Egypt's new capital will not help the housing crisis

Monday, January 29, 2018

The president's mega-project to create a new administrative capital is unlikely to have the desired effects


Completed residential buildings in Egypt's new administrative capital location north of Cairo, October 2017 (Reuters/Amr Abdallah Dalsh)

President Abdel Fatah el-Sisi in 2015 announced he would build a new administrative capital as a remedy for Cairo's overcrowding and chronic housing shortage. However, only 15% of the residential housing units in the 45-billion-dollar new capital (as yet unnamed) are scheduled to cater for low-income households. More significantly, there exists no plan for how this housing will be funded. The current trajectory of the capital project suggests little cause for optimism concerning Egypt's unbalanced housing market.

What next

The new administrative capital and 2016 devaluation of the Egyptian pound have increased the attractiveness of the Egyptian real estate market to foreign companies. This is creating partnerships between Sisi's military-backed regime and Egypt's real estate tycoons, which will prove lucrative for many years to come and further entrench the political and economic power of both groups. While this arrangement might help garner much-needed foreign currency reserves for the regime in the short term, in the long term it will exacerbate an ever-mounting housing crisis for the Egyptian majority.

Subsidiary Impacts

- Unsafe, informal housing will increase as Egypt's population grows rapidly.
- State-owned land will continue to be parcelled out to top real estate companies for luxury developments to be sold abroad.
- Deeper ties between the military and real estate tycoons threaten the future of inclusive political participation.

Analysis

Egypt has long suffered a dearth of housing for its low and middle-class population. It is estimated that around 50-70% of Cairo's inhabitants reside in informal settlements. Many of these accommodations lack proper infrastructure and pose serious dangers such as collapse.

> The affordable housing crisis will worsen

This is likely to get worse as Egypt's population grows. The government projects Egypt's population of 93 million to reach 128 million by 2030, based on current birth rates. With 26% of Egyptians living below the poverty line, the need for low-income housing will become increasingly acute.

Real estate sector

Real estate activity is dominated by luxury developments -- many purchased by foreigners as speculative investments. Consequently, 12.8 million housing units stand vacant according to a recent study by the government's central statistics authority.

Although Sisi has announced grand plans to provide low-income housing in the past, promises have failed to materialise. Perhaps the best example of this was Sisi's 40-billion-dollar agreement with UAE company Arabtec to develop 1 million housing units for low-income Egyptians. The deal, penned in 2014 during the lead-up to Sisi's presidential campaign, collapsed in mid-2015 when Arabtec abandoned it over disagreements with the government regarding project financing.

Allocating state resources

With the new administrative capital, the military-backed regime is directing valuable state resources towards unaffordable housing.

The Administrative Capital for Urban Development company, established to lead the project, is owned 51% by the armed forces and 49% by the Ministry of Housing's New Urban Communities Authority (NUCA) (see EGYPT: Military sway in the economy will grow - January 10, 2018). Between these two bodies, the company commands full control over state land distribution.

What is more, no oversight exists to monitor land allocation. In 2016, Sisi fired the chief auditor of Egypt's Central Auditing Authority (CAA) after the latter submitted evidence that the military cost the state more than 600 billion Egyptian pounds (76 billion dollars) in improper land distribution.

The CAA -- the governmental body charged with monitoring public expenditure -- had previously been immune to meddling by the executive. This changed with a 2015 presidential decree.

Financing the new capital

The model for financing the new capital offers little incentive to create low-income housing. Following new investment laws in mid-2017, the government can now give state land to private developers in exchange for a portion of their profits (see EGYPT: Egypt investment efforts should pay off - September 22, 2017).

Under this arrangement, the military-majority-owned company stands to gain considerable financial returns from the sale of high-end housing to international investors. This is especially so following another 2015 presidential decree allowing the military agency in charge of land management to establish joint ventures and for-profit companies.

This model simultaneously defunds the government body designated as the implementing arm of the Ministry of Housing's Social Housing Program, the Social Housing Fund. Financing for the Social Housing Fund was to come from a percentage of government land sale revenues. However, much of the new capital land is not sold to developers, but rather exchanged for future revenue. The Social Housing Fund is thus deprived of its main source of financing.

Entrenching the military regime

Many of the joint ventures being formed by the military in the new capital, and accompanying real estate projects, include old faces from Mubarak-era land corruption cases. Such partnerships portend a deeper political and economic entrenchment both of Egypt's oligarchs and of the military regime.

TMG Holding is one of the main developers working on the new capital. The firm faced years of legal battles after Egyptian courts ruled the land acquisition for its 3-billion-dollar Madinity development illegal. After Sisi's election, the firm reached an out-of-court settlement in March 2015, paying the government 9 billion pounds to clear the case.

Its CEO, Hisham Talaat Moustafa, was convicted of murder but pardoned by Sisi in June 2017, and the real estate tycoon resumed his seat as CEO. TMG Holding subsequently reported a 134% increase in revenue from the previous year.

Much of this gain can be attributed to developments surrounding the new capital. TMG Holding increased sales not only for anticipated projects within the capital boundaries, but also for its adjacent projects in satellite cities. The military's extensive infrastructure work to support the national project also means increased value for these luxury developments, touted as 'natural extensions' of the new capital.

Devaluation of the currency

High-end real estate developers have been major beneficiaries of the floating of the Egyptian pound in November 2016 (see EGYPT: Devaluation is needed but will have social cost - November 3, 2016). In the lead-up to the flotation of the pound, fears that the currency would devalue prompted a spike in sales. Wealthy Egyptians who sought to park their extra cash in material investments were joined by speculative investors hoping to make a quick turn around.

The flotation also made real estate increasingly attractive to those holding foreign currencies, which have now strengthened against the Egyptian pound. Gulf buyers in particular have become targets of aggressive marketing campaigns through an uptick in international real estate exhibitions.

Meanwhile, average Egyptians have suffered a severe blow to disposable incomes with diminished hopes of purchasing property (see EGYPT: Consumers face tough year despite gains - July 17, 2017).

Gulf capital and land prices

The influx of foreign capital in the real estate market has sent property prices skyrocketing. This trend began following a 2007 ministerial decree, which removed most restrictions on foreigner property purchases. Land prices in Egypt rose dramatically.

The influx of Gulf capital over the year following the decree (2007-08) sent land prices up 130% [in Arabic] in the new cities on Cairo's outskirts. After a brief interruption by the 2011 revolution, prices continued their upward trajectory, spiking again in the period surrounding the flotation.

> Attempts to remedy Egypt's affordable housing crisis will remain superficial

The mounting land prices make it increasingly difficult to build affordable housing. However, there is scant indication the military-backed regime is planning a sustainable funding mechanism for the provision of public housing. Instead, it will continue to use the real estate sector to court foreign currency-holders and consolidate its economic and political power.