

Ongoing privatisation program set to accelerate the overall growth of Cairo's real estate market in the long run

- *Cairo's existing hotel stock remained stable in Q1, set to grow with surge in tourist arrivals*
- *Residential market sees an average of 25% increase in sale prices across both 6th October and New Cairo*
- *More flexible office operators set to expand in Cairo*
- *Retail rents of primary malls remained stable while secondary malls witnessed an average growth rate of 4%*

Cairo, Egypt; April 18, 2023 – A rebooted privatisation program aimed at injecting much-needed foreign direct investments (FDIs) into the Egyptian economy is likely to spur construction activities and accelerate the recovery of Cairo's real estate sector in the coming years, according to JLL's Cairo Real Estate Market Overview Report for Q1 2023.

With the ongoing divestment of state-owned assets, the government aims to double the private sector's role in the economy to 65% and attract USD 40 billion in private investment by 2026. The move to catalyse additional funding from regional and international investors to mitigate the ongoing macroeconomic challenges and stabilise foreign exchange rates will pave the way for increased levels of occupier and investment activity in diverse real estate segments including residential, retail, hospitality, and commercial office spaces in the years ahead.

"The anticipated FDI inflow is fuelling optimism and is expected to relieve pressure on real estate activities across the country, particularly in Cairo," said **Ayman Sami, Country Head, Egypt at JLL**. "The government's proactive measures in the form of state support and extension of construction deadlines are aimed to ease the current challenges in the real estate sector, enabling stakeholders to navigate the economic headwinds."

Positive outlook for the hospitality sector

Healthy tourist inflows, increased capital expenditure on infrastructure projects and tourism attractions, as well as the growing presence of global hospitality brands signal a positive outlook for the hospitality sector in Cairo. In Q1 2023, Cairo's existing hotel stock remained stable at 28,000 keys and the city is expected to see the completion of around 900 keys during the year.

Hilton plans to nearly double its project portfolio in Egypt over the next three to five years demonstrating how major operators view the country's hospitality sector as an investment opportunity. This year, the hospitality giant will open two hotels, including the first "Waldorf Astoria" luxury brand in Cairo - Heliopolis.

The weakening of the Egyptian pound has appealed to tourists and the country is expected to welcome 15 million visitors this year, a 28% increase from 2022. In addition, the government's concerted efforts to support tourism with enhanced connectivity and infrastructure, as well as the announcement of a 5-year visa for 180 nationalities, saw a 34% increase in tourist arrivals in the first two months of 2023 alone. Cairo's occupancy levels were

registered at 74% in the YT February 2023 compared to 62% during the same period last year. While average daily rates (ADR's) and revenue per available room (RevPAR's) jumped by 19% and 40% respectively recording USD 135 and USD 100 over the same period.

Continued growth in the residential rental market

Around 4,000 residential units were delivered in Q1 2023, bringing the total existing stock to about 249,000 units. The remainder of the year will see the completion of over 29,000 units. However, delays in project completions are expected due to hikes in construction costs, which, in turn, would hinder developers' timelines. Moreover, some developers have decided to halt their announced developments, while new project launches remained roughly muted in Q1.

The rental market witnessed strong growth, with rents increasing annually at a faster pace (than in previous quarters) of 11% in 6th October and 8% in New Cairo.

Responsive measures by the government to buoy the housing market and the fundamentally strong local demand is likely to escalate the sector in the coming years. In a bold move, Emaar Misr has become the first developer in Cairo to start selling units of one of its projects at the current price of the USD exchange rate with a cap on exchange to hedge against the rising construction costs and safeguard the continuity of its projects.

Surge in demand for flexible offices

The total office stock in Cairo currently stands at around 1.9 million sq. m. following the delivery of almost 21,000 sq. m. of office gross leasable area (GLA) in the first quarter of 2023. JLL estimates that another 310,000 sq. m. of office floorspace will be completed by year-end.

In the last quarter, average city-wide rents were reduced by 1% on annual basis and recorded at USD 358 per sq. m. per annum. However, in reality, rents were high when converted to the local currency on the back of the continued depreciation of the Egyptian pound.

Activity from multinationals and new market entrants remained weak in Q1, with call centers continuing to drive the majority of demand for smaller grade B office units. Consequently, the market-wide vacancy rate jumped to 13% in the first quarter of 2023. The current inflated rents and volatile currency situation also saw more tenants resort to signing short-term flexible leases of fitted office units, encouraging more flexible office operators to expand in the capital.

Retail to rebound in the long-term

The force of Egypt's sizable and growing population as well as its culture that embraces shopping and outings is expected to accelerate the retail sector in the long run. In Cairo, Q1 2023 saw the completion of almost 19,000 sq. m. of retail space bringing the total inventory to about 2.9 million sq. m. The period was also marked by the suspension or postponement of completion dates of several projects on the back of rising construction costs and the challenges in leasing, stemming from the market's high concentration of malls within a small catchment.

Demand and footfall in regional and super-regional malls remained low last quarter, whereas strip retail and community centers performed slightly better thanks to their relative accessibility and the strong performance of the F&B segment. Average rental rates of primary malls in the first quarter of 2023 remained stable on a yearly basis while the secondary retail malls

witnessed an average growth rate of 4%. Over the same period, the average vacancy rate reduced slightly to 9% from 11% in Q1 2022.

To generate short-term revenues and maintain control over their tenant mix, some landlords have opted to sell less than 50% ownership of retail units to potential investors. By the end of 2023, the sector will see the completion of about 195,000 sq. m. of retail GLA.

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