

The World Economy's Hard Times is Finally Serving the Long-lasting Egyptian Middle Class Housing Dilemma



The Egyptian Housing industry is a vibrant and dynamic segment of the overall economy. According to the Ministry of Economic Development data, the real estate and construction sector is responsible for 5 per cent of the Gross Domestic Product (GDP) for the fiscal year of 2008/2009. Therefore, instability in this sector is of strong impact on the rest of the economy.

Egypt is the land of contradictions. According to the Euromoney's latest reports Egypt is one of the very few countries showing positive signs in the housing sector.

According to managing director of the

Egyptian Housing Finance Company, Hala Bassiouni, the demand in the local real estate market is changing rather than shrinking. In other words, although the luxurious housing segment is suffering from major stagnation, other market segments still have huge unsatisfied demand, namely lower- and middle-income segments. However, to provide housing for these segments -which comprise the bulk of Egypt's population- it is mandatory that the banking system, the government, and the private sector join forces.

From the banking system point of view, it is clear that housing for middle

class is a very attractive investment opportunity. To accelerate the rate of real estate investments in this sector, banks will fund companies and individuals with a total amount of 40 billion Egyptian Pounds.

Besides, the mortgage interest rate was reduced to an affordable level, the thing that will increase the volume of mortgage loans. Mr. El-Sawy, the director of collaterals and assets verification in the United Bank, is in favor of this decision. He believes that the interest rate decline will break the state of stagnation. Doing so, the environment is tempting to invest.

Providing acceptable housing units for these categories is a strategic goal since the 70's. Thus, consecutive governments have been trying to provide housing solutions, some of which were successful.

One of the latest approaches of the ministry Housing Utilities and Urban Development to solving the problem is launching "Build Your House" project. The idea is to sell pieces of land of 250 square meters in Six October, New Cairo and Sadat City to middle-income brackets at the infrastructure cost only. The cost of infrastructure in this case will also include the cost of building schools, nurseries, mosques, and churches to establish full-fledged societies.

Furthermore, the ministry has another project to encourage the participation of the private sector, mainly the small scale contracting companies. The program is called "The Small Contractor". Small-scale contractors will be given land equipped with infrastructure to build middle class housing units of 120 m2 maximum in exchange for 20% of the units, which the ministry will sell for reasonable price. This way small businesses will do well and in the meantime, the consumer will be protected as the price of the units sold by small businesses owned will always be in relation to the price of the ministry.

Finally, the new market conditions from the real estate investor's point of view is tempting as well. First of all, the old cash cows -Luxurious housing- are facing an indefinite period of stagnation. According to Suha Najjar, managing partner and director of research at Pharos Holding the Egyptian real estate market went through price escalation hysteria in the past few years to the extent that some investors used to charge more than

100% profit margin on up-scale units. This is why middle class housing was never attractive given its ordinary 10% profit markup.

In an interview with Mr. Hatem Farouq the Chairman of Edar Image- he mentioned that based on a quick five-year market analysis, we can depict the cure of the market growth.

In the year of 2004, the real estate market started to pick up, the growth continued rapidly till 2006. However, the phase of maturity started in the year of 2007 with its main feature of stability of the market size. By the year of 2008, the decline was severing.

According to Mr. Hatem, this is the time to change our understanding of the real estate market and the production mix from the developers' point of view.

When we see the situation from the private sector angle, we will find that most of the local real estate companies are burdened with instilments payments to the government for land purchased to construct new projects. Now the only promising market segment to keep operating is the middle class housing. Real estate developer's shift in their market orientation is noted as more than 33 companies -who already have planed and accredited project in new cities- demanded the change of licenses from luxurious units to middle class units. SODIC, Orascom Housing Communities, and El- Morshedi are examples of local industry leader who are offering aggressively-priced smaller apartments to suit this demand.

In my opinion, the problem is not mainly due to the world wide prevailing economic crisis but due to the inefficient system of handling national problems in general. If we look at the big picture, we will find that the real estate industry in Egypt is in a state of



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chaos due to the lack of enforceable rules and regulations.

The middle class housing problem is a 40 years old epidemic. Meanwhile, all governments throughout this time are handling the problem with a one-shot solution approach. A example of this is the youth housing project, "Build Your House" project and so on. From my point of view, there is no body of laws that effectively regulate practice in the real estate market, while having the interest of the Egyptian people at heart. All the laws concerning housing and real estate development do not broadly serve this nation.

If these laws were effective, the middle class housing demand would have been satisfied and the state of supply-and-demand equilibrium would have been achieved long time ago. Furthermore, the frantically over pricing phenomenon of up-scale housing would have been very limited, and many other socio-economic problems would have been avoided.

In short, we need to be pro-active and once and for all establish the right system to surpass these lifelong dilemma.

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