Urban Development and Housing Policies in Egypt: Between the Right to Adequate Housing and Social Inequality

Executive Summary

- The state of housing in Egypt reflects a disconnect between supply and demand. Real estate developers continue to build for the middle- and upper-income brackets, creating an excess supply of high-end housing, while lower income housing supply suffers from a shortage of 2.5 million units. This situation is exacerbated by the misallocation of government funds directed towards supporting new urban cities whereby disproportionate chunks of the Built Environment (BE) budget are allocated to new real-estate projects at the cost of older fully inhabited neighborhoods.

- Meanwhile, 380 billion EGP will have been spent on the New Administrative Capital (NAC) by the end of its seven-year construction period (Egypt Independent, 2020a). Like previous new urban communities in Egypt, the NAC does not guarantee affordable housing; it will not offer social housing units (Zaki, 2020), the units on offer will not be affordable to most Egyptians, and it further represents a large opportunity cost as the investment in real estate could instead go to more productive sectors of the economy.

- This brief provides policy area interventions which aim to reduce the increasing market prices that make housing prices unaffordable, addressing possibilities including the real estate capital gains tax and rental tax penalties, along with measures to address the misallocation of government funds such as participatory budgeting.

New Urban Communities

The development of new cities in the desert as part of the state’s urban policies to accommodate Egypt’s growing population can be traced back to President Anwar Sadat’s October Paper, which laid out his vision for the development of Egypt. Subsequently, the New Urban Communities Authority (NUCA) was established in 1979 (Law 59/1979) as an ‘economic authority’ under the Ministry of Reconstruction (later renamed the Ministry of Housing, Utilities and Urban Communities). The population sizes for NUCA’s new cities and towns have rarely reached their targets.

- Despite all the resources invested in these urban development projects, the government has failed to attract citizens to these new towns. One of the main reasons for this is the absence of adequate housing that fulfills criteria such as affordability, a location with access to employment, adequate transportation and other public services. A further impediment to attracting citizens is the prohibition on opening retail shops and services, resulting in the exclusion of “the vast micro and small informal business sector, which generates jobs for over 60% of urban Egypt” (Hegazy and Moustafa, 2013, p.7).

In March 2015, the Egyptian government announced its plan to build a ‘New Administrative Capital’ (NAC) in an uninhibited desert land east of Cairo. Roughly 60,000 government employees will be relocated to the NAC, and all government buildings in Cairo will be vacated upon relocation to the new capital (Egypt Independent, 2020b). The NAC is part of the
government's vision to reduce congestion in the old capital and induce economic growth. The majority of Egyptians will not afford to live in the new capital. Furthermore, according to Almal News, General Abidin stated that the NAC will not offer social housing units (Zaki, 2020).

The direct and indirect costs of the new urban communities in Egypt have been significant, especially that of the opportunity costs of allocating funds to real estate projects instead of more productive economic sectors (De Soto, 1997). These investments, which result in millions of uninhabited housing units, could instead go to more productive sectors of the economy.

**Challenges to Housing Supply**

### Increasing Market Prices driven by Speculative Investment

Speculative investment, the phenomenon where the new middle classes and the rich purchase housing units with the anticipation of price appreciation, is a driver of increasing market prices. As speculative demand increases, so does the resale value of land and property, encouraging further speculative investment (Sims, 2012). This has led to the inflation of house prices, of which social housing units are not exempt, widening the gap between house prices and income.

### Built Environment Budget

Public built environment spending disproportionately goes to new cities rather than existing communities, neglecting the majority of Egyptians in favour of developing new cities in the desert frontier. In the 2016-2017 fiscal year, 2% of the population received 34% of the local built environment budget while 98% of the population received 66% (Shawkat and Hendawy, 2017). New cities continued to have the biggest share of per capita expenditure in the 2016-2017 fiscal year figures, at EGP 16,916 in real prices, or about tenfold the national average. On the other hand, expenditure per capita in existing towns and villages amounted to EGP 702. The majority of the built environment fund appears to be concentrated in regions that are not densely populated; while governorates in the Delta and Upper Egypt receive inadequate funding in proportion to their population, and their population of deprived households, areas like North and South Sinai in the Frontier region receive excess funding in proportion to their share of the population.

### Social Housing Schemes

The impact of existing social housing schemes has been limited by its failure to meet the needs of most households. Social housing schemes have failed to satisfy demand, there continues to be a shortage of 2.5 million units in housing for lower-income households (Government of Egypt, 2016), and demand is increasing due to both population growth and macroeconomic challenges. This problem is exacerbated by the consistent underspending of the social housing budget (Shawkat and Khalil, 2016), and that “in the end, the winning design produced just one design option for the entire nation; a series of housing blocks of two and three-bedroom units, ignoring local preferences of extended-family dwellings, or small serviced plots for self-build,” (Shawkat, 2018), resulting in a low delivered-to-built ratio.

And while the subsidized Social Housing Project scheme is supposed to help poor and insecure households, the reality is somewhat different. In the latest iteration of the subsidized buy scheme, the prices of the units on offer rose by 35%, furthermore, the price of units may still increase by up to 10% during the three years before contracting. While the maximum subsidy offered has also increased from EGP40,000 to EGP60,000, the increase in price has not been matched by an increase in income (Shawkat, 2020).

### Upgrading ‘Slums’

In 2016, the Egyptian government published its Slum Upgrade Plan, which originally aimed at abolishing all “unsafe slum areas” in the country by 2018. One of the biggest projects under the Upgrade Plan is to relocate the inhabitants of the Maspero Triangle district in central Cairo to the new Asmarat housing project in Mokattam, on the outskirts of the city. The inhabitants of the Maspero Triangle were given several options, including buying new housing units in Asmarat, taking
financial compensation and making their own housing decisions, and buying new houses in the Maspero Triangle after redevelopment (Mohie, 2018).

However, relocating to Asmarat can also be more costly for those whose lives the projects aim to improve; the monthly rent of EGP300 has provoked backlash from residents and politicians, and other costs include higher utilities and transportation costs, the latter stemming from the increased commute to residents’ workplaces (Mohie, 2018). Residents who once earned a living in the informal economy faced difficulties in the highly formalized and securitized Asmarat. Engaging in informal economic practices is strictly prohibited, and those who selling goods from their home face eviction threats and raids by municipal employees. The securitization has led some residents to describe Asmarat as an “open-air prison”, with restrictions including the prohibition of any social gatherings on the streets such as weddings, funerals, and Iftar in Ramadan (Wahba, 2020).

2. Participatory Budgeting

The government should also involve the public in the decision-making process through the mechanism of participatory budgeting. First implemented in Porto Alegre, Brazil, participatory budgeting is the process by which citizens engage in the preparation and evaluation of public budgets (World Bank, 2008). In Porto Alegre, this took the form of citizens reviewing the investment plans of the previous year, discussing their demands for the coming year, and electing residents to represent each neighbourhood for subsequent deliberations. Among the successes of participatory budgeting in Porto Alegre are increases in tax revenue, children enrolled in public school, and percentage of households with access to water services and sewage systems (World Bank, 2003).

Policy Recommendations

1. Reduce Market Prices through Taxation

The government should also look into ways to address the increasing market prices that make housing prices unaffordable. Improving the scope and application of the real estate capital gains tax would stabilize the rate at which the prices of real-estate increase. This should lead to more affordable housing for middle income households and increase the cost of speculative investment in real estate, making investment in other productive economic activities more attractive. The government could also introduce a rental tax penalty for closed non-primary homes that are not rented out. This policy would offer an economic incentive for owners of closed houses to put them in the rental market instead of keeping them closed, thereby driving prices down, or at the very least decreasing the exponential price increase which currently exists.

References

• De Soto, H. (1997). Dead Capital and the Poor in Egypt. Retrieved from The Egyptian Center for Economic Studies website: http://www.eces.org.eg/ MediaFiles/Uploaded_Files/%7B50FC1ABC-F724-4530-9AC4-D58B777DFDA6%7D_ECESDLSt11e%20Appendices.pdf


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