

Business parks in Egypt: an integrated concept that will change the shape of Egypt's business climate

By Shaimaa Al-Aees

Business parks in Egypt are considered a modern business in the real estate sector. The first business park was launched by Samcrete Development with a clear future vision, to launch a one-of-a-kind Egyptian business district—Pyramids Heights Business Park—in the year 2000.

However, the number of business parks in the country still remain limited compared to their potential opportunities. The list of business districts in Egypt includes, but is not limited to, Capital Business Park (Dorra Group) developed on 35,000 sqm, Cairo Business Park (Misr Italia) on 75,615 sqm, and SmartVillage, a public private investment city for office spaces located in 6th of October City in west Cairo which launched in 2001.

A business or office park is a grouping of several office buildings, and are mainly of commercial business nature.

Sales of office spaces in Egypt witnessed significant growth in recent years, as business parks became attractive for tenants mostly looking for flexibility, security, and value. Furthermore, most of the tenants are currently searching for large landscaped gardens, a modern work environment, and premise facilities, such as flexible office spaces and logistical facilities.

Quoting Colliers International's annual report on Egypt's real estate market for 2016, the Egyptian market needs to adhere to international quality standards in building spaces and



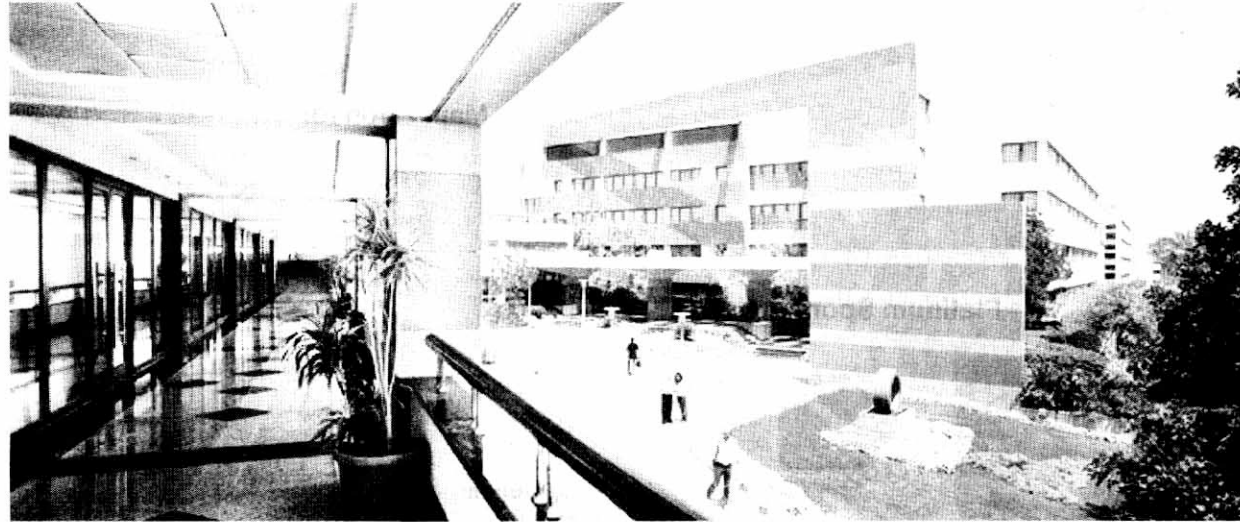
THE OFFICE SECTOR HAS ADJUSTED; LANDLORDS ARE NOW ACCEPTING PAYMENT IN EGYPTIAN POUNDS NOT US DOLLARS

property management. Colliers expected that office spaces of 350,000 sqm are expected to be delivered over the next five years, highlighting that being tenant-centric will help secure and maintain healthy occupancy levels in the development process.

Demand for Grade A offices inside business parks

The market has witnessed an increased demand for Grade A office spaces during the past period. This is mainly driven by relocations of tenants to office spaces of better quality and the need of more geographically convenient locations, according to Jones Lange LaSalle (JLL) quarterly report on Egypt's real estate market for the second quarter (Q2) of 2016.

As per the JLL report, the limited new supply of Grade A office spaces in



Cairo's office supply remained stable at 941,000 sqm of gross leasable area (GLA) in 2016, while it is expected to reach around 958,000 sqm of GLA in 2017, according to a Jones Lange LaSalle report on Egypt's real estate market

the short term has led vacancy rates to decline from 33% to 25% over the past year. Although vacancy rates at 25% are still considered high, the decline is considered positive for this segment.

In a previous interview with Daily News Egypt, Middle East managing director at CBRE Nicholas Maclean stated that the office space market is considered the most promising among other real estate sectors especially for Grade A offices in east and west Cairo, where there are approximately 960,000 available units. In the same context, the retail market comes as the second most promising real estate sector in Egypt.

Controlling the cost of the market

The strategic decision on selecting a local office space for multinational

companies generally lies in the hands of a management team that initially exists outside the country. Although location and building quality are of primary concerns, operating costs that fail to justify value are less likely to be attractive to prospective tenants.

As per the Colliers report: "the cost of renting a 50 sqm office in New Cairo equals renting 20 sqm of office space in Tokyo. Furthermore, office rent in Heliopolis is similar to that of renting an office in Australia." Furthermore, the report indicates: "Although the market remains price-sensitive, commercial developments combining international standard building quality, parking provisions, utilities, and amenities—including convenient retail within the development—can successfully achieve a 25-30% rental premium above other developments

that failed to accommodate similar facilities."

Cairo's office supply

JLL stated that Cairo's office supply remained stable at 941,000 sqm of gross leasable area (GLA) in 2016, while it is expected to reach around 958,000 sqm of GLA in 2017. The office sector has adjusted whereby landlords are now accepting to be paid in Egyptian pounds instead of US dollar. This is due to the severe fluctuations the local currency is currently facing, the shortage of foreign exchange in Egypt, and the poor business conditions, according to JLL's report Q2 2016.

However, Colliers indicated that the office vacancy rate in Q2 of 2015 reached 33%, while it decreased to 25% in Q2 of 2016. Nevertheless, the

rent per square metre in central Cairo recorded \$360 in Q2 of 2015, and reached \$430 in the same quarter of 2016, with an increase rate of 17%. In 6th of October City, the square metre registered \$216 in Q2 of 2015, and registered \$240 in the same quarter this year, marking an increase of 11%. However, in New Cairo the square metre remained the same in the second quarter of both years, registering \$312.

The first business park in Egypt

Samcrete Development established a business district in the year 2000, named Pyramids Heights Business Park, designed by Perkins+Will.

Pyramids Heights Business Park comprises a total land area of 210,000 sqm, including 12 buildings on 79,000 sqm. The buildings are classified into four models, each differing in the number of levels and the total area.

In this respect, Samcrete Development CEO Hisham El-Kheshen stated: "Being our flagship project we endeavour to keep Pyramids Heights Business Park in a continuous dynamic state. This is well demonstrated in the continuous upgrade of our facilities and the timely addition of services and state of the art resources that keep it the unique destination it has always been. Furthermore we do not look upon our tenants as clients, but rather as partners and neighbours."

The business park provides several functional buildings that comprise office spaces starting from 300 sqm and up.