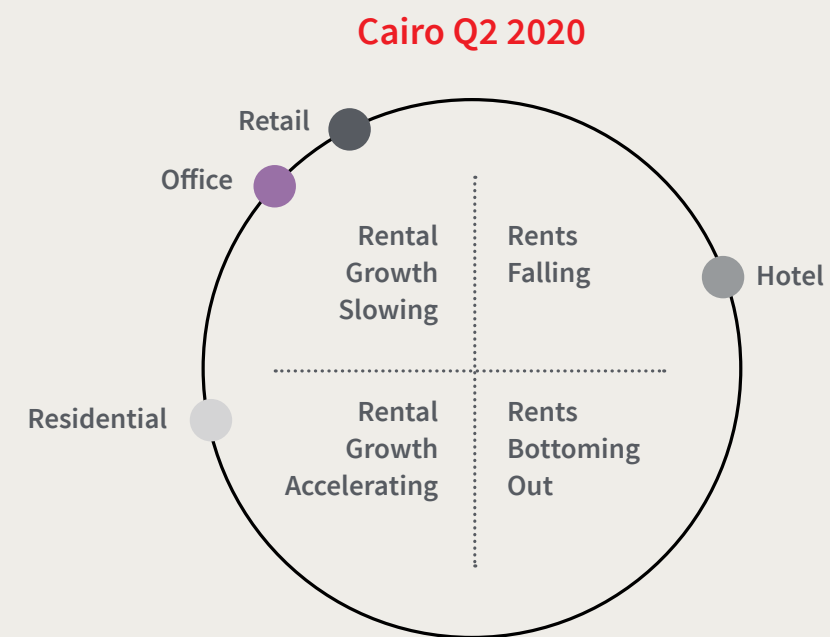


The Cairo Real Estate Market

Q2 2020



Real estate market overview



The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle at a point in time. These positions are not necessarily representative of investment or development market prospects. It is important to recognize that markets move at different speeds depending on their maturity, size and economic conditions. Markets will not always move in a clockwise direction, they might move backwards or remain at the same point in their cycle for extended periods.

Office



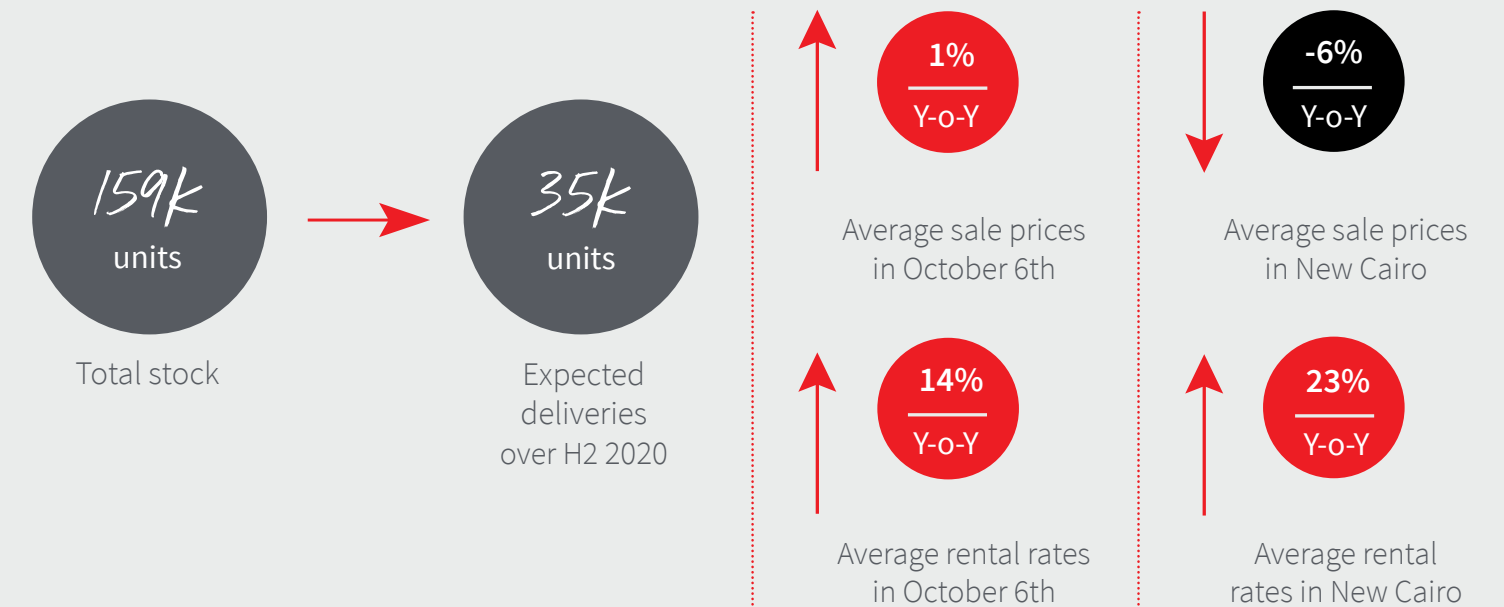
Average prime office rents in Cairo remained stable over the quarter at USD 325 per sq m, representing a 7% increase Y-o-Y, as the demand for primary office space continued to outpace demand for secondary spaces. Average vacancy rates in Q2 2020 dropped to 11% primarily driven by high levels of demand from online retail platforms.

While no major incentives are being offered by landlords, the government continues to support the sectors most impacted by the pandemic. One such initiative is to allow corporates to pay their income tax in 3 installments (April – June), rather than just one in May. The government has also increased the

tax exemption limit from EGP 8,000 to EGP 15,000 for all employees, while increasing the annual income raise of public sector and state employees by 7% and 12% respectively.

Looking ahead, the office market in Cairo will continue to be a two-tiered market, with high demand for smaller fitted out primary office space. Meanwhile, rents are expected to stabilize in the second half of the year. Demand for flexible office spaces is expected to witness a slowdown in the short-to-medium term on the back of weakened demand from small-to-medium enterprises (SME's) and start-ups.

Residential



Only one residential project was completed in Q2 2020, bringing the total stock to 159,000 units. Around 35,000 units are currently under construction and expected to be completed in the second half of the year.

Looking ahead and in efforts to curb future supply within existing cities, the government has suspended the issuance of construction licenses for new projects for the next 6 months.

The Central Bank of Egypt (CBE) has also slashed interest rate by 3%, the lowest rate since 2016. Provided this remains in place as the economy recovers, the initiative is expected to attract developers and investors in the long term to finance

their projects through bank loans rather than relying solely on off-plan sales.

In terms of performance, the rental market in both 6th October and New Cairo remained in favour of landlords, with rent prices increasing annually by 14% and 23% respectively. This was mainly driven by Cairo's organic demand which remained high in Q2 2020.

In turn, sales prices decreased by 6% in New Cairo and increased at a much slower rate of 1% in 6th October on an annual basis, as consumers remain cautious of conducting major transactions or signing off-plan contracts at this stage.

Retail



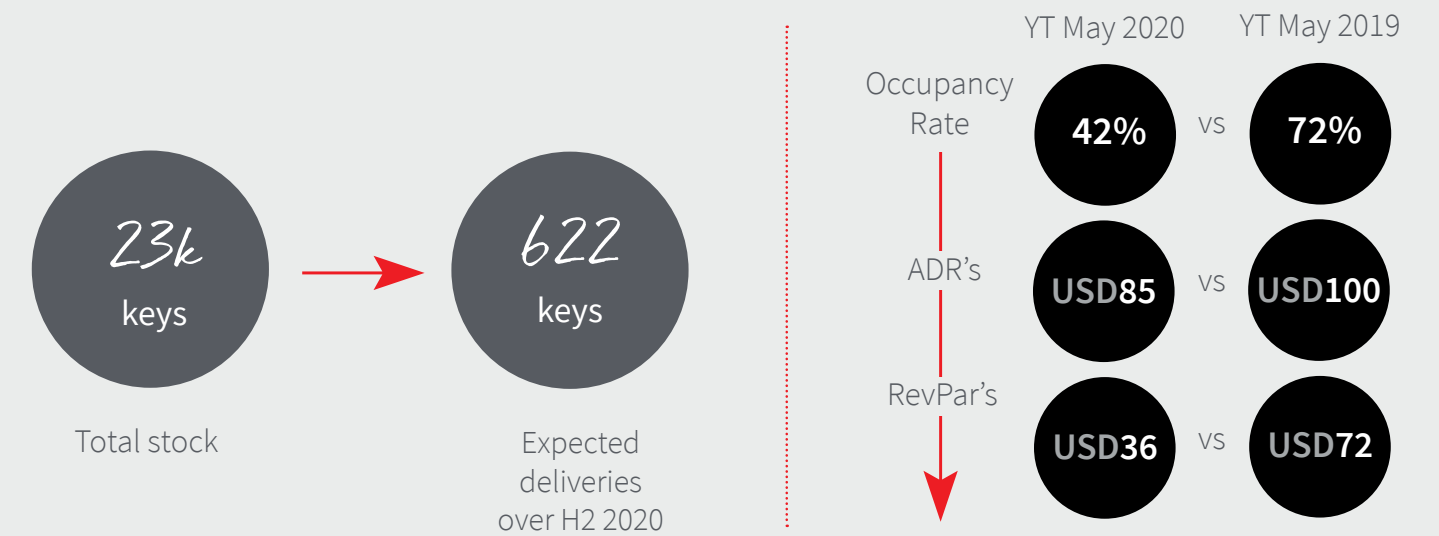
With no additional retail supply added in Q2 2020, the total stock remained stable at 2.3 million sq m of GLA. An additional 37,000 sq m is expected to enter the market in the coming 6 months..

Both primary and secondary rents have increased between 5% to 10% annually. Looking ahead, with mall operations gradually getting back to normal, average rental rates are expected to remain stable with no major spikes in the second half of the year.

Landlords continue to offer incentives to support tenants. While some have waived service charges and offered rent free periods, specifically for the F&B market, others have adopted a revenue share model to support retailers account for the loss of sales.

The retail market has witnessed a noticeable shift in consumer preferences towards online shopping, allowing for a prominent number of home-grown F&B and fashion businesses to emerge, posing greater competition to shop owners who have not yet invested in an online shopping portal.

Hospitality



No additional keys were added to Cairo's hotel supply in Q2 2020, keeping the stock stable at 23,000 keys. The future supply of hotel keys remains limited, with a total of 24,000 keys scheduled to be delivered by the end of 2022.

In light of travel restrictions, the hotel market witnessed significant declines in performance. Occupancy levels registered 42% in the YT May 2020, which is the lowest rate registered since 2013. Similarly Average Daily Rates (ADR's) and Revenue Per Available Room (RevPar's) decreased to USD 85 and USD 36, a 14% and 50% drop respectively when compared to the same period last year.

In a move to soften the impact on the hospitality sector and boost domestic tourism, the government has allowed hotels to reopen to local tourists and operate at 25% capacity in May 2020, provided they comply with strict precautionary guidelines. Moreover, the government has committed part of the USD 2.7 billion emergency support loan granted by the International Monetary Fund (IMF) to the hospitality sector, in efforts to support the sector further.

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, and West Cairo.

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 86% 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 New Cairo and 6th of October, 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 centers 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 centers.

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 of hotel rooms is based on data from the Egyptian Hotel Association. It reflects hotel rooms that have been handed over for immediate occupation. Our project list includes all graded supply and excludes serviced apartments.

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.

Disclaimer: the Covid-19 pandemic has created a material uncertainty in real estate investment market performance. Across MENA, there is considerable variation in the extent of the human tragedy implications unfolding and its impact on economic activity, including the trajectory, duration and extent of these impacts on all real estate sectors. With varying recent and ongoing policy response across the region and the mitigating implications differing by market and sector, it is too early for us to provide a quantitative and robust assessment of value impact. We will talk to the evolution of the market throughout Q2 in our reporting and will be continually monitoring market movements as the situation evolves, to inform our ongoing view of pricing. We will be updating our forecasts, albeit these will be directional at this time, broadly reflecting any meaningful changes to the underlying fundamentals. Please feel free to contact us if we can assist.

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