A Red Sea building boom is under way as Egypt targets overseas buyers, finds Karen Robinson….

Moonlight over the Nile has been responsible for a fair few flights of the imagination, but probably none so drastic as the changes it set in train for a solicitor's internal auditor from Banbury. The resident historian on Jennette Bradbury's trip round Egypt was Mohamed Montasir, who impressed her with his "fantastic knowledge" of his country's heritage. But Montasir is as forward-looking as Bradbury, and after an initial commercial partnership organising tours to Egypt, they are now in business developing and selling property in the Red Sea resort of Sharm el Sheikh at the tip of the Sinai Peninsula.

"We bought land and set up a building company," says Bradbury. They built 24 two-bed flats around a pool in the Nabq Bay area, 700m from the sea, kitted them out with the products of the furniture factory they also established, and "started selling them from £25,000 two years ago. I had a strong feeling we could do it." They all sold. Phase two swiftly followed, selling at about £30,000, and, behind them, 48 flats around an even larger pool, phase three of the Egyptian Experience complex, have just been finished, with prices of £37,000 to £45,000, plus up to £5,000 for a furniture package. Mac McNaughton, a haulage manager from Maidstone, and his wife, Janice, paid £39,500, plus £4,500 for furniture and supplementary air conditioning, for a two-bed flat with a terrace in phase three. "We haven't been serious sun seekers, but we want to gradually phase in more leisure time," Mac explains. He has even taking up scuba diving, the big draw that has put Sharm on the holiday map — along with year-round sunshine, cheap flights and a cost of living that makes Spain look pricey — the unbeatable formula of "nearest, hottest, cheapest" for Europeans, according to one developer.

"We plan to use it as a year-round bolt hole," McNaughton says, "but we won't live here till there's a better infrastructure." Sharm is certainly a work in progress. In the turbulence of 20th-century Middle East geopolitics, the Sinai was occupied by Israeli forces, and it was not until the withdrawal that followed the 1979 Egypt-Israel peace treaty that Egypt could start to think of exploiting its tourist potential. Development started in the 1980s around Naama Bay and what is now called the old town, and is spreading north along the Gulf of Aqaba to where Nabq Bay abuts the protected desert national park. Extravagant complexes are rising (though not to lofty heights: three storeys is the maximum permitted) to fill the strip between the sea and the point where outcrops of bare rock rise out of the desert sand. Some owe their architectural inspiration to the Pharaohs, some to Araby, some to ancient Rome — and some defy classification. Among them, mysteriously stalled half-built concrete shells are gradually being coated, Ozymandias-like, with sand from the Sinai desert.

The 2005 suicide bomb attack on the Ghazala Gardens hotel does not seem to have put a damper on Sharm's expansion, though all hotels and developments have security barriers and guards, and roads bristle with police checkpoints. The Egyptian government, doubtless casting envious glances at Dubai's lucrative property market, is so keen to encourage the sale of property to foreigners that in 2005 it changed the laws to make it easier, rescinding restrictions, for the Sinai, Red Sea and Mediterranean coasts, that limited ownership to two properties and banned resale within five years of buying. All properties in Sharm sold to non-nationals are on 99-year leases renewable on resale. In Hurghada and the other resorts on the less politically sensitive Red Sea coast, freehold purchase is permitted. In the southern end of Sharm, the Delta Sharm complex is nearing completion. Begun in 1997, its early European buyers were Italians, who have reaped some decent capital growth. A one-bed flat bought in 2002 for £25,000 recently sold for £50,000. The developer is confident that by the time the 1,500 units are finished, British buyers will predominate.

With its flats grouped around 10 swimming pools in well-tended gardens, and shops, cafes, restaurants and health club, the 24-hour security-guarded complex lives up to its claim of being a "village", though one where the vacationing population changes weekly. Delta Sharm offers buyers the option of turning their purchase over to the management company to let for a guaranteed 6% yield on the purchase price, or it will take 15% gross on any rental income, though with no guarantees on how much this will be. A tour of the complex reveals that the standard of interior design has advanced about 20 years in the past five, and that is reflected in the prices. A four-year-old studio with rudimentary kitchen and shower room is on the market for £55,000, while a large new one-bedder with marble floors and funky leather furniture costs £100,000 and large new three-bedders with terraces are priced at £160,000. Peter and Elizabeth Preston from Old-ham recently paid £38,000 for one of the older one-bedders. "They wanted £45,000 but I bargained them down," says Elizabeth, who reasons that as her UK mortgage was coming to an end, and "it can cost forty grand just to move house", the Delta Sharm property is a good investment. She's confident that the capital growth will outstrip 4.99% — the rate of the building society loan she has taken out to finance the purchase.

Prices have already risen considerably, but with the building frenzy releasing more "investment units" on to the market, the area's political volatility and the fact that there is no guarantee how long flights delivering holidaymakers' rental yields will remain cheap, the wisdom of the investment is not indisputable. Or maybe that's just me. The Millennium Oyoun Hotel and Resort is not yet finished, but Ezat el Noby of agency Uncover Egypt tells me that already all 38 four-bedroom villas in the complex have sold, many fully furnished on a five-year leaseback deal, for about £150,000 each. Behind the established Ritz-Carlton, a development of 26 villas is nearing completion. It strives for the bling factor, but falls somewhat short of European standards. However, you do get a pool and 350sq m of living space for £255,000. Villa prices are higher at the Iberotel — where a villa bought three years ago for £430,000 is on the market for £545,000 — dictated by their seafront locations, with just a walkway separating the properties from the beach.

A Swiss-Egyptian couple are selling their 1,000sq m bungalow, finished to sleek European standards, 50 yards from the beach at the Sheraton for £1.5m. Four years ago, says el Noby, the houses here were on the market for £356,000. And at the ultra-pricey Four Seasons, which occupies its own manicured coastal promontory, 300sq m three-bed villas, designed, rather puzzlingly, so that the front door opens straight onto a bend in the stairs, start at £458,000.

If you want real cutting-edge architecture, cross the Red Sea to Sahl Hasheesh bay, 12 miles south of the resort of Hurghada, where Norman Foster's architectural practice is masterminding the Serrenia project. On more than 500acres, with about half a mile of beachfront, this luxury resort (Foster's first) offers the kind of friction-free living the super-rich are assumed to be prepared to pay for, with jumbo berths for super-yachts in the marina, private jets, helicopters, its own submarine and legions of concierges, chefs and domestic help. The buildings, from apartment blocks to £15m "palaces", are inspired by the croissant-shaped sand dunes formed by the prevailing north winds in the desert landscape and are designed to work with the environment, using measures to promote sustainability. The smallest flats, at 140sq m, start at £200,000; detached villas at £750,000. Serrenia, with 1,216 properties in total and a hotel "in excess of five stars", should be ready in 2010 — by which time Egypt could be established as a global property hot spot, or the lesson of Ozymandias might be more appropriate.