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Tuesday 29th September 2009

Workshop E

Real Estate in Egypt

The panel was moderated by **Mike Millar** (MM), Regional Director of Research, Naeem Brokerage, with panelists: **Omar Elhitamy** (OE), Managing Director, Orascom Housing Communities; **Ahmed Haggag** (AH), Mortgage Consultant; **Khaled Raseskh** (KR), CEO and President, ERA Middle East and North Africa; **Khaled Sedky** (KS), Chief Portfolio Officer, Palm Hills Development Company. Below are excerpts from the session.

MM: There have been significant upheavals and price declines in the real estate industry, and people say it may take many years for the industry to recover. Tentative signs suggest improvement and it does seem that Egypt is improving. The mid and low income markets seem to be the ones with the most positive outlook. What can we do to stimulate this market? Is 2010 a recovery year and if so how strong will it be? Orascom provides affordable housing. What are the conditions needed to ensure this industry thrives and how do you put these products on the market?

OE: The main factor is mortgages. This is fundamental. We need to start seriously promoting mortgages in the low income market. The environment needs to be set in a way which ensures this market is stable, especially regarding legal security. For my sector, it is crucial that the industry is considered safe. If the industry is safe there will be huge potential.

MM: How do you categorize your customers? What is the cut off point for the low income market?

OE: This is a standard that is decided by the government. Low income customers are those, who as a family, earn less than 20,000 LE a month, or, as a single individual, earn less than 7000 LE a month. These numbers are updated every few years depending on the state of the Egyptian economy.

MM: Mexico has an interesting mortgage system. Could you elaborate?

OE: Mexico has a very interesting low income mortgage system called Infonavit. The system is a combination of housing, pension, and mortgage funding loans. The government collects taxes of 5% from everyone in private sector and this goes towards the program. Through a pool and point system, low income consumers are assigned points based on socio economic status. This provides a pool of pre-approved loans with a zero down payment policy. The pre-approved pool is one of the main attractions of this system. The system reduces the amount of time needed for a person to get loan and this is very important in markets that depend on volume sales. For products to be affordable they must sell to the low end market, which means that the profit margin is low, we therefore must make up for this through volume sales, which means that the quick processing of mortgages is essential.

MM: You have a big development in 6th of October. How is this going?

OE: When we started in 2007 the development was progressing much faster. In 2009 things have been much slower, we have had our ups and downs this year, but I feel things are improving, especially during Ramadan and Eid.

MM: As a real estate broker it seems that the market has frozen, since sellers don't want to bring their prices down. Given this fact, how do you see the market going forward?

KR: 2009 was a bad year for everyone. Prices went down and individual sellers didn't want to lower their prices. They were not forced to sell so they kept their houses. People don't take in to consideration the value of money or market prices, so sales have dropped and instead we have seen more private owners renting and leasing their house rather than selling them. Likewise, developers didn't reduce their prices, particularly those who had ongoing projects. This was mainly because their residential sales started a few years ago and they could not now reduce their prices as this would discriminate against those who had bought at the launch of the development. In fact some developers decided to increase their prices. All of these factors created wrong expectations and perceptions of the market; ones that didn't match the realities of the market. Despite this false image, buyers still feel the economy is unstable so everything has come to a standstill. So the industry is very confusing at the moment.

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MM: So what sector of society are you targeting?

KR: Mostly the low and middle class income sectors. We have seen distress sales, with many people in these income brackets selling at low prices, because they need liquid cash. In the city, prices went down. Smaller companies are now implementing term payments, where installments can be paid over a period of 4 years, instead of 2.

MM: Are we expecting a long recovery?

KR: 2010 does not look good. There are some signs that the industry could improve, including Egypt's large population and increased demand in low income brackets. In 2010 I believe the industry will be worse than 2009.

MM: Regarding access to mortgage financing. What radical changes can be implemented that will create a quick turnaround?

AH: We are a cash based market. Whoever needs cash will sell, and whoever doesn't, will wait and keep monitoring the market. Personally, I believe we will see a rebound in the first quarter. Behavior has changed in the market; developers, consumers, and mortgage providers have started to change the way they work in the market. Mortgage hit rates were almost 150 per day a few years ago but we didn't have funding for all of them. Now, we have about 20 to 30 requests a day, and from them, we can offer 1 or 2 people a loan.

Developers are now working under the Central Bank of Egypt's non-financing system and this means under construction units will affect the mortgage financing system differently, as they will not enter the mortgage market until they are built. Developers are trying to minimize the projects they are working on, instead finishing them off one by one. This takes the burden off them as they don't have to worry about collecting money as much.

We are going back to the basics. Clients evaluate lenders rather than opposite. Demand in the market is deficient. We don't have only one source of information. There is lots of demand for mortgage financing and people need that so they can spread their payments over a period of time. We need information about the market.

Lots of work is being done on registration. We need long term and cheap financing and indexes. This is a good time to invest in real estate in Egypt and even to borrow, because the Central Bank of Egypt's interest rates are going down.

MM: The foreclosure law is it making progress and limiting how much people can borrow. Even the maximum loan allowance does not cover the price of a house. What is your opinion?

AH: Foreclosure law is there, agents are there, but it's not just about laws. Regulations and protocols need to be implemented. The majority of houses are not registered. The first mortgage company opened in Egypt on February 16th 2009, but the burden of knowledge is based on mortgage companies. We are the ones that have to create sessions to educate real estate brokers and legal agents and, we are the ones that have to meet with developers. There is a narrow margin, so we can't keep carrying the burdens of other people.

MM: The high end market is a problem. Do you agree and how do we fix it? Is the off payment plan crucial to this market?

KS: The high end market is important. The market is not driven by the same genuine demand that B and C classes create. B and C classes are quantitative markets, not qualitative ones. This market will be saturated in early 2010. The A class don't only buy house to live in them, but also as investments. I fully agree about the B classes' lack of existence. They have started to become a buffer for the A class, providing money for A and C to continue running on. There have been many successes in developments recently, contradicting expectations, but this has occurred in niche markets, all of which provide diverse assets and were able to enter the market at the right time.

MM: There seem to be opportunities in the residential market right now.

KS: Definitely, but we need to diversify, to have more retail, hospitals and gated communities. We need to explore these markets. These things help attract residential buyers. Dubai is a good example of this, real estate makes up 20% of their GDP.

KR: I want to retract my original statement. I just meant the residential industry will struggle but I wasn't referring to niche markets. 2010 will be a very good year for the retail industry.

Q&A

Floor: What is the impact of real estate taxes?

KR: It won't affect the industry much. We are not paying enough taxes. We are not even paying taxes for the most part. We didn't have taxes on cars and we have a long waiting list, now that the government has implemented car taxes. Taxes won't have the major impact that we expect. People won't stop getting mortgages so they can get an apartment for their son to get married in. We still don't have the full picture regarding real estate taxes. Personally I don't believe it will have a huge effect on the market or stop people from buying.

KS: I agree things won't be hampered on the macro level as much as we imagine and overall taxes will benefit the industry.

Floor: The real estate market has cycles and we have seen a delay in the implementation of real estate project implementation versus the actual supply physically appearing on the market. What is the affect of this?

KR: Usually there is a real estate cycle, in developed countries it usually happens every 15 years. In Egypt we have never seen this. We have never completed a cycle. What we have is more like a wave. We do need records because we don't really have any, but we get a sense of the market by comparing sales in this quarter, to those of the last quarter and of last year. Most buyers today already have 1 or 2 houses, and buy new houses with the intention of keeping them for a period of time, until prices go up and they can sell them for a profit. What we have learned is that prices don't go down and people are still buying but just not as much.

Floor: How can industry be run without data? How can big investors operate like that? Regarding the A/A+ theory, do you expect to see the difference between users and investors and do you expect that this sector of the market will continue to prosper in the future?

KR: Existing products in Cairo have seen price increases of not more than 10-15%, but gated communities in suburbs have experienced price drops of at least 50% in comparison to last year's rates. If my house is on the market for 1 million pounds and no one is willing to pay that price for it, then we cannot say that the price I am asking for is the market price. This has been highlighted by the number of people who are leaving off plan payment programs. After paying the 2nd or 3rd payment they then return the property.

AH: In 2009 and 2010 we will experience lower returns. A phenomenon I believe will continue in the years to come.

KR: What drive prices down are investors, well that's what they call themselves but they are actually speculators. It's not users that are driving prices down.

AH: We do have statistics but what we are trying to do is combine statics, to show clearly, where mortgage demand is. The burden is on developers to conduct their own studies into the industry and determine where growth lies.

OE: We have lots of speculators even in our development. We have sold 7,000 housing units and only 250 of these are occupied, this is of course beside the 600 residential units we also have. We hope taxes will limit speculators interference in the market.