

# The Real Estate Market in Egypt: Impact of Consumer Protection Regulations

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## Introduction

The real estate market in Egypt is a sector that draws up an important part of the Egyptian economy. In the last couple of decades, the real estate sector has been a hotspot for investors, and presumably a fairly stable market to invest in. Today, the sector contributes to approximately 20% of Egypt's GDP, in which real estate developers' shares make up to 50% as highlighted during discussions in the conference held by the American Chamber of Commerce in Egypt in December 2021.

Despite the impacts of the COVID-19 pandemic on all aspects of the country's economy, Egypt's real estate sector has considerably recovered from the COVID-19 outbreak in 2020 and has grown reportedly by 8% since the beginning of 2022. Hence, in such a vast and growing market, the protection of consumers against real estate suppliers and developers is a key pillar of a balanced and fair market. The recently issued decrees and regulations play a significant role in protecting consumers' rights in this respect, aiming for a stable economy.

## The Role of Consumer Protection Regulations in the Real Estate Sector

The Egyptian Consumer Protection Law No.181 of 2018 (the "**Consumer Protection Law**") was introduced in order to address certain aspects, which the same previous Law No.67 of 2006 that established the Consumer Protection Agency (the "**CPA**") was silent on. The promulgation of the Consumer Protection Law compliments the government's efforts to actively regulate multiple sectors and various market players. Said law addresses the real estate sector in a way that grants consumers additional rights against developers and suppliers with respect to sale of properties. Unlike the previous law, the Consumer Protection Law provides for a more strict regulatory system by granting the CPA additional powers such as the application of a severe penalty regime.

Article 15 of the Consumer Protection Law states that "a sale contract must not include any terms that entitle the seller or its successor to collect any percentages, fees or commissions from the sale price of the real estate unit or in consideration for a sale upon disposal by the

buyer. Any obligation otherwise shall be null and void." This is considered as an important amendment to the previous law, as prior to said article, developers have imposed and collected an average commission of 5-10% of the value of units or land plots as a condition on resale. Further, if developers do not comply with the aforementioned article they may face a penalty amounting to EGP 50,000 and up to EGP 200,000 as illustrated in a recent court case referred to in a statement issued by the head of the CPA. The statement highlighted that the First Circuit of the Cairo Economic Court has ruled in Case no.194 of 2020, against the developer and charged the latter with a fine of EGP 200,000, where the developer has wrongfully imposed EGP 30,000 as administrative fees for the resale of a unit to a new buyer. Further, the current practice is that major developers do not impose resale assignment fees on owners or include them in contractual arrangements. However, a seller of a property shall be subject to a real estate disposal tax, and a buyer may be subject to paying a unit's maintenance fees if imposed by a developer.

Another major amendment to the previous law is outlined under Article 15, which stipulates that “it is prohibited to announce the reservation of real estate units or enter into contracts regarding their sale, or to sell or divide lands prepared for construction, without obtaining building permits as in accordance with the Construction Law No.119 of 2008.” Although the Construction Law No.119 of 2008 already covers the aforesaid provision, the Consumer Protection Law seeks to tackle said sector from a consumer’s standpoint by protecting consumers against deceitful or misleading advertisements of real estate developers, as well as, preventing the sale of units or lands on a yet-to-be-imposed plans or blueprints. The market’s practice, prior to said provision, was to advertise the sale of units and lands prior to procuring the necessary permits or during the process of procuring them. It is worth highlighting that the Egyptian President Abdel Fattah Al-Sisi has issued a decree, which prohibits developers from marketing or advertising any real estate projects until a project has reached 30% of its completion. Accordingly, this aims to prevent random and informal building, as well as avoid fraudulent transactions in the real estate sector in Egypt.

## **Recent CBE Initiatives directed towards the Real Estate Sector**

Following directives by President Abdel Fattah Al-Sisi to assist low and middle-income individuals, the Central Bank of Egypt (“**CBE**”) has allocated EGP 100,000,000,000 as an initiative of mortgage finance that offers low and middle-income homebuyers with instalment plans that can extend to 30 years with a low interest rate of up to 3%. In addition, according to the CBE Circular dated 4 October 2021, the CBE has amended the mortgage finance conditions for middle-income homebuyers issued on 19 December 2020 by launching a mortgage finance initiative of EGP 50,000,000,000 for individuals with a monthly income of EGP 40,000 and families with a monthly income of EGP 50,000. With an interest rate of 8% (calculated on a diminishing basis), the repayment term was increased to 25 years from 20 years. Said circular has abolished requirements on the maximum net area of a unit (which was previously 150sqm), and increased the financed unit price to EGP 2,500,000. It further allowed banks to accept alternative finance guarantees if a unit is unregistered, which is very common in new urban communities in Egypt and was historically a deterrent for real estate mortgage players to enter this new urban communities’ real estate market.

The abovementioned initiatives were all part of the CBE’s measures to offset the impact of COVID-19 pandemic, as well as, to incentivize the purchase of real estate properties instead of leasing, which in turn may boost the sector’s growth.

## **Consumer Protection Measures Amid the Covid-19 Pandemic**

A critical decrease in the sales of real estate properties was witnessed at the dawn of the Covid-19 pandemic in early 2020, which unexpectedly started to recover during Q1/Q2 of 2021. Indeed, some investors have switched their investments to the real estate sector, seeing it as a more stable market, instead of depositing their funds in banks or investing in the Egyptian Exchange. At the outbreak of the pandemic, the CBE has issued a circular dated 15 March 2019, which obliges banks to defer institutional and individual customers’ loan payments (including loans for consumer purposes and real estate loans for personal housing) for a period of 6 months, with no additional interests or penalties to be imposed on late payments. It is worth noting that there were no regulations issued to developers obligating them to defer properties’ instalment payments or delay interests that are due from homebuyers. However, some real estate developers have, in practice, discretionarily deferred and extended payments of instalments and have decreased delay penalty fees for homebuyers, on a case-by-case basis.

## **Potential Amendments at the Discussion Stage**

In light of the above, the Egyptian parliament is currently discussing amending the current notary public regulations in order to simplify the real estate property registration process, which has hindered the ability of homeowners to register properties purchased from developers. This may facilitate access to financing by homebuyers and developers, in addition to increasing the volume of transactions within the real estate market.

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