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Tuesday, 15 June 2010

Keynote Address - HE Dr. Mahmoud Mohieldin (MM), Minister of Investment

RB: Good morning and welcome to the fourth Euromoney Housing conference. I thank you all for coming. At this moment I am often tempted to tell you why the housing topic is important. We are not here to sell each other real estate; we are here to make this sector more accessible to end users and investors. My aim is to bring together financiers and policy makers together with investors and the media. Euromoney's role is to create a forum where communication can happen and create a catalyst where this does happen. Talking of new things we have this wonderful new venue we would like your feedback. We have also changed the panel sessions to be longer but more in depth. You are all panel members we want you to ask questions and give your feedback on everything about the conference. This conference is your conference and you are the ones who make it a success. I would like to ask you to thank our sponsors as they are the reason the conference is free. It gives me great pleasure to introduce Dr. Mahmoud Mohieldin.

MM: Given it's your conference, I will try to be very brief so that we can open to the floor to ask questions and comments. I will be talking mostly in Arabic. The increase, in general, of GDP in comparison to the construction sector and despite the crisis affecting the globe in Egypt, has developed over the last fiscal year to 4.7%. We hope that it will reach 5.5% by the end of the year. The development in this sector was double that of other sectors.

The construction sector is one of the highest achieving sectors except for the telecom sector which increased by 14% on average. The contribution of the construction sector in fiscal year 09/10 greatly contributed to the economy; over the last 10 years it was not more than 3%, it is now almost 5%. It is not important as a standalone sector but effective only in collaboration with others.

The companies in the stock market have their own indicators, but you will see that the turnover is 67%, with the construction sector standing at 71%. We have been working hand-in-hand with Euromoney investors since 2005 and real estate investors since 2006. Last September we were talking about EGP 200 million for this sector, but now thanks to the passing of new laws, investment has grown even more and we expect the figure to grow by 25%. With such high figures we are reaching a critical turning point and this 25% puts a real push on construction investment companies in Egypt. We are extremely pleased with these numbers in our ministry. Compared with construction we are reaching EGP 4.2 billion and have a 4% return on investment per annum, but we have not yet reached our target, which we believe could reach 6% or more.

There are several banking corporations involved in the field of investment and construction without which construction wouldn't have survived. The sector has also been supported by the refinance sector, as well as constant market rates, growing at an average of 20-25% per year and these figures are confirmed. All this would not have been possible without the various authorities involved in the process. The chart shows the main companies for reinvestment and several other countries in the region are increasingly involved in this field. We are talking about a return of 13%.

When we talk about the average rates of mortgages from banks and the stability of this rate, and put this alongside the increasing prices of food and commodities, it should have created some instability in the construction market but this did not happen and the needs of people are increasingly being met. A lot of effort has been made to ensure these changes happened. In the past ratios were weaker, and possibly because of the last crisis of 2000, our success was based on the injection of investment into the housing industry. This injection of investment happened in 2001, and it was thanks to the careful monitoring of the Central Bank that we were able to overcome this crisis and get back on track. The average investment by construction companies and development companies, without being [supported] by the supervisory authority was increased from 12 -13%, and was increased to 16% this year. Although new laws provide for more than this, it is still the value of the real estate, which is 11%, that helps protect against any adverse effects that investment risks might impose.

The benefits of mortgages are clearly seen in Mubarak's housing and through the mortgage refinancing company. Of all mortgages, 70% are taken out by those with an average income of EGP 1,750 -2,500. This income range is close to the average of most Egyptians in Egypt. Over the past period we have made some amendments: regulating mortgage financing, administrative procedures and legal structures, thereby decreasing the maximum down payment to EGP 50,000. We know there are other fees related to licensing which were in the past very high but have now been decreased to a ceiling of EGP 2,000 per unit. The cost of licensing used to be 12% of the overall cost of the unit and is now 9%. This 12% meant that the government had become a partner of the construction industry and this was not right, but now that the ceiling is EGP 2,000; we have reached a good number.

If we have the ability to decrease prices related to the low income housing sector we will do so. There is a lot of cooperation between the EFSA, the Central Bank and the Ministry of Housing to make this happen. Decisions that certain fees will be reduced or removed are helping to support this sector and supervisory changes will help this sector of society gain greater access to this type of housing.

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In the future we need to stipulate that financial awareness makes up a big part of the mortgage financing programs we wish to launch. In the last Euromoney conference I quoted Robert Schiller, who highlighted the real issue behind the US crisis. The biggest problem was there was no awareness of the mortgage finance system. This awareness is not just important for the government but the role of the media and the public. It wasn't just the greed of banks that allowed the global financial crisis to take place. The crisis only had such a large impact, because of the lack of awareness in the US. When they requested that Schiller write a paper giving the US government advice on how to deal with the crisis, 70% of it focused on increasing awareness through the media. We mentioned that this authority, the EFSA, which through a Presidential Decree will soon start to cooperate with the media to raise awareness of mortgage financing and also insurance as well as other subjects that come under the mandate of the EFSA. A large-scale media project will be announced in next few weeks that will reflect what I am saying.

Regarding the mortgage finance industry, we will be changing some laws. We will have to wait until the next round of parliament after the last quarter of the year, for these to take effect. There is huge interest in this law which stipulates regulations for the mortgage finance industry as well as raising awareness among the media. We are looking to have the EFSA supervise the mortgage industry. Mortgage refinancing will not be allowed unless approved by the authority, they will also be responsible for applying solvency rules and not allowing mergers unless they are between companies in the same field, and with approval of EFSA. The EFSA will be able to impose fines if companies break the rules, and will centralize relations between itself, the Central Bank and finance bureaus.

Dr. Farouk Okda from the Central Bank agreed to allow credit bureaus to be responsible for mortgage financing too, expanding access to mortgages by broadening those offering this service. The problem we are looking at now is how to ensure the collection of bank and mortgage refinance company loans. If you are unable to pay, you will be notified according to law, but if you do not pay, specific measures that extend beyond what is stipulated by law, are often taken. With regard to debt collectors, we need more regulation and more companies to collect on behalf of loaners. Defaulting cases are limited to date, but this will occur and companies should be available to banks and refinance/credit companies to collect these loans.

Also there are several other problems. We are receiving numerous reports, but they are still insufficient. We are very concerned about getting a more detailed picture. I would like to stress that even if more costs will be incurred, if there are experts that can support us, tell us, we are here to help. We are concerned about leasing licenses, construction and building licenses. We have a fund to help construction companies, but I believe the field needs to be opened up to insurance companies further so that they can safeguard construction companies. This will favor business and will avoid possibility of collapsing cooperation's in the industry. This is a positive for real estate investors making it more favorable to invest.

Over the past two years we have been supporting the direct support fund and we also have alternative methods for supporting this. I know people in the audience are pressuring speakers to give out some kind of statement and there was someone in parliament who had a number of problems with the media, but I hope this doesn't happen to me or you. Based the recommendations of the President we have a large number of low income units available. The remortgage finance sector was, as we know, a pilot study. The first real way we dealt with the problems of mortgage refinance finance industry was with Kattamaya, the rich part. It's just a matter of acceptance because when you sit with poorer Kattamaya residents these people are very happy just to have their kids graduate high school, but you remember the Egyptian play plain coffee, well this is what is brewing for these residents. I don't want this to be a reflection of reality but it is.

In the rich part of Kattamaya, the problem was the initial payment premium that had to be paid in advance to pay for the contract. So if you wanted to pay lower rates of interest you had to pay more up front. Thanks to the effort of the housing fund, the premiums were raised to EGP 20,000 and the installment was raised to 1.3% from 1%. So the subsidy provided after the funding we received from the World Bank has allowed us to finance 65,000 housing units. We believe this will spread and the units we can provide will increase. The objective is to provide units at EGP 75,000-95,000. This is in line with peoples' capabilities and an interest rate of 20-25% would be affordable as the original premium would be reduced. Prices will be scaled according to the abilities of the individual.

Practically in the last 5 years, although we started slowly we have been very successful. we hope to add an additional 20,000 units to the low income housing industry by 2011. Sohag alone will be getting 3,000 units, and by 2012 we hope to add an additional 38,000 units to the low income housing community. The Governor of Luxor asked for funding. Luxor, Kafr Sheikh and Minya are very lucrative housing governorates 900,000,500 from the billion received will be taken. You are serving the field of construction which is a very sensitive sector and housing is important to youth after graduation and we will be offering affordable housing. Wherever there is construction it will be successful. We are not seeking large investments for the sake of investment but for the sake of our people. The employees in this sector have seen their income double. Ensuring low income individuals have all the support possible that we can help them with.

Q & A

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2) Are there plans for unit renting? The market will not be stable without rented units this requires regulation and companies have to act according to their licensing and companies have to regulate based on housing type. Projects for leasing have deficiencies because the whole building has to be registered and most of the youth don't benefit.

3) Ahmed Maghraby shifted when he allowed the private sector to be involved in the public sector. We told ministry between limited income and low income individuals we need to increase to 5,000 to pay monthly installments. Projects are under construction and infrastructure is not finished the CBE provides 65% and the rest is from others. Inside the CBE we need to clarify the standards.

Approximately 1.5 -4% mortgage finance but informally or indirectly when we deal with these companies, they all auction off these personal loans which have much higher rates. What is the role of investment ministry to intervene, to prevent the mortgage finance sector from doubling or even tripling?

Mortgage finance in SA have corporate housing at 3% and remortgages it at 5%. The other problem was found in the construction sector the urban authority has to approve 1) completion of project and 2) pay for the land, but if I have finished the project I don't need money.

Inflation in the country and price fluctuation. Construction reaches 5% cont of GDP but to calculate inflation is very difficult; can we have studies that are accurate on construction?

The draft law on finance, is this because the current law is not strong enough? Regarding the refinance companies, is this a new concept?

MM: Someone would say all investments are in real estate others say in petroleum. RE receives the lowest volume of investments even in the ME with the exception of Qatar this is true. In Egypt, as with other countries even those that are growing, it's not more than 5%. There are 64 projects that have to do with housing. The financial crisis has had some impact, but the crisis has changed the opportunities of the world and we have to move towards Asia which now has a surplus of finance. Today we have a meeting with an India company and at the end of the month we will meet a Chinese funding company.

It is not the government who should be held responsible, unless we are talking about laws. Mortgage, licensing, refinancing, loans credits etc, these laws change every few months in the European Union and even faster in the US. The law is related to mortgage financing and there are other laws related to CB and mortgage financing regulations.

I believe we have a number of laws supporting low income sector. When you talk about limited income, the main concern of the government is to support poor people and if I consider people with an average income as poor, then the price per installment would be more expensive and now when we need to think of extended the payment plan to be paid back over a longer period. We are talking about people who are truly poor, but if EFSA is required to intervene they could address this.

I know there is a problem in how the numbers are calculated but there is one additional indicator, the investors' index, which will overcome the issue of inflation or calculating the increase in inflation. At least we may be running on a system of long leasing providing a tenancy agreement in those governorates was satisfactory to those involved. The issue of leasing was in the news a lot in the 1970s and 1980s and you can see that many of the huge buildings only have symbolic rents so I believe there should be a minimum tenant rate.