

Research

MENA | 2024 | Q1

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The **Cairo** Real Estate Market overview

Office



Around 9,500 sq. m. of office space was delivered in Q1 2024 with the completion of Trivium Zayed in West Cairo, bringing the total office stock to over 2 million sq. m. Almost 555,000 sq. m. of office space is expected to be delivered during the remaining 9 months of the year. However, we expect delays in the handover of some projects due to slow construction progress or leasing difficulties.

As anticipated, the Egyptian currency underwent its fourth round of significant flotation against the USD on March 6th, reaching a peak of over EGP 50 per USD from around EGP 31 previously. The Central Bank of Egypt's (CBE) decision to liberalise the exchange rate aims to curb inflation and attract foreign currency into the country. It further came with a new International Monetary Fund (IMF) agreement to increase its loan from USD 3 billion to USD 8 billion in efforts to alleviate some of the country's macroeconomic pressures.

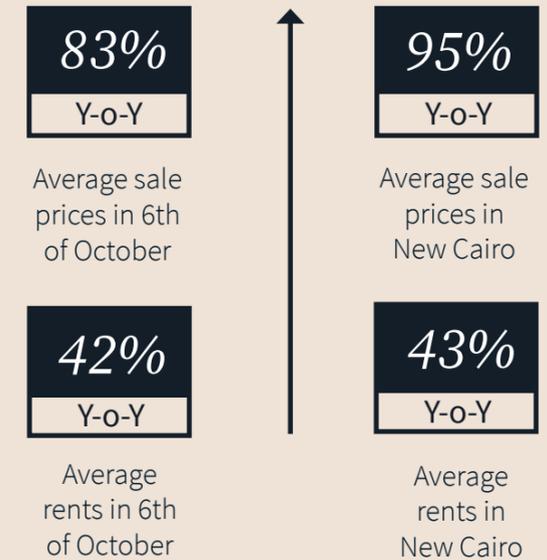
The sales market was significantly impacted following the recent devaluation as price hikes reached beyond the buyers' capabilities or interest. However, minimal changes were observed in the rental market, as they are typically quoted in USD (hence, it was less affected by the economic fluctuations). However, we are likely to see further price adjustments in the coming period to address the significant shift that the pound has witnessed against the dollar.

That said, annual citywide average rents remained stable in Q1 2024, at USD 357 per sq. m. per annum, and reduced slightly by 1% from the previous quarter. Likewise, prime rents remained unchanged on an annual basis but were reduced by around 6% on a quarterly basis right after the devaluation occurred, reaching USD 480 per sq. m. per annum.

Overall, Q1 was a slow quarter in terms of demand and activity. While interest in relocations from existing companies prevailed, inquiries from new market entrants continued to be driven primarily from outsourcing and service delivery centres. While grade A office spaces are limited, New Cairo remains the main business hub with more availability of high-quality offices than the west.

Cairo's office sector is poised for long-term improvement, with several driving factors. The anticipated influx of grade A office supply will meet the rising demand for this category. The stabilisation of the local currency is expected to empower landlords to make informed pricing decisions, while tenants are anticipated to gain clarity on leasing terms, enhancing their confidence. Additionally, government reforms aimed at stabilising the economy are set to improve overall business confidence in the county.

Residential



A strong start was observed in the residential sector during the first quarter, as construction and handovers progressed at full swing. The completion of over 7,000 units, mainly within master-planned developments, contributed to a total residential stock of approximately 276,000 units. Nearly 24,000 units are scheduled for completion over the remainder of 2024.

Additionally, the start of the year witnessed multiple developers initiating new project launches and expansion plans. These announcements primarily focused on New Cairo and its East expansion, featuring projects such as "At East" by Al Ahly Sabbour in Mostakbal City and "The Crest" by IL Cazar Developments in New Cairo.

The recent devaluation was expected and long-awaited, thus resulting in a less severe impact on the overall market. Instead, it provided contractors and developers with a sense of stability and a clearer vision in terms of pricing and strategy, as they were initially quoting selling prices based on speculations on future exchange rates. However, the recent hike in the interest rate by 600 basis points and the soaring inflation have caused some buyers to adopt a more cautious approach.

Given the nature of Cairo's secondary market, along with the macroeconomic conditions and changes in monetary policies, Q1 2024 witnessed an unprecedented surge in sales prices. In 6th October, prices skyrocketed by nearly 83% on an annual basis, while in New Cairo, the increase reached a staggering 95%. Similarly, rental rates have experienced a sharp increase, growing by around 42% and 43% annually in 6th October and New Cairo, respectively. However, unlike the sales market, this increase is somewhat in line with the current inflation rate in the country, and it is also spurred by people choosing to rent properties due to affordability constraints.

Ahead of the currency liberation, Egypt secured its largest-ever Foreign Direct Investment (FDI) deal, injecting USD 24 billion into the market and offsetting USD 11 billion of debt in a local currency payout for the Ras El Hekma deal with the UAE. Moreover, Egypt secured over USD 20 billion from international institutions and development partners to support its economic reform programme. This is a significant milestone for the country, as it expects to further soften its financial burdens and position Egypt as an appealing destination for future investments.

🛒 Retail



Cairo's retail stock remained unchanged in Q1 2024, at around 3 million sq. m., as no major projects were completed. Around 402,000 sq. m. of Gross Leasable Area (GLA) is expected to be delivered over the next nine months of the year. That said, several projects were put on hold or had their timelines delayed to unspecified future dates. Additionally, there has been limited activity in terms of new project launches in the city.

The current economic situation in the country continues to severely impact the retail market. Recent events have further reduced consumers' purchasing power and retail spending, placing significant pressure on retailers. This has particularly affected international brands, making it difficult for them to navigate the situation and leading to many of them eventually exiting the market.

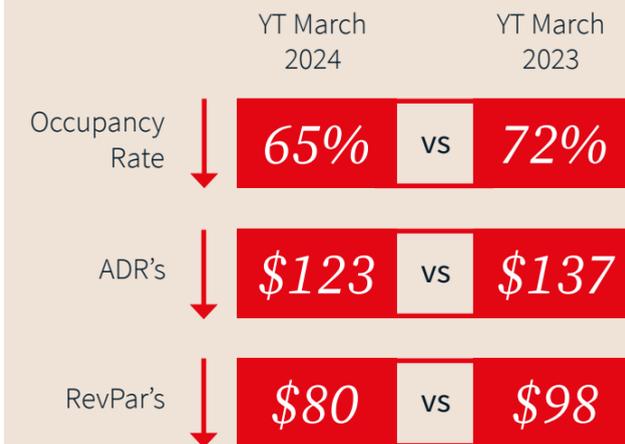
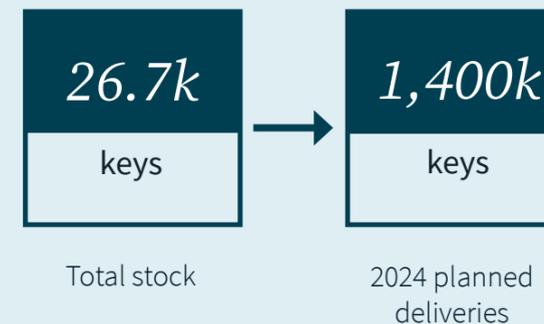
In more positive developments, certain landlords have effectively implemented new and innovative strategies to maintain their occupancy rates. An example of this is Marakez, which recently announced the expansion of their branch of The GrEEK Campus West, a hybrid office and retail complex for startups and corporates, at Mall of Arabia. The expansion, totaling 3,000 sq. m., is set to open in Q2 2024.

Additionally, the introduction of reputable local Egyptian brands to brick-and-mortar stores has played a significant role in increasing occupancy levels in many malls. This, in turn, has improved footfall and sales, as these brands are viewed as more affordable options.

Furthermore, with the free-floating of the local currency, local production has gained momentum as sellers are now able to adjust their prices accordingly. As a result, the outlook is favorable for the growth of local production and brands, especially due to increased support from marketing campaigns encouraging this shift.

In terms of performance in the first quarter, average rental rates across both primary and secondary malls increased by around 8% and 14% year-on-year (Y-o-Y), respectively. This was a result of the annual escalation, coupled with inflation. However, landlords are expected to further adjust their asking rates to align with recent changes in the exchange rate. Meanwhile, average vacancy rate dropped slightly from 9% in Q1 2023 to 8% in Q1 2024.

🏠 Hospitality



\$ = USD

Source: STR Global

No major hotels were added in Q1 2024, maintaining Cairo's hotel stock at around 26,700 keys. However, the remainder of the year is expected to witness the opening of several new and renovated hotels, adding approximately 1,400 additional keys to the existing stock.

As the interest among operators to enter or expand in the Cairo market continues to build up, we also saw interesting Mergers & Acquisitions (M&As) recently unfolding. One such example is the recent agreement where the Abu Dhabi wealth fund ADQ acquired a 40.5% stake in Talaat Moustafa Group's (TMG) hospitality arm, ICON, as well as a stake in seven of its iconic heritage hotels across Egypt. This substantial FDI demonstrates the restored investor confidence in the Egyptian tourism and hospitality sector.

In 2023, Egypt achieved a new record by welcoming almost 15 million visitors, surpassing the previous record set in 2010. The momentum is expected to continue in 2024.

That said, the performance in the first quarter was subdued due to the currency devaluation. According to STR, the capital's citywide occupancy was recorded at 65% for year to (YT) March 2024. Over the same period, average daily rate (ADR) reached USD 123, reflecting a 10% decline when compared to the same period last year. This resulted in the revenue per available room (RevPAR) decreasing by 19% y-o-y to reach USD 80.

A new initiative has been launched in Egypt, with an investment of EGP 50 billion, to enhance the tourism sector. As part of this program, the government is providing loan facilities and special incentives this year, aimed at fostering greater private sector participation in the country's tourism industry. This initiative aligns with Egypt's objective of expanding its hotel capacity by nearly 250,000 keys, with the aim of welcoming 30 million visitors by 2028.

Additionally, the recent Ras El Hekma mega-deal with the UAE is expected to further boost the sector as multiple hospitality and entertainment projects are in the pipeline to be introduced in the coastal city. Once completed, the project aims to attract around 40 to 50 million visitors into the country.

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 materialisation 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 asking rents obtained by the JLL Offices and Business Space team. It reflects the average rates 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 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 reflects hotel rooms and serviced apartments that have been handed over for immediate occupation. In Q1 2024, an extensive update was made to the hospitality supply database, resulting in a slight reduction in the total existing stock. This adjustment was made to reflect the closure of certain older hotels in the city.

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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