

Why are investors avoiding off plan developments in Egypt?

Written by Ray Clancy

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Egypt is a country which has avoided the general impact of the worldwide recession particularly in the property market where cash transactions are very much the norm. As a consequence there is still significant interest in the

[Egyptian property market](#)

but we seem to be seeing a shift from off plan to "ready to move in" properties. So what is actually driving this changing trend from off plan developments to complete developments?

The Egyptian property market

As we touched on above, the Egyptian property market has performed better than most in the world during the ongoing economic recession. A lack of mortgage funding in preference for cash transactions has seen Egypt avoid the investment gap with countries such as the UK, Dubai and other high profile property markets around the world have experienced. However, that's not to say that Egypt does not have its own problems and remains completely unaffected by the ongoing worldwide recession.

There has been a significant increase in Egyptian property prices over the last few years with many European investors looking outside of the "Eurozone", specifically UK investors at this moment in time. There has also been a large increase in the number of holidaymakers looking towards Egypt for their next stay, which is partly because of the currency situation and more importantly because of the significant investment which the Egyptian authorities have instigated over the last few years.

Off plan developments

As with any developing property market the requirement for new developments is substantial which naturally leads to significant interest in off plan property developments. While there are obvious benefits to becoming involved in off plan developments, it would appear that many investors who have been stung in markets such as Dubai are now looking away from this particular market. That is not to say off plan developments have disappeared completely, just that the demand from international investors in particular seems to be on the wane.

Ready to move in property developments

The demand for "ready to move in" developments has been increasing over the last few months as more and more investors become concerned about depending upon property developers to be able to finish off plan projects on time and on budget. There are also concerns, possibly transferred from markets such as Dubai, whereby there is the potential for an off plan property

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developer to hit financial trouble before the development is finished which can often leave investors out of pocket.

More and more investors now appear to be willing to pay a little extra for exposure to the ready-made property market in the full knowledge that they will be able to either use the property themselves from day one or arrange an income stream by renting the property to the ever growing number of tourists in the area.

Finance

It is common knowledge that Egypt is very much a cash-based economy and as such there has been very little impact from the reduction of mortgage liquidity around the world. Whether this will change in due course as the market grows and international investors look for more traditional financing methods remains to be seen, but at this moment in time this cash-based economy offers the Egyptian property market a certain degree of insulation from more traditional property markets around the world.

Will this change in trend affect property prices?

While the trend is very much at an early stage, there are many property experts who believe that if the trend continues for a substantial period of time we could see the emergence of a property bubble in the "ready to move in" market and a possible downturn in prices in the off plan property market. In many ways the move to exposure to ready-made properties could well be at a premium, but a premium which many investors are willing to take in these troubled worldwide economic times.

Whether we see a reduction in new off plan property projects and a number of ongoing off plan developments appearing on the market at low prices remains to be seen, but international and domestic investors would appear to be focusing upon the ready-made market for the foreseeable future. There may come a time when prices in the ready-made market push too high and prices in the off plan market fall too low whereby the risk reward ratio could well move in favour of investors looking at off plan.

The Egyptian economy

While obviously a country which trades on the international stage cannot be wholly immune from the worldwide economic downturn there is no doubt that Egypt is faring much better than many. Official figures due out fairly soon are rumoured to confirm a 20% increase in tourist numbers over the last 12 months which bodes very well for the future of the economy, the tourist market and the domestic property market.

It is fair to say that the Egyptian authorities have very much played their part over the last few

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years, investing substantial amounts of taxpayer's money into improving the country's reputation, tourist facilities and making it more attractive to overseas investors. While the potential return on this investment will not happen overnight, the 20% forecast increase in tourist numbers is substantial by any means.

The future

Even though the worldwide economy continues to flounder the positive signals radiating from Egypt have not gone unnoticed by many international investors. The substantial increase in tourist numbers is sure to lead to more demand for property, a requirement which many international property investors would be more than happy to assist with.

For those looking for exposure to the Egyptian property market it is worth keeping a close eye on both [off plan and ready-made property prices](#) as there is the potential for those to become a little detached from the real world, with a lack of demand pushing off plan prices lower and increased demand pushing ready-made prices to possibly unsustainable levels in the short-term.

These potential pricing inequalities could offer an interesting entry into the Egyptian property market for those willing to wait their chance and take on a degree of risk.