



The **Cairo** Real Estate Market overview

Research | **A Year in Review 2022**

Office



Around 193,000 sq. m. of office gross leasable area (GLA) was delivered last year, bringing Cairo’s total office stock to around 1.9 million sq. m. Over 400,000 sq. m. of floorspace is scheduled to be completed in 2023, with a proportion of this comprising new buildings planned to be delivered in the New Administrative Capital’s central business district. That said, we remain cautious on the timely delivery of a portion of this pipeline.

Activity in the fourth quarter picked up, partially as tenants wanted to capitalise on current prices before the next anticipated depreciation in the Egyptian currency. We have noted higher demand for Grade A office space, primarily from tenants re-locating from older buildings in Cairo to newer ones. However, across the capital as a whole, there remains a clear mismatch between demand and supply of good quality office space. This gave landlords of prime office buildings the upper hand during negotiations while many of them continued to quote rents in USD to minimise currency risk. We have also noted that some developers are focusing on selling small office spaces (up to 1,000 sq. m.) rather than leasing it as means to

generate short-term revenue and maintain liquidity. This could potentially pose a challenge for tenants seeking large quantum of space in future.

In Q4, average asking office rents in Cairo reached USD 347 per sq. m. per annum – flat when compared Q3 but up 5% year-on-year. It is worth highlighting, however, that rents were notably fluctuating among the different developments and landlords due to the turbulent situation and therefore transacted rents may have differed. Over the same period, office vacancy rate dropped to 8% (compared to 10% in Q4 2021).

Economic uncertainties led to business sentiment falling to a record low in Q4, pointing to a challenging office occupier market in Cairo. However, demand for Business Process Outsourcing is likely to continue growing strongly. This is predicated on the country’s workforce being able to accommodate activity across varying time zones – thus allowing companies to maintain business continuity. Moreover, the drop in the value of the Egyptian pound means lower cost of labour for international firms looking to outsource work.

Residential



Cairo saw the delivery of around 18,000 residential units in 2022, which brought its total stock to about 246,000 units. In 2023, close to 35,000 units are scheduled for completion in the capital, the majority of which are apartments due to healthy demand for these types of units.

In light of two devaluations of the Egyptian pound against the US dollar last year, and forecasters anticipating a continued depreciation of the local currency in the short-term, many property developers have put sales activities and new project launches on hold. We have also noted that projects which were previously launched but have not seen construction onsite have also been paused. This is in order to allow developers to appropriately plan both budgets and pricing strategies to at least reduce the risk of these being negated by further economic turbulence.

The current macroeconomic situation in Egypt has contributed to a shift in mindset among potential buyers. Indeed, affordability constraints have led many to instead opt for

renting rather than purchasing a property. This was reflected in rents growing annually in 6th October by 9% and by around 3% in New Cairo. In the short term, we expect the growth in rents to pick-up pace as demand continues to build momentum. In-line with this newly forming trend in the market, there has been an emergence of start-ups in Egypt to facilitate new “reverse rental marketplace” solutions. These match landlords with potential tenants, the latter of which list all their property requirements in an effort to efficiently connect with the former party.

Muted sales activity in the primary market led to the re-sale market continuing to witness a surge in prices in Q4 2022. In annual terms, prices were up 16% and 17% in 6th October and New Cairo, respectively. Despite the sharp increase in prices however, we have noted that motivated sellers were open to negotiation. This is partly due to the low yield being achieved for residential properties, which makes it a less attractive investment option.

Retail



Last year saw the completion of approximately 93,000 sq. m. of retail space in Cairo, bringing the total stock to around 2.9 million sq. m. In 2023, almost 380,000 sq. m. of retail GLA is expected to be delivered due to some projects being pushed from 2022.

There is currently a clear imbalance in Cairo's retail sector, with demand subdued and excess supply in the market. With the exception of the F&B segment, most tenants put their expansion plans on hold at the beginning of 2022. Meanwhile, mall owners commenced new projects and continued to move forward with existing ones. Also, the recent devaluations and inflationary environment have led many landlords in Cairo to start selling retail units to generate cashflow and fund ongoing schemes. This change in tactic is expected to have various implications for landlords over the longer term, including less control over the tenant mix in their malls.

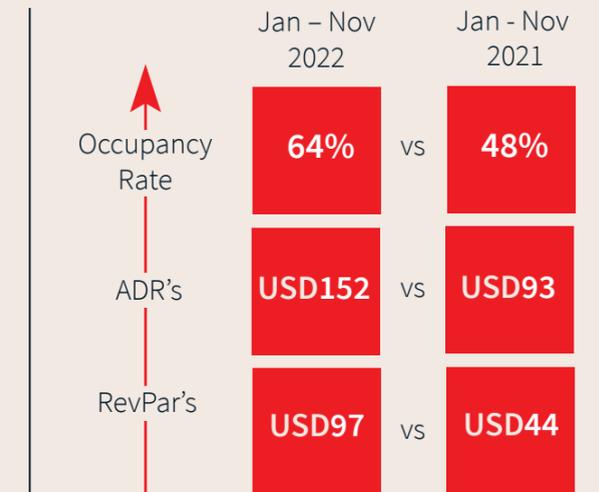
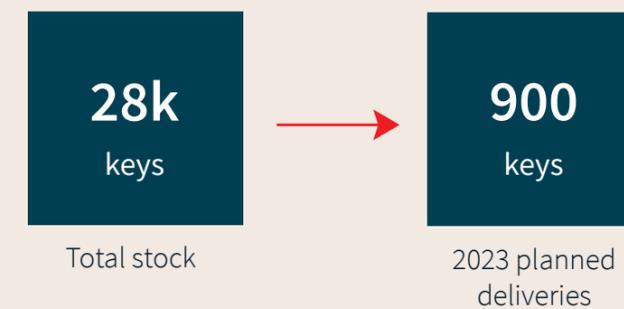
In terms of performance, the vacancy rate in Q4 slightly reduced to 10% from 11% in the third quarter.

Similarly, average retail rents across both primary and secondary malls remained stable on a quarterly basis and increased marginally (by 1%) annually.

Annual headline inflation in Egypt reached almost 19% in November 2022. The F&B and clothing segments experienced some of the largest price hikes, increasing by almost 30% and 15%, respectively. Simultaneously, real wages continued to drop notably, thus significantly impacting affordability by slashing buying power and limiting consumer purchases for many in the country to essential goods only.

In the short-term, landlords are likely to primarily focus on maintaining occupancy levels within their properties. Also, we expect that retailers will be inclined towards those malls where landlords provide the most capital expenditure contributions and other incentives, especially in an environment where there is an abundance of retail developments and strong levels of competition.

Hospitality



Source: STR Global

Around 200 keys were completed in Cairo last year, bringing the capital's total hotel stock to approximately 28,000 keys. An additional 900 hotel keys are scheduled for completion in 2023.

Despite the challenging economic environment, hotels in the capital continued to rebound in Q4. This has been supported by spending from inbound tourists holding foreign currencies, which in turn has helped sustain activity levels in the sector.

COP 27 – the largest global climate summit – took place in Sharm El Sheikh in November and welcomed visitors from across the world, who took the opportunity to explore other cities, including Cairo. In addition, Egypt's Ministry of Tourism and Antiquities launched an international promotional campaign to entice fans attending the FIFA World Cup 2022 in Qatar by offering half-price entry into Egyptian museums and archaeological sites during the tournament. The Egyptian Cabinet also announced cooperation with airlines to provide flights from Qatar to Egypt, and hotels provided discounts, for visitors.

Cairo's occupancy rate continued to recover in Q4 as the readings between January and November 2022 reflected an increase to 64% from 48% in the corresponding part of last year. Over the same period, average daily rates (ADR) also jumped by 66% to USD 152. This further moved revenue per available room (RevPar) up by almost 122%, reaching USD 97.

The hotel sector in Cairo has seen the delivery of limited supply over the past decade or so, with relatively few international brands having established a presence in the country. This represents an opportunity for international luxury brands to enter the market. Fortunately, operator interest is there and is expected to materialise into openings in the coming years.

Finally, Egypt's Minister of Tourism and Antiquities recently announced that, in order to achieve the target of attracting 30 million tourists annually by 2028, it needs to invest an amount worth USD 30 billion, with the focus going to three areas: increasing the number of airline seats to Egypt by three-fold, improving the tourism experience and enhancing the investment climate in the tourism sector.

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 New Administrative Capital (CBD area).

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.

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 40% 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.



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 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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