Real Estate & Mortgages in Egypt:
Always on a Positive Horizon!

Egypt's real estate sector is largely dominated by private developers who are heavily investing in the high-end consumer market (high-end gated and mixed-use communities), accounting for only 10% of housing supply in Egypt. Although demand in the residential sector in Egypt is likely to grow in tandem with the growing population, purchasing a home is still a financial challenge for the average Egyptian—with a low to moderate income and limited financial means. An estimated 52% of households can afford homes within EGP230,000 to EGP310,000, based on their income levels.

The majority of low-end projects are mainly undertaken by the public sector in Egypt due to high land prices which puts strains on profitability, leading to a supply gap in this housing segment. Also, with an inactive mortgage market and lack of accessible home financing, developers had to resort to off-plan sales and extended interest-free payment schedules.

Recently, there have been some ongoing efforts to change the status quo with the mortgage sector slowly taking off, especially with the participation of the private sector. While an existing sector since 2001, mortgages only represent 1% of Egypt's GDP. Yet, the development of mortgage and leasing finance has been on the top of the agenda. The Federal Regulation Authority (FRA), the Central Bank of Egypt (CBE), and Egypt's mortgage finance fund, have been amending laws to aid in the housing gap, especially for low- income citizens and middle-income citizens and to stabilize the real estate fund market.

So, how is mortgage finance going hand-in-hand with the real estate market today? What has changed and how will it impact both real estate & mortgage market?

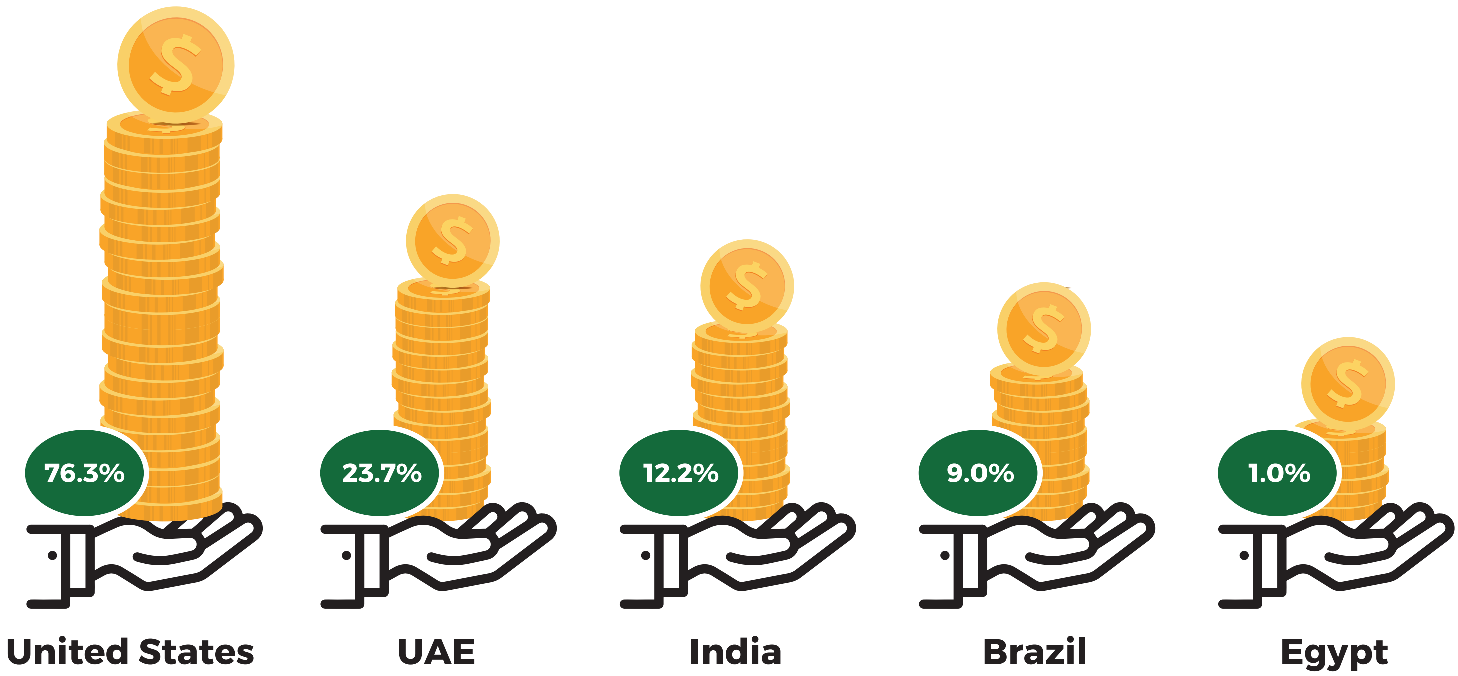
1 Mortgage Sector Is Largely Unexploited In Egypt, Why?

The market has come a long way since home loans were activated in 2004, but mortgages remain severely unexploited in Egypt for several reasons. In developed countries, mortgages account for the bulk of bank loan portfolios, for example over 50% of U.S. bank loan portfolios is allocated to home loans. The mortgage environment has been considerably constrained in Egypt due to CBE regulations. Until February 2020, Egypt's banks could only allocate 5% of their portfolios to mortgages (now banks can allocate up to 10% of their portfolios to mortgages). However, this is still substantially lower than similar markets. For example, banks in the United Arab Emirates can lend up to 20% of customer deposits to homebuyers: In 2019, mortgages took up 36% of UAE banks' retail loan portfolios.

Regulations also require that properties be properly registered and at least 30% of construction completed before buyers can land a mortgage contract. MFCs have turned to Islamic finance to bypass this issue. In 2015, amendments to the Mortgage Finance Law were passed to allow for ijara (lease-to-own agreements) and murabaha (cost-plus financing) for low-income purchasers. However, these opportunities still remain underexploited to date.

Mortgage market has come a very long way, and mortgages are just getting started to finally become exploited in Egypt. The market is finally tapping into its myriad of opportunities and full potential.

Mortgage Debt-to-GDP Ratio (2019)



2 Big Banks Are Stepping Up Their Efforts To Boost Mortgage Sector, How?

More banks now have established subsidiary MFCs over the past decade to tap into this market. Credit Agricole Egypt acquired Egyptian Housing Finance Company, which currently has a list of 76 upscale real estate development projects pre-approved for financing.
The Arab African International Bank established its mortgage finance arm, Arab African International Mortgage Finance, in 2010, providing 15 - year home loans to a list of 51 pre-approved projects . In 2021, CIB Egypt also obtained regulatory approvals to launch its own mortgage finance arm in 2022.

Besides, SODIC partnered with CIB in September 2021 with an aim of helping the growth of bank mortgages, – it's one of the first agreements of its kind to hit the market. Under the cooperation protocol, SODIC clients will be able to purchase ready-to-move homes with CIB mortgages with up to 20 - year terms. Existing homeowners offering their units for resale through the company will also be able to offer extended payment options to potential buyers.

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3 What Is The Role Of Central Bank In Mortgage Financing?

2014

CBE allocated EGP 10 billion to encourage mortgage financing for middle and low-income households. CBE's initial mortgage initiative is based on offering a low lending rate for 20 years at a declining rate of 7% - 8%, with a down payment of EGP 15,000.

2016

New amendments were introduced to CBE's initiative, where low-income individuals earning less than EGP 1,400 will be qualified for a loan at an interest rate of 5%. Down payments have been reduced to EGP 12,000.

2019

The CBE allocated EGP 50 billion to a real estate financing initiative for middle-income individuals. Under that initiative, the banks provided customers with loans at 8%, on instalments extending for 20 years. some amendments were made in 2021, including; increasing the repayment period to 25 years, eliminating the requirement of maximum net unit area and increasing the maximum unit price to EGP 2.5 Mn.

2021

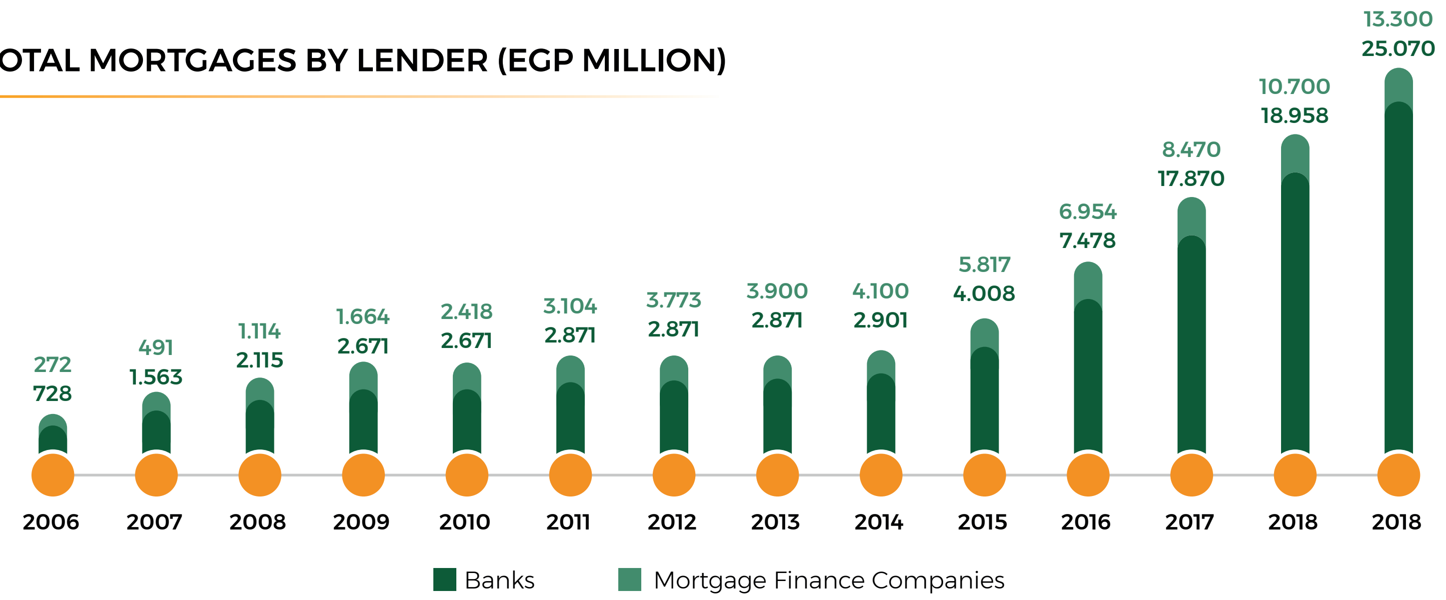
The CBE introduced EGP 100 billion mortgage finance initiative with payment plans of up to 30 years with a low interest rate of no more than 3%. The maximum unit price within this initiative is EGP 350,000 for low-income people and EGP 1 million for middle-income earners.

> **CBE Deputy Governor, Gamal Negm, highlights that the new mortgage finance initiative in 2021 is the longest financing facility that has ever been provided in Egypt, and one of the longest mortgage loans in the world.**

4 Egypt's Mortgage Finance Sector: Who Are The Top Players?

The number of mortgage finance institutions in Egypt reached 31 in 2020, of which 23 are banks and 15 are companies. In 2021, the Mortgage finance market grew by 155%. The market share of top 5 non-banking mortgage financing companies from January- December 2021 are; **Al-Ahly Mortgage Finance** with 21.25%, followed by **Al Taameer Mortgage Finance** with 13.83%, **Tamweel Investment Holding** with 12.34%, **Bedaya Mortgage** with 10.45% and **Amlak** with 6.96%.

TOTAL MORTGAGES BY LENDER (EGP MILLION)



5 The Mortgage Sector Is Growing At Unprecedent Rate In Egypt, Yet Competition Is Getting More Intense. So, How Can Mortgage Companies Remain Resilient?

Automating & Streamlining Mortgage Process; by reducing manual processes and paperwork, and thus expediting loan processing and reducing turnaround time. Technologies like AI, ML, and APIs can help streamline preapprovals, mortgage applications and loan processing.

Digital transformation; this could be through; a) performing tasks that were typically completed face-to-face, including e-verification of income and assets, (b) Self-Service Options; creating web applications that offer a completely digital experience, including digital document uploads and online monthly payments, (c) Electronic signing, etc.

Offering Bundled Services; by offering complete solutions to customers across non-banking financial services with integration of digital solutions either internally or externally for customers & other stakeholders.

Building strong relationships with developers

6 The Government Has Issued a Major Decision that Will Change the Entire Real Estate Market, What Is It? And How It Will Impact the Mortgage Sector?

Off-plan sales have always been the more dominant and viable option for developers and buyers Recently, the government has stated that no developer can announce or market any real estate projects until 30% of the project's construction is complete to guarantee developers' commitment. This has made the situation much worse for developers who are facing a bottleneck with consumer purchasing power, especially post- 2020. Before this decision, developers grew their bottom lines on the back of strong off-plan sales and extended interest-free payment schedules. This liquidity crunch together with lower interest rates are potential drivers for the mortgage market to pick up in this segment. The mortgage system is a key success factor for the real estate industry.

Off-plan sales have always been the more dominant and viable option for developers and buyers، but the situation has changed now!

7 What is the Future Outlook for Both Real Estate and Mortgage Finance?

The government plan to build new cities across the country is driving demand in all segments. In addition, lower interest rates make financing easier for both buyers and builders. Yet, given the current economic situation, many might not be able to afford formal housing without proper mortgage solutions. That's why now more than ever mortgage financing is put at the forefront of Egypt's leadership decisions.

The market could now be built on cooperation rather than competition. Real estate companies can no longer play the role of developers, financiers for the project, and mortgage financiers for their clients. This dynamic will be slowly changing whereby the developers will mainly focus on construction and development to bridge the Egyptian housing gap, MFCs focusing on filling the financing gap in Egyptian real estate, and banks allocating more of their corporate lending portfolio to developers requiring development finance.

The market could also see more public-private partnership agreements, especially in lower-income housing. The Social Housing and Mortgage Finance Fund announced plans in November 2021 to launch several housing projects to be developed under public-private partnership agreements throughout 2022. This could be the first step in opening up private sector participation in this high-volume segment.

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