Executive Summary

Egypt, like many developing countries suffers from an extreme shortage of low-income housing. There is a back-log of these units reaching 1.2 million with an annual increase of at least 150,000 units.¹ Orascom Hotels and Development (OHD); a developer of high-end housing communities, decided in 2006 to enter into the field of low-income housing communities by establishing a new company: Orascom Housing Communities (OHC). This new shift required adapting its business model. In high-income housing, developers build according to available demand. It generates high margins and depends on off-plan sales where the developer obtains hefty down payment with instalments over a limited number of years. In the case of low-income housing, due to its national significance, the projects are subsidized by the state in exchange for a commitment by the developers to develop a certain number of units during a certain period. They also have to abide by particular specifications.

Low-income housing is a mass production activity with a low-margin of return. It relies on long-term mortgage financing where installments are made over a long period that extends to 15 years or longer. The company adopted some aspects of its old business model and changed some. OHD is well known for developing fully integrated communities. It transferred the concept of the community from its high-end model to its low-end model. It also adopted the same environmentally–safe construction method that it used before which relies on bearing walls to carry the weight of the roof instead of using steel and concrete frames.

OHC’s entry into low-income housing was partially a planned strategy to diversify its activities and to take advantage of the Egyptian Government’s attempt to relieve the severe low-income housing shortage. This program was initiated in 2005 which consisted basically of providing developers with cheap land and buyers with subsidies for the purpose of developing low-income housing units according to certain specifications. A new entity, ‘The National Housing Program (NHP),’ was created in the Ministry of Housing to supervise the implementation of this program. Orascom seized this new opportunity offered by the government and its top management decided to enter the field of low-income housing by establishing OHC in 2006. Later on, management also established a mortgage company called Tamweel.

The concept of community housing emerged in Orascom’s culture as an idea in its El-Gouna, a luxury residential project on the Red Sea. As Mr. Sawiris, CEO of OHC said: “The idea was my initiative. I started in El-Gouna because I was always hoping that the younger waiters and younger workers would ultimately settle with their families in El-Gouna indefinitely, and call it their hometown. When we saw how they are and they were in demand, we embraced the idea [housing communities], and the government welcomed it, so we did it.”²

¹ Developers Eye Low Income Market. Interview with Iman Ismael, Director of the Egyptian Refinance Company (EMRC), Business Monthly, April 09.
² Daily News, July 7, 2008, Samih Sawiris on Low Income Housing
Introduction

Cairo, the capital of Egypt, has three of the 30 largest ‘mega-slums’ in the world. The growth of the informal settlements in the Greater Cairo area took place in the context of oversupply of formal housing units whose prices are beyond the financial capacity of low-income families.\(^3\) The problem is especially acute for young people who want to get married but do not have a large accumulated capital to buy a place to live in. This is the main reason for delayed marriages.\(^4\) It is estimated that informal housing represents 65% of the housing supply and that 20% of the population live in slums.\(^5\) There is even an estimated 600,000 people living in the cemeteries surrounding Cairo, giving the country a bad image.\(^6\)

The Sawiris family with its head, Mr. Onsi Sawiris, own three conglomerate companies: Orascom Telecom, Orascom Construction, and Orascom Hotels and Development (OHD). Each of Onsi Sawiris’ three sons is heading a company with Samih at the helm of OHD. This is a major conglomerate with real estate development projects extending in several Arab countries and in Europe. The Sawiris family holds a 69% stake in OHD, while the remaining 31% is free float; institutions hold 23% and retail investors about 8%. Today, OHD owns more than 20 hotels managed by global hotel operators including Hyatt, Sheraton and Club Med.\(^7\) Land acquired by the company in all these countries reached a total of 127 million square metres.\(^8\) In 2009, OHD had total assets of US$1.7 billion and a net profit of US$28 million, representing an increase of about 32% over 2008.

The flagship of OHD, upon which it built its reputation, is El-Gouna resort community built over a land mass of 36.8 million square metres north of Hurgada on the Red Sea. It is an internationally-known, fully integrated, community complete with luxury units, hotels, schools, hospitals, golf courses, and lakes. The utilities include a desalination plant, an electricity generation plant, a water treatment facility, a communication network, a road network and public transportation. The Gouna’s community concept is applied in all of OHD’s operations which span Egypt, several Arab countries and Europe. The concept is also applied with variation to its new low-income housing projects. OHD does not develop projects and then leave. It stays in order to manage them once they are finished. This unique feature distinguishes it from other developers and it also applied it to its low-income project later on. Based on the first quarter of 2009 compared with a similar quarter in 2008, the revenue mix of OHD is as follows: Hotels (29-39%); Real Estate and Construction (25-42%); Tour Operations (13-18%), Town Management (5-6%); others (8-9%); land sale (2%).\(^9\)

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\(^{4}\) Light at End of the Tunnel in Egypt’s Marriage Crisis, Brookings, December 27, 2009.
\(^{5}\) Niveen Wahish,Real Estate in the Balance, Ahram Weekly on line, Nov 27-Dec 3,2008, Issue No.924
\(^{6}\) The Age, December 8, 2007, David Wroe, “Cities of the Dead off the Tourist Route”.
\(^{7}\) Business Today, February 2006, Coastline Broker.
\(^{8}\) Report to Investors, Orascom Development, August 2009.
\(^{9}\) Ibid.
In 2006, OHC was established with a paid-in capital of around US$12 million. This is the result of collaboration with Homex (a Mexican low-income housing developer), Equity International and Blue Ridge Capital, a U.S. based real-estate investment firm with OHD retaining majority stake (58%) and management control. All of these foreign partners are only financial investors. In the same year OHD has set up its own mortgage provider, Tamweel, which helps buyers obtain credit and in the meantime improves profitability for the developer. Tamweel operates as an independent company.

In order to deal with the severe shortage in low-income housing, the government started a program in 2005 to encourage private developers to enter that field. Venturing into the low-income housing segment in Egypt on the part of Orascom could have been a precautionary move to diversify its activities in anticipation of a slowdown in demand for high-income housing. This is because the growth rate of the real estate sector in Egypt was a healthy 14% in 2005/2006 but surged to 15.8% in 2006/2007.11

As part of the government’s program to support low-income housing through private initiatives, on May 2007, OHC purchased at a subsidized price from the State, a huge parcel of barren land located in the Sixth of October City, which is adjacent to Cairo. Other developers followed OHC’s initiative and bought parcels of land of different sizes in different locations, depending on their respective financial capacity. The total area allocated to OHC was about 8.5 million square metres which can accommodate between 50,000 and 70,000 units to be built over a six year period. Total investment in the project is expected to reach US$1 billion with an expected total population of 400,000 people.12 By the end of 2009, a total of 12,000 units had been constructed with 8,000 already sold.13

**Housing Problem**

Egypt is a developing country with a per capita income around US$1,400. At least 20% of Egyptians live on less than LE 14 (US$2) a day.15 The country’s home ownership rate is an extremely low 32%, whereas it is 75% and 67% in Jordan and Tunisia, respectively. It is estimated that there is a back log of 2.4 million housing units that need to be constructed which increases annually by an additional 300,000 units. At least half of these are needed by low-income families, or families with a monthly income of less than US$450, the upper limit set by the government for potential beneficiaries of low-income housing projects.16

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10 Homex’s method of construction based on prefabricated aluminum sheets did not prove suitable to Egypt’s conditions as it was tried unsuccessfully several years ago when a European company used it in constructing a resort project on the shores of the Mediterranean Sea.
12 Al Masry Alyom, August 9, 2009, Interview with Omar Al Hitami, Managing Director, OHC.
13 Orascom Housing Communities, Building Better Communities, Company Promotion Brochure.
14 Egyptian Pound
16 Business Monthly, April 09, Developers Eye Low Income Market. Interview with Iman Ismael, Director of the Egyptian Refinance Company (EMRC).
According to the Overseas Private Investment Corporation (OPIC), a U.S. government body, at least 90% of housing in Egypt is part of the informal sector, or without a formal title. A significant portion of this sector can be classified as slums. Extreme poverty and rapid population growth, and insufficient housing, have created an urban mess where millions of people live in shantytowns and slum areas that surround Cairo and other major cities. These areas are not conducive for healthy community living. Individual efforts by poor people to build their own houses or to buy them from informal developers have created overcrowded structures around the city. These people fell victim to a lack of experience, inadequate infrastructure, rising costs and the exploitation of private contractors. Shanty towns are informal in methods of construction, do not abide by zoning rules and often rely on illegal means to obtain infrastructure and utilities services. These structures are usually without clear legal titles and are built on chunks of land which are subject to ownership claim disputes.

An example of the suffering that results from such practices is provided by one of the victims in these areas recently: “I bought a 160 square metres apartment through a broker in Nasr City (an area adjacent to Cairo) in 2006 for LE 110,000 (US $20370) and I paid LE 40,000 (US$9,000) as a down payment and the rest on a five year installments which seemed reasonable for a young man like myself who was about to get married. I took a contract from the developer to prove my ownership of the land just in case the building collapses. However, I discovered later the building did not have a legal permit and the owner simply had a claim on the land without a clear title. After I got married and moved into the apartment I could not get an electricity connection from the local authorities. The developer had an illegal connection from a source down the street. My apartment was on the 18th floor and the elevator was not working since the illegal electric current was not strong enough for the load. There was a frequent disruption of water flow and I had to buy water from street vendors. I went to the local authorities trying to settle the issue with them but hey said it is not their responsibility and advised me to sue the developer. I finally had to go back with my wife and daughter to live with my parents.” Then he added, “The reason I bought this apartment and not one through mortgage financing is the price which was LE 1,000 (US$185) per metre.”

In order to prevent informal housing, a law was issued in 2008 which states that in the case of violation of a building code, the illegal structures would be automatically demolished. The previous law dating from 1976 had a provision which allowed reconciliation between the illegal developer and the authorities in exchange for paying a fine. The magnitude of the problem mentioned above is huge since it involved a total of 28 buildings, some of which are 15 stories high. These buildings did not observe rules regarding the relationship between street widths and building height which made it difficult to extend utilities networks. An administrative order was actually issued to demolish the buildings which violated the law.
The scale of the violation, which affected hundreds of people, prompted the Parliament to open an inquiry into the case and to try to pin down responsibility which is believed to be shared between the developers and the local authority officials who let the illegal construction proceed before their own eyes.\footnote{The unknown Fate of Hagana Residents, Al Ahram, December 17, 2009; Collapse of the Law in front of Violators: Opening the Secret Files, Al Ahram, December 16, 2009; The law landed all of a Sudden on Hagana, Ahram, December 15,2009.(in Arabic).} In the hearings, the Minister of Housing admitted the difficulty of stopping similar violations in their infancy, in view of their frequency, in addition to prevailing cultural norms.\footnote{Laws are not enough to stop violators, Al Ahram, December 18, 2009.}

**Figure 1: Housing Production Cycle**

![Diagram of Housing Production Cycle]

The Egyptian government’s attempts over the years to solve the housing problem for the poor proved to be inadequate. The National Housing Program (NHP) was instituted in 2005 as part of President Mubarak’s reelection campaign initiative, to utilize private sector capabilities to construct integrated housing communities for the poor according to modern standards. The program provided private developers with cheap land and buyers of units with fixed subsidies according to certain conditions. The program stipulated a maximum apartment size of 70 square metres, wider spaces between buildings, greater land-per-unit ratio and a maximum height of five stories and four units per floor in each building. These should be fully integrated communities with the whole gamut of services. The program aimed at building a total of 500,000 units over a six year period.

**Haram City Business Model**

Haram\footnote{Haram means Pyramid in Arabic.} City, Orascom Housing Development’s low-income project, is located in the ‘Sixth of October’ City, 20 km west of Cairo, the capital city. Egypt is a country with around 80 million people and an annual population growth rate of 2.2%. Cairo was originally designed to house just three to five million people, but has a population that now hovers around the 20 million mark. In order to absorb its unruly growth a number of new adjacent metropolitan areas have been developed around Cairo. These new areas constitute what is referred to as ‘Greater Cairo’. Thousands of people live in these new areas and commute to work in Cairo itself or vice-versa. Sixth of October is one of these new areas. Its current population stands at 500,000 and is expected to reach 3.7 million
inhabitants. The city has industrial facilities, entertainment centers, hospitals and schools. Like Cairo it has residential areas that cater to different income groups.26

CONSTRUCTION METHOD

The project consists of one or two story buildings with roofs in the shape of a dome. The government does not set restrictions on buildings’ height except in areas close to the airport, which does not apply here. The choice of low height was a conscious decision to create a certain living environment.”We could have built five story buildings but this is not our concept of construction. We wanted to attract low-income people who prefer this kind of living”, said OHC Managing Director Omar Elhitami. Furthermore, this concept was suitable to the method of construction being used. Load-bearing, brick walls are used for construction and they carry the weight resting on them, as opposed to columns. The material used to construct it is usually bricks. This method can be traced back to ancient Egypt and until the 1950s it used to be popular for constructing buildings up to five stories high. Then it was replaced by the concrete skeleton method which allows for longer buildings. In concrete buildings foundations, columns, beams and floor slabs are all made of reinforced concrete. Its advantage is having many floors depending on the bearing capacity of the soil. Windows and doors can be made with any width and height. However, due to thin walls it cannot resist noise, temperature and moisture.

The price increase in construction materials, namely steel and cement, is taking its toll on the real estate market, leading to skyrocketing prices and the further exacerbation of the housing crisis. The bearing wall method eliminates the concrete skeleton system made of steel and cement. It is estimated that the bearing wall method is 12% cheaper than the concrete method and 40% cheaper than the panel pre-fabrication method. Domes, which replace the flat roof, are generally made of bricks without steel and are ideal for one-story buildings, also boosting the use of bearing walls.27 Constructing a dome takes only about three days using more labour, while if made of cement, it would require 14 days until the cement hardens. In bearing walls, the thickness of the wall increases as you near the base. It is a good insulator of sound and temperature due to its thickness. It cannot hold more than five or six floors. Wide openings can weaken the building.28 This is why balconies are avoided.

COMMUNITY SERVICES

Haram City provides all services needed by residents including schools, sports facilities, a shopping center, clinic and a bakery selling bread at subsidized prices since they can obtain wheat at the government’s set price. There is an artists’ quarter where a total of 30 studios are planned for LE 250 (US$45) monthly rent.

Following the model of El Gouna, OHC is already establishing partnership arrangements with third parties to manage the community once fully inhabited. Some of these entities are already

26 En.wikipedia.org/wiki/6th of October City
28 Nasr Hassan, Building a Model of a Skeleton Reinforced Concrete Building.
operating in El Gouna and extending their activities to Haram City. This covers hospitals, schools, recreation, bakeries and internal transportation. As Mr. Sawiris said, "If it wasn’t for El Gouna, I wouldn’t have been able to develop this concept of low-income housing project. We have had 18 years of experience in managing a village that slowly grew to become a town, and this helps a lot."29

A private foreign language school has started operating with 120 students, and there are others under construction. The company subsidizes the fees, which reach LE 4,000 (US$740) a year per student. Eventually the number of schools will reach 24, some of which are planned to be operated by the government.

Currently, these services are subsidized by the company but eventually they will create an income stream just like in El Gouna model, which can represent 5-6 % of annual revenues. OHC intends to keep a certain ownership interest in these new establishments to ensure adherence to its standards. A number of entities are being developed under the label of social responsibility for the purpose of creating employment opportunities as well as taking care of the environment. This includes a rehabilitation centre for homeless girls, a lining factory where women are given training and do work from their homes. There are large garbage bins all over the city which are collected twice a day and sorted into solid and organic material. There is a recycling plant for plastic objects to transform them into plastic bags and another one far away from the city to transform organic material into fertilizer. Due to its uniqueness, the city is becoming a showcase for foreign dignitaries visiting Egypt, which makes the government happy and creates potential opportunities for OHC in other countries. Even though the project is not yet finished, the city management is keen on maintaining zoning rules and cleanliness. Engineer El Hitami said: "We have to tend to violations that happen daily by some residents, e. g. throwing garbage in the street. We give warnings and we remind the violators of their contract obligations to obey city rules. Some shops have violated zoning rules by using the curb as an extension to their shop, something normal in Cairo narrow streets. So we took care of that. Some of the residents never lived near a tree before. We noticed a change in the sense of appreciating open space and green areas. For example an idea emerged to transform a certain green area into a small open market but the nearby residents objected. People are changing bit by bit.”

Haram City is located in the desert, about two kilometres from the main road crossing in the Sixth of October City. Other parcels of land were also given to other developers in other areas of the city. Orascom’s parcel is not the best but it is considered a decent location and still needs the extension of a regular public transportation line. In addition to running its own

buses, the company has arranged with the local authority to extend a bus line from the City to two locations in Cairo itself. Regarding the location, Mr. Sawiris said “I strongly believe poor people deserve better land because they cannot afford to live far from their workplace since they would be wasting half of their income commuting every day. We convinced them [the government] to allocate this good piece of land, which is quite central and in the heart of Sixth of October, towards this project.”

HIGH-INCOME HOUSING BUSINESS MODEL

The low-income housing business model adopted by OHD is based on its experience in high-income housing. It is therefore useful to briefly describe the latter. Traditionally, OHD follows a business plan which creates benefit for the company at different stages of the value chain starting from site selection until units are delivered and then later managed by the company. It selects land sites carefully in remote coastal areas which are sold by the government at nominal prices but has a potential to rise in value. Prior to the 1973 war with Israel, Sinai and the Red Sea area in general were considered military zones and off-limits to civilians. After the peace treaty with Israel, the government started actively promoting projects in these areas to attract inhabitants as well as foreign tourists. Due to the huge cost of building infrastructural facilities, the government opened these huge parcels of land for sale to private developers at nominal prices.

OHD was one of these companies which selected a large parcel of land on the Red Sea where it established its resort town ‘El Gouna’. The off-plan business model applied to high-income housing relies on financing the construction process through installments paid by the buyers themselves without having to worry about extending credit to them. The company developed El Gouna gradually based on a master plan and initially focusing on a small piece of land and constructing several prototypes for prospective buyers. Then sales were initiated with a down payment reaching a quarter of the total price and installments were scheduled, which provided a continuous flow of funds over the four to five year duration of the project. This helps finance developing the infrastructure which is prohibitive and it saves the company from resorting to credit, keeping a low leverage ratio. Once units are developed and inhabitants move in, the company continues to manage the community and the facilities, for a fee, which generates a stable stream of income all the way through.

Figure 2: High-End Housing Business Model
According to records, the company achieves a profit margin that can reach 70% and buyers enjoy luxury living and a continuous rise in the value of their property. From 2000 to 2007, the price per unit in El Gouna resort had increased by an average of 30% yearly.\(^\text{31}\)

**Figure 3: Value Creation in High-End Housing**

**LOW-INCOME HOUSING BUSINESS MODEL**

Once OHC was established in 2006 to handle low-income housing, a new business model emerged. The off-plan funding model applied in luxury housing does not apply fully to low-income housing since buyers have limited means. The company retained the idea of creating benefits throughout the value chain process. However, the government and mortgage companies entered the picture as important actors. The government will provide land much cheaper than resort communities in exchange for adhering to conditions suitable for low-income people. In order to help buyers pay for the down payment, a limited subsidy is provided to them. Mortgage companies will supply credit to buyers over an extended period that can reach 20 years. On the other hand, the company will use the mass production concept realizing a much lower margin on each unit but ending up with a reasonable total net profit.

OHC obtained the land in Sixth of October City at a nominal price of LE 10.7 (US$1.80) a square metre (compared with at least LE 300 (US$54) for upscale projects), provided the company will construct the infrastructure and utilities. As a general rule, if the government shoulders the latter task, the price would be raised to around LE 70 (US$12) a square metre. In order to be in control of the production pace, the company chose to build the infrastructure itself. In addition, the government will provide each buyer of a unit with a total of LE 10,000 (US$1,800) as non-refundable subsidy.

\(^\text{31}\) Orascom Investors Report, 2009
In Haram City, unit prices range from around LE70,000 (US$12,000) for a 48 square metres apartment to around LE 110,000 (US$18,900) for the largest unit, which is essentially a small, two-bedroom flat measuring 63 square metres. According to OHC sources, this model can provide the company with a projected gross margin of 20% to 25%. This is much less than the 60% to 70% achieved for its luxury projects but with a large volume it can still generate reasonable total profits “It will make money, perhaps not at the same margins or the same speed [as luxury housing]. In addition to gains realized from selling the unit the company will also generate income from managing the community. It is like a utility, continuous and guaranteed, and will always turn out cash. We will not run out of clients at the current rate of population growth”, said Mr. Sawiris. This business model, according to Mr. Sawiris, requires that the company continues to provide all services within the town, whether directly or through leasing to a third party. It also requires a long-term outlook and not expecting short-term gains.

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32 Ibid.
PURCHASING PROCESS AND DOCUMENTS REQUIRED
The willing buyer should provide OHC with the necessary documents to ascertain fulfillment of the conditions set by the government to benefit from the scheme. These documents include, an income statement from his place of work or in case of self-employment a certificate from the tax authority indicating his taxable income for at least three years. It is the responsibility of the mortgage finance companies and the government to ascertain the credibility of these documents, a process which takes a couple of months. To qualify as a buyer, one must make less than LE 1,700 (US$309) per month as an individual or less than LE 2,500 (US$455) as a family. An applicant should not have previously received any subsidy or land grant from the government.

Once the buyer’s request is approved by the sales department of OHC he goes to Tamweel or any other mortgage finance company of his choice to develop his payment schedule according to the client’s conditions but within the limits established by the government. He also pays the down payment. In order to obtain the subsidy, he submits a request to a mortgage fund affiliated to the National Housing Program (NHP) Fund, accompanied with income and unit documents indicating his seriousness. The Fund studies the request and informs the person during a 30-day period and then the subsidy is provided within 15 days of accepting the request.

Now, the relation is between the buyer and the mortgage company which handles the payments. Foreclosure proceedings can begin after more than two missed payments, though the Fund provides homeowners with insurance coverage for up to three months of payment default every five years of the loan. In order to reduce the chance for default, monthly installments should not exceed 25% of the person’s income and can be increased by 7% a year. This increase is based on projected inflation rate of 7% and an expected corresponding percentage increase in income.

Mortgage companies including Tamweel essentially borrow money from other banks at the market rate. So, the interest rate charged on the loan by the mortgage company depends on its profit margin on top of the discount interest rate determined by the Central Bank, which is set periodically depending on the inflation rate and the investment policy of the government. Currently, companies finance 40% to 90% of the property value at an interest rate ranging between 12% and 14%, payable over 10 to 20 years.

As an example, currently the nominal interest rate for a 20-year loan hovers around 14% on the declining balance of the principle but the average rate on the total loan would be 7.5%. Following government’s limits, Tamweel finances up to 90% of the property value for a period of up to 20 years for salaried and self-employed people. So, for a 63 square metre apartment worth LE 106,000 (US$18,180) and a down payment of LE 12,000 (US$2,180), the remainder will be paid off over 20 years at an average 7% interest which means a monthly installment about LE 980 (US$180) and total payment of LE 240,000 (US$43,636), which is more than twice the original price. If the actual value of the unit appreciates by more than that, which is likely, then the buyer is a clear winner.
TAMWEEL

Tamweel, with a paid in capital of LE 100 million (US$16 million) is a mortgage company affiliated with OHD and it operates on the basis of market forces. Like other mortgage companies, it provides financing to different income-level groups including low-income people. Primarily due to the newness of mortgage financing in the Egyptian market, Tamweel was initially supported financially by OHD. Currently under new management, and equipped with a modern finance software package, the company simply follows well established tools of finance to recoup its investment and makes sure it does not incur any losses.

In 2009, Tamweel was the first mortgage company in Egypt to adopt the Polaris Intellect Lending Mortgage Software Application. This package has many functionalities and it handles loan processing, flexible repayment schedule, prepayment, loan rescheduling, delinquency tracking, different interest rates and different payment methods. It can accommodate rules and can produce reports that link the company to the mortgage financial regulatory authorities and the Central Bank of Egypt. Currently, the Egyptian market lacks sufficient mortgage finance schemes so this package allows the use of a flexible finance strategy. Other companies that have entered the government low-income housing scheme provide the potential buyers with limited alternatives regarding down payment and scheduled instalments. In the case of Tamweel, equipped with this software application, it can develop a tailor-made payment scheme that suits the conditions of the buyer. It can even reschedule the loan if these conditions change. This gives an additional assurance to buyers since they are usually apprehensive about paying interest for religious and other reasons.

The facilities provided by the application software enabled the company to abide by the rules required by the government and in the meantime assure profitability on its business. Once amortization tables for an average mortgage were constructed, using a fixed monthly instalment the company found out that what is being paid to the banks on its loans is more than what it is getting from the client. This meant that Tamweel would be facing a negative return on the first three years of payment. However, after three years the return becomes positive due to the increase of 7% in the buyer’s payment. In total the company is achieving a decent margin. In addition to financing low-income housing Tamweel is also handling financing for high-income housing as well as corporate financial leasing. Diversifying its lines of business is helping the company remain viable.

According to company officials, the delinquency rate is very low. It appears that low-income people are keen on meeting their financial obligations. Interestingly, this was not always the case with government constructed projects. In case of default on payment, the company, after taking legal procedures, has the legal right to evict the tenant and repossess the unit. While this is available as a last resort, the company, in order to avoid the social stigma associated with this harsh action, is considering exercising the option of moving the tenant into a smaller
unit he can afford or in disparate situations to very cheap rental rooms which are being constructed.\(^{34}\)

**CONSTRAINTS ON THE BUSINESS MODEL: MORTGAGE FINANCE AND DEMAND CONDITIONS**

For years, Egypt's real estate market was based on cash-only purchases, and even now homes bought by wealthy buyers are paid off in installments over three or four years at the most. Being a cash economy, mortgages remain at less than 1% of GDP. So people do not quite understand the concept of mortgage and they are unwilling to take on high levels of debt to purchase a home. Mortgage financing is an essential part in solving the crisis of low-income housing. In the case of Egypt, this problem is being handled at the two levels of government and by the developers.

Prior to 2001, getting a loan required collateral comparable in value. But the new mortgage law allows low-income people to obtain mortgage if they have a steady job or a tax record. In order not to exert undue burden monthly installment should not exceed 25% of income in addition to allowing both husband and wife to co-sign the mortgage deal. Eligibility requirements are designed to safeguard against excessive credit leniency which could trigger a financial crisis for the whole economy. However, these eligibility conditions are seen by business people as low and in turn it limits the potential market. Mr. Sawiris, himself says the government should increase the income limit to ‘a realistic figure’ even if it means fewer people will benefit.\(^{35}\) Some businessmen suggested a level of LE 4,000 (US$427) for married couple. However, giving into these demands could devoid the scheme of its real intention which is to help poor people. Experience shows the government is willing to rectify eligibility conditions to make it more suitable to rising costs as well as incomes. For example, in June 2008 the government decided to raise the income cap from around LE 1,000 (US$180) per month for a single person to LE 1,700 (US$309) and for married people from around LE 1,500 (US$270) to LE 2,500 (US$454).\(^{36}\)

Matching financial means with the desire to own a housing unit is the job of mortgage companies like Tamweel. When the potential buyer sits with the company’s financial experts they inquire about his financial resources as well as obligations. Sometimes they press him to reveal matters like his credit card obligations and whether he bought things on credit. Equipped with the Polaris software, a flexible payment schedule can be provided depending on this information. Some potential buyers have expressed unease regarding requirements for documentation and information. There is no general orientation sessions held in these matters but advice is given on a case by case basis.

Due to low margin and government deadlines, the company is pressured to continue building and is hoping for real demand to materialize. If many units remain vacant this could

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\(^{34}\) *Business Monthly*, April 2007, *Profits Sought in Low-Income Housing*

\(^{35}\) *Daily News*.


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jeopardize the liquidity of the mortgage company triggering a chain reaction of scaling back construction. For the business and financial model to succeed, a large volume of demand needs to keep up with the fast pace of mass production of units in order to compensate for the low margin. To deal with the possibility of a temporary slacking off in demand, the company keeps part of its work force on a temporary contract basis as illustrated below.

RELATIONSHIP WITH SUBCONTRACTORS

The monthly average of total employment in the project is 4,500 people. About 55% of those are company workers and the rest belong to a total of 30 subcontractors. Some of them do specialized work such as aluminum or plumbing and some work in actual construction. According to General Manager Elhitami: “Small subcontractors need special attention. We act like their brain. Some of these people originally came from the informal sector. They are in the habit of cutting corners. They were involved before in limited construction activities and this is their first time to work in a massive project like this with standard specifications and deadlines to meet. In the informal sector they are accustomed to finishing 90% of the work and then rest for a while. In our case in order to assure commitment on his part the subcontractor has to pay a performance bond of 5% to be given back to him once he finishes his work in a satisfactory manner. So, we help him organize his work, conduct quality control, time and cash management. We explain to him that it is to his advantage to finish on time in order to get his 5% back and start a new assignment. We also help him develop the work sequence chart. Using the bearing wall method in construction requires simultaneous horizontal and vertical activities, which requires synchronization. So, they would be working on the foundation and the finishing at the same time. Once the subcontractor improves his skill his ranking in the contractors’ syndicate will improve which will allow him to bid for bigger projects. These subcontractors are in so many ways part of the company’s system. According to our record their rate of continuity is 70%.” The company provides housing for approximately 30% of the outside workers and the remainder comes from nearby areas.

CITY RESIDENTS

Currently there are about 2,000 families living in the city which represents an occupancy rate of 40% of the total units constructed. Occupants represent different professions like engineers, doctors, lawyers and even drivers. They all share the fact of being low-income people but they may differ in their educational background. A new group of homeless people was added to the group of occupants recently which created a great deal of controversy.

A year ago, the whole country was shocked by a fatal incident of a major rock slide on the fringes of Cairo which caused the death of over 100 persons and injured many others living in slums underneath the rock. Investigation into the matter has discovered shortcomings on the part of local officials who were aware of the impending catastrophe and failed to take

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37 Buyers of units must satisfy the maximum income limit established by the government which needs to be documented. However, their actual income may differ from the official one due to the prevalence of informal economic activities. It is estimated that at least one fifth of the Egyptian economy is informal. The World Bank, Doing Business in 2005
necessary action. To avert any future threat, thousands of inhabitants in this area had to be evacuated. In order to relieve their problem OHC donated a total of 600 units and the local municipality bought another 1,000 units to house some of the victims. Some of these people who had certain skills, e.g. a clay pottery maker or an iron smith, were encouraged to open shops in the city and were given initial financial support until they could stand on their own feet. Part of their production was bought by the city management as well as by the other residents. The reaction of the buyers or would-be buyers of the Haram City units to the new slum dwellers residents is instructive in assessing this model which is attempting to tackle the low-income housing problem. One anonymous unit owner who works as a bus driver said “I like the place. It is not noisy. It has security, public transportation and a private bus for a fee. I paid LE 40,000 (US$7,400) as down payment and installments over 15 years. One third of my monthly salary goes towards this payment.” A Facebook site was created where a dialogue developed and exchanges took place regarding the merits and demerits of this project. Brief quotations are given here to reflect the perceptions and opinions of residents or would-be residents. The exchange reflected diverse views and focused on the following points: price, value for money, unit size, privacy, quality of neighbours, durability of construction and quality of life. Since the project is not yet complete these dialogues reflect a new living model that is taking shape.

“Units in other projects are in large buildings and you don’t own a share in the land like in Orascom’s.”

“These units are not sturdy. They don’t contain concrete in them. The ceiling many cave in under pressure.”

“I checked prices of similar projects nearby and this project seems reasonable.”

“I went to the project. It is expensive and more suitable for single people. Besides it has no foundation.”

“It may be expensive but dealing with a large company is reassuring since they will deliver on their commitments.”

“Solving the housing problem for low-income people is not an easy issue. This project is still one of the best available.”

“The concept of an apartment for life needs to change. As your family gets bigger and your financial means improve you can move to a bigger place. Meanwhile you can start with a small unit and limit your financial burden.”

“Regarding the distance, all new projects with low prices are far away from the city.”

“The down payment is too large but that is the only way to keep the monthly mortgage as low as possible.”

“There are some concerns about the place. But at the end it is cozy and relaxing. The concept of having a large apartment in view of the rising prices is not applicable anymore.”

“It is good that these people will get a roof over their heads. Haram City has a security system which enforces rules that govern people’s behavior.”

“It is a disaster that the company has housed the victims of the falling rock in the same place.”

38 Al Ahram, December 30, 2009.
ROLE OF THE GOVERNMENT

In a way using private developers to handle the issue of low-income housing has relieved the government of dealing directly with this problem. Previously, payments for units built by the government used to be paid directly after people move into their units. There were frequent incidents of delinquency in payment and the government had to go to court to evict these people which took long procedures in addition to the negative social implications of this action. Now, with a new law from 2001\(^{39}\), the financing issue is dealt with through banks and mortgage companies under conditions that protect the rights of both parties.\(^{40}\) However, the new role of the Egyptian government is critical in making the business model for low-income housing succeed.

Obtaining a mortgage requires clear title to the property or proper documents in order to facilitate registration. The government has been active in streamlining registration procedures for property ownership, which reduced the processing time from 12 to 18 months to about three months. Fees for registering property were reduced from 12% to 3% of property price with a ceiling of around LE 2,000 (US$364) depending on the size of the unit and location. Purchasing units from private developers under the government scheme qualifies buyers for mortgage financing since ownership of the units are assured by the government.

Without the cheap land and the subsidies provided to buyers, private developers would not have ventured into this new field. Previous endeavours to engage the private sector had only limited success because they failed to develop a partnership model whereby investors could make sufficient returns. Buildings were constructed and delivered to the government to be allocated as it sees fit. Haggling used to ensue between the two parties due to lack of conformity to contract requirements and the consequent delays in payment by the government. Infrastructural work was done by the government with limited synchronization with construction stages. Due to lack of community management, these areas began slowly transforming into slums. Residents of the units tend to violate construction code, for example by erecting illegal balconies or making extra openings for windows. In its new program, the government provides well-defined help, sets the conditions but lets the private sector implement the project and reacts to market conditions more effectively. Determining prices is left to each developer. According to company sources, a 25% margin is realized. However, this is debatable by other sources which claim that profit can reach 70% on each unit.\(^{41}\) Accurate figures on actual profitability are not available. However, if the profit margin is as high as some claim this would limit the number of potential buyers of units and may even invite government’s intervention of some sort. A courtesy check by the author of comparable projects which are advertised in the local media found out that the Haram City’s prices are within range.

\(^{39}\) Law number 148
\(^{40}\) Al Ahram, August 13, 2009, Interview with Eng.Glal Sayed AlAhl, CEO, National Housing Program.
\(^{41}\) AlAhram, July 23, 2009, Ahmed Al Naggar, Businessmen and the President’s Housing Program
“Due to the rising cost of construction, the government cannot put a price cap” said a top Ministry of Housing Official. At any rate, success of the project (including assuring adequate demand) is essential for maintaining the image of a serious developer like Orascom which is trying to apply the same concept to other developing countries. As Elhitami, General Manager said, “We are always reluctant to raise prices. Price for the whole unit is low compared with others.”

The government’s role is also critical in setting up the legal and institutional framework for a mortgage market which is still very underdeveloped in Egypt, even in comparison with other emerging markets. In addition to the mortgage law, which was passed in 2001, the government has established a number of units under the Finance Ministry: the Mortgage Finance Authority (MFA), the Egyptian Mortgage Refinance Company (EMRC), and a National Credit Bureau. The MFA grants licenses to new mortgage companies that want to enter the market. It also supervises their activities and follows up on the overall mortgage market situation. EMRC is expected to become the market maker and carries out securitization transactions. This is for the purpose of creating other sources of financing mortgages and reducing reliance on the banks which are more expensive. EMRC also provides liquidity to its shareholders - among them 18 private and public sector banks - against their mortgage portfolios. Other refinancing companies, which issue securities based on bundling mortgages, are expected to be created. Thus far, there has been only one mortgage-backed bond issued in Egypt. Last year, state-owned Egyptian Arab Land Bank issued a LE 750 million (US$136 million) bond secured by a mortgage portfolio.

The Credit Bureau - which shares information between the Central Bank of Egypt (CBE) and 27 banks - can help banks and mortgage companies assess which applicants are least likely to default. In addition to the above units, the Mortgage Guarantee & Subsidy Fund offers subsidies to buyers of low-income units. Also, even though the National Housing Program (NHP) does not set unit sale prices, it creates a competitive environment by inviting all developers to enter into this scheme.

In order to facilitate coordination between all the above actors and also to encourage mutual exchange between the government and developers, a Financial Authority was formed recently to oversee the mortgage market and its institutions. This new body is planning to meet regularly with developers to work out solutions for problems facing buyers of units for the purpose of modifying the law if necessary. So, in addition to promoting the use of mortgage, a control function is being added to prevent the abuse of buyers.

The government is keen on easing the low-income housing problem by encouraging mortgage financing but without creating a credit crisis that could damage the whole economy. This is why regulations are structured in a way that guard against customers taking on too much debt.

42 Ahmed Maged, Alternative Construction Methods May Put an End to Price Hikes, Say Experts, Daily News, April 21, 2008
43 Business Monthly April 09,2009
44 Alshorook, 18 July, 2009, When the dream of getting an apartment turns into a nightmare.
Monthly installments must not exceed 25% of income for low-income earners. Loan-to-unit value ratio cannot be greater than 90%. In the U.S. mortgage market, companies were lending up to 120% of the unit's value. According to the Minister of Investment, Egypt provides only "plain vanilla" mortgage loans, as opposed to the "interest only" payment plans available in the U.S. 45

**Impact on the Community**

Due to the unsettled status of informal buildings, their market value is always questionable since they do not have legal titles. To their owners, these units are essentially stagnant wealth and are excluded from the mainstream of the formal economy. For example, their owners cannot use them as collateral to borrow money in case of need. This reduces the economic potential of the real estate sector in the economy. 46 This new partnership between the government and private developers is one step to resolve this problem.

The business model that emerged as OHC entered into the field of low-income housing has ramifications on the quality of life of low-income people. It tends to introduce them to the concept of community along the same line of high-income residential areas. Direct success of the business model, as applied to OHC, is measured by the number of units constructed and sold. A total of 12,000 units have been constructed so far with 5,000 purchased. The project has low population density averaging 30 square metres per person compared with the government limit of 17 square metres per person. Haram City is a definite improvement in clear contrast with the haphazard construction that characterized low-income housing for years. Low-income people can now enjoy quality living in houses of their own at a reasonable cost.

A recent study surveying the views of some real estate experts as well as young people with limited income searching for an apartment revealed that the actual price of the units under the NHP is about twice the actual cost and this is due to the differences in services and amenities from one project to another. Setting a ceiling on profit margin of private developers may drive these investors away and throw the problem back into the government’s lap. The major complaint voiced by those interviewed centered on prices in view of the low price of the land and their willingness to sacrifice some of the amenities in exchange for lower prices. On the other hand, some fantasize about a return to the old system where the government builds the houses itself and charges low rents which is not tenable anymore due to fiscal reasons. Views of the companies mentioned in the study defended differences in prices on the basis of

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45 In the former case, a client begins paying off the principle right away. But an interest-only plan requires the borrower to pay just the interest for the first few years. After this period, the principle is also due, and suddenly the monthly payment shoots up, leading many borrowers to default. (Business Monthly, July 08, Interview with Mahmoud Mohiedeen, Minister of Investment.)

differences in services and that competition and market conditions will help determine fair prices.\textsuperscript{47}

Real estate (construction and related activities) incorporated 11\% of the work force in 2005/2006 and contributed a share of 8.6\% in 2006/2007 to GDP. This sector plays a much bigger role in the economy than these figures indicate. Construction and real estate cut across numerous economic sectors, including housing, tourism, industrial zones and commercial/retail building.\textsuperscript{48} At a time when the construction of luxury units is slowing down, employment and growth in this sector is threatened. So, supporting low-income housing will help ignite the economy at a time of deep global recession. Until now, a total of 126 companies have joined the NHP, with OHC being the largest player. In April 2009, 33 companies requested project license adjustments to the new scheme from the Ministry of Housing in order to build less high-end and more middle-income units.\textsuperscript{49} A total of more than 120 million square metres in the new cities adjacent to Cairo and in the different governorates have been allocated to low-income housing through private investors.\textsuperscript{50}

Regarding development of the mortgage market, the number of mortgage finance companies has jumped from only two in 2004 to 11 in 2008 in addition to 16 banks involved in mortgage financing. Companies from Arab countries have been given licenses to operate in the Egyptian market. This will eventually integrate the Egyptian mortgage refinancing market into the global economy through issuing mortgage securities. Total mortgage granted increased from LE 16 million (US$3 million) in July 2005 to around LE 4 billion (US$700 million) in 2009.\textsuperscript{51} Currently the government is subsidizing a total of 4,428 housing units. A total of 5,000 persons have obtained the subsidy this year and the objective is to reach 10,000 by the end of 2009. The default rate is very low with only five foreclosures so far.\textsuperscript{52}

**Growth Strategy and Future Outlook**

Adding low-income housing to OHD investment portfolio appears to be a major strategic move. Mr. Sameh Sawiris said in 2008 that he expects that low-income housing will account for 10\% of the company’s revenues by 2010, up from almost nothing in 2008. He also looks forward to doing similar projects in other countries in order to diversify the company’s revenues.\textsuperscript{53}

OHC is already going into other areas in Egypt. It signed an agreement with the governorate of Fayoum, which is adjacent to Cairo, for the construction of 2.1 million square metres of

\textsuperscript{47} Dream of Youth, A study, Al Ahram Al Massai, November 17, 2009 (in Arabic)  
\textsuperscript{48} Business Monthly, November 23, 2008, Real Estate: Where is it heading  
\textsuperscript{49} Business Monthly, April 09, Interview with Asraf Kamel, Deputy Minister of Housing  
\textsuperscript{50} Al Ahram August 14, 2009, The National Housing Program Under Discussion  
\textsuperscript{51} Ministry of Finance web site  
\textsuperscript{52} Al Ahram 9/9/2009. Is Mortgage Financing Only for the Rich  
\textsuperscript{53} Reuters.com. March 8, 2009, Orascom Says to build budget housing in Turkey
housing. The land was purchased at a price of LE 8 (US$1.40) per square metre payable over seven years with a grace period of three years. The company’s initial plan is to develop more than 20,000 low-income housing units in that area. OHC is also holding talks with the Turkish, Ethiopian, Yemeni and Ukrainian governments to start similar low-income housing projects in their countries.

While OHC is taking the lead in low-income housing, other companies are following with less volume. Also, other high-end housing developers, such as PALM HILLS and Six of October Development and Investment (SODIC), are watching Orascom’s experience before venturing into this area. They are constrained, however, with the large parcels of land they acquired earlier during the upturn economic cycle at prices ranging from LE 300 (US$54.50) to LE 800 (US$145.50) per metre. A SODIC’s official said “We are very intrigued by the Orascom model, and we would love to see it work. But how can we apply it to our land today? We wouldn't be able to do it because we got [the land] at a certain price. It would probably require purchasing entirely new land.”

The National Housing Program is still new and feedback is needed in order to fine tune its details. Solving the low-income housing problem requires continuous assessment of this newly created business-government partnership. Roles and responsibilities of both need to be clarified based on experience.

In order for the low-income housing model to succeed efforts need to be exerted at the company and government levels. Companies will be required to use more ingenuity in developing their own engineering and financial models to turn low-income unit construction into a money-making investment. They need to have orientation programs to educate the public about community living. People need to understand that the concept of space does not only apply to the confines of their units only but also to the space outside their units. At present, OHC does not conduct this kind of orientation.

The government and private companies must coordinate to spread information about mortgages, such as forming a public awareness campaign. Low-income housing is an opportunity that requires mass production, a matching effective demand which is vitalized through an adequate financing scheme. However, the construction sector is always threatened by inflationary pressures where building costs are not controllable and always rising. In a subsidized system this will put a great deal of pressure on the government to continue supporting these kinds of projects. Also, developers like Orascom, accustomed to high margin, may find it unsustainable and keep demanding the government to raise income eligibility levels which could make the project serve higher income brackets than the originally targeted low-income people. Reliance on the banking sector or even mortgage companies would not be sustainable because they are essentially profit seekers. Other actors, such as employees associations need to enter the picture. Therefore, some believe it is

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54 Ibid, Interview with Youssef Hammad, Chief Commercial Officer of SODIC, a major Real Estate Developer
essential to solve the financing issue through creating a mortgage scheme that is independent of the banking sector and financed by workers’ retirement funds which are based on contributions by both companies and their employees. Reliance only on banks and/or mortgage companies as a source of mortgage raises the cost of borrowing and reduces effective demand.\textsuperscript{55}

\textsuperscript{55} Infonavit and The Development of Housing for Low-Income Workers in Mexico, www.infonvit.com
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The case was completed in March 2010 and released in 2011.

The information presented in this case study has been reviewed by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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For more information on Growing Inclusive Markets:
www.growinginclusivemarkets.org or gim@undp.org

United Nations Development Programme
Private Sector Division, Partnerships Bureau
One United Nations Plaza, 23rd floor
New York, NY 10017, USA