

Cairo Commercial & Residential, Q4 2015

**Divergent market dynamics across real estate sectors with pockets of opportunities.**



**CBD Office Rentals**  
Stable\*



**Residential Rentals**  
Increase\*



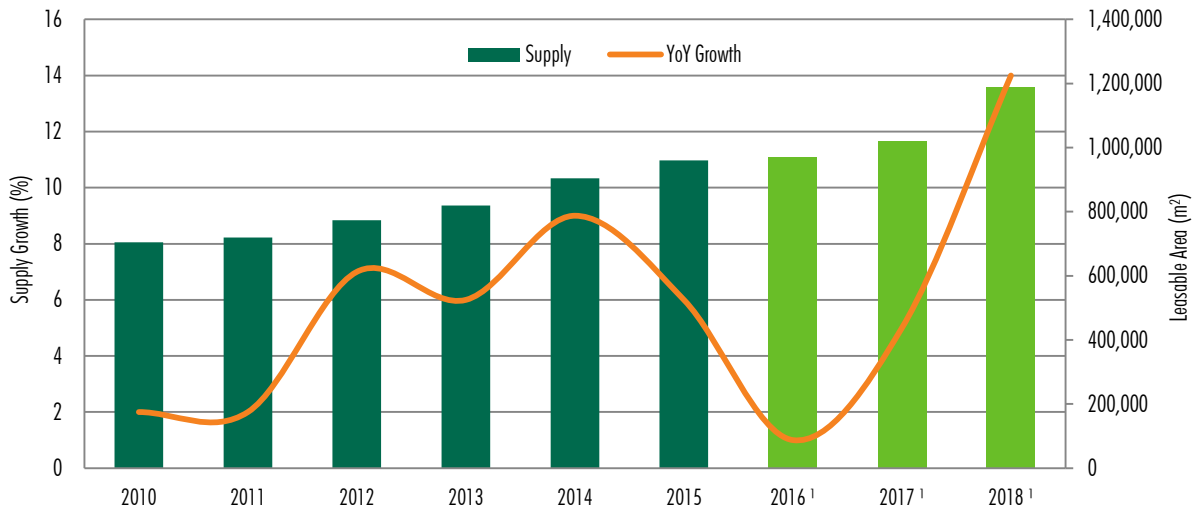
**Retail Rentals**  
Stable\*



**Hotel Rates**  
Decline\*

\*Arrows indicate change from previous quarter.

Figure 1: Grade A Office Supply Growth



Source: CBRE 2015  
Notes: (1) Forecast data.

- GDP growth forecasted lower at 3.8% over the period 2015/16, down from an earlier projected 4.5% per annum.
- Average office rentals remain stable at between US\$260-US\$310/m<sup>2</sup>/annum in New Cairo City.
- Average retail rentals were recorded at US\$1,400/m<sup>2</sup>/annum during H2 2015.
- Over 900 new 5-Star hotel keys will be added to the existing room supply, increasing stock by around 6% during 2016.
- Average apartment rentals in New Cairo City have reached US\$1,225/month for a two bedroom unit, whilst the sales price for a typical three bedroom villa is around US\$2,560/m<sup>2</sup>.

**ECONOMIC OVERVIEW**

Egypt's short to medium term economic outlook shows slowing GDP growth, with 2015/16 projections cut from 4.5% to 3.8% by the World Bank reflecting limited business activity, foreign exchange shortages and a struggling tourism industry.

In a bid to curb inflation in the country, the Central Bank of Egypt agreed to raise interest rates by 50 basis points during the later stages of 2015, as part of a planned monetary policy that also included cutting the budget deficit and encouraging increased local production.

Following a number of recent set-backs, Egypt's tourism industry has again witnessed declines after showing positive growth in the early part of 2015.

Much needed financial support was received from the World Bank, the African Development Bank and the Chinese Government in late 2015, with funds in excess of US\$3-billion intended to be placed in the construction sector among others.

The generation of domestic activity is a clear Government target in the coming months with the

Central Bank introducing new bank regulations intended to increase its lending to small and medium sized enterprises (SMEs) across the country.

The economic recovery remains fragile due to:

- High inflation – 10.3% average for 2015;
- Budget deficit – 11% of GDP in FY 2014/15; and
- High unemployment – 12.7% in 2015.

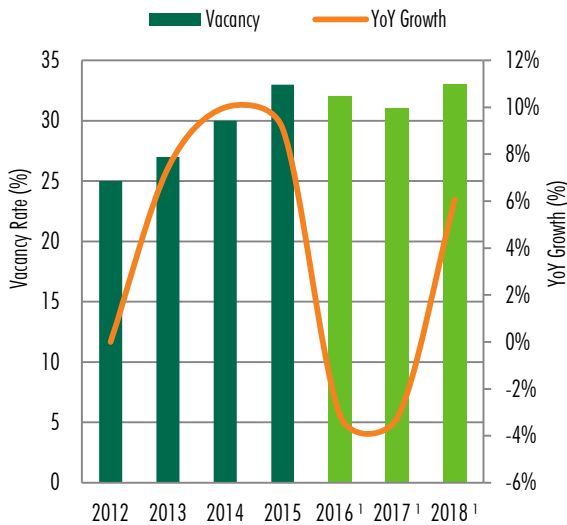
**OFFICE MARKET**

Supply of Grade A commercial office space continues to grow in key satellite locations to the East and West of Cairo with total stock reaching circa 960,000 square metres in late 2015.

New developments are starting to meet the standards and expectations of multinational occupiers primarily in the business districts of New Cairo City where approximately 40% of the total supply is currently located.

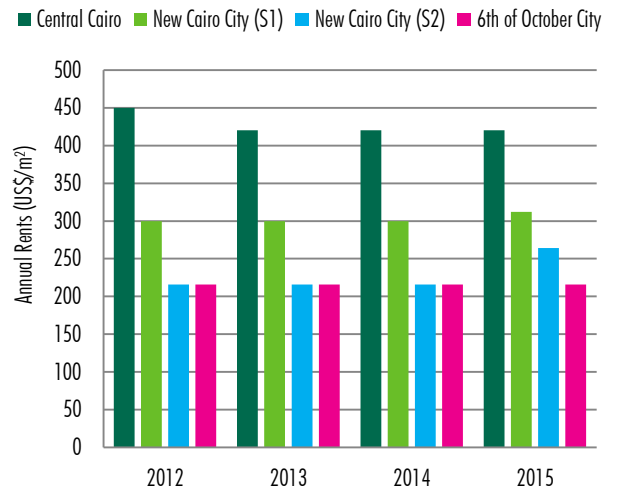
New office supply that is due to complete in the coming 18 to 24 months is minimal at just 60,000 square metres. However, there is a large amount of space expected to enter the market during 2018 if planned construction timelines are achieved.

Figure 2: Past, Current and Forecasted Office Vacancy Rates



Source: CBRE 2015  
Notes: (1) Forecast data.

Figure 3: Grade A Office Rents (Q4 2015)



Source: CBRE 2015

Average rentals for leading Grade A projects remain stable, typically quoted between US\$260 – 310 per m<sup>2</sup> in the New Cairo City Area while prime buildings in Central Cairo overlooking the Nile river are achieving up to US\$420 per m<sup>2</sup>. Rents in 6<sup>th</sup> of October City remain lower at circa US\$215 per m<sup>2</sup>.

Current headline vacancy rates across all office gradings (A-C) in 2015 were approximately 33%, a rate which has risen steadily since 2012.

As the pipeline of new stock entering the market slows during 2016, vacancy rates are expected to reduce at a marginal rate, as demand starts to absorb space within newly completed buildings.

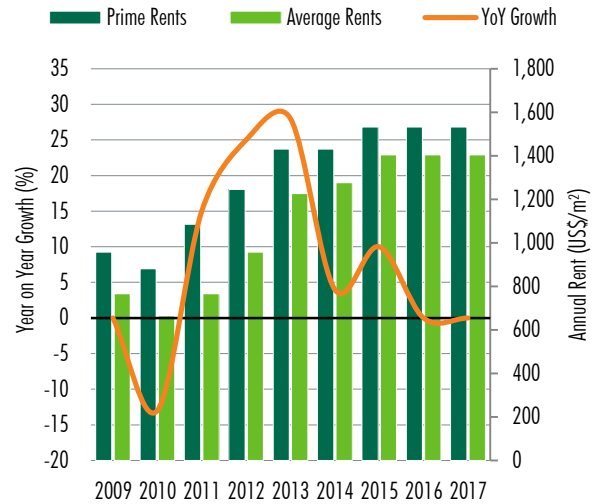
**RETAIL MARKET**

Despite ongoing economic challenges, leading developers and investors from the GCC, among others, continue to show a tangible interest in the market.

The total stock of regional and super regional shopping mall retail space in Cairo surpassed 1 million m<sup>2</sup> during 2015, with a 20% year on year growth rate.

The retail sector is viewed as a key growth sector, with significant future expansion potential, driven in no small part by a large youthful population – with around 60% of the Egyptian population under the age of 30. The emergence of a more affluent middle class and a growing acceptance of modern retail concepts are also key drivers behind this growth. With this in mind, an additional one million square metres of space, doubling the current stock, is expected to complete over the next two to three years.

Figure 4: Regional Shopping Mall Rental Rates (Q4 2015)



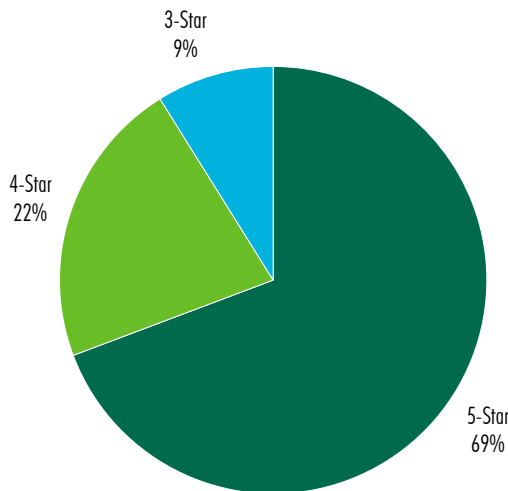
Source: CBRE 2015

Average rents are currently around US\$1,400 per m<sup>2</sup> and these are forecasted to remain stable through 2016.

**HOSPITALITY SECTOR**

The tourism sector in Egypt suffered once again in late 2015 with a drop in tourist flows following recent security threats. November arrivals were down 38% year on year and were more than 60% lower than in November 2010.

Figure 5: Hotel Supply Mix (Q4 2015)



Source: CBRE 2015

The Cairo market continues to be dominated by 5-Star hotels which comprise 69% of the total supply, with 40 properties currently in operation and future supply planned to be delivered in 2016 including:

- Westin Cairo Golf Resort and Spa;
- W Cairo by Starwood Hotels;
- St Regis; and
- Steigenberger Hotel Tahrir Square.

New supply in Cairo will add over 900 rooms to the existing 15,000 rooms, which reflects a potential increase of 6% in total stock over the coming 12 months alone.

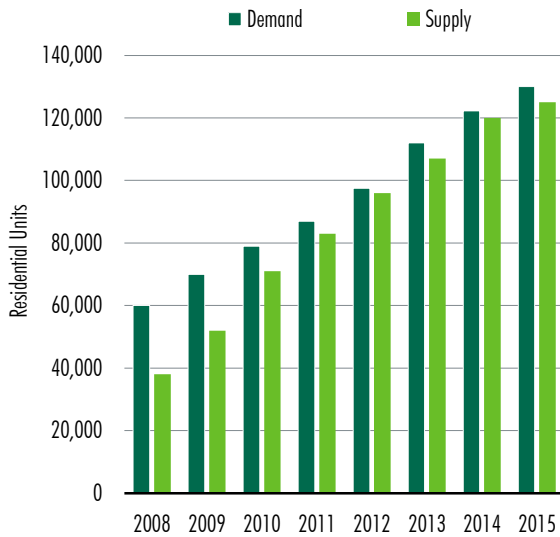
Despite the drop in tourist arrivals the number of Egyptian nationals travelling within the country has actually grown. Egypt's large population base includes more than 5 million higher income citizens who have spending capacity to purchase luxury goods and accommodation, and it is this demographic group which will be required to support the local hotel trade in the short term in the absence of international tourists.

**RESIDENTIAL MARKET**

The composition of Egypt’s population continues to be one of the principal contributors to the country’s potential for a thriving residential sector, with more than half of the population being under the age of 25 years old. In addition with the recent increase in the number of marriages, demand has been further bolstered.

It is estimated that the gap between supply and demand in 2015 is a shortfall of approximately 125,000 units with demand in the city across low to high income groups reaching 225,000 units.

Figure 6: Upper and Middle High End Stock Growth



Source: CBRE 2015

However, there is a heavy weighting towards housing requirements for those in the low income groups, with this segment comprising 51% of the total, with the high income requirement being much lower at only 9% of the total.

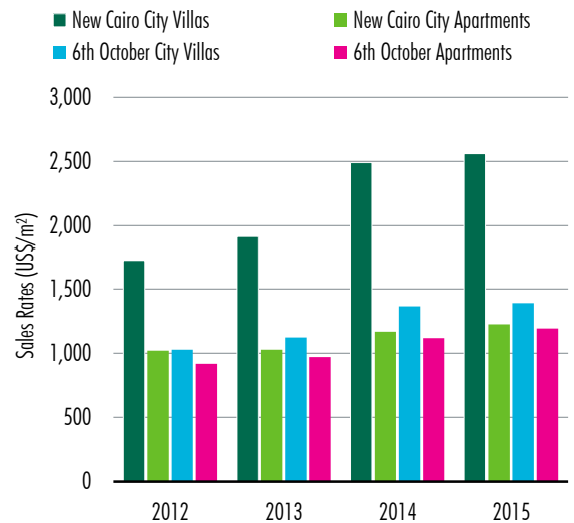
Apartment rental rates of medium to high grade stock in the satellite city of New Cairo have experienced steady growth with a two bedroom unit priced at US\$1,225 per month in late 2015, up by around 4.75% year on year. In comparison, average apartment rents offered in 6<sup>th</sup> of October City are significantly lower, with a typical variance of between -30% to -40% recorded during the period 2012 to 2015.

On average a two bedroom apartment in 6<sup>th</sup> of October City was priced at US\$715 per month in 2015, which is down around 10% year on year.

There is less of a variance between these two locations when pricing villa accommodation for rent, although New Cairo City remains the more expensive area. Three bedroom villa rents in New Cairo have risen year on year since 2013 and are now priced at an average of US\$3,380 per month which is an increase of 4% year on year. Average rents for a three bedroom villa in 6<sup>th</sup> of October City have now reached US\$2,500 per month.

In terms of capital values, there is only a marginal variation in apartment prices between New Cairo City and 6<sup>th</sup> of October City with rates in 2015 being US\$1,225 and US\$1,190 per m<sup>2</sup> respectively.

Figure 7: Sales Rates by Asset Type and Location (Q4 2015)



Source: CBRE 2015

However, villa sales prices vary considerably between the locations of New Cairo City and 6<sup>th</sup> of October City with a price variation of almost 100% in 2015. At US\$2,560 per m<sup>2</sup> New Cairo City is the most expensive location for three bedroom properties. The price of villas on a per square metre basis remains significantly more expensive than that of apartments, often reaching double the rates.

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