



Reformation of public services

The housing sector in Egypt: The Egyptian Rental Law

Experiences and recommendations

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Introduction:

A large number of Egyptians suffer from housing problems with the number of people living in unofficial housing units ranging between 12 and 20 millionⁱ while a large number of housing units in Egypt remain unoccupied. On the other hand, a study conducted about Cairo by UN Habitatⁱⁱ revealed that a sizable portion of Egyptians live in units that are either unsafe or not fit for living. Added to this is the fact that housing prices are generally high and this applies to both purchase and rent.

The law regulating the relationship between owner and tenant is one of the main challenges facing the housing sector in Egypt and its amendment, which will be dealt with in the coming parliament, is a key step towards solving the problem.

The Egyptian Rental Law has a negative impact on one of the most important components of an appropriate living place: security of tenure. This means that the law does not protect tenants from forceful evacuation and others forms of harassment tenants usually face when they don't have security of tenureⁱⁱⁱ. Although the current law stipulates that the rental value and time as well as the timing and percentages of increase should be agreed on by both owner and tenant, the owner of the property remains in a stronger position especially in high demand neighbourhoods. There are no clear laws that guarantee the tenant's rights or control the pricing system.

The Rental Law also violates articles of the constitution on the right to housing. Article 63 prohibits forceful evacuation while Article 78 makes the state responsible for providing citizens with adequate shelter in a way that achieves social justice^{iv}. On the other hand, the law does not guarantee the rights of owners since a number of housing units are still rented under the old Rental Law, according to which residents of older units pay extremely meagre rents that do not reflect the value or size of the units and are not suitable for the general economic conditions^v. Although owners are usually in a stronger position than tenants, in the case of the old law owners are the ones who suffer in the owner-tenant relationship owing to the low rents they get. This led to the emergence the Association of Old Rental Law Owners^{vi}, which calls for revoking the law and making the owner-tenant relationship dependent upon supply and demand and market conditions^{vii}.

The problem of the old Rental Law started in the early 1990s as one of the repercussions of the open-door policy, which started in the 1970s. The rise of inflation rates accentuated the modesty of rents regulated by that law and how unsuitable they are for the sizes and locations of the housing units^{viii}. In 1981, law number 136 was passed to regulate owner-tenant relationship, rent, and sale. According to the law, with the exception of luxury residences, the annual rental value of a housing unit should not exceed 7% of the value of the land and building in which the unit is located provided that the size of the unit is at least two thirds of other units in the same building. The owner of the building is to determine the rent in accordance with the criteria specified in this law and include it in the contract. If the contract was signed before the construction of the building is completed and a tentative rent was agreed on, the owner has to inform the tenant of the new price in accordance with the law within 30 days of the completion of construction provided that the raise does not exceed one

fifth of the initial rent. The owner has to allow the tenant to examine the documents according to which the new price was determined within a month from signing the new contract or notification of the new price, whichever is more applicable. In 1996, the New Rental Law (No. 6) was passed to be applied to units that have not been rented before or whose contracts have expired with no one retaining the right to occupy them, it was amended as well with the law no. 137 for the year 2006.^{ix}

Regulating the owner-tenant relationship: International cases

This part of the paper attempts to identify the main criteria based on which the relationship between owner and tenant is determined through examining a few international cases.

A report issued by the Organization for Economic Cooperation and Development (OECD) on the housing policies adopted by member states studied the rules that regulate rentals in these countries. For countries in which housing basically depends on rental, such as the Czech Republic, Germany, the Netherlands, and Sweden, it is necessary to set strict legislative and executive rules that define owner-tenant relationship. These rules include regulating and monitoring rents, security of tenure (which does focus on the length of the contract as much as the owner's commitment to notify the tenant before terminating the contract), and means of solving disputes between owners and tenants. The restrictions imposed on rental pricing mechanisms are much stricter in social housing than they are in private housing, which is based on the principle that the main purpose of social housing is making housing affordable. In Sweden, social housing prices are the base on which private housing is evaluated while in the Netherlands the private sector does not play a major role in influencing the pricing system since social housing is more prevalent^x.

Most countries set rules that regulate the signing of the contract since the bargaining between the owner and tenant is in many cases quite unfair since owners can abuse their market power or tenants can illegally seize rented property and so on. The rules regulating the contract phase aim at dealing with such problems through, for example, issuing a unified contract that all owners and tenants should use. The terms in these contracts differ from one country to another, but are known to be remarkably in strict in several European countries.

Some countries adopt an insurance program that deals with contractual issues. For example, Spain established a state authority in charge of devising insurance programs for both owners and tenants to encourage the development of the housing sector, facilitate contractual procedures, take legal measures in case of contract termination, ensure that the owner gets the property back in a good condition, and help the tenant find another house in case of termination^{xi}.

On tenants' rights:

Germany and Sweden constitute the best examples of preserving the rights of tenants. In Sweden, the owner has no right to terminate the contract or ask the tenant to leave without prior notification of at least three months. The owner cannot also raise the rent without prior

notification of at least two months. The tenant has the right to reject the raise and in this case the owner can file a lawsuit and is to accept the price decided by the court^{xii}.

In Germany, the rules control rent increases which cannot exceed 20% throughout three years. Most rental contracts do not have a specified duration and the exact rental amount is clearly mentioned in the contract so that if, for example, the contract does not state the tenant is to pay utilities, they are automatically paid by the owner. The German case includes two types of evacuation or contract termination: the first is regular and is usually applied in cases of open-ended contracts; the second is urgent is usually applied in certain cases like the tenant's failure to pay the rent or the tenant's violation of contract terms. Tenants have the right to refuse evacuating if it will negatively affect their or their families' wellbeing^{xiii}. In the Netherlands, tenants have the right to refuse evacuating in open-ended contracts, but the owner is the one who decides the rent and the tenant is obliged to pay a two or three-month deposit^{xiv}.

It is noteworthy that in those countries, citizens are granted the right to organize, which means that tenants have the right to form unions if their rights are violated at any time. In the United Kingdom, the London Tenants Federation is an organization that works on preserving tenants' rights and is comprised of tenant unions from different municipalities as well as organizations that work on providing social housing. The federation represents the tenants in the decision making process and makes sure their rights are not violated. For example, representatives from the federation have been taking part in the series of sessions known as the London Plan at London City Hall since 2007^{xv}.

Owners' rights:

The Czech Republic is one of most known for preserving owners' rights since there are no restrictions on rental prices or contract duration. Both open-ended and time-limited contracts are allowed^{xvi}. When the contract expires, the tenant is expected to leave without prior notification from the owner and the owner has the right to file a complaint if the tenant does not evacuate on time. Rent contracts expire as soon as the tenant passes away (this is different from the Egyptian case where the first generation inherits the right to rent the property according to the last amendment while previously the rental contract was transferred for good to the tenant's offspring so long as none of the two parties terminates it). The owner's financial rights are also guaranteed in the Czech case since the owner has the right to terminate the contract if the tenant stops paying the rent for three consecutive months^{xvii}.

The previous cases have obviously managed to devise a set of rules to regulate the relationship between owner and tenant in a way that overcomes the current challenges facing the Egyptian law, both old and new, even though the afore-mentioned cases are not similar.

Recommendations for the Egyptian legislator:

Two work strategies can be proposed in order to regulate the relationship between owners and tenants and to introduce amendments that that would take into consideration the different aspects of the housing problem in Egypt:

- Owner-tenant relationship: The two current rental laws do not guarantee tenant rights such as security of tenure and the proportionality between the rental price and the size and quality of the housing unit. The same laws do not also guarantee owner's rights such as regular rent payment, property protection, and actions to be taken in case the tenant seizes the property. It is noteworthy that a sizable portion of Egypt's housing units fall under the old Rental Law. That is why the law needs to be amended in a way that adapts to the current economic and social circumstances and which are totally different from those under which the law was issued. These amendments should include the following:
 - 1- A set of clear mechanisms that guarantee tenants' rights such as writing the exact rent and the exact annual increase in the contract
 - 2- Obliging the owner to give two to three months' notice prior to evacuation or termination of the contract like the Swedish and German cases
 - 3- Protecting owners' rights so that they guarantee getting their property back in a good condition and receiving the rent regularly through imposing penalties on tenants in case they violate those rights
 - 4- Imposing penalties that can amount to imprisonment on tenants who seize the property.
 - 5- Registration of all rental contracts to guarantee the rights of all parties in case of disputes.
 - 6- Supporting freedom of organization for tenants' unions that will rule the relationship between tenants and landlords and can be a voice for them and supports their rights in case of violation.
- Regulating and monitoring the rental market: The gap between the rent and the actual value of the housing unit is not tackled in the current laws. According to the old law, the rent of a considerable number of units is too little for their size while according to the new law, the rent of other units is too high. In this context, the following amendments are recommended:
 - 1- A set of clear mechanisms for determining a pricing system that would not violate the right to adequate shelter so that tenants can find affordable decent housing and so that the current economic and social circumstances are taken into consideration and determining a minimum rent for housing units based on their sizes and specifications
 - 2- A clear mechanism for monitoring the rental market in a way that is similar to the Swedish case where social housing is monitored by municipal governments^{xviii}

ⁱ The Central Agency for Public Mobilization and Statistics (2013).

ⁱⁱ "Cairo – a City in Transition." UN-Habitat, 2011, <http://unhabitat.org/books/cairo-a-city-in-transition-2/>

ⁱⁱⁱ Report on the right to adequate shelter:

http://www.ohchr.org/Documents/Publications/FS21_rev_1_Housing_ar.pdf

^{iv} Egyptian 2014 Constitution: http://egelections-2011.appspot.com/Dostour/Dostour_update2013.pdf

^v For more on the old rental law see “The old Rental Law: Bequeathing the tenants [Arabic].” *Al-Ahram al-Masaei*, September 2012: <http://digital.ahram.org.eg/articles.aspx?Serial=1041403&eid=4707>

^{vi} The association’s Facebook page: <https://www.facebook.com/groups/oldowners/>

^{vii} “Owners of Old Rental Law houses demand state apology for 60 years of injustice [Arabic].” *Al-Masry al-Youm*. June 11, 2015.

^{viii} David Sims, *Understanding Cairo: The Logic of a City Out of Control*. American University in Cairo Press, 2011.

^{ix} Houssam Haddad and Ashraf Abbas. *The Encyclopedia of Housing Legislation*. Hisham Mubarak Law Center. Cairo: 2010.

^x Andrews, D., A. Caldera Sánchez and Å. Johansson, 2011, “Housing Markets and Structural Policies in OECD Countries”, OECD Economics Department Working Papers, No. 836, *OECD Publishing*, pp.: 46-50. <http://dx.doi.org/10.1787/5kgk8t2k9vf3-en>

^{xi} Ibid. p. 52.

^{xii} “Strictly regulated rental market.” *Global Property Guide*:

<http://www.globalpropertyguide.com/Europe/Sweden/Landlord-and-Tenant>

^{xiii} “Germany is depressingly pro-tenant.” *Global Property Guide*, 2014:

<http://www.globalpropertyguide.com/Europe/Germany/Landlord-and-Tenant>

^{xiv} Dutch house prices rising, boom on the way, *Global property Guide*, 2014:

<http://www.globalpropertyguide.com/Europe/Netherlands>

^{xv} London Tenants Federation: <http://www.londontenants.org/index.htm>

^{xvi} Tenant’s Rights Brochure for the Czech Republic: http://www.tenlaw.uni-bremen.de/Brochures/CzechRepublicBrochure_09052014.pdf

^{xvii} “Czech Republic: happiness is a rising house price.” *Global Property Guide*, 2015:

<http://www.globalpropertyguide.com/Europe/Czech-Republic/Price-History>

^{xviii} Andrews, D., A. Caldera Sánchez and Å. Johansson.