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## **Urban Communities: Lack of developers in first and second generation cities a major reason for their lack of success**

Engineer Abdel Mottaleb Amara, Vice President of the Urban Communities Authority for the Development of New Cities, said that the lack of success of the first and second generation cities implemented by the New Urban Communities Authority lies in the lack of real estate developers besides the state in constructing these cities.

### **Our Views**

- **The news report linked between each of the problems facing real estate developers on the one hand and failure of the first and second generation of new cities on the other.** These are two very important topics and represent part of the problems facing the real estate sector in Egypt in general, which clearly manifested in inflated prices despite increase in the percentage of closed and empty units, which represent 25 percent of total housing units in the country.<sup>1</sup>

#### **First: Problems of Real Estate Developers:**

- **High land prices reaching up to 50 percent of unit prices, as well as rising construction costs are the main challenges facing real estate developers in Egypt** in general and new cities in particular, **in addition to the length of time it takes to register the land and delayed connection to utilities**, which lead to delay in meeting schedule with customers. There are also problems in the collection of payments.

<sup>1</sup> General Census of Population and Establishments, Central Agency for Public Mobilization and Statistics 2017.

- **Weakness of the secondary market, which led developers to play the role of banks** by providing excessive facilities without thoroughly investigating the solvency of customers, which oversteps the limits of their role and risks the inability of customers to repay and hence distressed developers.<sup>2</sup> **In particular, the real estate sector is growing at almost twice the rate of the Egyptian economy as a whole,<sup>3</sup> which means there is a gap between supply on the one hand and the growth rate of purchasing power of individuals on the other.**
- **Although the state has a clear strategy for urban development, real estate developers have not yet been able to develop a strategy in line with state's plans.** This is due to the lack of a database on the pillars of development undertaken by the State as well as a clear vision on the areas of investment and land to be placed on the market, the size of those lands and the size of real demand, enabling the developer to develop a business strategy to guide his investments accordingly.<sup>4</sup>

#### **Second, Lack of success of the first and second generation of new cities**

The lack of success of the first and second generation cities in Egypt is due not only to the lack of real estate developers beside the state as noted, but to many other problems that have accumulated simultaneously, most important of which are the following:

- **The non-commitment of the Urban Communities Authority to its social role, for which it was fully established,** namely the redistribution of the population outside the existing urban space, achieving social justice and ensuring a decent life for all citizens. Instead it started exercising the role of the real estate developer, and selling land by auction, which led to an unprecedented rise in prices.<sup>5</sup>
- **The absence of an integrated system of factors supporting the success of the new cities,** from creating jobs and providing affordable housing for all working groups, and the provision of various services, most important of which are education, health, transport and other elements that must be available together. The absence of one threatens the success of these cities.<sup>6</sup>

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<sup>2</sup> Is Egypt entering a real estate bubble that threatens the economy? The Egyptian Center for Economic Studies 2018.

<sup>3</sup> Ministry of Planning and Administrative Reform, available at <https://bit.ly/2NiIJSH>

<sup>4</sup> Al-Watan 2019, available on <https://bit.ly/2rgfYgT>

<sup>5</sup> Yahia Shawkat & Amr Abu Tawila, Map of Egypt: Social Justice and Urbanism, Shadow Ministry of Housing 2013.

<sup>6</sup> Dona J. Stewart, Cities in the Desert: The Egyptian New-Town Program, Annals of the Association of American Geographers, Vol. 86, No. 3 (Sep., 1996), pp.459-480.

- **Lack of clarity between the role of the state on the one hand and the role of the developer on the other hand**, especially the limits of what the state should do and what should be left to the developer. The roles of stakeholders should be clearly defined.
- **Severe centralization and concentration of most service agencies, ministries and authorities in Cairo**. The result was the disruption of the relative distribution of the population of new cities, where they are mainly concentrated in the governorate of Cairo and Giza by 53 percent of the total population of new cities in Egypt.<sup>7</sup>
- **The imbalance between urban and industrial development in the new cities**, due to the high unit prices in these cities exceeding the purchasing power of the factory workers, which prevented their settlement in the new cities and their dependence on daily commute from the mother city.
- **The difficulty of developing some areas due to the lack of adequate feasibility studies on the one hand and lack of detailed studies of the nature of soil and land on the other**.
- **Allocation of land in bulk, rather than gradually**, which led to the acquisition of large areas by individuals and investors at low prices and concessional terms of repayment, and not developing them fully.

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<sup>7</sup> General Census of Population and Establishments, Central Agency for Public Mobilization and Statistics 2017.