



The **Cairo** Real Estate Market overview

Research | **A Year in Review 2023**

Hello

Egypt is currently undergoing various economic challenges that have impacted its growth. According to the latest data from Oxford Economics (OE), the estimated GDP growth rate for 2023 stands at 2.1%. OE predicts a temporary slowdown in GDP over the next two years due to factors such as increased inflation, higher interest rates, foreign exchange (FX) shortages, and import constraints.

As a result, this economic situation has dampened business sentiment, and is anticipated to persist into 2024, as reflected by the Purchasing Managers' Index (PMI) remaining in contraction and below the 50-point mark.

However, despite the impact on the real estate sector, certain industries displayed resilience. The hospitality market, for instance, showed impressive performance with increased tourist arrivals and numerous project launches across Cairo and other Egyptian cities.

Additionally, the residential sector displayed robustness, attracting investors looking for opportunities to safeguard against inflation and currency devaluation. The office sector also demonstrated resilience, witnessing steady demand from businesses seeking quality office spaces.

Although the retail market faced significant challenges, it is worth noting the growth of local fashion and F&B brands, which brought a positive dynamic to the sector.

Despite the existing challenges, the real estate industry in Egypt showed remarkable resilience. By recognising the obstacles and leveraging the sectors' strengths, Egypt's real estate industry continues to adapt and find opportunities for growth.



Office



Around 136,000 sq. m. of office gross leasable area (GLA) was delivered throughout 2023 in Cairo. This brought the total office stock to about 2 million sq. m. Moreover, nearly 570,000 sq. m. of office floor space is expected to enter the market in 2024, with the majority of scheduled completions being concentrated within the New Administrative Capital (NAC) as it gets ready to deliver projects in its Central Business District (CBD), closely followed by New Cairo and the west.

In terms of performance, average city-wide office rents decreased by 3% in Q4 2023 compared to the same period last year, recording them at USD 362 per sq. m. per annum. On the same basis, the average vacancy rate increased to 10% from 8% in Q4 2023.

While transactional activity remained rather slow in 2023, the market witnessed a modest resurgence in the second half of the year with increased inquiries and heightened occupier interest, especially for smaller office spaces. Moreover, office units have been sought-after for purchase by several international companies in Egypt, which have an excess of cash flow. In addition to this, relocating to higher quality offices and implementing comprehensive fit-outs were also desired, primarily within the New Cairo area.

Since the onset of the covid-19 pandemic, hybrid working has become the new norm for multinational corporations worldwide, and Egypt is no exception. In fact, co-working spaces are projected to grow within the country over the next few years as demand continues to gear up. However, the success of these spaces will be determined by their location and quality, as occupiers increasingly prioritise accessibility and employee wellbeing.

Recognising the immense potential in Cairo, global workspace provider IWG announced a major expansion plan for its flexible offices earlier in 2023, unveiling the launch of four new Regus centers. Additionally, other major local players are also expanding their footprint in Cairo, and interestingly, they have experienced increasing demand from international corporates.

Lastly, in response to the amended investment law decree in 2017, there has been a recent upsurge in interest among private developers to dedicate and offer specific buildings within their upcoming office projects as freezones for the offshore market to increase foreign investments. This initiative is anticipated to drive higher foreign demand in the long-term, in line with the growth of the outsourcing market in Egypt.

Residential



The residential sector in Cairo saw the completion of around 23,000 units in 2023, increasing the total stock to almost 268,000 units. Moreover, around 33,000 units are scheduled for completion in 2024, the majority of which are apartment units within mixed-use developments.

Despite the headwinds faced by the residential sector throughout 2023, the market exhibited remarkable resilience and strength. This can be primarily attributed to the substantial demand observed for residential units, in spite of the significant increase in sale prices due to high inflation and construction costs. Consequently, developers have been able to achieve a more balanced cash flow position.

Furthermore, certain landlords have opted to revise their payment plans back to just 5-8 years from almost reaching 15 years previously. This strategic adjustment is expected to bolster their recovery in the coming period, particularly as they explore cost-saving measures such as buying construction materials in bulk and offering advanced payments to contractors.

In line with the primary market trends, property owners in the secondary market persistently escalated their annual selling prices and rental rates, particularly during the fourth quarter of 2023, where the rate of increase surged significantly when compared to previous quarters. On a yearly basis, average sale prices in Q4 2023 increased by 56% and 63% in the 6th of October and New Cairo, respectively. Over the same period, rental rates increased by 25% in 6th of October and by 30% in New Cairo. Notably, the average growth rate in apartment rents and sale prices slightly outpaced that of villas in both areas as they continued to capture higher demand.

Moreover, in anticipation of potential currency devaluations in the country and subsequent cost inflation, contractors further hiked their construction costs. Consequently, developers were compelled to meticulously prepare and adjust their off-plan sale prices to recoup losses and uphold healthy profit margins moving forward. As a result, sale prices in Cairo are expected to continue their upward trajectory in the short to medium term.

Retail



Limited project launches and completions took place in 2023, where just about 83,000 sq. m. of GLA was added to Cairo's retail market, bringing the total retail stock to about 2.98 million sq. m. In 2024, over 447,000 sq. m. of retail space is scheduled for completion. The majority of these upcoming completions are expected to be located in New Cairo, primarily consisting of community malls, followed by mall expansions. However, given the sector's current market conditions, we expect further delays in project completions.

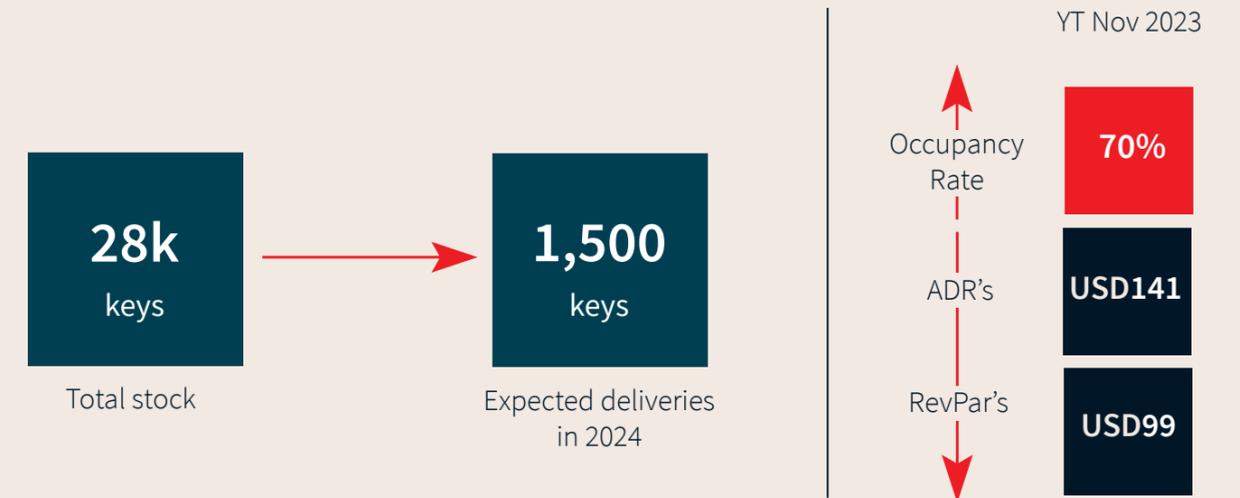
In terms of performance, average rental rates across primary and secondary malls remained stable on a quarterly basis in Q4 and increased annually by 11% and 9% for both segments, respectively. Meanwhile, the average vacancy rate dropped slightly from 10% in Q4 2022 to 9% in Q4 2023.

The retail market in Cairo was significantly impacted by various economic factors throughout 2023. Moreover, the anticipation of further deterioration of the local currency, rising inflationary pressures, and the tightening of consumer purchasing power are expected to continue exerting pressure on retail spending in 2024.

In response to these challenges, landlords have shifted their strategies to focus primarily on introducing new concepts that generate immediate profit rather than prioritising long-term growth. This approach aims to alleviate and offset some of the financial losses incurred over the past couple of years. Consequently, it has become increasingly common for landlords to offer shares of retail shops for sale, despite the potential long-term risks associated with this decision.

However, amidst these headwinds, opportunities have emerged. One notable example is the impressive performance of home-grown fashion brands in Egypt, which have managed to attract consumer interest and achieve increased sales. These brands have succeeded due to their affordability, high quality, and unique styles that resonate with Egyptian culture. As a result, many of these brands have expanded their e-commerce channels into mall-based retailing. It is expected that their positive performance will continue throughout 2024 and beyond.

Hospitality



Source: STR Global

Around 250 keys were added to Cairo's hotel stock in 2023, with the addition of Hilton's Waldorf Astoria Heliopolis hotel in Q4. This brought the total hotel inventory to around 28,000 keys. Looking ahead, over 1,500 keys are anticipated to be delivered throughout 2024, predominantly of 4 and 5-star hotels.

According to STR, the capital's city-wide occupancy registered 70% for Yr November 2023, reflecting an annual increase of around 100 basis points (bp). However, over the same period, there was a decrease of around 7% in average daily rates (ADR's) and a 6% reduction in revenue per available room (RevPAR's), resulting in figures of USD 141 and USD 99, respectively.

Nevertheless, the hotel sector in Cairo has largely maintained a positive momentum over the past year, mainly reflected by the impressive number of tourist arrivals. Indeed, according to the Ministry of Tourism (MOT), Egypt registered around 13.9 million tourist arrivals between January and October 2023, increasing by around 36% compared to the same period last year.

This growth rate is approximately 8 times higher than the global tourism rate, which was recorded at 4.5% by the World Tourism Organization. Moreover, the MOT highlighted that October 2023 witnessed the second highest number of tourist arrivals in Egypt since October 2010 as it welcomed around 1.3 million tourists (up by 8% compared to October 2022).

All of these indicators reaffirm the strong position of the hospitality market in Egypt, highlighting its potential for growth in the years ahead. Capitalising on this growth potential from a supply point of view, there has been significant interest from global hotel operators to expand their footprint in Cairo, as evidenced by multiple new projects announced in 2023. Notably, it was observed that operator interest was predominantly focused on the western area of the city rather than the east. An example of this is the recent partnership between Marriott International and Palm Hills Development to build and deliver the luxurious Ritz-Carlton West Cairo hotel by 2027.

Definitions and methodology

Future Supply

JLL estimates of future supply is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers). The future supply is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started. We remain cautious of the ability of some projects to meet their stated completion deadlines, with significant delays in project delivery leading to a low materialization rate.



Office Supply

The current supply of completed office GLA is based on a comprehensive list of office buildings within certain areas in Cairo that have been handed over for immediate occupation. This includes standalone office buildings and office space within mixed-use buildings. Our project list excludes owner-occupied and government office buildings.

The certain areas within Cairo we cover include Downtown Cairo, New Cairo, West Cairo and the New Administrative Capital (partial coverage).

The future supply of office GLA is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of office GLA is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance

The weighted average rent (WAR) is based on estimates from the JLL Offices and Business Space team. It reflects the WAR across a basket of Grade A buildings. The new figures are reflective of the updated basket as of Q1 2023.

Grade A buildings are defined as high quality office spaces, well located, with good access to infrastructure (metro) and amenities including F&B and retail.

The WAR of Grade A buildings represents the top open-market, net rent (exclusive of service charge and incentives) for a new lease that could be expected for a notional office unit.

Vacancy rate is based on estimates from the JLL Offices and Business Space team. It reflects the average rate across a basket of buildings. This basket represents approximately 41% of the current supply of office space in Cairo.



Residential Supply

The current supply of completed residential projects is based on residential units in East Cairo (and its extension), West Cairo, Mostakbal City and New Administrative Capital (NAC) that have been handed over for immediate occupation.

Our definition of residential units includes apartments, villas, and townhouses.

The future supply of residential units is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of residential units is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance

Data on residential performance in Cairo is based on the asking prices and rents of a basket of selected residential units within selected areas in 6th October and New Cairo.



Retail Supply

The classification of retail centers is based on the **Urban Land Institute (ULI)** definition and based on their **Gross Leasable Area (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

The current supply of completed retail GLA is based on a comprehensive list of mall-based retail in Cairo that have been handed over for immediate occupation. Our project list excludes street retail and retail within mixed-use buildings. The new figures are reflective of the updated basket as of Q1 2023.

The future supply of retail GLA is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of retail GLA is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance

Weighted average rents (WAR) are based on asking rents obtained by the JLL Retail team. It reflects the rents across a basket of super regional and regional centers.

WAR represents the top open market net rent expected for a standard in line unit shop of 100 sq. m. in a basket of centers. Given the variation in rentals, we quote percentage change for retail rents rather than actual figures.

Vacancy rate is based on estimates from the JLL Retail team. It reflects the average rate across regional centres in Greater Cairo.



Hotels Supply

The current supply reflects hotel rooms and serviced apartments that have been handed over for immediate occupation.

The future supply of hotel rooms is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers).

The future supply of hotel rooms is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started.

Performance

STR performance data is based on a monthly survey conducted by STR Global on a sample of international standard midscale and upscale hotels. Average Daily Rates (ADR) and Revenue Per Available Room (Rev Par) are the key performance metrics.

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