Egypt Construction Market Intelligence Report

Q1 2024

JLL SEE A BRIGHTER WAY

Contents

Overview

The construction industry in Egypt has undergone remarkable growth in the last decade, fuelled by the country's visionary goals, public-private partnerships, emphasis on green buildings, development of infrastructure, and investments in residential and mixed-use sectors. According to Mordor Intelligence, the growth forecast is estimated to exceed 8% (compounded annual growth rate) until 2029. Additionally, MEED Projects recorded Egypt as having the highest value of project awards in 2022, reaching $36 billion. However, in 2023, the value declined to $15 billion.

Egypt has been navigating through ongoing economic challenges, leading to market volatility and a devaluation of the local currency. 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, up from around EGP 31 previously. The Central Bank of Egypt's (CBE) made the decision to liberalise the exchange rate in order to attract foreign currency and combat inflation. In February 2024, inflation reached a record high of 11.4% and stood at 33.3% year-on-year in March 2024. To address these macroeconomic pressures, the CBE also secured a new agreement with the International Monitory Fund (IMF) to increase its loan from USD 3 billion to USD 8 billion. As a result, the official USD exchange rate doubled from approximately EGP 15 in Q1 2022 to EGP 30 in Q1 2023. However, the Central Bank's control over the exchange rate and limitations on foreign currency transactions led to the emergence of a parallel market in 2023. By January 2024, the USD was being exchanged at a rate of 70 EGP in the parallel market, more than double the official rate. This dual exchange rate system has caused market imbalances and speculation by material suppliers. 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 through a local currency payout for the Ras El Hekma deal with the UAE. Furthermore, Egypt received over USD 20 billion from international institutions and development partners to support its economic reform programme. These financial injections are expected to ease the country's financial burdens and position Egypt as an appealing destination for future investments.

The Cairo residential sector remained resilient and demonstrated a strong start in Q1 2024, with construction and handovers progressing at full speed. During this period, over 7,000 units were completed, primarily within masterplan developments, adding to a total stock of approximately 276,000 units. Approximately 24,000 units are expected to be delivered throughout the remaining year. JLL Research has observed an average year-on-year increase of 83% in sale price in 6th October while rental prices increased by 42%. JLL's data highlights a greater increase in New Cairo, with average sale prices rising by 95% year-on-year and average rents by 43%.

In 2023, Egypt achieved a new record by welcoming almost 15 million visitors, surpassing the previous record set in 2010. The positive momentum is expected to continue in 2024, supported by a new initiative with a substantial investment of EGP 50 billion to enhance the sector. As part of this program, the government is offering loan facilities and special incentives this year to encourage increased private sector participation in the country's tourism industry. This initiative is aligned with Egypt's objective of expanding its hotel capacity by nearly 250,000 keys, with the aim of welcoming 30 million visitors by 2028. In terms of supply, the total existing hotel stock in Cairo remained at 26,700 keys, with no major hotels added in Q1 2024. However, for the remainder of the year, Cairo is expected to witness the opening of new and renovated hotels, adding approximately 1,400 additional keys to the current stock.

JLL has considered the foregoing market conditions, including macro data on the devaluation of the Egyptian Pound and inflation volatility, when calculating construction rates for this report.

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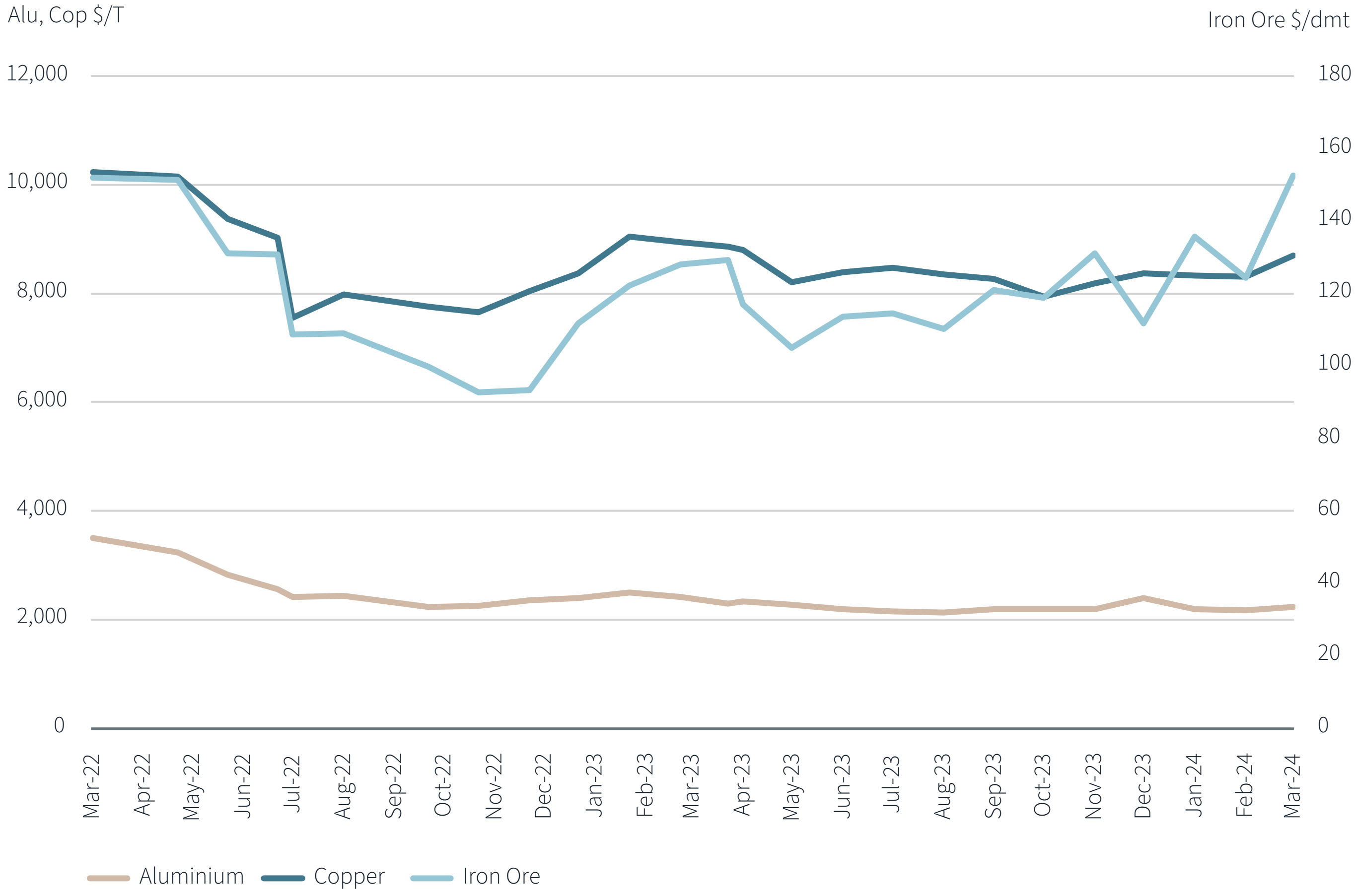
Commodities and construction cost drivers

According to the latest data from the World Bank, commodity prices experienced a 5% increase in Q3 2023, primarily driven by rising oil prices and the conflict in the Middle East. However, despite this uptick, prices remained 29% lower than their peak in June 2022. The rise in oil prices was a result of production cuts implemented by the OPEC+ group, resulting in an increase from $72 per barrel to $90 per barrel by the end of Q3 2023. The World Bank predicts that oil prices will average $81 per barrel in both 2024 and 2025.

The World Bank Commodities (Metals)



Currency volatility, speculation by suppliers, and inflation have led to significant price increases for imported construction materials and locally manufactured materials with imported raw materials. This trend is based on data analysed from the Egypt Cabinet's Information and Decision Support Centre between Q4 2023 and Q1 2024. Concerns have been raised by construction industry experts in Egypt, indicating that this environment may persist as long as the parallel market for the USD remains, allowing traders and distributors to manipulate prices and create market instability. To improve economic conditions, the government has implemented reforms, such as the liberalisation of the exchange rate and a 6% increase in interest rates in March 2024. These measures have helped reduce market speculation and boosted investor confidence following the unification of the exchange rate, resulting in the stabilisation of the USD/EGP exchange rate at around 48. Consequently, construction material prices have relatively cooled as of March 2024. JLL has observed fluctuations in prices within the local market, particularly for key construction materials. Rebar prices, for instance, have remained elevated at EGP 47,500 / T as of March 2024, reflecting a year-on-year increase of 41% overall. Additionally, copper cables have risen by 112% year-on-year, while aluminium sections have experienced a 32% increase.

Commodity Supply Prices
(March 2024 year-on-year)*

-$70/T

Aluminium
$2,179/T
▼
-3%

-$167/T

Copper
$8,300/T
▼
-2%

+$23/dmt

Iron Ore
$124/dmt
▲
+18%

+$4

OPEC Oil
$83/barrel
▲
+5%

EGP
46,100/T

Aluminium EGP
188,100/T
▲
32%

EGP
1,489

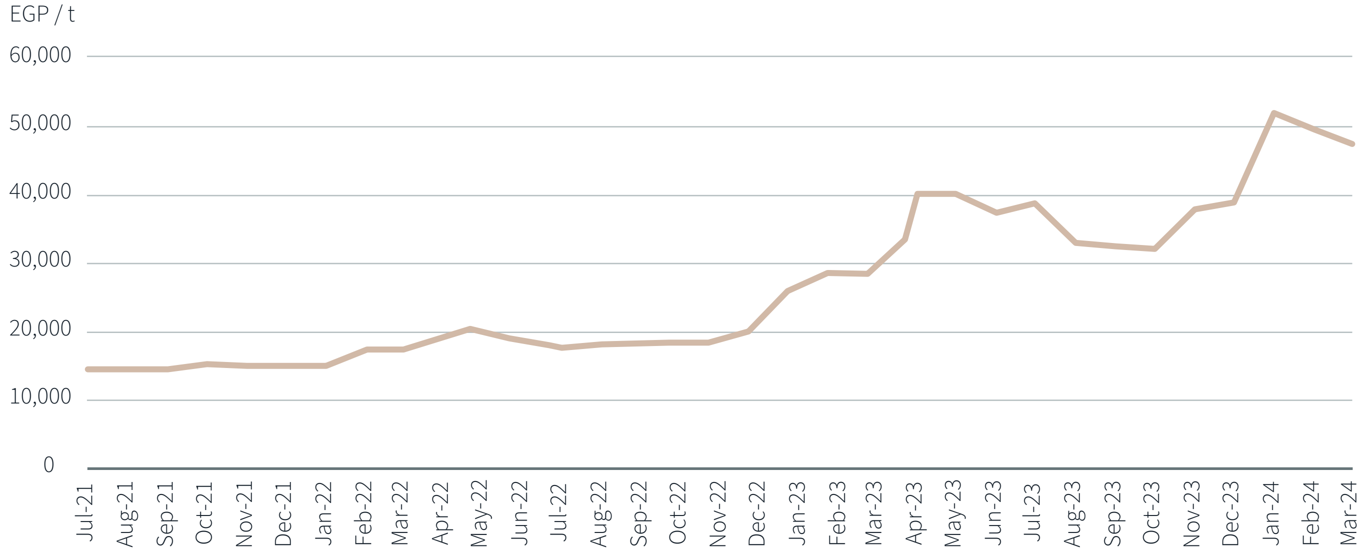
Copper Cables EGP
2,820 (3mm) / 100m
▲
112%

EGP
13,900/T

Egypt Rebar/
AED 47,500
▲
41%

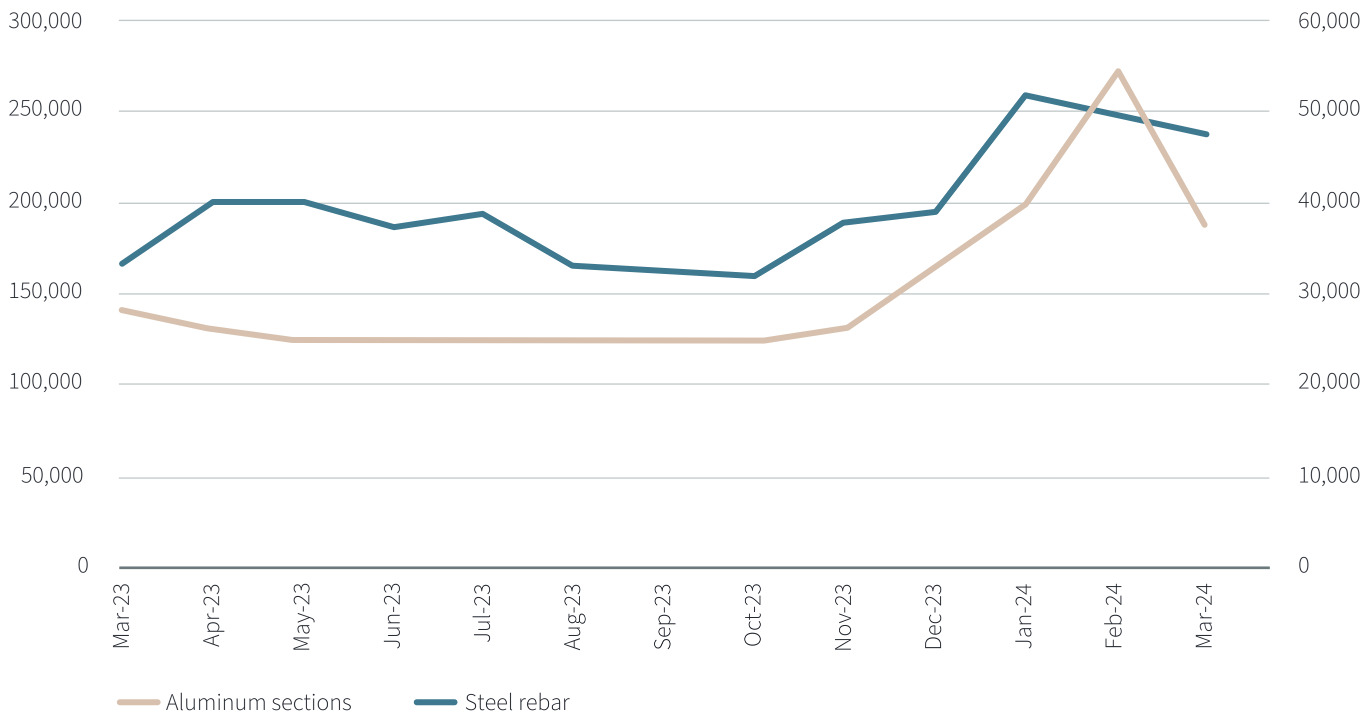
The World Bank and Egypt Material Supply Prices
*Supply / raw material rate

Egypt Rebar Supply Price (EGP)



The above prices are the official published prices for steel reinforcement material only with no allowance for installation or general contractor OH.
The above prices are for ordered quantities above 30 Tons only.
The above prices including purchase VAT, with no allowance for transportation, handling or any other fees related to the road tolls or similar.
Reference for the above prices is the MHUC (Ministry of housing, utilities and urban communities) price list for the main construction materials issued monthly.

Egypt Material Supply Price



Source: Egypt Cabinet's Information and Decision Support Centre

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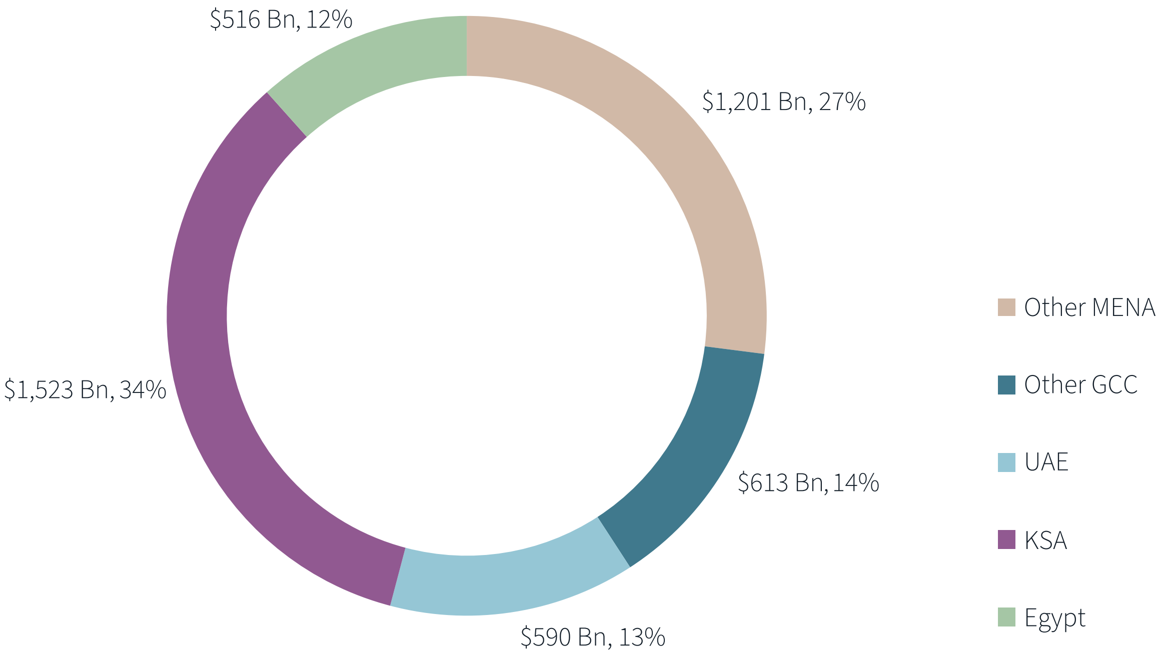
Project market trends

In 2022, the construction sector in Egypt achieved a remarkable milestone with over $36 billion worth of awarded projects. However, there was a decline in 2023, with a recorded award value of $15.9 billion overall, as recorded by MEED Projects. The construction sector played a significant role, contributing over $7 billion, which represented 45% of the total awards. The remaining awards were distributed across sectors such as transport, oil, gas, and utilities. Notably, within the construction sector, the residential sector accounted for $2.6 billion (16%), while the mixed-use sector accounted for $3.5 billion (22%).

Despite prevailing economic challenges, both locally and globally, the pipeline value of unawarded projects in Egypt and the wider MENA region remains significant. According to estimates by MEED Projects, the total pipeline value is projected to reach $3.9 trillion. Within this pipeline, Egypt holds a share of $515 billion (12%). Residential projects make up $36 billion (21%) of this share, while mixed-use projects account for $115 billion (22%). In comparison, Saudi Arabia represents the largest share with $1.5 trillion, accounting for 39% of the total MENA pipeline value, while the UAE accounts for $590 billion, representing 13% of the pipeline value.

Projects Pipeline US$ 3.92 trillion



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Benchmarking

JLL has consistently observed an upward trend in construction prices since the beginning of the pandemic. However, our outlook indicates a higher likelihood of volatility due to various economic challenges and external risks. Notably, we have observed rising input costs primarily influenced by intense local demand competition, elevated energy prices, increased labour expenses resulting from the global surge in the cost of living, and fluctuations in freight and shipping costs associated with high oil prices and disruptions in the supply chain.

As a result, our benchmark construction rates have increased by more than 20% year-on-year. Furthermore, JLL recognises the presence of global headwinds such as climate change, adverse weather conditions, elevated interest rates, inflationary pressures, geopolitical tensions, and upcoming key political elections in 2024. Together, these factors contribute to a potentially uncertain landscape concerning construction costs.

To effectively address and mitigate these risks, we proactively engage with our clients, placing special emphasis on establishing well-defined design and budget objectives in the early stages of construction projects. We recognise the critical importance of project management and cost management expertise in helping clients adhere to their budgets and timelines. Our primary focus is on creating value during the project design phase and providing support in identifying appropriate procurement and contractual strategies.

Benchmarking

How much are key construction rates in Egypt as of 2024?		JLL Egypt Low (EGP) 2024	JLL Egypt High (EGP) 2024
Residential	Apartments (Fully Finished) High Rise Villas (Fully Finished)	33,360 42,100 34,100	45,500 49,400 42,100
Commercial	Low-Mid Rise (S&C) Fit out	28,500 30,200	41,300 42,300
Retail	Strip Mall	23,600 57,200	30,900 76,200
Hospitality	5* Resort (avg 220m^2 GFA/Key) 4* Hotel (avg 120m^2 GFA/Key)	114,633 m^2 / 9,052,200 key 91,932 m^2 / 7,543,500 key	134,232 m^2 / 11,466,120 key 110,121 m^2 / 9,353,940 key
Industrial & logistics	Industrial	72,800	134,200
Car parking	Multi storey (BUA m^2) Basement (BUA m^2)	11,900 21,600	18,700 31,500
Public amenities	Mosque Infrastructure (land area m^2) Park / Landscaping (land area m^2)	97,600 2,100 2,100	118,000 3,000 3,000

78,838	4,991	62,010
Structural Steel EGP/t	Concrete EGP/m³	Rebar EGP/t

Definitions: Basis and assumptions

- The m^2 area is based on GIA unless otherwise stated.
- The benchmark rates included are a range of indicative construction costs based on JLL project data. The cost data is currently based on traditional procurement type. Factors such as project location, contract type, contractor appointment strategy, building design e.g. façade type, specification level, economies of scale, building efficiency and structural solution can impact the cost.
- Low range: assumption is based on low-medium specification and verified against JLL benchmark projects. Actual project outcomes may differ from the benchmark ranges provided and a sensitivity level of accuracy should be considered.
- Supply and installation, fittings and equipment. Actual project rates are dependent on the specific project, quantity / volume, site condition and procurement route and are subject to commodity price fluctuations and inflation.

General exclusions

Capital contributions to third parties, tenants or authorities	Marketing cost and expense	Utilities outside the plot boundary
Client finance costs	Land cost	Developer legal fees
Local authority charges, road closures, etc.	Municipality connection cost	Inflation
Client insurances	Master infrastructure cost	Professional fees
Value Added Tax (VAT) and other taxes	Grey and rain water recycling system and other renewable technology	Contingencies
Development management cost and expense	Waste management	Facility management equipment
TV and AV system		

Retail notes

- Excludes tenant fit out.

Carparking notes

- The benchmark rates are based on a total area allocation of 35-40m[2] per number of parking space bays.

Industrial and logistics

- Logistics warehouse facility assumes multi purpose / tenanted facility, higher benchmark includes cold storage. Excludes storage and racking systems, IT equipment, production and other types of equipment.

Landscaping notes

- The benchmark data is a blended rate which includes hard, softscape, furniture, lighting, associated mechanical & electrical services, special features and earth works. Factors such as, volume and density, specification level and features will impact the complete EGP/m2 cost.

Hospitality notes

- Excludes loose furniture, white goods, OS&E, artwork and internal planting.

Residential/commercial office notes

- Excludes loose furniture, white goods, OS&E, artwork, internal planting, active IT equipment and leasing and acquisition costs.

Material rates

Supply and installation, fittings and equipment. Actual project rates are dependent on the specific project, quantity / volume, site condition and procurement route and are subject to commodity price fluctuations and inflation.

Concrete
Grade 40/50, excludes admixtures and additional temperature control costs, minimum load olumes are applicable

Rebar
Cut and bend costs included, grade 60 12-32 mm dia bars

Structural steel
Excludes fire protection coating and corrosion protection

JLL endeavours to provide accurate benchmark cost data relevant for the MENA market, however all benchmark data reported has a sensitivity cost factor of +/- 15% and are relevant up to March 2024.

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About JLL