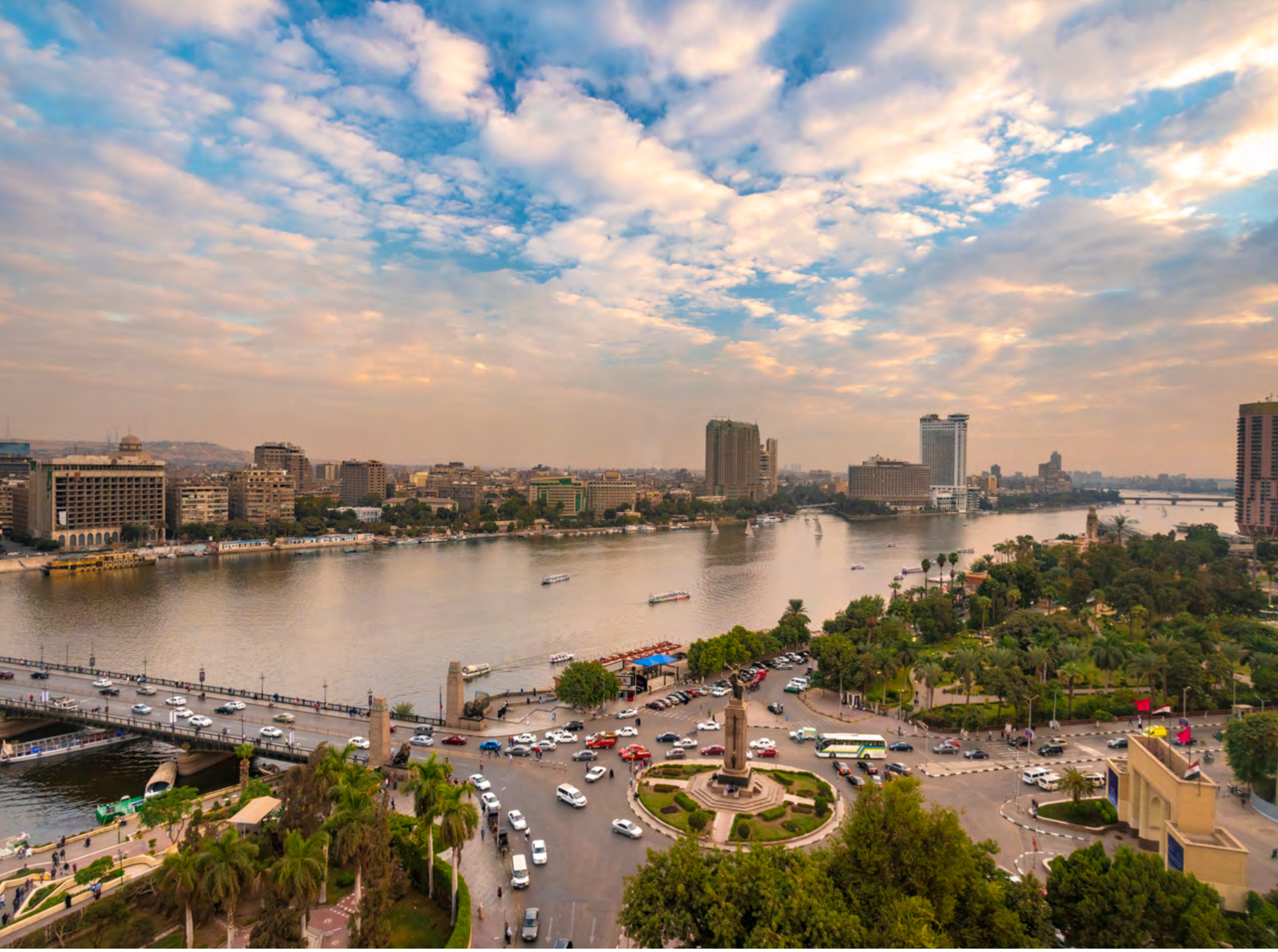


The Cairo Real Estate Market

Research | A Year in Review 2021

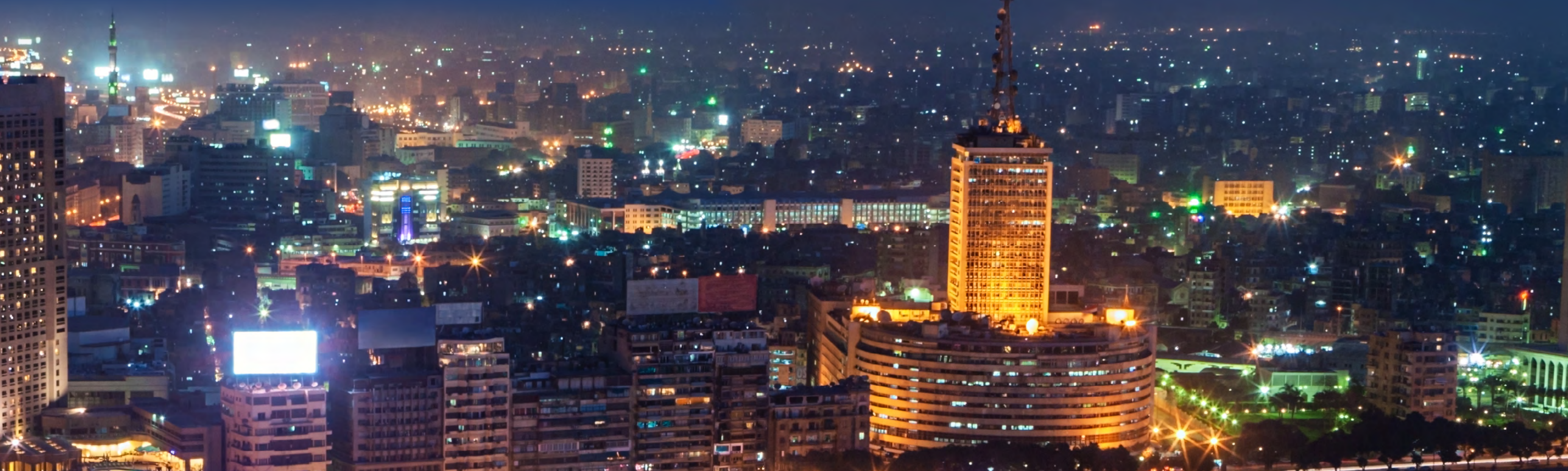
Foreword

Egypt's non-oil economy moved closer towards stabilisation at the end of last year, according to the latest data from IHS Markit. The seasonally adjusted headline Purchasing Managers' Index (PMI) was just below the 50-no change mark in December 2021, which theoretically separates expansion from contraction. At 49.0, the reading was slightly higher than in the preceding month (48.7). However, since the figure remained in negative territory for the 13th successive month, it pointed to continued contraction in the country's non-oil sector.

Despite the challenging economic backdrop over the past year, Cairo's commercial real estate sector remained resilient. Office rents were stable in Q4 2021, supported by a combination of improving demand from local firms and growing interest in high-quality flexible office space from SMEs and start-ups. Broadly, retail rents in the capital also held firm in the final quarter of last year despite a slight increase in the vacancy rate compared to a year earlier. Generally, we saw the launch of new retail projects and higher levels of demand as retail landlords continued to introduce new F&B concepts in an effort to drive higher footfall and dwell time within their developments.

Although Cairo's ADR has largely returned to pre-pandemic levels, average occupancy rates continue to lag – not helped by the recent discovery of the Omicron variant which is hampering the recovery in global tourism. Nevertheless, major international operators continue to exhibit confidence in the long-term potential of the city's hospitality sector, as demonstrated by recent signings to deliver new 5-star hotel and branded hotel apartment projects in the coming years.

In the residential area, average prices rose by 7% and 8% in 6th of October and New Cairo, respectively, in Q4 2021. While attractive payments terms by developers helped stimulate activity last year, the uplift in prices can also be attributed to inflationary pressures.



Office

1.6m
sq m GLA

Total stock

257k
sq m GLA

Expected Deliveries in 2022

Y-o-Y
1%

Citywide Average rent

Around 253,000 sq. m. of office gross leaseable area (GLA) was delivered in 2021, bringing Cairo's total office stock to 1.6 million sq. m. Over 257,000 sq. m. of floorspace is expected to be handed over this year, the majority of which comprises grade A space in New Cairo.

2021 was a better year for Cairo's office sector as multiple, previously-delayed leasing deals were finalised. We also saw higher demand from local companies, which broadly tend to show preference for lower quality space. With activity from such firms dominating in 2021, it's unsurprising that overall demand was largely for smaller fitted-out grade B offices. Meanwhile, bigger local companies and blue-chip corporates continued to favour high-quality grade A shell & core office space.

In Q4 2021, asking rents in Cairo remained stable quarter-on-quarter at USD 325 per sq. m. per annum and were up 1% when compared with the corresponding part of 2020. At 10%, the capital's office vacancy rate in Q4 2021 was slightly higher than the same period of the preceding year (9%). In Cairo, authorities have been cracking down on the use of residential units as unlicensed offices. Going forward, we expect some of this demand to be re-directed towards licensed office buildings – albeit such firms by-and-large prefer grade B or lower quality offices. Demand for good quality flexible offices is also expected to continue to grow; in anticipation of this, landlords of grade A offices are showing greater interest in leasing space to local, regional and international co-working space operators.

Furthermore, 2022 is set to see the beginning of operations within the government district of the New Administrative Capital (NAC). Eventually, we expect this to stimulate greater levels of activity within New Cairo and the New Administrative Capital (NAC) as a steady stream of companies working with the public sector relocate there in order to be in closer proximity to their clients.

Residential

227k
units

Total stock

29k
units

Expected Deliveries in 2022

7%
Y-o-Y

Average sale prices in 6th October

8%
Y-o-Y

Average sale prices in New Cairo

-1%
Y-o-Y

Average rental rates in 6th October

2%
Y-o-Y

Average rental rates in New Cairo

2021 saw the completion of around 19,000 residential units, bringing Cairo's total residential stock to around 227,000. Almost 29,000 units are expected to be delivered in 2022, with most of the projects located towards the east of the city. That said, the recent spikes in the costs of labour & construction materials may lead some developers and owners of projects to delay delivery to prevent cost overruns.

In Q4 2021, average residential prices saw annual increases of 7% and 8% in 6th October and New Cairo, respectively. This was largely reflective of a combination of improved demand fundamentals on the back of developers continuing to offer favorable payment plans, as well as Egypt's soaring inflation (it reached almost 5.3% last year, as estimated by Oxford Economics).

In annual terms, rents dropped by 1% in 6th October and increased by 2% in New Cairo in Q4 2021. Looking ahead, given that approximately 50,000 employees are anticipated to gradually re-locate to the New Administrative Capital (NAC) in the coming years, this should translate into higher levels of residential demand in New Cairo.

Fuelled by surging inflation, recent residential price increases may dampen sales activity in the short-term – albeit this is likely to be more than offset by higher investor demand due to expectations of further price growth. On balance, we anticipate that residential prices will remain on an upward trajectory over the next 12-18 months.

Retail

2.5m sq m GLA

Total stock

238k sq m GLA

Expected Deliveries in 2022

Y-o-Y

0%-2%

Change in rents across primary and secondary malls

With the addition of 116,000 sq. m. of retail floorspace last year, Cairo's retail stock reached 2.5 million sq. m. Most of the retail completions in 2021 comprised community malls in New Cairo.

Almost 240,000 sq. m. of retail GLA is expected to enter the market by the end of 2022. The majority of upcoming strip retail and community malls are located in West Cairo, while the regional and super-regional malls are in New Cairo.

Retail was among the better performing sectors last year, with both demand and new project launches partly rebounding. We also observed landlords introducing new F&B, entertainment and "edutainment" concepts to attract footfall and increase visitor dwell time within their developments.

In terms of performance, secondary mall rents saw an annual increase of 2% whilst primary malls saw no change. Average vacancy rates reached 13% in Q4 2021 – up from 11% in the preceding three months.

In the short-term, average asking rents in Cairo's retail market are anticipated to increase in-line with annual escalations, which are linked to inflation, built into most lease contracts. Moreover, landlords are expected to continue to offer incentives such as contribution towards capital expenditure for store fit-outs and greater adoption of a revenue-share model.

Going forward, retailers are anticipated to benefit from growing consumer spending in real terms over this year and next – albeit at a slower pace. Nonetheless the uncertain economic climate is expected to lead to consumers reigning in spending on non-essential goods in the short-term, which could have repercussions for high-end fashion and luxury stores.

Hospitality

28k keys

Total stock

924 keys

Expected Deliveries in 2022

	YT Nov 2021		YT Nov 2020
Occupancy Rate	48%	VS	28%
ADR's	USD93	VS	USD79
RevPar's	USD44	VS	USD22

Source: STR

Around 250 keys were delivered in 2021, with Hyatt Regency West Cairo being the only hotel completed. At the end of 2021, Cairo's total stock stood at around 28,000 keys. In 2022, around 900 keys are planned to be delivered.

Hotel performance was better than expected in the second half of 2021 as conferences held across Cairo's hotels for business purposes lent support to the sector. We also saw a partial recovery in travel as international flights to and from Egypt's airports increased by 146% in December 2021 when compared with the same period of the preceding year – albeit from a very low base.

Cairo's hotel occupancy rate registered 48% in the YT November 2021 – significantly higher than the 28% outturn in the corresponding period of the preceding year. Over the same period, average daily rate (ADR) reached USD 93 – 17% higher year-on-year and nearly at pre-pandemic levels. As a result, revenue per available room (RevPar) doubled to USD 44 in the YT November 2021. It is also worth highlighting that hotels in Egypt were given the go-ahead to operate at full capacity in October 2021.

We remain optimistic about the near-term outlook for Cairo's hotel sector. Major operators, such as IHG hotels and Accor, have been signing up to launch 5-star and branded hotel apartments in order to bring differentiated offerings mainly towards New Cairo and the New Administrative Capital (NAC), which demonstrates the level of confidence that industry players have in the future of the capital's hospitality sector. In addition, government efforts to renovate key tourist destinations and hold mega-opening ceremonies every six months is expected to further improve Cairo's attractiveness as a travel destination.

Definitions & 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 the New Administrative Capital.

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 lease transactions from the JLL Offices and Business Space team. It reflects the average rates across a basket of Grade A buildings.
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 35% of the current supply of quality office space in Cairo.

Residential

Supply
The current supply of completed residential buildings is based on residential units in East Cairo (and its extension), West Cairo, Mostakbal City and New Capital City 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 centres 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 lease transactions from the JLL Retail team. It reflects the rents across a basket of super regional and regional centres
WAR represents the top open market net rent expected for a standard in line unit shop of 100 sq m in a basket of centres. 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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