Egypt's valley of the property kings

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- Last Updated: October 12. 2009 5:00PM UAE / October 12. 2009 1:00PM GMT

Foreign developers are expanding into Egypt to take advantage of its rapidly growing local demand for property, closeness to the African and European markets, and reforms to simplify doing business there. But the market still has some growing up to do. Angela Giuffrida reports

Egypt used to be a market better known for its stifling business environment and high levels of corruption, says Youssef Hammad, the chief commercial officer of SODIC, one of the country's biggest property developers.

But with population growth at about 1.5 million a year, abundant land resources and increasingly relaxed business laws, the country is emerging as a shining light for property development in the MENA region.

Egypt has been relatively shielded from the global financial crisis, with property prices falling just 15 per cent from their peak, compared with declines of as much as 50 per cent in other locations.

Economic growth is also still positive, although slowing to an expected 4.5 per cent this year from an average 7 per cent in recent years.

The main demand for property is coming from the local population, says Mr Hammad, whose company is behind a number of new districts in the greater Cairo area. The population of about 80 million is creating demand for about 30,000 new homes a year.

“We haven't had to import demand like in places such as Dubai,” he says. “People want better houses, better offices, more shops. About 95 per cent of our customer base is Egyptian.

“Also, the Egyptian government has liberalised a lot of the laws and removed a lot of the red tape surrounding real estate, so it's a much more business-friendly place to be, compared to many years ago.”

The effects are being seen around major cities such as Cairo and Alexandria, where developers from the region have started projects to try to counter declining demand in their home markets.

Qatar's Barwa Real Estate said in August that it would develop a US$9 billion

(Dh33.05bn) project within the New Cairo City development through its Egyptian unit, Barwa New Cairo.

Construction on the project, to be built in phases over 12 years, is expected to begin next year. Similar to the “city within a city” model seen across the Gulf, the development will include 40,000 homes, office buildings, a shopping mall, three hotels, schools and a hospital.

Emaar Misr, a subsidiary of Dubai’s Emaar Properties, is also building 5,000 homes at New Cairo City and other projects in Uptown Cairo, Cairo Gate and Marassi, a development close to Alexandria.

On the retail side, Al-Futtaim Commercial and Administrative Centres, a subsidiary of Dubai’s Al-Futtaim Group, said last week it had secured a Dh1.34bn loan from a consortium of Egyptian banks to go towards building Festival City, which the company claims will be the largest shopping mall in Egypt.

The mall will be part of Cairo Festival City, a mixed-used community announced by the company in 2006, similar to its sprawling Dubai Festival City development.

Other UAE firms that have expanded in Egypt include Damac Properties, a developer based in Dubai that has six projects planned.

“The first wave of UAE developers went there in 2003 and 2004, and then again in 2006 and 2007,” says Dr Khaled Sedky, who is now the chief portfolio officer of Palm Hills Developments, an Egyptian firm, after leaving Sama Dubai this year.

“There was and still is demand for a class-A product, and most of the infrastructure is already there; not only in terms of utilities but you also have the business and social infrastructure.”

Solidere, Lebanon’s largest property developer, is developing two projects in Cairo in partnership with SODIC.

Mounib Hammoud, the executive director of Solidere International, says the financial crisis has not dampened the company’s plans in the country.

“At one time, when the crisis came, we thought ‘what are we going to do with Egypt?’” Dr Sedky says. “But a few months later, we discovered it had nothing to do with the crisis … the market is there and demand is organic.

“The country is opening up beautifully, and the government is doing a wonderful job to promote tourism and investment. Egypt is a market that will stay shining.”

Some companies that have set up in more challenging markets across the continent are also starting to shift operations to Egypt to tap into local demand, and are benefiting from its proximity to markets in Africa and Europe, according to Nicholas Maclean, the managing director of the property consultant CB Richard Ellis’s (CBRE) regional office.

But Mr Maclean says Egypt also holds frustrations for developers, such as finding companies capable of providing building maintenance and repair work, as well as specialised property staff.

“It can be a very difficult place to do business at the moment,” he says.

Despite the reforms to simplify business, Dr Sedky says more should be done to accommodate foreign investment and public-private partnerships.

“Banking is up to speed and the country is not in lack of liquidity, creativity, land, expertise and demand,” he says. “However, legislation is something that needs to be worked out to allow greater feasibility for real estate developers and investors, and specifically for foreign direct investment and private-public partnerships.”

Developers would also like to see an overhaul of the country’s mortgage system to encourage greater participation in the housing market by the country’s vast youth population.

Mahmoud Mohieldin, the investment minister, said in August that Egypt intended to amend its mortgage finance regulations to make home loans more readily available to young people.

Under the current law, mortgage lending should not exceed 25 per cent of a borrower’s salary. The government is considering raising that level to between 30 and 33 per cent.

“The mortgage law is important for us,” adds Mr Hammad. “Mortgage penetration in Egypt is only about 2 per cent of GDP. If more people could get mortgages that could unlock a huge market for us.”