

Summary Notes on the RTD entitled:

## “Will Egypt Face a Real Estate Bubble?”

Held on September 18, 2018

### Speakers:

- Dr. May Abdel Hamid, Chairperson of the Mortgage Finance Fund
- Engineer Hisham Shokry, Chairman of Rooya Holding for Real Estate Investment
- Dr. Ashraf Dwidar, Managing Director of ARDIC for Real Estate Development and Investment
- Mr. Mohamed Al-Barony, Chief of CIB Credit Division

### Moderator:

Dr. Abla Abdel Latif, Executive Director and Director of Research, ECES

### The main points discussed by the speakers:

#### Eng. Shokry:

- Saving in real estate creates a productivity cycle that benefits the economy.
- Supply exceeding demand is one of the features of a real estate bubble. However, the population growth rate is 2.5 million per year, leading to about one million marriages annually, of which 500 thousand need housing units.
- Housing units produced by the private sector target the richest 10 percent in Egypt.
- The private sector builds 50 - 60 thousand units annually.
- There is no bubble as prices have not decreased over the past few years.
- Building new cities is favorable, but such cities need a reasonable period of time to achieve the objectives thereof.
- Egyptians live on 7 percent only of the area of Egypt. An additional 5 percent of the area of Egypt should be populated by 2030 in order to maintain the current density let alone reduce it.

#### Dr. Abla Abdel Latif:

- ✓ Price stability is not an indication of the absence of a problem; the real estate industry should meet the needs of citizens.
- ✓ Developers' insolvency is not the only evidence of a problem.
- ✓ Using real estate as a saving instrument is not disputed, but you must know how it will be liquidated.
- ✓ The need to develop the governorates to ease the pressure of migration to Cairo.
- ✓ If there is no bubble now, we may be heading towards one.

### **Dr. May Abdel Hamid:**

- There should be a quantitative study of the volume of demand for real estate.
- New constructions should be demand-driven.
- Social housing account for 80 – 85 percent of the demand for real estate. However, luxury housing dominates most of the advertising space.
- Social housing is not supposed to be a store of value because it is subsidized.
- Over the past five years, the construction of social housing units was demand-driven. Occupancy rates have been monitored and vacant units were withdrawn from their owners.
- The prices of social housing units have risen following the flotation of the pound and reduction of subsidies; therefore, more subsidies are needed.
- Unlike other countries, there are no indicators to measure inflation in real estate prices in Egypt because of the reluctance of real estate developers to disclose their real prices, and the absence of a good secondary market.
- Real estate developers depend on the financing of the client, which is very risky.
- Real estate borrowing is not problematic as evidenced by the fact that the rate of default in the social housing mortgage program was almost zero.
- Subsidize interest in the transition period until the interest rate gradually decreases to suit the market price.
- Targets for new cities are exaggerated.
- Increased building of cities is natural subject to demand.
- Real estate developers should thoroughly examine the solvency of their customers.
- There should be a law regulating the construction process.
- It is not normal for a developer to act like a bank and sell units to customers through installment payments. A developer does not fulfill the necessary conditions to perform that role.
- The change in the pattern of construction is good because it fits the real needs of the client but coinciding with the large increase in supply and weak secondary market raises questions about the signs of a problem.

### **Dr. Abla's comments:**

- Expansion in Cairo is not the solution. The solution is to create jobs in other governorates.
- The real estate developer serves a very small proportion of the community ("A" class). The question is: do solutions include the real estate developer expanding activity to include social housing?

### **Mr. Mohammed Al-Barouny:**

- The real estate sector is linked to many other sectors that feed on it (the construction and building materials sectors).
- In addition to its role as a financier, the bank plays an advisory role for the client and supervises the developer as a safeguard against risks.

- Comparing eras is not the solution because each era has different conditions and a different political and economic situation.
- Mortgage is inactive due to high interest rates.
- The customer's ability to pay installments and commitment to pay should be identified. The rates of collection failure should be analyzed and examined over different periods of time (before and after floatation of the pound).

#### **Dr. Dwidar:**

- The attempts to discuss the mortgage law for social housing with the government did not work.
- The problem is there is no consensus among players in the sector on identifying roles.
- As very low percentage of checks were rejected, there may not be a bubble now.
- The customer does not wish to disclose his source of income.
- Banks are afraid of low-interest mortgage financing on the pretext of congestion in certain areas; the current high interest rate is very problematic.
- Some people are ready to buy housing units no matter how high prices are, which leads to excessively high prices.
- There should be a mechanism for managing utilities and providing services.
- The government role is to regulate rather than compete.
- The supervisory body is inefficient.
- The "Block Chain" technology should be used instead of the real estate registration office to keep pace with technological development; more importantly, there should be a database available.
- There is a need for a council to coordinate between real estate developers and industrial developers.
- Savings are the source of financing the bubble not credit, which will reduce the damage of a bubble.

#### **Recommendations:**

- The need for an information base.
- The need for legislation that regulates the real estate sector and for revisiting the real estate developer law.
- The need to reduce the prices of real estate property; developer profits are not exaggerated but land accounts for a high share in the cost.
- The need to develop a strategy for the export of real estate with the participation of the State.
- There should be real estate mortgage solutions.
- Amend the law to solve the problem of requiring a proof of income.
- Study a proposal to reduce the interest rate through subsidies, i.e., depositing 0.5-1 percent annually of the total sales of developers in a fund to subsidize the interest, which could be borne by both buyers of luxury units and developers.
- Motivate developers to operate in Upper Egypt.

- Define the real estate developer and its size in the market to determine the land in which it deals.
- The need to create a House Price Index.
- The need for housing associations to comply with the law.
- The role of the State must be clearly defined.
- Conduct a comprehensive review of both the New Urban Communities Authority and the Industrial Development Authority as well as their roles.