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Wednesday 30 September 2009

Panel VII

Real Estate – Why are there homes without loans and loans without homes?

The panel was moderated by **Ahmet Kayhan (AK)**, the Managing Director, REIDIN.com, with panelists: **Ahmed Demerdash Badrawi (ADB)**, Director of Business Development, Sodic; **Walid El Khafrawy (WK)**, Executive Chairman, Ofok Properties; **Magd Eldin Ibrahim (MEI)**, Chairman and Managing Director, Taamir Mortgage Group, **Khaled Rasekh (KR)**, Chief Executive Officer, ERA MENA and CIS; **Hesham Shoukri (HS)**, CEO and Executive President, Rooya Group.

AK: We want to address the need for homes in Egypt and the Middle East. We want to talk about how we address the needs of long term investors. Egypt is 59th in Jones Dowel transparency index, this is very low. Egypt is very dynamic. Long term investors have been deterred by short time investors. How do we create the right environment for developers, investors, buyers and sellers? We also have a huge challenge with regards to labor transparency. There are huge problems on the registration side. Who owns what? We have legal problems and financing problems. How do we address all these problems and needs?

KR: In its first year, there was only 2,000 LE available for mortgage loans, next year this will rise to 15,000 LE and this number will continue to increase on a yearly basis. To date the maximum loan stands at 200,000 LE. Our main problem is registration. 85% of houses are not registered. Mortgages can't be given without a license or registration. The second problem is, after the company's capital is finished, how do we get our money back? We need to have easier routes of access to get our money back. The third problem, which is less of a problem now, is the high interest rates in Egypt. Loans in this country are paid back over a long period of time, so interest rates greatly inflate the price of the mortgage to be paid back.

AK: Is the problem on the demand or supply side?

ADB: We have only been able to penetrate 8% of the mortgage demand and even after improving the situation, there is still the obstacle of bureaucracy, which is more of an issue than registration and loans. Things have improved now but the process has to be simpler. If we could get mortgages to go from 0.5% of the GDP to 5%, that would be a real achievement.

AK: Your focus is on high end housing, why are you not addressing the lower end?

ADB: We have looked at where we can achieve profit and I think if you look at the criticism of the high end market, you will find it unjustified. There have been very few returns and we have made profit. There is real demand we don't have the long term infrastructure.

AK: Why don't you target a bigger segment of the market?

ADB: Demand for top end housing is around 5,000 units a year. There is demand for about 45,000 units amongst the upper and middle classes, but there is still big demand from the B class. The A+ class is mainly comprised of foreign investors. A- and B+ used to be our target audiences, but their monthly income has risen in the past few months, so they can afford higher prices. Last year there was a 40% price rise in this segment so there are huge opportunities

AK: How do you encourage end users to take mortgages?

HS: By calculating the price of the unit now, against how much it will cost with interest over 10 years, people see mortgages as expensive, instead preferring to pay installments. The problem is that in the last 30 years you find that prices are increasing by 30% a year, with mortgage interests rising at a flat rate of 8%. We have to educate people not to be afraid of mortgages as the growth of the price of the unit, will be higher than the interest.

AK: As a developer how do you address these issues?

HS: This is not really my job. It's the job of mortgage companies, as my main focus is on selling units.

ADB: Our company is only 5 years old. In the beginning we didn't know how to deal with these problems. We had problems with income and government regulations, but things are better now. In the past people were not convinced but, now they are, much more so.

AK: Do you think mortgage companies can increase their share of the market to compare with that of financiers?

ADB: It is better for them to be financiers, they don't have to ask about their financing and they don't have to pay interest, so things are much easier for them. Now we are working with many governmental companies and whilst in the past we blocked by bureaucracy, now, we can give a loan within a week.

AK: How do investors get into the market for long term investors?

ADB: The total capital for mortgages is less than what 1 developer made last year. In order for the mortgage market to grow, we have to market the industry and I believe this is something that the government has to do, by helping these companies in their financing and to set up. 50 million LE compared to 1 billion LE is nothing, so you see how difficult it is for mortgage companies to be successful.

AK: What is the average price of a loan?

ADB: From 50,000 up to 250,000. I think the main problem is the minimum capital needed to start a mortgage company. I think it's important to have a large volume of capital when starting, as now you need a minimum capital of 1 million to start taking loans.

AK: From the ELIS company developers' perspective, where do you stand on lending for construction companies?

WK: Foreign investments are coming in, and we face other challenges, such as the higher indirect costs that come from things like steel and cement. So we have access to different loans for these things, but corporate loans are extremely difficult to obtain. This makes the environment we work in challenging. In Europe the real estate environment has been revived by injecting liquidity in to the environment. You can give credit to the conservative policies of the government, as these have protected us, but coming out of the crisis, I think we have to inject more liquidity into the market.

AK: How do you see financing?

HS: Finance is now easier and banks are helping more, but we have to encourage investors and to attract real estate investment funds and there has to be a clear mandate so that when a customer wants to move house, they can sell their loan. Starting in May, the market has gotten better. We have a solid market and this is a global view, not just mine. Egypt and the Middle East, China and Mexico were all mentioned.

WK: We are now talking about investors. One of the important things is that they need transparency; transparency, specifically in the legal process, and regarding the stability of building laws. The complications caused by legal issues deter foreign investors.

AK: Does this affect your lending?

WK: Yes of course because it raises the risk.

MEI: There are some problems with investors getting their money out and it is not clear how much return they can get. They are doing it but not really through legally documented partnerships, and this is happening on both the individual and institutional levels.

AK: Are companies transferring to mortgage lenders and are you financing them?

ADB: If a bank gives a loan to a developer, it is not going to give them another loan for mortgaging. We don't give developer loans so it's different. We don't have as much of a problem regarding transparency.

AK: What can you do as a developer to help?

ADB: I would definitely ease the restrictions on banks, but mortgage companies need to do so too.

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MEI: There are only 5 companies working in the mortgage funding industry, whilst 20 banks provide the same service. It is cheaper for companies, but the problem relates to issues of how to make it easier for lenders to collect their money.

KR: My wish is for the government to use taxation.

HS: The mood of banks will be different. The government has to sit with developers to discuss a strategy. We have opportunities but we don't know how to access liquidity. So we have to know how to attract this liquidity. There are some problems with the real estate laws governing Egypt.

Q&A

Floor: Developers don't want to buy what people say they want to have their mortgages in installments like their clients regardless of their progress. For mortgage companies we can have a mortgage bond.

AK: Legalization is missing in the legislation and you shouldn't have to have that. The second point is for mortgage backed securities, we don't have the finances for securitization.

ADB: I have to clarify that there are different developers.

KR: For the developer, if you want to have a mortgage, it has to be based on progress, and I think this is better for them because if I get my work done faster I can build faster.

HS: We have to pay for the land ahead of time and this is a large part of the financing.

Floor: There are a lot of obstacles facing insurance could you comment?

HS: Insurance is something that is crucial. The insurance is paid by the developers and this will be crucial to the development of the market. This will make things easier for mortgage financiers to give loans to developers and also make customers buying feel more secure.

Floor: Usually mortgages are the cheapest form of funding because they are backed by insurance. So why is the cost of mortgages so high if it's backed by the security of the house?

ADB: The main reason is that interest rates from banks are high. If the loans we take out are at 11% how much can we give to our customers that's why its 8%.