

Property Assets: The Rising Treasures in Egypt



In a country with a surface area of almost one million square kilometres, of which only seven percent was utilised for many years, the opportunities of urbanisation of new areas in Egypt were unlimited for the incumbent government. With a population of 100 million, Egypt had no option but to venture into developing new cities and urbanise new areas to allow the implementation of Egypt's ambitious reform programme, as well as its inclusive growth and sustainable development plan.

Even before being elected to office, Egypt's investment policy was announced by HE President Abdel Fattah El Sisi. He presented an ambitious economic growth plan focusing on expanding the breadth of Egypt's reach to include underdeveloped areas through the establishment of mega projects and new cities across Egypt. Today, it is reported that over 20 cities are under construction including the New Administrative Capital, New Al-Alameen, New Mansoura and many other projects that not only aim to expand the population's distribution across the country but also create unlimited labour and investment opportunities which inevitably accompany the construction of such mega projects.

At the heart of Egypt's reform and development plan lies real estate development opportunities, one of Egypt's unexplored treasures that leads to unlimited investment opportunities while allowing Egypt's growing population to expand into new horizons.

Statistics announced by the government show that Egypt witnessed the construction of 383 thousand units between 2005 and June 2013 in the field of national housing, while 24 urban communities were constructed over the last three decades. High levels of population growth led to a housing deficit. However, since 2014, the government has allocated 813 billion Egyptian pounds for investment in the field of housing and infrastructure projects up to 2020. As of December 2018, 1029 projects were completed including new urban communities for social housing and medium housing while abolishing dangerous and informal housing zones and moving the communities at risk to new urban areas. With over 1.7 million completed units, the number of social housing projects completed in Egypt in the past five years is unprecedented.

The policy adopted by Egypt to attract urbanisation of new areas has been a simple but yet a very intelligent one. The government launched large scale projects to develop key infrastructure requirements including facilities and services in uninhabited areas with a view to attracting investors that would not

have otherwise considered such areas. The government has done so in many areas across the country, consequently opening up lucrative investment opportunities in most key sectors of property investment including commercial, administrative and high-end residential properties. Investors were invited to participate in these projects at market competitive prices, which generated significant returns for the government, thus enabling it to continue the same model in other projects. Some commentators have claimed that the prices offered by the government were expensive however, the reported revenues from investment in the projects launched by the government indicate otherwise. Billions of Egyptian pounds were reported as proceeds from investments in the new cities and the government continue to manage even more projects, whether directly or through special purpose vehicles.

With this newly adopted mind-set in Egypt, property development has become a cornerstone for the continuation of Egypt's ambitious development plan. In our view, land and underutilised assets in Egypt are available in abundance and can be offered as lucrative investment opportunities. However, challenges highlighted by investors and commentators in many instances cannot be ignored.

The points below summarise these challenges as suggested by some commentators, followed by corrective recommendations and a snapshot of the steps undertaken by the government to address them:

Pricing and Locations

Some investors claim that the cost of land has been somewhat exaggerated. In the first instance, we believe that this is not entirely accurate given the number of projects already allocated and their confirmed revenue. The time when land was offered in Egypt for free is over, save for underdeveloped areas, where the government is seeking to encourage effective investment to populate such areas. However, lucrative locations and areas, where real investment opportunities are available necessitate a premium. This also applies to industrial land opportunities available across Egypt.

Underutilised Government Assets

One of the major investment opportunities the government has been preparing for is the exploitation of underutilised public assets owned by either government entities or public sector companies. These assets not only consist of land, but also different forms of assets that are being revamped to be offered for investment. One of the main objectives of the recently established sovereign wealth funds is to reutilise such assets and increase the returns from them by re-offering them for investment, whether via PPPs or other forms of investment arrangements.

Government Crowding out Private Developers

Some investors raised the argument that real estate development should be left solely to the private sector without government competition/intervention. However, as a matter of fact, the government was forced to offer its developmental arm to kick-start new projects launched by the government across the county where developers, that seek specific margins, were reluctant to take the investment risk. As the new cities reach new heights of success, private sector engagement is increasing. Both local and international developers expanding into Egypt now have wide-ranging and lucrative investment opportunities.

Land Segregation and Allocation Procedures

One of the common complaints posed by investors is the way in which land has been historically allocated and property development activity. Several attempts were made by the government to address this concern through numerous pieces of legislation however, they have not yet fully materialised. One suggestion was to consolidate the country's land bank under one body and offer land to investors via a single allocation procedure. This concept, which is a potentially viable solution for a considerable problem, is still under review by the government. Given the way in which new cities are now developed, they are immune from such concerns.

Role of Property Developers

As part of the government's initiatives to unlock the potential in the field of property development, a new draft law is underway. The draft law introduces provisions that focus on enhancing the role of property developers and institutionalising their activity. The draft law provides for the establishment of a 'developers' union' to oversee property development activity and enhance its operation in Egypt in accordance with best practices.

The draft law also proposes the establishment of a hedge fund to hedge risks associated with property development activity in order to attract more buyers and investors by reducing underlying risks.

While the draft law is still being debated in Parliament, upon promulgation, it is expected to open up new frontiers for property development activity and foster a more institutional approach to the industry while improving professional standards.

That being said, the opportunities for property development and investment in underutilised real estate assets are quite significant and in line with investment opportunities in Egypt due to decades of underutilisation. Furthermore, the investment opportunities opening up as a result of the new approach adopted by the Egyptian government are endless. On the other hand, bureaucracy remains an area that requires more streamlining and ongoing reform. However, the current efforts and encouraging signals of the government's proposed measures have created immense opportunities for investors in all sectors including property investment which is seen as one of the rising treasures in Egypt.

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