time, the rate of decrease is expected to slow as the market moves towards a period of rental stabilisation.

6 O'clock

indicates a turning point towards rental growth. At this position, we believe the market has reached its lowest point and the next movement in rents is likely to be upwards.

Office

The supply data is based on our quarterly survey of the Grade A office space located in Downtown, New Cairo and West Cairo. The historic supply data has been revised since the Q4 report to reflect updated information. Completed building refers to a building that is handed over for immediate occupation. Prime Office Rent represents the top open-market rent (exclusive of service charge, tenant incentives & local taxes)that could be expected for a notional office unit of the highest quality and specification in the best location in a market, at the survey date. Vacancy rate is based on estimates from the JLL Agency team for a basket of leading office buildings. This basket represents around 86% of the current supply to quality office space in Cairo.

Residential

The supply data is based on our quarterly survey of 100 projects located in New Cairo and 6th of October, starting from 2011.
Completed building refers to a building that is handed over for immediate occupation.
Residential performance data is based on two separate baskets of projects, one for rentals and the other for sales of villas and apartments. The rental performance is based on 3 bedroom villas and 2 bedroom apartments. The data relates to primary sales of units in a 'shell and core' condition (directly from the developer) and excludes sales in the secondary market and those of units handed over in a fully fitted condition.

Retail

Classification of Retail Centres is based upon the ULI definition and based on their GLA:
- Super Regional Malls have a GLA of above 90,000 sq m
- Regional Malls have a GLA of 30,000 - 90,000 sq m
- Community Malls have a GLA of 10,000 - 30,000 sq m
- Neighborhood Malls have a GLA of 3,000 - 10,000 sq m
- Convenience Malls have a GLA of less than 3,000 sq m

Prime Rent represents the quoted rent for top end line stores within the top 5 super regional and regional malls in greater Cairo.
Vacancy rate is based on estimates from the JLL Retail team, and represents the average rate across standard in line unit shops at regional malls.

Hotel

Hotel room supply is based on existing supply figures provided by the Egyptian Hotel Association as well as future hotel development data tracked by JLL Hotels.
Room supply includes all graded hotel supply and excludes serviced apartments. JLL has revised its supply methodology to remove properties closed during the revolution, in addition to removing all the floating hotels which led to the decline in overall supply figures.
STR performance data is based on a sample of internationally branded midscale and upscale hotel properties.

Cairo
Office 141, 14th Floor,
Star Capital
2, Aly Rashed Street
Heliopolis
Cairo, Egypt
Tel: +20 2 2480 1946
Fax: +20 2 2480 1950

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

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

Dana Williamson
Head Of Tenant Representation
& Corporate Solutions
MENA
dana.williamson@eu.jll.com

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

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

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

Habiba Mostafa
Research Analyst
Egypt
habiba.mostafa@eu.jll.com