SAVILLS RESEARCH 2023

REPORT

Retail & Office Report

EGYPT

savills

"Arkan Plaza - El Badr Commercial Developments"

Retail Market Overview

Over the past year, the retail industry in Egypt has undergone a myriad of challenges stemming from the spillover effects of the Russian-Ukrainian conflict, global supply chain bottlenecks, import restrictions and local currency devaluation followed by a rampant inflation. These economic turbulences come in the wake of a period of depressed consumer spending brought by the pandemic.

Considering the current economic volatility, retailers have become more averse to risk taking, putting most expansionary plans on hold until the market stabilizes. As a result, landlords have been offering flexible and generous lease terms including contributions towards fit-outs, rental discounts, marketing, and events support as well as temporary suspension of base rents. The latter has been replaced with turnover based rental contracts along with short-term lease agreements, step rents and rent-free periods in an effort to retain tenants and maintain occupancy levels across developments.

To ensure that sizeable developments are fully leased and well-perceived within the market, landlords have begun incorporating prelease agreements with international groups, retailers, and operators.

Despite all odds, the F&B segment, has witnessed an influx of newly established local brands offering innovative experiential dining and take-out concepts. The market has also seen heightened interest from international F&B brands, particularly from the UK and Europe, who aim to capitalize on Egypt's large consumer base.

Established players within the F&B sector, however, have found it more difficult to expand their operations due to import restrictions on equipment and staple ingredients. Moreover, as fit-out costs increase, operators looking to open new branches have been forced to downsize unit size requirements.

The current market dynamics is favouring retailers and F&B operators allowing them more room for negotiations with landlords. This is strengthened by the influx of new retail development, particularly in East Cairo and the New Administrative Capital. Noteworthy new additions include: **Ninety by Landmark Sabbour,** which is expected to add 115,000 sqm of retail GLA this year and **District 5 by Marakez** which brings an additional 120,000 sqm to the East side by 2024 as well as **The Waterway Developments** which has announced 2 new projects, **The View** offering residential, administrative, retail and hotel components and finally **The Hub,** a new commercial concept offering retail, offices, and clinics.

In West Cairo, **West Lane Boulevard** and **Golf Central by Palm Hills Developments** are expected to add around 18,000 sqm and 11,000 sqm of GLA respectively. Other developments underway in West Cairo, include **Royal Park** which is anticipated to add 25,000 sqm of GLA and the highly anticipated **Waterway Development** which is expected to launch later this year.

The Egyptian retail industry remains at an early developmental stage; unlike other global cities, the market is highly underserved in terms of experiential retail concepts, entertainment options and by the limited presence and diversity of international brands. This said, there are clear opportunities for the sector due to Egypt's young demographic and growing middle-class. Retailers must adapt their offerings to better serve Generation Z as this consumer segment is eager to remain up to date with global fashion movements and trends and are more inclined to shop at physical stores with technology-enhanced shopping experiences.

The current economic landscape is pushing consumers to reassess their consumption pattern. Consequently, consumers are expected to focus on value shopping, driving demand for discount store, factory outlets and big-box retail offering generous discounts.

RETAIL AVERAGE RENTAL RATES BY SUB-MARKET

WEST GREATER CAIRO
820 EGP SQM/MONTH

CENTRAL CAIRO*
900 EGP SQM/MONTH

EAST GREATER CAIRO
1,020 EGP SQM/MONTH

GREATER CAIRO MARKET AVERAGE
940 EGP SQM/MONTH

*Central Cairo rates are considered on the higher end, due to limited supply in the market

SOURCE SAVILLS INSIGHTS, Q1 2023

RETAIL OCCUPANCY BY SUB-MARKET

WEST GREATER CAIRO
79%

CENTRAL CAIRO*
90%

EAST GREATER CAIRO
88%

GREATER CAIRO MARKET AVERAGE
85%

*Central Cairo rates are considered on the higher end, due to limited supply in the market

SOURCE SAVILLS INSIGHTS, Q1 2023 - BASED ON KEY PROMINENT DEVELOPMENTS


Westown Hub - SODIC™

"The Polygon - Sodic"

Office Market Overview

Office Market Overview

The devaluation of the Egyptian currency and subsequent increase in inflation has negatively impacted office demand across Cairo. Tenants, triggered by the anticipated price increase and the limited availability of raw materials, due to recent import restrictions, have rushed to complete fit-out work in leased office spaces. As such, Q3 and Q4 of 2022 were characterized by an influx of newly completed and operational office space.

Capitalizing on this, landlords are becoming more flexible, offering fully finished/serviced units upon request to capture demand from local tenants who are now steering away from leasing core and shell units given their inability to predict additional associated costs.

To counteract the effect of monetary depreciation, many prominent landlords on both the East and West, have shifted back to leasing office space in USD* instead of EGP. Those that maintained their offerings in local currency, have been sought out by tenants looking for more flexible landlords.

The demand from multinationals and larger enterprises looking to expand or enter the market continues to be geared towards lease contracts with a greater geographic focus on East Greater Cairo as a commercial and business hub. In addition, as upcoming developments in the city continue to expand to the outskirts, many large institutions will be looking to set up smaller satellite offices in both east and west to retain talent.

Investment in this market remains primarily focused on smaller fully finished spaces in high quality buildings. The introduction of small-sized office spaces (less than 100 sqm) increases affordability for investors, surging the rate and number of commercial investments over the last year. Operationally however, these areas have proven more challenging to occupy by potential tenants given their limited area range. Office spaces within the 200-500 sqm range are notably high in demand by international tenants that have adopted hybrid working practices and therefore need smaller spaces. On a similar note, startups implementing the work from anywhere model have realized they do not need much space to operate, fueling greater demand for serviced offices and co-working spaces across Greater Cairo. This operational model has proven highly attractive as it offers flexible and reduced rental fees, in addition to alleviating the operating hassle of maintaining the space. Key players in the market include: **IWG, Co55, The Hive, MQR and The Greek Campus;** they all have expanded over the last few years to operate in multiple locations across Greater Cairo. Most recently, IWG and Co55 opened in East Cairo collectively occupying three new buildings with an average GLA of 1,500-2,000 sqm each.

It is noteworthy that COP27's impact of global discussions on sustainability led larger corporations to work towards attaining sustainable, green offices spaces. This has been a dominant trend in 2022 and it is foreseen to continue throughout 2023. In order to differentiate themselves, Grade A developers are consistently seeking globally recognized environmental certifications such as: LEED, BREEAM and WELL.

Certified projects meet ESG goals by tackling decarbonization, improving building efficiency, maximizing utilities savings, and creating healthy atmospheres for occupiers focused on wellbeing and social added value. Moving forward, it is expected that there will be an increased focus on repurposing existing stock to meet ESG requirements of tenants. As a result, office developments offering collaborative spaces, fully integrated and automated BMS systems, good ventilation systems and amenities will be highly in demand.

*Pre 2016 devaluation, many prominent landlords used to quote their lease rates in USD. However, to control the surge in rental rates and retain tenants, after the 2016 devaluation, landlords shifted to quoting in EGP.

OFFICES AVERAGE RENTAL RATES BY SUB-MARKET

WEST GREATER CAIRO	CENTRAL CAIRO*	EAST GREATER CAIRO
660 EGP SQM/MONTH	740 EGP SQM/MONTH	840 EGP SQM/MONTH

GREATER CAIRO MARKET AVERAGE: 760 EGP SQM/MONTH

*Central Cairo rates are considered on the higher end, due to limited supply in the market

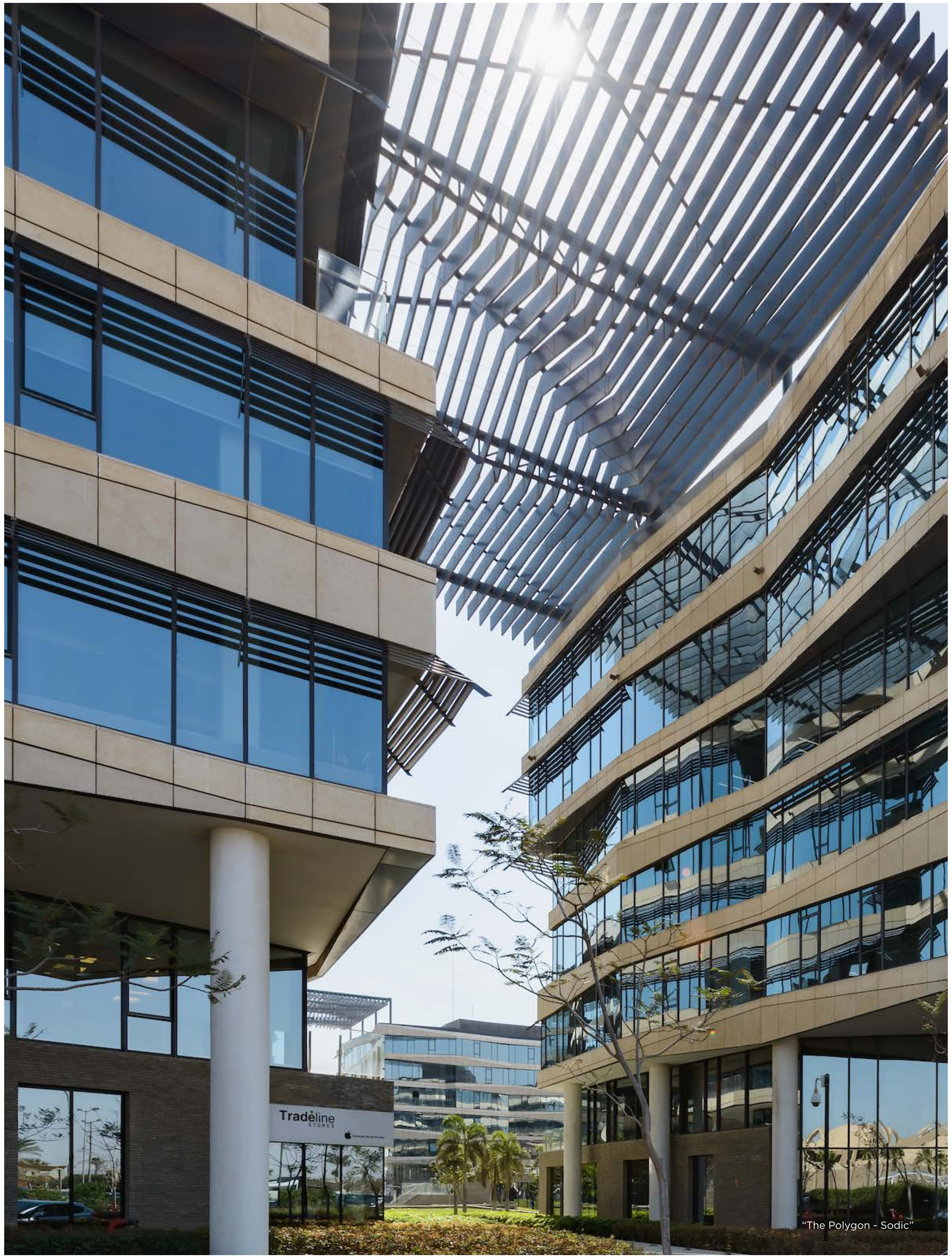
SOURCE SAVILLS INSIGHTS, Q1 2023

OFFICES AVERAGE OCCUPANCY BY SUB-MARKET

WEST GREATER CAIRO	80%
CENTRAL CAIRO*	68%
EAST GREATER CAIRO	90%
GREATER CAIRO MARKET AVERAGE	81%

*Central Cairo rates are considered on the higher end, due to limited supply in the market

SOURCE SAVILLS INSIGHTS, Q1 2023 - BASED ON KEY PROMINENT DEVELOPMENTS



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