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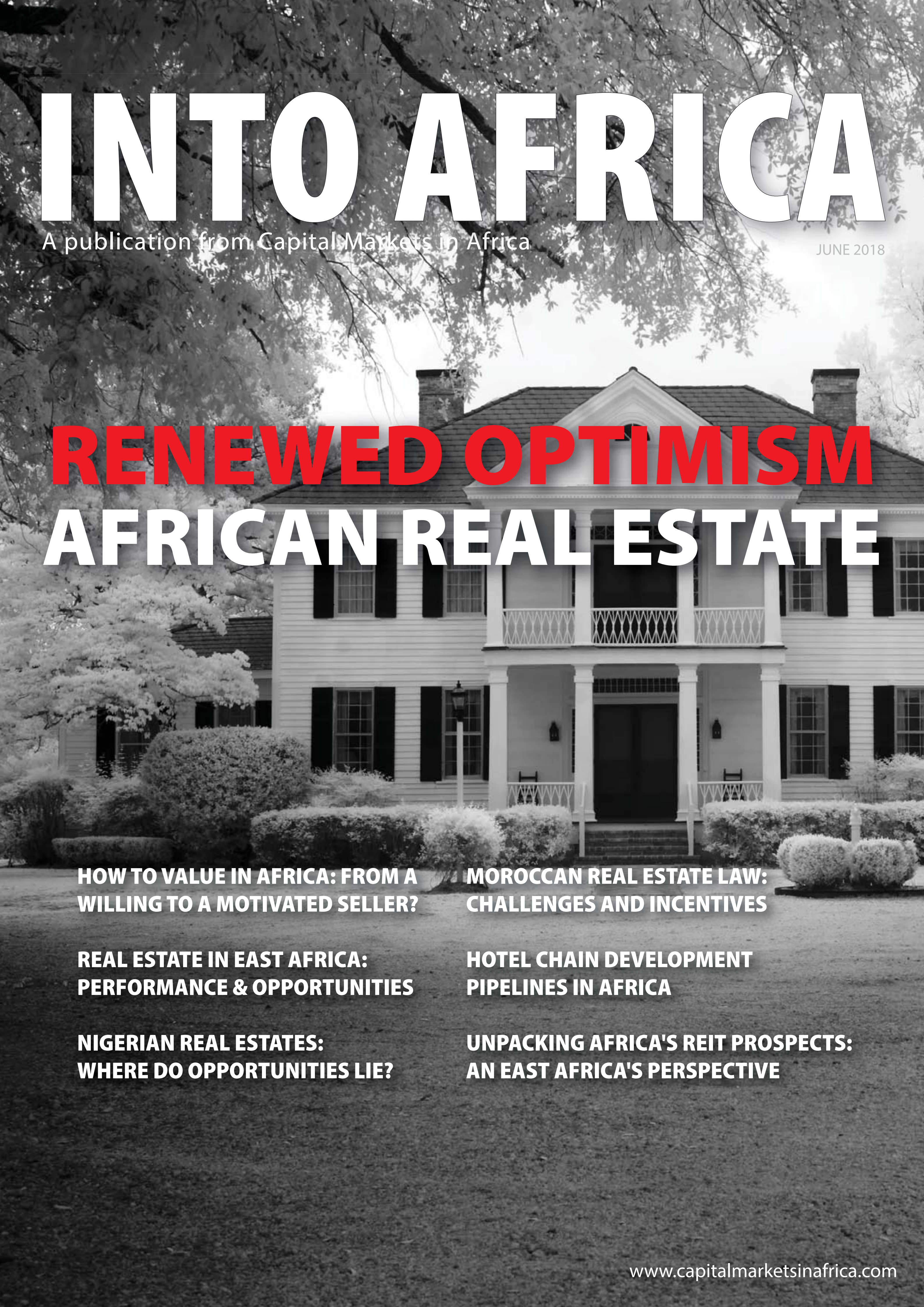

RENEWED OPTIMISM
AFRICAN REAL ESTATE

HOW TO VALUE IN AFRICA: FROM A WILLING TO A MOTIVATED SELLER?

REAL ESTATE IN EAST AFRICA: PERFORMANCE & OPPORTUNITIES

NIGERIAN REAL ESTATES: WHERE DO OPPORTUNITIES LIE?

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HOTEL CHAIN DEVELOPMENT PIPELINES IN AFRICA

UNPACKING AFRICA'S REIT PROSPECTS: AN EAST AFRICA'S PERSPECTIVE

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Welcome to the June 2018 edition of INTO AFRICA, a publication with fresh insight into Africa's emerging capital markets. This month's edition, titled: ***Renewed Optimism: African Real Estate*** examines the opportunities as well the challenges in the African real estate markets.

Africa's continuing economic and social development is encouraging investors to expand their portfolios in the continent and the yearning for long-term investment has drawn increased numbers of international investors to examine opportunities in the African real estate markets. The growing of the savvy investors, occupiers, and developers, as well as improved ease of doing business in most African countries, has improved the asset quality across all sectors. Although economic growth has faltered in parts of Africa, demographic trends remain favourable to the continent's long-term development, hence a positive prospect for real estate. Nevertheless, there still exits several short to medium-term challenges – such as currency fluctuations, political uncertainty, and regulatory risk as well as immature capital markets structures, avoidable bureaucratic bottlenecks, and complexity in the land dispute resolution.

JOSHUA ASKEW FRICS (Head: Valuation Sub-Saharan Africa, JLL South Africa) takes a look at real state valuation fundamentals from the perspective of a willing buyer and seller. In the same vein, **ERIC WRIGHT** (Chief Executive Officer Spectrum Valuations and Asset Solutions) examines the concepts of property valuation in *"Property Valuations: DO we or Don't we"*.

JUSTER KENDI (Research Analyst, Cytonn Investment Management Plc Kenya) provides a comprehensive overview of the performance and prospects of real estate markets in Kenya, Tanzania, Rwanda and Uganda in *"Real Estate in East Africa: Performances and Opportunities"*. While **DIOGO RODRIGUES** (Managing Partner, Zenki Real Estate Angola) and **GUIDO GIACHETTI** (Executive Chairman, RDC Properties Limited Botswana) discuss the potentials and risks of real estate sectors in Angola and Botswana respectively.

Furthermore, **DOMINIC ADU** (Chief Executive Officer, Ghana Home Loans Limited Ghana), **UZOAMAKA OSHOGWE** (Managing Director/CEO, Afriland Properties Plc Nigeria) and **AMOS MAZARIRE** (Senior Partner, Knight Frank Zimbabwe) look at where the real estate opportunities lie in Ghana, Nigeria and Zimbabwe respectively. In parallel, **BERNARDO SIMOES** (Managing Director, Zambujo & Associados Mozambique) and **NUNO TAVARES** (Partner and General Manager, REC Mozambique)) delve into the challenges and opportunities in Mozambique's real estate sector.

MYRIAM MEJDOUBI (Partner, DLA Piper Morocco) and **GAETAN ROGEAU** (Senior Associate, DLA Piper Morocco) discuss Moroccan real state regulations and laws as well as offering an insight into areas of challenges and incentives of the real estate markets. In *"A changing landscape: Hotel chain development Pipelines in Africa"*, **TREVOR WARD** (Managing Director, W Hospitality Group Nigeria) highlights that investors make a very significant contribution to the expansion of hotel real estate and shape the future of the markets in many ways. While **RUAIRI MORIARTY** (Director EMC Real Estate Nigeria) deliberates on the attraction of mixed-use development for international investors in West Africa and notes that this mixed-use development serves as a risk reduction through diversification.

And that is not all; **KENNETH MASIKA** (Chief Executive Officer, STANLIB Fahari I-REIT Kenya) demystifies the Real Estate Investment Trusts (REITs) and examines its application in East Africa. In addition, **SELWYN BLIEDEN** (Head of Africa, Commercial Property Finance, Barclays South Africa) is of the view that correcting and profiting from 'supply-demand' imbalance means focusing on property development and this entails tackling the risks of project delivery. In parallel, **JOAO TERLICA** (Co-founder and Managing Director of Sagaci Research) presents the complex and evolving interplay of modern and traditional food retail in Africa. Also, **ADRIAN MAGUIRE** (Founder & CEO of MagniFi and Fatti South Africa) and **MICHELLE JOOSTE** (Head of Analytics, MagniFi, and Fatti South Africa) explore how real-time location intelligence and analytics are disrupting retail sector in Africa.

And we're not done yet! In *"Managing the Compliance Aspects of Investment Funds in Africa"*, **AMEER CAUNHYE** (Head of Compliance and Risk, AXIS Fiduciary Limited, Mauritius) poses a philosophical question: *How far is the adage, "To err is human, to forgive divine", in the financial services sector?* While **JOYCE KARANJA-NG'ANG'A** (Partner, Bowmans Kenya) opines that avoiding or limiting job losses when companies merge has become a major priority for competition authorities throughout East and Southern Africa in *"Saving Jobs is a Priority for African Competition Authorities"*.

And there's more … in this edition, we bring a sponsored feature from Habitat for Humanity, titled: *"Building the Business Case for Housing Microfinance in Sub-Saharan Africa"*. The six-year study with 47,000 households demonstrates how housing microfinance can be win-win for poor people and financial institutions.

As usual, we provide you with timely updates on African Capital.

Tunde Akodu

Editor

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ENJOY!

HOW TO VALUE IN AFRICA: FROM A WILLING TO A MOTIVATED SELLER?

By **Joshua Askew FRICS,** Head: Valuation Sub-Saharan Africa, JLL South Africa

Misconceptions around the term 'willing seller' lead to distortion in property values – having a significant effect as commercial property markets are destabilised and investors are left in the dark.

In commercial property markets across Africa, we're seeing an all-too-common scenario emerging: property assets are often valued according to the wrong criteria.

This can have detrimental consequences for all parties involved.

Inaccurate valuations lead to false expectations among sellers, poor investment decisions from buyers, and ultimately contribute to illiquidity and uncertainty in already sluggish markets. Property investors are left with overstated or understated balance sheets, and in the worst cases, this can even lead to substantial write-downs.

One of the roots of the problem is the tendency to value property assets based on perceived long-term sustainable value, or other non-market considerations. These fallacies include being guided by the value of the property when purchased, the value of investments made into the property, or expectations of the property's future value.

In reality, true asset valuation should be based on a very tangible 'mark to market' valuation that reflects real-world market conditions in the present moment. In other words: how much a property would actually sell for, on the open market, today or at the date of valuation.

All other considerations – such as income modelling, due diligence, comparable analysis, cash flow and letting risk analysis, or ecological issues – may contribute to calculating a property's Market Value.

But, the ultimate definition of value must be based on how much it would practically sell for, in open market conditions.

Lost in translation

Perhaps the biggest area of confusion is the concept of 'willing seller': a term that is central to the valuation criteria set out in the RICS Valuation - Global Standards 2017. This guide provides global best-practice to commercial property valuation, as it harmonises both the original RICS Valuation Standards, as well as the IVSC International Valuation Standards.

RICS defines the 'willing seller' as someone who is *"neither over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be."*

But when faced with tough market conditions, for instance, we often find landlords saying 'I wouldn't be a willing seller at that price'. This way of interpreting the phrase 'willing seller' is hampering property valuation and is not what the definition of 'willing seller' means or is supposed to mean at all.

What needs to be recognised is another phrase which has been part of the International Valuation Standards for many years: the concept of 'motivated seller'. A motivated seller is one who is motivated to sell at the best terms currently available in the market, devoid of any preconceptions around what they feel is the value of the asset.

Analogy to our own lives

We can draw an analogy to our own houses in the residential property market: we may have bought the property at a certain price, invested a certain amount in renovations, and seen similar properties sold on the same street.

We may even have built up certain sentimental value, or factored in other expectations – such as a new train route or shopping mall being planned nearby.

But the reality is that all of these considerations are secondary to the actual selling price that you could receive, if you were to put your property up for sale now.

RICS emphasises this point, and goes on to clarify Market Value from another perspective:

> *"Because bases other than Market Value may produce a value that could not be obtained on an actual sale, whether or not in the general market, the valuer must clearly distinguish the assumptions or special assumptions that are different from, or additional to, those that would be appropriate in an estate of Market Value."*

In our example of the residential house, we must strip away all our assumptions and remove ourselves from the equation, getting to the core of the property's value: how much a buyer would actually pay in today's market, not how much a seller would be willing to sell for. The definition assumes you are motivated to sell at the best price an open market purchaser will pay in the market; not at the price at which you would be comfortable selling.

Despite sounding like a simple principle, we're seeing considerable over- or under-estimations of value in property markets across the continent. Often, we find local valuers being swayed by the wrong information, pricing-in hoped-for future scenarios – which culminates in an estimate of worth, and not an objective view on the asset's value in the open market, based on the best realistic offer which could be achieved at the date of valuation.

It's time to slay the myths around the phrase 'willing seller' and concentrate on the actual Market Value, which revolves around the assumption that the seller is already 'motivated' to sell at the best price obtainable in the current market; this is the true 'mark to market' approach. This rightly means that the Market Value for any asset is the best open market offer price available at any time, not the seller's own view of what they would sell at.

Ultimately, it's only by accurately valuing our assets that African economies can attract greater investment, stimulate local business success, and power the future growth of our continent.

Contributor's Profile

Joshua Askew FRICS joined the Sub-Saharan Africa Valuation team as head in 2017. Considering the significance of internationally recognised standards in the valuation arena, his ten-year post-qualification experience primarily in the valuation of intercontinental mixed-use schemes is invaluable.

Josh spent six years in Moscow and has valued properties in Germany, Turkey, Russia, Kazakhstan, Mongolia, Georgia and Ukraine as well as the UK.

He has lead instructions valuing for International Financial Reporting Standards (IFRS), loan security, transactional purposes and listed entities with portfolio values as high as $4.5 billion.

Josh joined the UK team in 2013 as a key member of the UK National Specialist Retail Valuation team focused on valuing prime and secondary shopping centres, retail parks and leisure properties.

He was also head of Compliance and Risk Management for JLL's UK Valuation Business.

Josh runs a 10 week, 10 lectures APC Valuation Boot Camp programme within JLL for candidates soon to sit their APC interviews.

REAL ESTATE IN EAST AFRICA: PERFORMANCE & OPPORTUNITIES

By **Juster Kendi,** Research Analyst, Cytonn Investment Management Plc Kenya

The East African Region has grown significantly over the last decade, recording on average a Gross Domestic Product (GDP) growth rate of 6.0% over the last five years, higher than the Sub Saharan Africa average of 3.3% over the same period. The GDP growth in the region has been driven by East Africa's largest economies that is Uganda, Kenya, Rwanda and Tanzania which have recorded 5-year GDP growth rates of 4.2%, 5.6%, 6.7% and 7.0%, respectively. Underpinning this growth has been a robust real estate and construction sector and government investment in public infrastructure.

The real estate sector in these countries has been boosted by a number of factors including high returns, with average rental yields of 7.0%, 8.2%, 9.2% and 10.2% for Tanzania, Kenya, Uganda and Rwanda, respectively. This has led to an increase in foreign investments in real estate in the East African countries with players such as; (i) Aviation Industry Corporation of China (AVIC) investing in Two Rivers Mall in Kenya, (ii) Taaleri Private Equity Funds Limited funding Kigali Heights in Rwanda, (iii) Hass Petroleum Group developing Pinnacle Towers in Kenya, and (iv) Actis Capital who invested in Capital Properties in Dar es Salaam, Tanzania, and Garden City Mall in Kenya.

In this article, we delve into the real estate market in East Africa with a target of understanding the performance as well as the opportunities. We start by identifying the factors driving the growth of real estate, the challenges facing the sector, the current trends, the performance of various real estate sector themes with a focus on Kenya, Uganda, Rwanda and Tanzania, and identify the opportunities therein before concluding by giving an outlook for the sector.

Factors Driving Real Estate in East Africa

*Positive Demographics:*East African countries have positive demographics that support real estate developments. These include (i) high population growth rates of on average 2.4%, 2.6%, 3.1%, and 3.3% p.a for Rwanda, Kenya, Tanzania and Uganda, respectively, higher than the global average of 1.2%, (ii) rapid urbanisation rates of on average 4.4%, 5.3%, 5.4% and 5.7% p.a for Kenya, Tanzania, Uganda and Rwanda, respectively, against a global average of 2.1%, (iii) an expanding middle class with increased purchasing power due to higher disposable incomes, and (iv) the youth bulge (21-35 years) which has created demand for real estate products, with developers and investors working towards fulfilling their housing and lifestyle needs.

Housing Deficit: East African countries have an effective shortfall of 6.9mn housing units with Rwanda, Uganda, Kenya and Tanzania having individual housing deficits approximately 0.3 mn, 1.6 mn, 2.0 mn and 3.0 mn units, respectively, and growing by 19,623, 300,000, 200,000 and 200,000 units p.a respectively, thereby increasing investment activities by the government and developers as they seek to reduce the housing deficits.

Government Initiatives: East African governments have been at the forefront of supporting real estate development through activities such as: (i) offering incentives such as free land as done by the Kenyan and Rwandese governments in support of affordable housing, (ii) enactment of the condominium titling system facilitating fractional sales of property hence making it affordable by Government of Uganda, and (iii) public institutions such as the National Housing Corporations and pension bodies such as National Social Security Fund (NSSF) actively participating in real estate development in virgin areas thus opening them up for development.

Infrastructural Development - Infrastructural development by the East African Governments is opening up areas in the respective East African countries to real estate development. For instance, Eastern bypass, has led to increased development in Ruiru town in Kenya, recording 20.0% 6-year CAGR capital appreciation in the area and Northern Bypass in Kampala Uganda opening areas such as Naalya and Namugongo.

Foreign Investments: Increased demand from global capital looking for attractive returns in the

East African countries that recorded an average GDP growth of 6.0% over the last 5 years compared to a global average of 1.2%. We have witnessed entry of companies such as Hass Petroleum Group developing Pinnacle Towers in Kenya, Taaleri Private Equity Funds Limited funding Kigali Heights in Rwanda, and Actis Capital who invested in Capital Properties in Dar es Salaam, Tanzania, hence increasing the real estate activities as they target to address the housing needs in East Africa.

Challenges Facing the Real Estate Sector in East Africa

Poor Infrastructure: Despite increased infrastructural development, large parts of the countries mainly in rural areas and outskirts of the capital cities, have inadequate infrastructure with inaccessible roads, no connection to sewerage facilities, no piped water supply and no connection to electricity making them unattractive for settlement, and hence real estate development.

High Cost of Financing: The real estate sector is capital-intensive in nature and it lacks proper funding hence developers have resulted in excessive debt financing, with a debt interest rate averaging at 13.5%, 17.2%, 25.0% and 19.0% per annum for Kenya, Rwanda, Uganda and Tanzania, respectively on the country's currency in comparison to developed countries such as Italy and China which have prevailing interest rates on debt averaging at 3.0% and 4.3%, respectively. On the other hand, access to mortgages in East Africa remains low mainly due to i) low-income levels that cannot service a mortgage, and (ii) high interest rates and deposit requirements which lock out many borrowers. Currently, East African countries have mortgage to GDP ratios of 3.1%, 3.6%, 0.9% and 0.5% for Kenya, Rwanda, Uganda and Tanzania.

High Construction Costs: The high costs of construction inputs coupled with high costs of transportation from ports as East African countries rely on imports that significantly increase the construction costs for real estate in East Africa. Currently the average construction cost per SQM in East Africa is USD 880/SQM as compared to global countries such as China Beijing and Shanghai at USD 730 /SQM and Malaysia at USD 483/SQM.

Cultural Biases: Communities in East Africa want to enjoy a sense of privacy and exclusivity. There is hence a preference for maisonettes, bungalows and townhouses as opposed to apartments. These typologies are 38.4% more expensive to construct compared to apartments according to AECOM Africa construction guide, and the cost is transferred to buyers hence decreasing uptake due to unaffordability, and at the same time rendering affordable housing offering unachievable. This culture is however changing as people are beginning to seek affordability and convenience, and in countries such as Kenya and Tanzania the populations have fully embraced apartments.

Emerging Trends in Real Estate Sector in East Africa

Alternative Fundraising: as a result of the high cost of financing, developers are finding other innovative ways of raising funds. Most of the East African countries are passing legislations to support Real Estate Investment Trusts (REITs), Kenya and Tanzania for instance, already have REITS trading in their respective stock exchanges, that is Fahari I-REIT in Kenya and Watumishi Housing Company REIT (WHC-REIT) in Tanzania. Rwanda and Uganda are planning to list their first REITS, that is a Social REIT to support affordable housing funding, and Uganda REIT, respectively.

The Adoption of Smart Cities: The East African countries continue to embrace the smart city concept that aims to provide new technology-rich ecosystems. For example, The Government of Kenya is currently developing Konza Techno City in Nairobi Metropolis, Vision City and Kigali city in Rwanda where Rwandan government launched a partnership with Nokia and SRG to deploy smart city technology and in Ethiopia, the government rolled out a smart parking system in June 2017.

Mixed Use Developments: East African countries are embracing Mixed-Use Developments in a bid to provide a live-work-play-invest mix for both end users and investors, leading to higher occupancies, efficient use of space and economies of scale. The market has witnessed entry of Mixed Use Developments such as Two Rivers and Garden City in Nairobi, Kenya, Kigali Heights and M-Peace Buildings in Kigali Rwanda, and Milimani City Mall in Dar es Salaam, Tanzania.

Real Estate Market Performance in East Africa

We analysed the performance of the real estate market in East Africa based on several factors including: i) plinth area to gauge the current market offering, ii) market prices to gauge price appreciation, ii) rental rates to measure the prospective rental yields and iii) annual uptake to determine the rate at which available homes are sold over a specific period. Our research focussed on Kenya, Rwanda, Uganda and Tanzania.

The Kenyan Real Estate Sector

The real estate sector in Kenya is vibrant supported by i) improved macro-economic conditions, ii) sustainable high returns of on average 24.3% p.a over 5 years, iii) positive demographics, and iv) changing operational landscape as developers strive to satisfy the huge housing deficit boosted by The Government of Kenya affordable housing initiatives.

The performance of the various real estate theme in Nairobi, Kenya in 2017 is as outlined below.

Residential: The sector remains one of the most attractive real estate theme for investments in Kenya largely driven by high demand as a result of growing population and huge housing deficit estimated by National Housing Corporation (NHC) to be 2.0 mn units and growing by over 200,000 houses annually. In 2017, the sector had average rental yields of 5.2% p.a and price appreciation of 5.1% with an average occupancy rate of 86.7%. The opportunity in the sector is in the affordable housing segment, targeting the low to middle income population which has the highest level of housing deficit and in Satellite Towns in the Nairobi Metropolitan Area which outperform the market recording total returns of 15.8%, against a market average return of 13.8%.

Commercial Office: The sector has slowed down mainly driven by increased supply with 3.5mn SQFT of office space coming to the market in 2017. The sector recorded average rental yields of 9.2% with an average occupancy level of 83.2%. Opportunity in the sector lies in i) Grade A offices that are in low supply, accounting for 24.0% of supply and have the highest returns with average rental yields of 9.8%, ii) in prime office nodes with low supply such as Karen and Gigiri, and iii) indifferentiated concepts such as serviced offices which have attractive returns with average rental yields of 13.4%.

Retail: The retail sector is rapidly growing driven by high demand, which is boosted by demographics such as (i) rapid population growth at 2.6% p.a as compared to global averages of 1.2%, (ii) high urbanization rate of on average 4.4% against a global average of 2.1%, (iii) an expanding middle class with increased purchasing power that facilitates sustained demand, and (iv) changing tastes and preferences that incline towards quality and international brands. In 2017 the sector recorded average rental yields of 9.6% and an average annual occupancy of 80.3%. The opportunity in the sector lies in County Government Headquarters which have attracted population following the advent of devolution and have low supply of retail space.

Below is a summary on the performance and opportunity.

Real Estate Market Performance and Outlook 2017- Nairobi, Kenya		
Themes	**Performance**	**Opportunity**
Residential	The Residential sector had average rental yields of 5.2% p.a and price appreciation of 5.1% in 2017 at 86.7% occupancy	The opportunity is in the affordable housing sector targeting the low to middle income segment which has the highest level of housing deficit.
Commercial Office	The office sector recorded average rental yields of 9.2% at 83.2% occupancy in 2017	Opportunity is in Grade A offices that are in low supply, accounting for 24.0% of office supply and have the highest returns with average rental yields of 9.8%, MUD's, and in serviced offices with average rental yields of 13.4%.
Retail	The retail sector recorded average rental yields of 9.6% and an average annual occupancy of 80.3%	The opportunity lies in County Government Headquarters which have attracted population following the advent of devolution and have low supply of retail space.

The Rwandan Real Estate Sector

Rwanda's real estate sector is nascent and is experiencing a wave of development activities supported by i) the implementation of the Kigali City Master Plan, which provides a plan for land use throughout Kigali city, ii) creation of the one stop centre for construction, which has streamlined the application process for construction permits, and iii) positive demographics creating increased demand for real estate developments.

The performance of the various real estate theme in Kigali, Rwanda in 2017 is as outlined below.

Residential: The residential sector in Rwanda recorded an average rental yield of 8.1% with annualized uptake of 42.5%. The performance is driven by; (i) increased demand for housing with the country currently in need of approximately 334,048 dwelling units of which 45.1% are required in the low to middle income earners segment, (ii) high population and urbanization rates of on average 2.4% and 4.9%, respectively against global averages of 1.2% and 2.1%, respectively, and (iii) government incentives such as provision of trunk infrastructure for developers mainly developing affordable housing units.

Commercial Office: The Rwanda office sector performance has softened over the last 2 years, recording a 0.3%-point decline in rental yields from 10.6% in 2016 to 9.8% in 2018 mainly driven by increased supply of office space, outstripping demand. The sector records average rental yields of 9.8% with an occupancy rate of 82.0%. Opportunity in the sector is mainly in Grade A offices which outperform the market recording an annual rental yields of 9.9%, and in areas with low supply such as Kimihurura in the outskirts of CBD.

Retail: The sector recorded positive performance on the back of positive demographics, adoption of formal retail shops with ban of open air market, and entry of international retail brands such as Woolworths, Mr. Price and Java House. On average, the retail sector recorded a rental yield of 12.6%, a 0.2% annual increase in rental yields from 12.3% in 2016, with an average occupancy rate of 89.0%. The opportunity in the sector lies in outskirts of CBD such as Remera and Nyarutarama hosting middle to high net worth individuals.

A summary on the performance and opportunity.

Real Estate Market Performance and Outlook 2018- Kigali, Rwanda		
Themes	**Performance**	**Opportunity**
Residential	The residential sector in Rwanda recorded an average rental yield of 8.1% with annualized uptake of 42.5%	The opportunity is in the affordable housing sector targeting the low to middle income segment accounting for 45.1% of housing deficit accounting
Commercial Office	The sector records a rental yield of 9.8%, 0.3% points annual decline in rental yields from 10.6% in 2016 at an occupancy rate of 82.0%	Opportunity in the sector is mainly in Grade A offices which outperform the market recording an annual rental yield of 9.9%, and in areas with low supply such as Kimihurura in the outskirts of CBD
Retail	The retail sector recorded a rental yield of 12.6%, a 0.2% annual increase in rental yields from 12.3% in 2016, with an occupancy rate of 89.0%.	The opportunity in the sector lies in outskirts of CBD such a Remera and Nyarutarama hosting middle to High net worth individuals.

The Ugandan Real Estate Sector

The real estate sector in Uganda is growing supported by positive demographics, increased operations of multinationals in the country following the discovery of oil, increased investments in the technology and financial services sectors, positive economic growth, recording an increase in GDP, which has grown on average by 5.1% p.a. in the last five years, according to the Bank of Uganda, and government initiatives such as enacting the condominium titling system facilitating fractional sales of property hence making real estate more affordable.

The performance of the various real estate theme in Kampala, Uganda in 2017 is as outlined below.

Residential: Generally, the residential sector in Kampala is undergoing development, with most of the mega developments being less than 5-years old. Uganda has a housing deficit of 1.6 mn housing units largely concentrated in the low to mid income segment according to the Ministry of Lands, Housing and Urban Development. Kampala has the bulk of this deficit, with the city in need of 100,000 houses p.a. On average the residential market in a Kampala recorded a yield of 6.8% and an average occupancy level of 87.5% in 2017. The opportunity in the sector lies mainly in the upper middle-income areas such as Naguru recording average rental yields 7.4%.

Commercial Offices: The sector is nascent and has a few commercial buildings, most of them located in Nakasero and Kololo with most of the buildings being as Grade B. The city has a shortage of parking spaces and is congested, leading to some players taking up residential blocks in the prime suburbs and converting them to offices. On average, Kampala office sector recorded a rental yield of 10.6% p.a, with an occupancy rate of 86.0%. Opportunity in the sector is mainly in Grade A offices that are low in supply accounting for 25.0% of the office supply and record the highest annual rental yield of 11.4%.

Retail: The retail sector is well-developed with a mall supply of 182,000 square metres according to Knight Frank, most of the malls have come up in the last five-years and are well distributed in the city and its environs. The sector is driven by the population consumption-oriented culture, government policy encouraging retailers to move from the high street to the malls, and increased income as a result of increasing GDP. On average, the retail sector records a rental yield of 10.2% with an occupancy rate of 71.2%.

Below is a summary on the performance and opportunity.

Real Estate Market Performance and Outlook 2017- Kampala, Uganda		
Themes	**Performance**	**Opportunity**
Residential	The residential market in Kampala recorded a yield of 6.8% and an average occupancy rate of 87.5% in 2017	The opportunity in the sector lies mainly in the upper middle-income areas such as Naguru recording average rental yield 7.4%
Commercial Office	Kampala office sector records an average rental yield of 10.6% p.a, with an occupancy rate of 86.0%	Opportunity in the sector is mainly in Grade A offices that are low in supply accounting for 25.0% of the office supply and which record the highest annual rental yield of 11.4%
Retail	The retail sector records a rental yield of 10.2% at an occupancy rate of 71.2%	Destination malls in prime locations like Kololo

The Tanzanian Real Estate Sector

The real estate sector's performance in Dar Es Salaam slowed down in 2017 due to, tight liquidity, inadequate infrastructural development and slowed real estate uptake following a tough macroeconomic environment which led to decline in real rstate sector contribution to GDP growth rate to 2.3% in H1'2017, from a 2.4% growth in H1'2016.

The performance of the various real estate theme in Dar Es Salaam, Tanzania in 2017 is as outlined below.

Residential: The residential sector in Dar Es Salaam is struggling recording subdued performance over the last two-years, especially in the high and mid-end segments, which recorded negative price growth, attributable to tight liquidity, slow credit growth, which declined to 7.2% in 2016 and to 0.3% in August 2017 from 24.8% in 2015. On average the residential market recorded average rental yields of 5.2% and a decline in price appreciation of 4.7%, as at January 2018. Given the above performance, the market is more suitable for investors targeting returns in terms of rental income as opposed to price appreciation.

Commercial Offices: The commercial office sector in Dar Es Salaam has been steadily growing, especially in terms of supply. According to Cytonn Research, office stock in Dar es Salaam stands at approximately 350,000 - 450,000 SQM, and another 100,000 - 150,000 SQM expected to be delivered in 2018/19. However, as demand stabilizes and stock supply increases, the sector has been recording subdued returns and increasing vacancy rates attributed to high rental rates that do not sustain the small and medium enterprises, emerging cities that are slowly catching up such as Dodoma, Arusha and Mwanza and the high cost of borrowing at 19.0% p.a affecting expansion of enterprises. On average, the sector records a rental yield of 6.4% p.a with an occupancy rate of 72.1%. The opportunity in this sector is mainly in differentiated products such as co-working stations and investment in other regions such as Arusha, Dodoma and Mwanza.

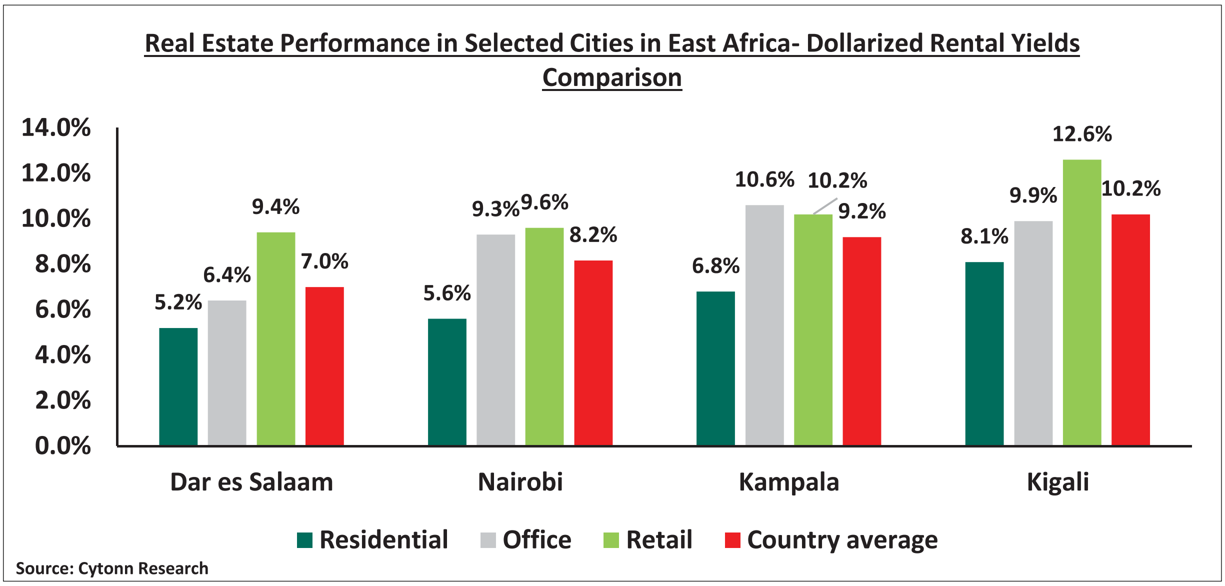
Retail: The retail sector in Tanzania has grown on the back of positive demographics with increased consumerism from the expanding middle class, increased interest from foreign players, and the growth of e-commerce. On average, the retail sector records a rental yield of 9.4% at an occupancy rate of 87.1%. Current opportunities in the sector are mainly in growing cities such as Dodoma, Arusha, and Mwanza.

Below is a summary on the performance and opportunity.

Real Estate Market Performance and Outlook 2017- Dar Es Salaam, Tanzania		
Themes	**Performance**	**Opportunity**
Residential	The residential market recorded average rental yields of 5.2% and a decline in price appreciation of 4.7% as at January 2018	The market is more suitable for investors targeting returns in terms of rental income as opposed to price appreciation
Commercial Office	The sector records a rental yield of 6.4% p.a at an occupancy rate of 72.1%	The opportunity in this sector is mainly in differentiated products such as co-working stations and investment in other regions such as Arusha, Dodoma and Mwanza
Retail	The retail sector records a rental yield of 9.4% at an occupancy rate of 87.1%.	Current opportunities in the sector are mainly in growing cities such as Dodoma, Arusha, and Mwanza

The retail sector outperforms other themes across the cities under consideration, with an exception of Kampala, where office rental yield is 10.6%, 0.4% points higher than retail sector at 10.2%. The residential sector records the lowest yield of 5.2%, 5.6%, 6.8% and 8.1% in Dar es Salaam, Nairobi, Kampala and Kigali, attributable to low-income

Comparison of the Real Estate Market Performance in Selected East African Markets



Real Estate Performance in Selected Cities in East Africa- Dollarized Rental Yields Comparison

Source: Cytonn Research

levels that cannot service a mortgage and high interest rates and deposit requirements which lock out many borrowers. The sector however remains the most attractive for real estate development due to the high demand with the region having a cumulative housing deficit of 6.9 mn housing units growing by 719,623 units p. a largely concentrated in the affordable, and low to mid income housing segments. Kigali City has the highest average rental yield at 10.2%, hence the most viable investment area followed by Kampala, then Nairobi and finally Dar es salaam which have average rental yields of 9.2%, 8.2% and 7.0%, respectively.

We have a positive outlook for the real estate sector in East Africa, with the pocket of value for the sector being in the residential theme driven by the huge housing deficit of 6.9 mn, increased infrastructural development, positive demographics and government support especially on affordable housing.

Contributor's Profile

Juster Kendi serves as a **Research Analyst** at **Cytonn Investments Management plc**, having graduated from the Cytonn Young Leaders Program (CYLP). She has 2 years' experience, focusing largely on research and deal origination in the real estate and private equity markets in East Africa. Juster holds a BSc. in Actuarial Science from the University of Eldoret and is a candidate in the CPA Programme Part III. She has participated in the publication of several real estate reports including; Kenya Office Market Report, Kenya Retail Space Report, Kenya land Report and Kigali – Rwanda Real Estate Investment Opportunity Report.

ANGOLAN PROPERTY: EMERGING TRENDS AND OPPORTUNITIES

By **Diogo Rodrigues,** Managing Partner, Zenki Real Estate Angola

In recent years, the economy has been showing signs of deceleration, losing its strength, mainly due to strong reduction in the oil price in the international market.

The new president and the government are making efforts with new measures that aim to stimulate economic growth, diversify the economy, and expand and foster a greater participation from the private sector in Angola's economic development.

The New Regulation Framework

Regarding the property market, and having been enacted more than one year ago, the new Leasehold Law has already introduced several changes in the negotiation of new leases. The payment of the rents in the national currency (kwanzas) or the inability to request the payment of several rents in advance are amongst the main changes but, it is anticipated that this new law is just a first step to a greater change of the applicable legal framework.

The main goal of the real estate taxation reform was to reduce the tax burden, evidenced by the reduction of the tax rates of SISA (Property Transfer Tax), IPU (Property Income Tax) and Stamp Duty, along with the increase in tax revenue, by broadening the taxable basis and by subjecting to taxation transactions that were usually irregularly concluded without triggering any taxes, together with the introduction of improved and more efficient control mechanisms.

Reduced Appetite for Risk in the Office Market

The transition from a phase of continued buoyant growth to a period of deceleration is marked by the weighing and the reduction to risk predisposition by developers, owners, occupiers and investors acting in this segment of the market. In the last years, we have witnessed an increase in stock of new offices especially until 2015. During the following years we have been watching an evident slowdown in the pace of new projects. As result of decrease of the demand, the vacancy rate continued to increase.

The downward trend of commercialization values accelerated, with prime rent standing at 80 US$/sqm at the end of 2017, reflecting a decrease of 20% compared to 2016. Although the pace of new product construction has declined significantly over the last three years, it should be noted that the new supply is still characterized by the construction and technical infrastructure quality and competitiveness of commercial conditions.

Over the last three years, we have witnessed a sharp reduction in consumption and a decrease in the variety of products available, related with the increase of inflation and restrictions on access to debt and inherent import difficulties. The macroeconomic context has severely conditioned the opening of new commercial complexes.

Currently the prime rents of street stores are between 70 to 80 US$ /sqm. GLA / month while those of stores in commercial complexes range between 80 and 120 US$ /sqm. GLA / month (lower for large stores). Talatona, Kilamba, Morro Bento and Cacuaco, are now related with the emergence of new commercial complexes which made the periphery of Luanda a benchmark of the commercial segment. Nowadays, we have been witnessing the emergence of a change in the model of shopping centers projects development. The recent projects are driven by the big retail players, such as Candando or Maxi. In a clear opposition to the past paradigm of speculative development.

The New Paradigm

The development of the Angolan industry has been a strong commitment of the Government, which has been reinforcing the development of the industrial sector in a more professional way, where real estate development in this segment has been characterised mostly by development for own use and by an increasing speculative supply of industrial and logistic parks. In addition, we have witnessed a greater definition and consolidation of industrial zones, with the Viana area, and especially the PIV, the most active.

Although we have seen a slowdown on demand in the last year, attending to the Government's continued commitment to industrialisation and diversification of the economy, based on import substitution, this segment is expected to show a growth trend in the coming years.

Residential market on demand

In recent years there has been a strong focus on the construction of 1 and 2-bedroom apartments as a way of responding to the lack of supply and high demand from companies that needed product to place expatriate employees. This period was also characterised by reduced construction of apartments of higher typologies, which led, of course, to the current scarcity of apartments with 3 or more bedrooms. Currently, the supply is currently the supply is clearly reduced in relation to demand.

There is a new trend in leasing demand reflected in the search for new buildings instead of old buildings, a consequence of recent price reduction, which is more significant in leasing than in sales. Construction levels slowed down in this sector, as well as in real estate overall, as a reaction to take-up levels decrease. Talatona stays as an alternative to Luanda city centre when considering prime supply. It presents a more diversified offer, including townhouses in closed condos apart from apartment buildings.

Description of Investment markets

In this market sector investors are above all national companies or private individuals, although recently we have seen growing interest by foreign companies in acquiring products that guarantee income.

Investment from International Funds accounts for a small proportion, although measures have been taken to boost the establishment and functioning of the Collective Investment Entities. This lower activity by Investment Funds is explained mainly by the current uncertainty and the characteristics of this sector, whereby transactions usually involve parts of properties, i.e. the purchase/ sale of sections of an asset. It is rare for the whole building to be owned by a single entity. The current scarcity in the supply of single buildings available for sale that will immediately generate income is, in our understanding, one of the factors that has contributed to dissuading investment by International Funds, as it limits the decision making with respect to the property (maintenance, conservation, investment in structural improvements and image, commercial strategy) and consequently limits the appreciation in value of the assets under management.

During the last three years, there was an increase in investment in real estate assets compared to previous periods. This growth is directly linked to the following factors:

- More than 100 % devaluation of the Kwanza relative to the USD
- Inherent demand for exchange rate protection by investors
- Small number of investment alter natives
- Scarcity of foreign currency and obstacles to transfer abroad

Despite the growth in demand for real estate investment products, there was little supply that fulfilled investor's requirements, met the demand and provided an income. Reasons for this include the intended yield by the investors, which limited Sale & Leaseback transactions and the new Urban Rent Law, which prevents rents from being indexed against foreign currency and therefore does not guarantee an expected income, causing a high degree of uncertainty for investors with regard to future income.

The most sought-after transactions are: 1. vacant assets in prime locations, which are purchased without any occupier, do not provide an immediate guarantee of income, and entail a greater investment risk; and 2. assets with income, mainly in the office sector, with medium and long-term contracts signed with companies that have an international reputation, and which ensure stability and security for the investors. The latter is undoubtedly the most sought-after option, and also the rarest, as the current limitation with regard to the availability of foreign currency and exchange rate risk as potential sellers are not being interested in receiving revenue in national currency, opting to keep their properties in their portfolio generating income. Even though it entails greater risk, as explained above, the most common investment deals in the market in the last two years have involved vacant properties, especially assets belonging to companies linked to the financial sector. This may be because of their willingness to sell in national currency, a more professional profile and a more aggressive commercial positioning compared to the competition.

Throughout 2016 the profile of the investors changed, which until then had been national individuals or institutions, and which now also include foreign investors, especially institutional investors.

The yields on offer, on recent evidence and the transactions completed by Zenki Real Estate, and in contrast to what one would expect given the increased market risk, has fallen slightly compared to previous years. This is above all down to the fact that the decrease in sale prices has been less than the decrease in rental prices, in addition to the fact the investors have put greater emphasis on the property investment risk rather than the exchange rate risk.

Despite the current economic conditions, it is likely that in the following years the demand for properties with income for investment will be identical to the last two years, thanks to a more dynamic domestic market seeking alternative solutions to channel available equity.

Contributor's Profile

Diogo Rodrigues is a graduate of Economics and a Post-Graduate in E-Business. Before joining Zenki, Diogo worked as consultant with noLimits Consulting on several projects in areas such as public, health, financial, energy and justice.

Diogo became Zenki Consultant's CEO in 2008 and has participated on several projects in both Portugal and Angola, including both strategic and financial consultancy. Ever since becoming Managing Director of Zenki Real Estate in 2010, he has managed numerous projects including transactions, tenant representation services, market and strategic studies, as well as the definition and positioning of real estate products for both national and international clients, among them are many Oil & Gas companies. He is responsible for the supervision of all Global Corporate Client introductions in Angola from CBRE.

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BOTSWANA PROPERTIES: ASSESSING OPPORTUNITIES AND EXPLORING THE CHALLENGES

By **Guido Giachetti,** Executive Chairman, RDC Properties Limited

Since gaining independence in 1966, Botswana, primarily due to its strong mineral reserves and responsible leadership, has been in the fortunate position of having strong financial resources to aid its development. The governments' investment in infrastructure development has supported the country's economic growth, maintaining an average of +5% per annum over the past two decades.[1] This sustained rate of growth resulted in a positive environment for the property industry.

In assessing the opportunities existing in Botswana's property industry, one should recognise the continued responsible governance of the country, including prudent fiscal policies, stringent environmental regulations, access to international technical assistance and membership of the Southern African Development Community (SADC)[2]. The Botswana Stock Exchange (BSE) lists six domestic companies within the property and property trust sector and through its reporting structures supports cognisance of the global sustainable development goals (SDGs)[3].

Recognising the opportunities in the industry, RDC Properties Limited (RDC), a property development and investment group, has been at the forefront of the market by listing as the first property company in 1992. Thereafter, recognising the need for a more advanced capital structure, restructured as a Variable Loan Stock Company (VRLS) on the BSE in 1996. Primarily focused on Botswana, the group has created a solid basis for the diversification of its portfolio in southern Africa.

RDC's shareholder value is created through selective acquisition and development of unique properties carried out with local partners. Its strength lies in its ability to maximise the property knowledge - based value chain with expertise in property investment and development, construction (civil and building), asset management and financial management. Leveraging on the construction and hospitality management expertise of the controlling shareholders of RDC, the group is able to mitigate related risks and optimize the performance of its investment to the benefit of its shareholders. The development component is limited to a maximum of 25%-30% of the portfolio and profits are generally accruing to the company. RDC has been has to achieve a compounded growth of its portfolio of 17% year on year excluding interest and annual dividend payments.

Botswana's stable environment, membership of SADC and RDC's skills set and ability to identify well positioned local partners has in the last two years, enabled the company to adopt a more regional strategy. Managed by the group's Botswana based Exco team, decentralised management teams and non-executive directors with regional expertise and contacts, mitigate the "country risk" in each foreign jurisdiction. The regional challenges remain related to the wider

[1] http://www.worldbank.org/en/country/botswana/overview
[2] http://www.sadc.int/about-sadc
[3] http://www.bse.co.bw

regional emerging markets' exposure to commodity prices and exchange rates and the company seeks to manage this through investing in the leisure market and having a small portfolio in the USA.

Recognising the value and sustainability of developing local partnerships, RDC's portfolio includes operations in Botswana, Madagascar, Mozambique, Namibia and, by extension of a recently purchased portfolio in South Africa (Capitalgro), the beginnings of a portfolio in the United States of America. Further, leveraging on Botswana's position in the tourism industry, RDC is looking to expand its hospitality (Business and Leisure) and commercial portfolio in the SADC region.

Whilst Botswana's political and fiscal sustainability has created a strong platform for the property industry, it has its challenges. Most challenges arise as a consequence of operating in a sustained growth environment where the industry has developed and looking for opportunities whilst the regulatory and planning framework is still being formalized.

Following a period of high demand in the late 1990s/2000s in the capital city of Gaborone and other commercial centres, the property development sector is now potentially entering an era of over- supply in the commercial, retail and hospitality sectors. This, together with low foreign direct investment and the tenuous sustainability of micro and small businesses has had an impact on securing quality tenants and has contributed to RDC exploring opportunities outside the Botswana's borders[4].

Botswana's promotion of sustainable development and adoption of the SDGs necessitates a level of change within the property industry, including institutional structure (creation of high level Thematic Working Groups[5]), regulatory framework (Green Build Council accreditation[6]) and skills development (Human Resources Development Council[7]).

RDC has positioned itself to adopt the sustainable development initiatives as they have developed in the global arena, primarily adopting the Environment, Social and Governance (ESG) platform.

- *Environment:* RDC took the strategic decision to acquire the majority shareholding in CapitalGro Properties which includes the newly completed AAA rated, 5 Star certified (Green Building Council) commercial property known as "The Edge"[8]. Other environmental initiatives employed within the group include the use of LED lighting, energy saving phased initiatives, water saving and water harvesting initiatives and waste recycling. The groups' Chobe Marina Lodge located on the Chobe River holds "Eco-Tourism – Green" status as certified by the Botswana Tourism Organisation.

- *Social:* Community initiatives include in the fields of early childhood, primary and tertiary educa tion providing classrooms, playgrounds and work experience opportunities; health and wellness and supporting orphans and the elderly.

- *Governance:* Member of the BSE working group on "Profiling Private Sector Sustainability Prac tices in Botswana: Botswana Stock Exchange Listed Domestic Companies"[9]; supporting research including the World Bank initiative on Wealth Accounting and the Valuation of Ecosys tem Services (WAVES)[10] and Natural Capital Accounting (NCA); tourism and conservation through membership of industry sector address ing congestion on the Chobe River Frontage.

Contributor's Profile

Guido Giachetti, Aged 54, Civil Engineer, Masters in Business Management and Transport, AMP (Harvard Business School), IEP (INSEAD), Alumni Association (EPFL, INSEAD, HBS). As Chief Executive Officer of the Realestate Group, he has been involved in property development and investments for over 26 years in Africa. In 1992 he set up RDC Properties Limited, the first Botswana Listed Property company. He was awarded the Order of Merit by The King of Spain. He is the Honorary Consul of Italy and Spain in Botswana and actively involved in community works as a Paul Harris Fellow.

[4] http://rdcbw.com/
[5] https://sustainabledevelopment.un.org/memberstates/botswana
[6] https://gbcsa.org.za/
[7] http://www.hrdc.org.bw/
[8] http://www.capitalgro.co.za/
[9] https://www.cosse.africa/wp-content/uploads/2018/04/Profiling-Private-Sector-Sustainability-Practices-In-Botswana--BSE-Listed-Domestic-Companies.pdf
[10] https://www.wavespartnership.org/

GHANA'S REAL ESTATE: SATURATED OR DO OPPORTUNITIES STILL EXIST?

By **Dominic Adu,** Chief Executive Officer, Ghana Home Loans Limited Ghana

Various policies and programmes have sought to find a lasting solution to Ghana's growing housing deficit by addressing issues such as land ownership regulation, rapid urbanization (3.4% annual growth compared to a global average of 2.1%) and a growing middle class.

Understandably, because of this gaping and growing housing deficit most conversations centre on the various problems that hinder bringing supply onto the market. Issues of land administration, lack of construction financing and adequate high quality locally produced construction material, plus housing that does not meet the needs of families are but a few of the concerns.

However, with Ghana's housing deficit sitting at 1.7 million and worsening by an estimated 47% over the past decade, it is clear some segments of the market are saturated while others struggle with adequate supply.

There is also the question of whether the right kind of supply is being offered to the public. Small scale housing developers who pioneered Ghana's 20-year-old private housing industry often built houses that were not functional to the needs of Ghanaians then, and even less so now. Coupled with failure to invest in interior design and lack of infrastructure maintenance means a new crop of tenants; i.e. the 'new middle class', are not having their housing needs met.

Historically, the housing landscape has been a fusion of unsuitable housing, overcrowding, sharing of basic amenities and under-utilization of housing (i.e. households inhabiting disproportionately large houses than required). This has created a paradox of an oversupply of older, poorly maintained apartments and an under-supply of functional and contemporary apartments that are within the budget/price range of the ever-changing pool of potential tenants and homeowners.

Another important talking point is how effective supply would be to the market demand if the populace lack purchasing power, and housing units are priced at what many tag as unaffordable. For real estate developers whose main interest lies in profit and the timely purchase of units, it would not make business sense to provide a service that cannot be backed by buying power.

In recent years the country has seen a sharp rise in luxury properties targeted at high net worth Ghanaians and expatriates due to seeming high demand for such real estate. Out of every 5 real estate developers, an estimated 60% focus on high-end estates, out of which 66% solely offer premium real estate. The remaining 40% target middle to lower range property values. This has led some industry speculators to tout that the market is in danger of heading towards a housing bubble crash due to slowing demand for houses at a point when supply appears to be over abundant.

A quick comparison between property prices and income requirements for mortgages provide a critical foundation to understanding whether opportunities exist, and if yes – where they can be found.

CLASS	AUDIENCE	PROPERTY	QUALIFYING	MONTHLY
		PRICE	INCOME	REPAYMENT
High	Expats, Multinational companies, very successful business owners etc	$400,000.00	$12,489	$4,996
		$350,000.00	$10,928	$4,371
		$300,000.00	$9,367	$3,747
		$250,000.00	$7,806	$3,123
Mid	White collar workers, business owners etc	$200,000.00	$6,245	$2,498
		$150,000.00	$4,684	$1,874
		$100,000.00	$3,123	$1,249
		$75,000.00	$2,342	$937
Low	Blue collar workers, young families, graduates etc	$50,000.00	$1,562	$625

Given the data, the following conclusions can be drawn:

- Majority of real estate developers are focused on catering to middle to high income earners in hopes of moving units quickly and making profits.
- This focus leads to a segment of the premium market being saturated with oversupply, thereby threatening what some predict to be a pending market crash.
- There is immense opportunity for real estate developers who want to supply affordable and decent housing to low income earners.

- The high cost of quality housing by real estate developers is largely out of reach to low income earners (less than $1000), who sit within the housing deficit pool.
- Low income earners who are in dire need of housing often have trouble getting access to housing financing due to the minimum income requirements by most banks and housing finance institutions.

The co-existence of oversupply and undersupply in Ghana's housing market ultimately points to the fact that opportunities exist with specific and urgent action required in developing a sustainable formal housing finance system that can deliver affordable finance to households across the all spectrum of incomes.

As the real estate and construction sectors continues to grow from 10.8% in 2006 to 17.8% in 2016, it is only logical to find new players entering into the market. Renewed interest in the market by financial institutions who have widened their product offering to include mortgage financing, as well as emerging competitors in the real estate developers space, despite the teeming challenges are indicative of the potentially rewarding prospects within housing industry.

Contributor's Profile

Dominic Adu co-founded Ghana Home Loans, the leading residential mortgage finance provider in Ghana, in 2006. He previously acquired private equity experience working for ten years as an investment principal with Actis, a UK-based emerging markets private equity fund manager. He was responsible for major investments in West Africa. Long before Actis, he also held several top management positions as Finance Manager with Ashanti Goldfields (now AngloGold Ashanti), Accountant with Watson Wyatt (UK) and Audit Senior with BDO Stoy Hayward (UK). With such diverse exposure across multinational institutions, Dominic is easily credited with strong financial knowledge of domestic and international markets as well as best practices. He is an economics graduate from the Universities of Manchester and London and a qualified Chartered Accountant.

NEWS: GHANA ISSUED US$2 BILLIONS EUROBONDS, COCOA BOARD SEEKS US$1.5 BILLIONS LOAN

Ghana Sells $2 Billion Bonds as Demand Exceeds Supply Fourfold

Demand for Ghana's $2 billion of Eurobonds exceeded supply four times as the West African country convinced investors about its economic turnaround story, the Ministry of Finance said.

Ghana got more than $8 billion of bids after marketing the debt in the U.S. and London, the ministry said in emailed statement. The nation placed $1 billion of 10-year bonds at 7.627 percent, the lowest rate for a sub - Saharan African country whose credit is at B, the fifth-highest junk assessment, at S&P Ratings and Fitch Ratings, the ministry said. The 30-year debt was priced at 8.627 percent, it said. The ministry said $750 million represents new debt while the rest will go to swap costlier existing dollar bonds and be used for other liability management.

Ghana's economy grew 8.4 percent last year. Its budget deficit decreased to 6 percent of gross domestic product in 2017 from 8.7 percent of GDP the year before. It agreed to an almost $1 billion International Monetary Fund program in April 2015 to help address chronically high budget deficits and a depreciating currency.

Ghana Cooca Board Seeks $1.5 Billion Loan From China Exim Bank

Ghana's cocoa regulator is in talks with the Export-Import Bank of China for a $1.5 billion facility to help boost crop yields. The Ghana Cocoa Board needs the cash to replace diseased and old trees, build irrigation facilities and put up warehouses for storage of the chocolate ingredient, spokesman Noah Amenyah said by phone. The facility would be in addition to the syndicated loans that it signs each year with international banks, which are mainly used for buying cocoa beans from farmers, he said.

About a fifth of Ghana's cocoa tree stock is affected by swollen-shoot disease, a virus that reduces yields and kills a plant within three to four years, while another quarter are old and unproductive, the board said in December.

Ghana, which is the world's second-biggest cocoa producer after neighbouring Ivory Coast, is partnering with the Chinese government to build a $60 million processing plant in its Western region, Amenyah said. China is providing a grant of $35 million, while Ghana will raise the rest of the funds for the plant, which will process 40,000 metric tons annually, he said.

NPLs ratio at 22.7% at end-2017, capital adequacy ratio at 15%

The International Monetary Fund indicated that Ghana's banking sector is stable, with high excess liquidity due to an increase in foreign currency inflows and sustained emergency liquidity injections by the Bank of Ghana (BoG) in commercial banks. The sector's risk - weighted capital adequacy ratio reached 15% at the end of 2017, down from 17.8% at end-2016, but was well above the regulatory minimum of 10%. Also, the banks' Tier-One capital ratio stood at 12.8% at end-2017 relative to 14.4% a year earlier. The IMF noted that that BoG has made efforts to strengthen the resilience of the banking sector, such as the resolution of two undercapitalized banks in August 2017, as well as the close monitoring of a third bank in March 2018.

In parallel, the banks' non-performing loans (NPLs) ratio stood at 22.7% at the end of 2017 relative to 17.3% at end-2016, while the banks' provisions to NPLs increased from 72.5% at end-2016 to 77% at end - 2017. In addition, the banks' return on assets reached 2.2% in 2017 compared to 2.5% in 2016, while their return on equity decreased from 18% in 2016 to 16.7% in 2017.

NIGERIAN REAL ESTATES: WHERE DO OPPORTUNITIES LIE?

By **Uzoamaka Oshogwe,** Managing Director/CEO, Afriland Properties Plc Nigeria

The past two to three years have not exactly been great for Real Estate market in Nigeria. This resulted from a tough 2016, characterized by inflation, weak currency, recession, declining GDP and reduced government spending. Generally, rising interest rates make buying or selling in real estate more difficult while decreasing interest rates make buying and selling easier. Unavailability of cheap funds and high interest rates further deepened the crisis and worsened the situation.

This also resulted in oversupply, low demand, high vacancy rates and poor returns especially in the retail market and commercial sector of the industry.

After surviving the storm and coming out of recession in the last quarter of 2017, activities have been rekindled and the real estate sector has been on its way to recovery, albeit in small steps. Confidence is being restored and investors are keeping up with the trends, while closely taking note of the opportunities that currently exist in the market. Though it may take some time for the market to reach its full potential, the following investment options exist and have a good return on investment at the moment:

Short-Let Rentals

Short-Let rental is a really good option in the current economic climate. Due to market instability, short-let rental is an effective way to generate income from your real estate investments. This can be attributed to its flexibility, especially because you won't be bound to a long-term agreement. It avails you the opportunity to make realistic plans and not unrealistic long-term plans in an uncertain market or business environment. Investors can receive much higher income than long-term rental by charging higher rates; particularly around seasonal, peak periods.

We presently own and manage two short let apartments in Lagos. Our luxury 3 bedroom apartments, Caterers Court is located in the historic district of Ikoyi. It is tastefully furnished and comprises of 30 apartments arranged in 6 adjoining blocks of 5 apartments each. The second is Afriland Guest House. Stylishly furnished with air conditioned rooms that are perfectly equipped with modern amenities, it is very affordable and is located at 31, Bishop Oluwole street, Victoria Island, Lagos.

Commercial office

We recently acquired and renovated Raymond House on Broad Street and the 7-floor office complex in the heart of Lagos Island is now known as Afriland Towers. Almost fully occupied with a total rentable area of 6000 square meters, we decided to make this investment in the formally decrepit building and turn it into a Grade- A office space in order to serve needs and also due to the needs identified in market.

During the downtime, the prevailing factor in the commercial market was oversupply. A number of businesses moved offices from the Grade- A offices to Grade-B offices or a more comfortable arrangement in order to sustain their respective businesses. Presently, the numbers are beginning to look good again. The low demand from tenants and investors is shooting up and the market is getting slightly stable by the day.

"After surviving the storm and coming out of recession in the last quarter of 2017, activities have been rekindled and the real estate sector has been on its way to recovery, albeit in small steps."

Affordable Housing

A lot of developers in Nigeria avoid investments in affordable housing for obvious reasons: High cost of building materials; High land rates; High interest rate; Low returns; Cost of Land perfection/ Regularization and other fees associated with the transfer of land title; just to mention a few.

Nigeria's population, estimated at 180 million people, is growing by approximately 2.8 percent per annum according to World Bank. An estimated 18 million unit deficit in housing would also mean that the nation needs about 700,000 housing units annually if it is to make a noticeable impact on the deficit and solve the housing dilemma. This shortfall presents vast opportunities in the real estate sector.

Developers need to be innovative, embrace technology, to deliver houses that are affordable, in record time and still make a decent profit.

Land Investment

As Nigeria's population continues to grow, land becomes more and more valuable. Land is still one of the most dependable investments available with a high ROI. Investing in land has proven to be one of the best long-term investments you can make in real estate business as prices continue to appreciate in most locations.

Even in economic downturn and instability, land investments and other tangible assets have been favored by investors from across the world and they provide an excellent hedge against inflation.

A good example is the Ibeju Lekki suburbs, which is getting all the attention right now. Properties that have been bought at a fairly cheap price would increase after the completion of projects like the new International Airport, the Dangote Refinery, and others, all within the free trade zone. There is also an influx of corporate and international investors and according to reports, Ibeju Lekki has witnessed a 500% increase in the prices of properties in the last five years due to the developments moving towards that area.

Retail sector

Nigeria's growing population and rapid urbanization also presents huge opportunities in the retail space. The industry continues to experience growth due to foreign capital and a fast-growing middle class.

According to **Financial Nigeria**, the retail space in Nigeria reached 326,958 square meters in 2017, compared to 30,000 square meters in 2005. With the improving economy and changing retailer dynamics, new global retailers and investors will play a significant role in the industry in 2018.

Although there is still slow take-up rate, demand is expected to increase as inflation rate moves towards a single digit.

Afriland Properties Plc recently completed a couple of ultra-modern lock up shops in strategic locations. These lock-up shops known as **Afri-shops by Afriland** measures 15 square meters each, the modern retail shops with a minimum of 20 units, offer a great opportunity for retailers to serve their markets and take their businesses to the next level.

"Confidence is being restored and investors are keeping up with the trends, while closely taking note of the opportunities that currently exist in the market."

Contributor's Profile

Uzo Oshogwe is the Managing Director/CEO of Afriland Properties Plc, and joined the company when it was still known as UBA Properties.

She holds a BSc in Chemistry from Ambrose Alli University, Edo State and an MSc in Information Systems Design from the University of Westminster, London. She has over 20 years' working experience, mainly in Information Technology and Banking. Uzo also holds a professional certificate in Real Estate Management from Harvard Business School.

Prior to joining UBA Properties, Uzo worked with UBA PLC, Ford Motors UK, J.Sainbury's UK and Accenture UK.

THE FINANCING AND MASTER PLANNING OF MIXED USE DEVELOPMENTS IN WEST AFRICA

By **Ruairi Moriarty,** Director EMC Real Estate Nigeria

The attraction of mixed use development for international investors in West Africa is not only the risk reduction offered through diversification. There is the added advantage, unique to such a developing market, whereby through lack of surrounding infrastructure and the rarity of acceptable standard construction, well considered and delivered schemes allow each market component to bolster the overall development.

A premium is delivered across all of those components and risk adjusted returns are drawing ever increasing international investment interest. The context for such interest is that West Africa is estimated to experience the strongest economic growth of all in Sub-Saharan Africa.

Examples of such developments in the region are exemplified by the Landmark Village project, positioned immediately east of the established CBD area of Victoria Island, Lagos and facing the Atlantic Ocean. The scheme already delivers exhibition, retail and office components to an international standard and near uniquely, in a single environment.

While there can be an enhanced value across all real estate components within a mixed use scheme, there can additionally be the ability to introduce elements and global brands that without the security and critical mass provided by other uses, would be unlikely to venture into such locations whatsoever. Landmark Village has attracted PwC's West Africa's head-quarter's office and has also brought to West Africa its first Hard Rock Café and first Shiro restaurants. Each of these establishments serve as anchors to the project's ever expanding list of global retail brands and international corporate prospects, while being fed continuous custom from one of Nigeria's leading exhibition and event centres.

The point to consider is that if these brands and organisations were disparately placed outside of such a master planned community, the brands would likely have postponed entering such an untested and still fragile market. In turn, the planned Marriott Hotel and associated luxury apartment and office tower elements could not have been attracted to an otherwise relatively marginal location on the eastern edge of Lagos' Central Business District. The overall value enhancement to the land through delivery of such a mixed use scheme runs into hundreds of percent.

Landmark Village will eventually become adjacent to the eastern extent of the truly extraordinary Eko Atlantic development, another example of mixed use development being created in an environment without the infrastructure seen as a given elsewhere in the world. This superlative project is reputedly the largest metropolitan area reclamation scheme ongoing in the world today and is delivering a new city district, which will provide Grade A offices, residential, hotel, massive retail and leisure elements connected by infrastructure and transport components which will equal and possibly surpass developed world environments.

A further example of the unique investment opportunities offered through mixed use development is the InterContinental's ongoing development of branded apartments within Duval's Jabi Lake scheme. While the inclusion of the InterContinental brand provides an estimated minimum uplift of 30% to a residential development, it is understood that this international leisure chain have been convinced in the otherwise less proven location of Jabi Lakes, Abuja through the supporting development of Actis' adjacent 30,000 sqm retail mall.

On another scale entirely, the realisation that governments across the region will continue to struggle to provide sufficient infrastructure and disciplined town planning regimes to support rapidly burgeoning urban concentrations is recognised by investor and development outfits such as Rendeavour, who concentrate on c. 1,000 Hectare schemes strategically positioned on the edge of major west African conurbations, including, Lagos, Accra and Takoradi.

While our firm has produced feasibility studies covering master planned mix use schemes across the region, ranging in size from 10 Hectares to 1,300 Hectares, we see an increasing appetite from international investor groups for large scale, diversified and complementary segments designed and operated by a single developer. Rendeavour's c. 1,000 Hectare King City development on the edge of Takoradi, western Ghana, exemplifies this trend.

The one common element is that such schemes are understood to provide first world infrastructure across all segments and to be largely self-reliant oases surrounded by far less predictable environments.

Logistics and warehousing to lead future mixed use developments

One recent trend is increasing specialisation in the formation of mixed use developments. There is a growing tendency for international investment groups to concentrate specifically on one market segment within planned developments, such as housing or industrial space, but designed for supporting elements. Such schemes include the c. 450 Hectare Agbara Estate 30 KM west of Lagos and BlackIvy's industrial-focused WestPark scheme east of Takoradi.

While the Agbara Estate was laid out as an industrial focused development in the 1970's and accommodates approximately 40 international and indigenous manufacturing groups, with the exception of some upscale housing, it has never historically provided leisure or retail components. Due to the difficulties of accessing the Estate because of the congested surrounding road networks, the Estate's owners re-worked the master plan to allow for the development of modern retailing, and a mid-range hotel, in addition to speculative modern offices and residential elements aimed specifically at housing middle management employees associated with the existing industrial users. To facilitate the new works, financing has been organised from different sources, including asset sales and international loans. In addition the Estate management is finalising arrangements to construct an independent power plant (IPP) to ensure near 100% availability of electricity to all occupants of the Estate.

Specifically within Agbara Estate there are plans to provide speculative, high quality warehousing available to lease to third party occupiers, within a master planned logistics park. There is an increasingly widely held understanding that good quality warehousing and logistics space represents the greatest investment opportunity of any real estate asset class across West Africa today. This is due to the complete lack of such facilities, while other segments of the market (including leisure, offices and retail), have in recent years seen over - investment, with supply occasionally outstripping demand.

The leading centres of Agbara Estate west of Lagos and BlackIvy's WestPark development east of Takoradi-Sekondi are examples where the creation of necessary support requirements of security, power, data, housing and office facilities can be found. In addition to such key nodes, smaller secondary centres are rapidly developing around major secondary cities.

Decentralised energy supply, rents and data

Lack of reliable mains electricity has traditionally acted as a major obstacle to the creation of mixed use, master planned developments across the region. However, major advancements in decentralised and hybrid power solutions, in conjunction with the spread of high pressure gas pipelines in and around the peripheries of major cities, are successfully answering this pivotal issue.

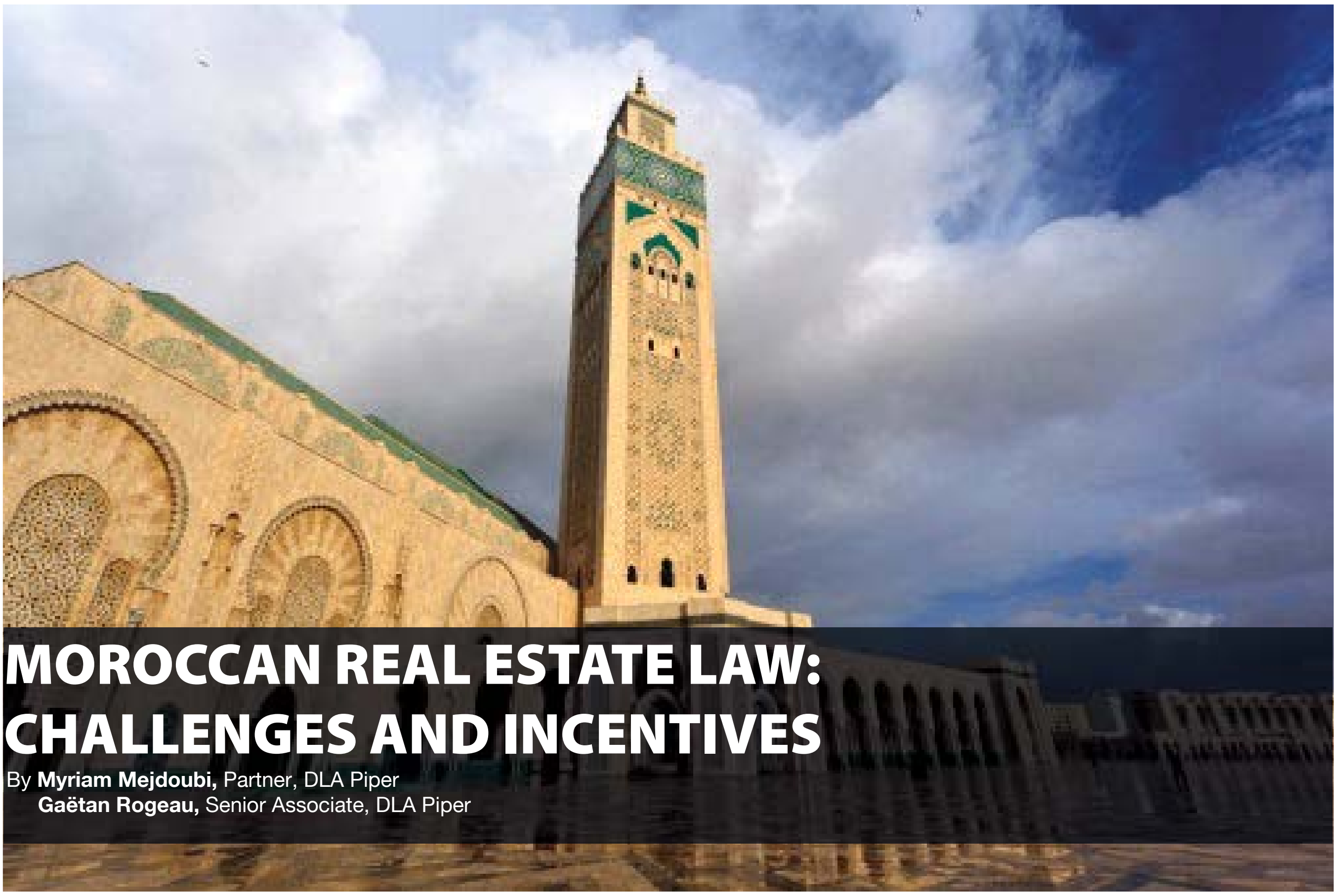
A major additional factor in the to-date lack of master planned industrial focused, mixed use developments lies in the difficult-to-solve equation for developers of constructing to a high standard while generating sufficient returns on capital. This is especially the case where surrounding infrastructure is poor and land prices remain high.

Where rents for industrial space remain generally in a range between $4 - $8 /sqm /per month in and around major urban centres, it is impossible to construct estates to a high standard, where there is usually a requirement for significant ground works and construction of adjoining infrastructure. Industrial yields generally range from between 12% to 15%. However, where international manufacturing groups with good covenant strengths will prelease anchor facilities, yields on facilities offering the correct attributes can range lower, at between 9% to 11%.

Where international organisations such as the International Finance Corporation can also assist with providing financing to master planned developments, the reality of an increasingly deep pool of risk diversified and investment worthy real estate developments is emerging across the region.

Contributor's Profile

Ruairi Moriarty specialises in land transactions and consultancy projects across West Africa, where EMC Real Estate act on behalf of multinational companies, investment and developer groups in addition to government agencies. Clients represented include; Africa Capital Alliance, Actis, BlackIvy, Agbara Estate, Rendeavour, Procter & Gamble, Unilever, GlaxoSmithKline, Novartis, Wrigley, BASF, MasterCard, MoneyGram, UBS, JP Morgan, WPP, Maersk, International Finance Corporation, Landmark, BBC.



MOROCCAN REAL ESTATE LAW: CHALLENGES AND INCENTIVES

By **Myriam Mejdoubi,** Partner, DLA Piper
Gaëtan Rogeau, Senior Associate, DLA Piper

Morocco is increasingly becoming a strategic target for international investors seeking to diversify real estate investment opportunities.

This situation is the result of a number of interacting factors, particularly the fact that it is one of the most politically stable countries in the region with a constant economic growth and a stable legal framework based on civil law. This civil law legal framework gives confidence to international investors.

Furthermore, many legal reforms were conducted by Morocco for the purpose of attracting international investors and tax advantages were given to international companies. Examples can be found in the free zone of Tangier or in Casablanca Finance City.

The country also benefits from a very favourable geographical position between Europe and Africa and is used as a bridgehead between these two continents. Morocco also aims to position as the gateway to Africa with very strong commercial relationship with Sub-Saharan countries and increasing relationship with China as being part of its so called “One Road One Belt” program whereby Morocco has been selected as the exclusive manufacturer of China in the whole francophone Africa. In this respect, the north of Morocco will host a new city project dedicated to this program.

Gradual floating of the currency has been introduced in January 2018 by the Moroccan Central Bank, with an intention to boost competitiveness of the country

The real estate sector represents still more than a half level of FDI in the recent years according to the United Nations Conference on Trade and Development.

Office market remains active in particular in Casablanca with its largest concentration of office in the QCA (Quartier Central d'Affaires). The opening of Casablanca Finance City (CFC) will increase office stock in Casa Anfa. Retail market has reached for than 140,000 sqm GLA of supply with its main shopping malls in Casablanca. Hospitality market is quite diverse depending of the areas with a mix of business travellers, domestic and international tourism. Logistic sector has still a strong card to play in Morocco.

Moroccan real estate legal framework shall be considered with care by any real estate investors before any investment.

Real Estate Investment trust (REIT - OPCI)

Real Estate Investment trust under the form of OPCI were recently admitted in Morocco pursuant to several laws and regulations which grant significant tax exemptions to these vehicles. The setting up of an OPCI is subject to prior agreement from the AMMC (Moroccan stock exchange authority), the OPCI being represented by a portfolio management company (société de gestion) also approved by the AMMC.

The purpose of OPCIs is investment in real estate assets that they lease, or that they build for the purpose of leasing, and that they hold either directly or indirectly, including those that have yet to be completed, all operations required for their use or resale, the carrying out of all types of works to these real estate assets, and, secondarily, the management of financial instruments and deposits.

These new real estate investment schemes are expected to increase the development of the real estate sector and to create significant portfolios in the Kingdom.

If some implementation decrees and instructions are still to be enacted to have Moroccan REIT fully effective, high expectations and a significant lobbying has been made for the 2018 finance law in order to have a more attractive tax regime for investors.

The variety of land law regimes

The complexity of the land law system in Morocco is a result of various factors, principally the variety of legal regimes governing land: “public” land (Habous or Guich) co-exists alongside melks and land privately owned by the State, which characteristics are very different.

For example, certain properties are inalienable or can only be transferred subject to certain conditions, while other properties require prior authorisation by the State in order to be transferred or, where the proposed purchaser of agricultural land is foreign, a specific certificate must be obtained (a certificate of non-agricultural purpose).

The complexity of the land law system in Morocco is also a result of the co-existence of registered and unregistered property. Indeed, the lack of registration affects quite a significant proportion of properties in urban areas (mainly the medina historic town centres) and properties in rural areas. Under the “traditional” system, based on local customs, title to unregistered property is based on (i) peaceful possession, and (ii) uninterrupted common knowledge for a period of 10 years (vis-à-vis third parties) or 40 years (vis-à-vis family members). Title to unregistered property is proved upon presenting of a moulkiya, namely a notarised document pursuant to which twelve ordinary witnesses confirm before two Adouls (Sharia law notaries) that the person claiming title to the property has lawful possession. Obtaining these declarations can be a tedious process.

Transfer of title is also a way of obtaining ownership. It presupposes however that the property in question is alienable, yet certain land (by virtue of its legal nature) is inalienable or can only be transferred on certain conditions. In practice, it is therefore advisable to carry out full due diligence on the legal nature of the land before purchasing and to conduct a prior check of the administrative / town-planning consents required to carry out the proposed transfer.

The transfer of title to unregistered property occurs at the moment when both parties wish to be bound, although title will not be enforceable against third parties until it is registered with the Registration and Stamp Duty Authority. It is mandatory that any transaction relating to rights in rem over unregistered property be established by means of a notarised document drafted either by Adouls, notaries or (since Act No. 39-08) lawyers who are registered with the Court of Cassation.

While unregistered property has several drawbacks for real estate investors due to unreliable proof of ownership, the lack of precise identification and the uncertainty regarding which regime applies, many properties in Morocco, particularly in out-of-town areas, are registered.

The registration of land remains a priority and focus for the Moroccan State which has strongly supported the development in certain cities of on line access information to real estate files (title ownership, urbanism position details (*note de renseignements urbanistiques*).

Sales before completion

Even if the acquisition of registered and unregistered properties remains a major mean to transfer properties, buying off-plan properties (a method which is gearing up for a major new reform) has also become very popular with investors and a recent law has been published (law n° 107-12).

The main difficulty of this kind of agreement is that vendors must have a very good financial standing and have sufficient treasury in order to be able to start the works at their own costs before receiving first payments from purchasers. Thus, there is a significant risk of insolvency proceeding of the vendor and appropriate guarantees shall be included in the contract to protect the interests of the purchasers.

According to the recent law, the vendor shall also give a financial completion guarantee to the purchaser or a guarantee for the reimbursement of the payments made in case of termination of the agreement.

This kind of agreement is a good way to facilitate construction programs but carefulness is required during the negotiating of the said agreement.

Commercial leases

A recent and specific law regarding commercial leases (law n° 49-16) was recently published on 11 August 2016.

This law applies to buildings or premises in which a going concern is operated but also applies to buildings or premises on private domain of the State, premises rented by cooperatives, private educational institution, private clinics, pharmaceutical laboratories and assimilated entities.

This regime has many similarities with the French legal system governing commercial leases although is a bit less developed. In practice, business leases entered into in Morocco incorporate the characteristics of triple net leases i.e. fixed terms, tax and service charges being recharged to tenants, maintenance obligations on tenants, etc.

The Moroccan status grants commercial property and security of tenure to the tenant pursuant to which the tenant benefits from a right to request the renewal of its lease. If the landlord denies the renewal of the lease upon expiration date, the landlord has to pay an eviction compensation.

The provisions of the new law are not self - explanatory and the various debates which ended up on its enactment are not made available to public, it is thus difficult to construe some of the unclear provisions of the new law.

One major difficulty is that this law does not apply to premises located in a commercial centre. This exclusion, which is the result of a significant lobbying, is more and more challenged in Morocco.

Despite some remaining grey areas in the commercial lease regime, investors can look forward to many developments in Morocco in the coming years and many international retailers have now their stores present as a first step in their growth strategy in the whole Africa.

Contributor's Profile

Myriam Mejdoubi has vast experience in general real estate law and in particular in real estate transactions, financing, leases, construction law and corporate law.

Myriam assists investors in the acquisition of real estate companies or assets (hotel, logistic, office, retail, etc.). She also advises tenants and owners in the negotiations of lease agreements and represents clients on contentious matters related to occupancy agreements (rent review, services charges disputes). Myriam also advises developers and owners in the negotiation of construction agreements. Myriam Mejdoubi had acquired a strong experience in the hospitality and leisure sector by advising hotel operators or investors on the acquisition of hotel portfolios, negotiation of lease agreements of hotel assets, financing of hotel transactions, negotiation of construction contracts for hotel renovations and negotiation of hotel management agreements.

Gaëtan Rogeau has acquired an experience in real estate law, notably in advising in the context of the development, construction and lease of buildings (offices, shopping centers, hotels, warehouses, industry). Gaëtan represents major French real estate companies, as well as French and international investment funds, in real estate developments, construction, and commercial leasing. He had advise LabelVie Group in the preparation and negotiation of their lease agreements (Kiabi, Burger King), Decathlon in its real estate projects in Morocco and Immorente (CFG bank Group) in the acquisition of offices in the Marina Business Center. Before joining DLA Piper in June 2015, Gaëtan practiced as an attorney in the real estate department of Gide.

ZIMBABWE REAL ESTATE: OVERVIEW AND OPPORTUNITIES

By **Amos Mazarire,** Senior Partner, Knight Frank Zimbabwe

On the 23rd of November 2017, Zimbabwe ushered in a new political dispensation after the sudden and unceremonious departure of the founding president, Robert Gabriel Mugabe. It was a dramatic and unforeseen change after Mugabe's 37 year iron rule of the country. During Mugabe's rule, Zimbabwe had its fair share of challenges revolving around his economic management which was influenced by his fights with the western world.

During the last 18 years of his rule, Mr Mugabe, in response to sanctions imposed against him for human rights abuses, had adopted an isolationist economic approach, shunning the western world and focusing on China and Asia. The country's economy suffered as a consequence and is characterised by high foreign debt, falling industrial productivity, high unemployment and wage stagnation. Another negative development is the shortage of hard currency, i.e. , US$s, which is the official currency of the country together with a basket of other currencies. There is also a shortage of bank notes. In 2016, the government responded to this crisis by creating a surrogate currency, the Bond note, which on paper is deemed to be at par with the US dollar, but in practice, is heavily discounted.

The depressed economy led to a decline in demand for goods and services. In the real estate sector, activity is suppressed, both in terms of new builds and investment in current stock. Occupation levels are very low, especially in the office and industrial sectors. The majority of central business office towers are half empty. For the retail sector, the swamping of the central business district by informal traders has created a negative operating environment for established businesses. Resultantly, tenants are struggling to honour rent obligations and there is downward pressure on rental rates. In general, rentals are estimated to have softened by about 20 to 30 percent in the last three years.

The new administration, under the presidency of Emmerson Mnangagwa, a long-time apprentice of Robert Mugabe who, however, was responsible for his ouster, is pushing the "Zimbabwe is open for business" slogan. Some early brave and positive moves include the relaxation of the investment laws, which previously mandated majority local ownership, and the undertaking to compensate white farmers who were dispossessed of their farm properties during Mugabe's land reform programme. The new administration seems to have been positively received both locally and internationally. Visits have been exchanged between erstwhile coloniser, the United Kingdom, and the Harare government including a Zimbabwean ministerial attendance at the recently held CHOGM. The coming in of the new government seems to have excited the international business community to, at least, consider Zimbabwe as a possible investment destination. Given that Zimbabwe's economy has been in a comatose state for a long time, opportunities abound for early birds. The return of international business is bound to create demand for space across all sectors, i.e., residential houses, offices, retail and industrial production and warehousing.

The current stock of office accommodation in the now preferred suburban locations, such as Borrowdale and Mount Pleasant in Harare, is inadequate, as it is almost fully taken up. When the country's economy returns to vibrancy, the demand for suburban office accommodation is bound to be strong given the attendant CBD problems, such as, congestion, street vendors and general decay. Given that there is little office stock in suburban precincts, the time lag between "moment of demand" and availability of "new build" space is likely to initially help alleviate central business district voids.

The high levels of office voids in the central business district has jolted property owners into considering alternatives uses for their office towers. The topical strategy is the conversion of office space into residential accommodation, particularly student hostels. The levels of financial resources required for the conversions maybe prohibitive when measured against expected returns. The student accommodation sector is new to Zimbabwe as this was traditional provided by the universities within their campuses. However, the increases of universities in the country from 2 to 16 in the last 20 years and the expansion of campuses has led to a woeful shortage of space. New Investors with adequate resources and knowhow, limited in the local environment, stand a chance to exploit this need and, perhaps provide bespoke facilities, rather the conversion of existing poor suited space.

Over the years, the industrial sector has been the most neglected in terms of the provision of new modern space, even by way of renewal of existing accommodation. Most of the current facilities are archaic and thus, ill- suited for modern manufacturing technologies. This is perhaps evidenced by the fact that, even prior to the change of government, the demand for serviced industrial land has been high. Plots created in Pomona were snapped up and strong interest is evident in Sunway City for yet to be serviced land. Industrialists considering setting up new manufacturing plants or warehousing will of necessity have to consider new builds or upgrading existing facilities.

The residential sector has remained active both in terms of sale transactions and construction. However, the construction of houses has been mainly self builds, i.e., individuals building for themselves. This has been the case since independence because there was never a wholesale township development because it is considered unprofitable. However, the construction of high value cluster houses in secure complexes has been the popular trend although the pace has slackened somewhat in the recent past. Going forward, the cluster house sector is likely to be the first to benefit from any uplift in the economy because of the security and quality offered by these precincts.

In the low-income housing sector, Zimbabwe has a huge backlog, estimated to be about 1.3 million units with Harare, the capital city, said to require about half a million units. According to some estimates, it will take up to 20 years for the country to clear the current backlog. The local market has largely exploited this housing shortage through land development rather than providing built units. Developers have been subdividing, servicing and selling plots to the low income sector in Harare, Bulawayo, Mutare, Masvingo, Gweru and other cities. Demand for stands has been very strong leading to an increase in the price per square metre in Harare by about 100% in the last two years. Sadly, the high costs of construction are slowing down the pace of house construction. A further impediment is the cost of finance. Mortgage rates range from 12% to 17%. These rates are very high by regional standards and, given low and stagnant wages, have the effect of limiting access to funding and thereby slow down the pace of housing delivery.

The one challenge that the country has to address with urgency so as to support any upsurge in business is infrastructural inadequacy and decay. The infrastructure that was adopted at independence, 38 years ago, has deteriorated for lack of adequate regular maintenance. Road surfaces in urban centres have disintegrated, in some cases, to the extent that they now require reconstruction rather than repair. The reconstruction of the road from Beitbridge, on the border with South Africa to Chirundu ie the Zambia/Zimbabwe border has been delayed due to contractual arguments between the state and the contractor. Current electrical power generation is inadequate to meet existing demand. So any expansion in industry driven by an improved economy is likely put additional pressure on power supply. However, the government recently commissioned the Kariba South Extension power station with a capacity to add 300MW to the grid and is refurbishing two power generation units at Hwange which will contribute an additional 600MW. Water supply to urban centres is erratic, entirely for reasons of inadequate infrastructure.

The infrastructural deficits provide huge opportunities for construction companies, assuming of course, that the state has the capacity to fund them. However, the facilities are essential to support any economic expansion so the authorities, one would expect, would prioritise the funding of the necessary projects.

The pending general election, due in July/August this year, has given rise to a “wait and see” approach by potential investors, especially foreign ones. However, there is a school of thought that irrespective of the election results, Zimbabwe is poised for a much better economic future. If the ZANUPF government were to be returned to power, it is expected that they will be strengthened to pursue their “open for business” thrust to the benefit of the nation. Should the opposition, in the form of the MDC Alliance, come into power, the expectations are that they would be in a position to exploit international support and goodwill that they have always enjoyed to positively advance the country’s fortunes.

PROPERTY DEVELOPMENT IN AFRICA: AN APPROACH TO FINANCING

By **Selwyn Blieden,** Head of Africa, Commercial Property Finance, Barclays South Africa

Investors have been told of the 'supply-demand imbalances' that create opportunities in the African real estate market. However, correcting and profiting from such imbalances means focusing on property development, and this entails tackling the risks of project delivery.

Current conventional wisdom says there is persistent unmet demand for housing, high-grade office, and modern retail and industrial real estate assets. This is backed up by statistics from Christian Benimana, the founder of the African designer-training initiative MASS Design, who stated that Africa needs to build 60 000 houses per day for the next 35 years to meet it needs . New home-dwellers will need space to work, shop, and d receive healthcare and schooling. It is widel y recognised that not all demand will be met throug h government initiatives

Therefore, the role of private sector investors and financiers will be significant. However, market participants have learnt that the reality is more nuanced than conventional wisdom and the raw numbers might indicate. Being specific about what assets will actually meet the real demand requires deeper understanding that anecdotal generalisations and market-level numbers do not provide.

For example, where demographic information might show that there is capacity for more formal retail space in a city, it may not explain what particular assets will succeed. There may already be an over-supply of large regional centres populated by branded line-stores. Real demand may only require smaller local neighbourhood centres with strong grocery retail anchors.

If supply-demand imbalances exist, then development of new assets is the great opportunity available to investors in African real estate. This, in turn implies development risks are key to addressing the investment challenges in the African real estate market. Financiers must acknowledge and tackle these risks if they are to fully participate in the growth of the African real estate market and to serve the key players in this market.

Development funding is riskier than funding for existing income-earning assets: a failed development project may be almost worthless even after substantial time and funds have been spent. In addition, it may be difficult to predict the success of a development. Even experienced developers encounter obstacles and sometimes fail to deliver.

Both options of opting-out and name-lending underserve the market, bank investors, and all stake-holders looking for more development to take place. We propose that banks and other financiers (such as Development Finance Institutions and niche funders) need to have project capabilities in place. They should also consciously take on the role of property development lenders, acknowledging that this requires a different approach from conventional investment lending.

At Barclays Africa, our approach is to retain a dedicated multi-disciplinary team dedicated to assessing and monitoring construction projects. The team works closely with design consultants, quantity surveyors and project managers based in our jurisdictions. Their involvement in projects that we are banking usually starts well before construction commences. They review contracting documentation and ensure that construction and financing needs are consistent.

Some clients have volunteered that they feel additional comfort from oversight provided by the bank's team, giving an additional, objective, expert-view on design and delivery elements of their projects. In addition, by building experience of a variety of projects in multiple jurisdictions, Barclays Africa is able to assist the spread of ideas and technical knowledge between our target markets.

This approach may not be available to all potential financiers but it offers an idea of what we believe is necessary to deal effectively with the opportunity and challenges of property development funding in Africa: partnership and continuous expertise-building.

A CHANGING LANDSCAPE: HOTEL CHAIN DEVELOPMENT PIPELINES IN AFRICA

By **Trevor Ward,** Managing Director, W Hospitality Group Nigeria

On an annual basis, we gather data on the activities of the international and regional (African) hotel chains in terms of signing deals with developers and investors to manage and brand the hotels that they are planning to build. Whilst the chains are not, with a very few exceptions, investors themselves, they make a very significant contribution to the expansion of hotel real estate, shaping the future of markets in many ways. Developers can be "me too" types, who want to emulate the success of a branded hotel they saw elsewhere, and it is often the case that funding is conditional on the engagement of a brand to operate the planned hotel.

In Africa, specifically in sub-Saharan Africa where the hotel market is relatively new compared to elsewhere in the world, the pace of development has grown enormously in the last decade. In 2009, when we first collected data, there were 144 planned hotels with chain involvement in the whole of Africa (then 53 countries) representing approximately 30,000 rooms. In early 2018, the pipeline has grown to 418 hotels and over 76,000 rooms! Of course, the African hotel market is, like every other market, more than just the chains. The penetration of branded hotels in most African markets is very low, estimated at less than 10 per cent of total rooms available, compared to (according to Mintel) 70 per cent in North America. In other words, 90 per cent of existing hotels in Africa are independents. That's a huge proportion, and our analysis has yet to capture its depth and spread because of the enormity (impossibility?) of the task.

The metrics for the measurable chain activity show a positive growth for this sub-market, and in this article we present the findings from our 2018 hotel chain development pipeline report[1].

In the last five years, the growth in the pipeline in sub-Saharan Africa has been 105 per cent, compared to 74 per cent in North Africa. In general, the after-effects of the 2010 Arab Spring have slowed development in North Africa.

Hotel Chain Development Pipelines in Africa 2018
Regional Summary

	2014		2015		2016		2017		2018	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
North Africa	73	16,449	79	18,565	87	19,971	107	23,836	120	28,643
Sub-Saharan Africa	142	23,283	191	31,150	227	39,416	262	43,113	298	47,679
TOTAL	**215**	**39,732**	**270**	**49,715**	**314**	**59,387**	**369**	**66,949**	**418**	**76,322**

However, the chain pipeline in Egypt increased from 9,851 rooms in 2017 to 13,636 rooms in 2018, contributing to a 20 per cent increase in pipeline activity in North Africa, despite a near-halt to development activity in Libya (and closure of some branded hotels there, due to the ongoing conflict).

As the table below shows, only around 55 per cent of rooms in the African pipeline are currently onsite and under construction. There are many factors that impact on the commencement and subsequent completion of hotel developments, not least of which is the economic environment where the development in located, and the regulatory framework that either facilitates or frustrates developers' efforts to kick start projects.

Hotel Chain Development Pipelines in Africa 2018
SSA vs. North Africa by Pipeline Status

	Hotels	Rooms		
	Total	Total	Onsite Construction	
North Africa	120	28,643	15,797	55%
Sub-Saharan Africa	298	47,679	25,611	54%
TOTAL	**418**	**76,322**	41,408	54%

The chains have pipeline deals signed in 41 countries in Africa, out of a total of 54 (including the Indian Ocean islands). There are therefore 13 countries in Africa that have no chain hotels being planned or under construction - Burkina Faso, Central African Republic, Chad, Comoros Islands, Djibouti, Eritrea, Equatorial Guinea, Lesotho, Liberia, The Gambia, Somalia, São Tomé & Principe and Sudan. In fact, several of these, such as Comoros Islands, Eritrea and Liberia, have no branded supply existing, with all the hotel supply independent.

There are reasons to expect that there could be a change in the future pipeline for some of these "unsupplied" countries. For example, Djibouti has an incredibly strategic location on the Horn of Africa, serves as the main port for Ethiopia, and has increased in importance as a military base.

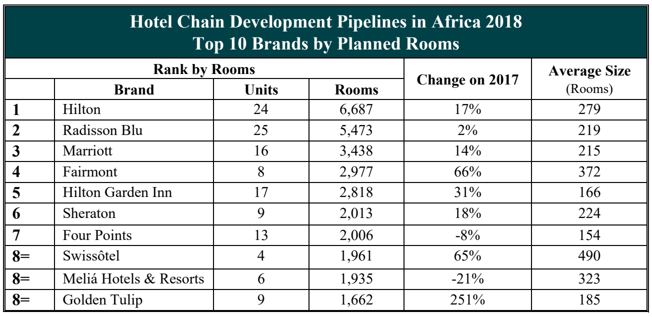
[1] The Hotel Chain Development Pipeline in Africa Report is an annual publication by W Hospitality Group. It provides a detailed analysis of the new hotel brands on a country and city basis, and can be downloaded from www.w-hospitalitygroup.com

The government is in the process of developing Africa's largest Free Trade Zone, and is promoting investment in hotels and resorts in the country. Economic sanctions on Sudan have eased, a move which may lead to increased hotel development activity in Khartoum and Port Sudan in the future.

On a country by country basis, the top five performers in Africa are Egypt, Nigeria, Ethiopia, Morocco and South Africa, with a combined total of 38,000 rooms in the development pipeline. Nigeria was the top performer in 2017 but has been displaced by Egypt, who achieved more signed deals last year, with now over 13,600 rooms under development, of which 40 per cent are actually under construction. In Ethiopia, the number of signed deals for new hotels rose from 20 in 2017 to 31 in 2018, including international chains such as Accor and Hilton, as well as regional (African) chains such as aha and Latitude.

For the first time, Senegal moves into the top 10 countries this year with 17 hotels in the pipeline, mainly in Dakar (including the "new Dakar" at Diamniadio), and the pipeline includes Mangalis (440 rooms), Club Med (495 rooms) and Marriott (373 rooms). Tanzania (including Zanzibar) emerges as a top performer across the continent with all of its 1,494 pipeline rooms under construction.

The table below shows the top 10 hotel brands by number of planned rooms in the pipeline in 2018:



Hotel Chain Development Pipelines in Africa 2018
Top 10 Brands by Planned Rooms

Rank by Rooms				Change on 2017	Average Size (Rooms)
	Brand	Units	Rooms		
1	Hilton	24	6,687	17%	279
2	Radisson Blu	25	5,473	2%	219
3	Marriott	16	3,438	14%	215
4	Fairmont	8	2,977	66%	372
5	Hilton Garden Inn	17	2,818	31%	166
6	Sheraton	9	2,013	18%	224
7	Four Points	13	2,006	-8%	154
8=	Swissôtel	4	1,961	65%	490
8=	Meliá Hotels & Resorts	6	1,935	-21%	323
8=	Golden Tulip	9	1,662	251%	185

Hilton tops the list of brands ranked by number of rooms, with a 17 per cent increase in their pipeline compared to 2017. Golden Tulip (owned by Louvre) has seen a massive increase in its pipeline, from 474 rooms in 2017 to 1,662 rooms in 2018, all of which are under construction; some 1,300 rooms, almost 80 per cent of the total, are due to open in Tunisia in 2018. Fairmont, a brand owned by AccorHotels, rises from 1,788 to 2,977 rooms, the increase mainly in North Africa.

Many of the major hotel chains now have development offices on the continent - Hilton, Marriott, Radisson, AccorHotels, Louvre, Hyatt, Best Western and, quite recently, Wyndham. And the top four, Hilton, Marriott, Radisson and AccorHotels represent a combined total of 47,000 rooms, over 60 per cent of the total pipeline in Africa. Clearly, there is a business case for having a presence on ground, where the deals are done.

Africa continues to show its resilience in the face of rising challenges, and consequently to present opportunities for investors. According to the World Bank, six of the world's fastest growing economies in 2018 are in Africa and of these three (Ethiopia, Senegal and Tanzania) are in the top 10 countries in our report by rooms and pipeline status. 2017 was a relatively good year for many countries in Africa, taking into consideration the macroeconomic adjustments required in recent years due to the low price of oil and other commodities, and the resultant cutbacks in government expenditure.

The continent is expected to grow by 3.5 per cent in 2018 according to the African Development Bank. Fully 94 hotel deals have been signed since our 2017 report, up on the 2016 total of 86 deals. There is a positive outlook for hotel development in Africa. There is increased activity in North Africa, where hotel development activity had stalled post-2010. With the hotel market in Egypt contributing significantly to the pipeline in 2018, and more activity in Africa and Tunisia, the region is (mostly) back on the development agenda.

In sub-Saharan Africa, Nigeria remains a leading market for new developments, but with only 43 per cent of the pipeline rooms under construction – does this mean that there are issues getting them to fruition? Or does it mean that they are new deals, not yet ready to go onsite? A moot point which will become clearer as time goes on, but almost certainly a bit of both. Nevertheless, there is significantly more activity in West Africa compared to the East and Southern Africa.

The world in 2018 is a very different place to when we started this survey in 2009. But Africa is still rising, at least as far as the development activities of the hotel chains, and the investors with whom they are working, is concerned.

PROPERTY VALUATIONS: DO WE OR DON'T WE?

By **Eric Wright,** Chief Executive Officer Spectrum Valuations and Asset Solutions

The concept of a property valuation is a matter which many individuals will debate the pro's and con's of at various opportunities.

It is a widely believed concept that the purchase of a home is arguably the single biggest investment a household can make. Houses are purchased primarily as a safe haven to live in, but for some people, the purchase of a house and even additional homes are treated as a significant aspect of an investment portfolio with which to hold and/or trade.

Many of these investors expand their portfolios to include Commercial and Agricultural properties. Some investors prefer to invest in Listed Funds and Unit Trusts and it is common for many of these vehicles to have invested in various properties to reap the benefits of returns.

So the concept of a property valuation is raised once again. Why would a property valuation be necessary if we could be led by property brokers alone? Our colleagues in the broking profession perform a vital task in bringing a willing buyer and willing seller to the point of concluding a transaction.

An astute investor, whether he is acquiring property or disposing, would often require the services of a valuer to give him an independent opinion of what a realistic value of the subject property would be. That opinion would be a value that could form the starting point for the investor where he negotiates to the sale or purchase price that he would be prepared to pay or accept. The value that is derived from a formal valuation is compelled to be signed by a Registered Professional Valuer and his activities are governed by the Council of Property Valuers in South African under the Property Valuers Profession Act 47 of 2000. In addition, many Property Valuers are required to have adequate Professional Indemnity Insurance where an aggrieved customer could lodge claims for alleged loss.

So, in short, the valuation that the investor receives will give him a huge amount of peace of mind as to the starting point of his investment decisions.

Now, the granting of bond finance by a Financial Institution to an investor would often be conditional upon suitable insurance having been obtained for the property. This insurance would largely be to insure against partial or substantial damage or destruction.

Whilst the bond holder often has the initial valuation obtained for replacement cost at the point of application for the loan, the obligation to ensure that the property is adequately insured over the lifespan of the loan is often left to the onus of the investor. In such cases, it would make absolute sense to ensure that at any time there would be no surprises in the event of a claim.

A Professional Valuer would be well aware of current market conditions which would be well researched and certified, adding to the Peace of Mind that the investor may require.

Contributor's Profile

Eric Wright matriculated in 1980 at Durban High School in Durban, South Africa. After completing his National Service he began his career with the First National Bank Undergraduate Scheme (previously Barclays Bank), an accelerated advancement programme for young high flyers, and graduated at the University of South Africa with a Bachelor of Commerce degree majoring in Business Management and Economics in 1988. He has attained several qualifications in the field of Property and Facilities Management, and completed the Global Executive Development Programme at the Gordon Institute of Business in 2005. Eric entered the property industry in 1991, and concentrated on managing large property portfolios.

Since 2002, Eric turned to Management and boasts a number of successful transactions ranging from Outsourcing to Mergers. It is his concern for Service Excellence and Customer Satisfaction through highly competent staff and business efficiencies that keeps him going.

THE COMPLEX AND EVOLVING INTERPLAY OF MODERN AND TRADITIONAL FOOD RETAIL IN AFRICA

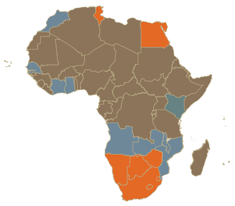
By **João Terlica,** Co-founder and Managing Director of Sagaci Research

The African retail landscape remains extremely fragmented. Modern retail formats may be proliferating, but they are little more than peripheral across much of the continent, where traditional retailers remain the backbone of food distribution. Nonetheless, supermarket chains are working to shed their elitist image and open smaller stores in more accessible locations in an effort to entice middle - income consumers into their aisles. A degree of co-operation is even evident in some markets, with modern retailers sometimes acting as de-facto wholesalers for traditional retailers and franchise agreements formalising such arrangements in some cases.

How are the terms "modern" and "traditional" defined in this context? Modern retail outlets typically occupy at least 500sqm, are part of a chain with centralised purchasing, are served by distributors or directly by brand owners, and offer a self-service format where prices are displayed. Tradiitional outlets are typically much smaller, independently owned, served by wholesalers, do not display prices, offer self-service or have cash registers

Sagaci Research data shows that African countries can be broadly divided into three groups in terms of retail modernisation: Undeveloped markets, such as Nigeria and the Democratic Republic of Congo, where modern retail accounts for a negligible share of retail sales of food; developing markets, such as Kenya, Morocco and Angola, where modern retail´s market share is between 1% and 10% and rising steadily; and developed markets, most notably South Africa, where modern retail has made significant inroads into the market share of the traditional channel[1].

Modernisation in African Food Retail

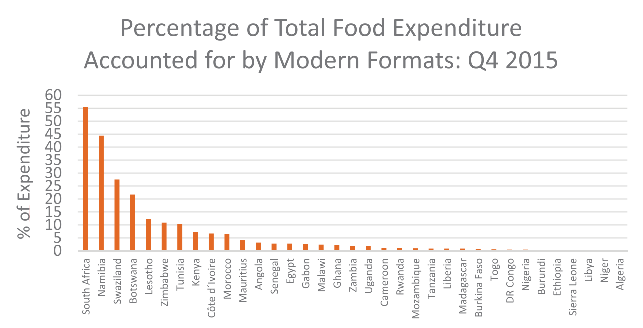


🟧 Developed: Modern retail accounts for more than **10% of food sales**. Most of these countries can be found in southern Africa.

🟦 **Developing**: Modern retail accounts for between **1% and 10%** of sales. Examples include Kenya, Morocco and Angola.

🟫 Under Developed: Modern retail accounts for **less than 1% of sales**. Examples include Nigeria, Ethiopia and the DRC.

When supermarkets first arrived in Africa during the 1980s, they were largely based in shopping malls and their target market was very small – expats, repats and the affluent. Volumes were low and margins were high, with most products imported. This still tends to be the model in undeveloped markets, but it has evolved in countries like Kenya and Côte d´Ivoire (at least in the major urban centres), where modern retailers increasingly have the mass market in their sights.



Percentage of Total Food Expenditure Accounted for by Modern Formats: Q4 2015

Despite the continued dominance of traditional players, long-term social, economic and demographic trends point towards the steady modernisation of food retail. Chief among these are rising household incomes, which is fuelling the emergence of a strata of middle-income consumers that was until quite recently conspicuous by its absence in most of Africa; urbanisation; and shrinking household size (fewer children means more money to spend on each child).

However, modern retailers continue to be perceived as elitist by many consumers. For some, shopping in a supermarket is a form of conspicuous consumption, a sign that you have ´made it,´ but for others who have shopped with traditional retailers all their lives, supermarkets can be unfamiliar and even intimidating places. This is in spite of the fact that in many markets, supermarket prices are now lower than those of traditional retailers for many staples, such as rice, flour and oil.

In Kenya, the marketing efforts of supermarkets are increasingly focused on getting such "shy" consumers through their doors for the first time by using

[1] https://www.apisummit.co.za/Formalizing%20African%20Retail%20-%20Aug17_v5.pdf

media both new (principally Facebook, Instagram and Twitter) and old (promotional flyers) to alter consumer perceptions regarding price. Some supermarkets now place staple products close to the entrance, so they are the first things that consumers see when they walk in. In part, this serves to give first-time customers a comforting sense of familiarity. Supermarkets also offer consumers loyalty cards that can be used to `earn´ discounts.

On the other hand, pack sizes still tend to be larger in supermarkets, and, unlike many traditional retailers, they do not offer credit. These issues tend to be important to those living hand-to-mouth, such as day labourers, but are less of a concern for middle-income consumers. Industry sources in Angola confirm that supermarket pricing there tends to be set with reference to the prices of traditional retailers. Meanwhile, some chains are placing more emphasis on public transportation when they decide where to locate new outlets, taking bus or matatu routes into account, for example. North American-style out-of-town retail is not a model that is applicable to the Africa, where car ownership remains very much the exception. According to a study published by consultancy Deloitte in 2017, Nigeria´s motorisation rate (number of passenger cars per 1,000 inhabitants) stood at just 20 in 2014, while in Ethiopia this figure was a mere 2[2].

Rather than relying on a few large “artery” stores, some chains are now seeking to challenge the “capillarity” of traditional retails by opening smaller outlets that are located closer to residential areas. In Kenya, local supermarket chain Tuskys has found some success with this strategy. Speaking at the 2017 Africa Property Investment Summit & Expo, which was held in Johannesburg, Malcolm Horne, CEO of Durban-based Broll Property Group noted “The pipeline of proposed new developments in secondary towns and outlying neighbourhoods in cities,” particularly in Kenya.

Angola provides a good example of the complex inteplay between modern and traditional food retailers. On the one hand, they are competitors, but on the other, their relationship can also be symbiotic, with modern retailers acting as quasi-wholesalers. According to one international supermarket chain, around one-third of the rice it imports into Angola is destined for the traditional channel. Chains like Mega Cash and Carry function as both wholesaler and retailer in a more explicit manner, while some street vendors source their stock directly from supermarket shelves.

The aforementioned Mega Cash and Carry has made a more explicit move into this hybrid space with its Bem Me Quer sub-brand[3]. Rather than seeking to challenge traditional retailers head-on by opening smaller outlets, its franchise model emphasises co-operation with the traditional sector. Not only does the company internally and externally remodel the stores of its franchisees, it also provides them with refrigeration equipment, in addition to training and merchandising and advertising support. Apart from paying an upfront fee, the franchisee also agrees to source most of its stock from Bem Me Quer´s parent company. The first Bem Me Quer store was opened in 2015, and there are now more than 250 of them.

French retailer Groupe Casino has adopted a similar strategy but on a much wider geographic scale. It had 144 franchise outlets in Africa (117 in North Africa and 27 in sub-Saharan markets) by the end of 2016. It is targeting what it calls “high-end” consumers in such locations as the Cameroonian capital of Yaoundé. However, Casino is working with traditional retailers in some markets, such as Antananarivo, the capital of Madagascar, where its Jumbo Score hypermarket chain was supplying 20 franchises under its SuperMaki banner by the end of 2016[4].

The modernisation of food retail in Africa is a process that will take decades, rather than years, and one in which technology is set to play an increasing role. Internet retail may be in its infancy in Africa, but the success of mobile money services like M-Pesa shows that local consumers are not slow to adopt new technology. According to a Sagaci Research survey conducted in 2017, 76.0% of Kenyans had a smartphone, while 86.0% used mobile payments. In the very long run, the current norm of supermarkets as anchor tenants in shopping malls may be pushed towards the periphery as a bricks-and-clicks hybrid model evolves, neighbourhood supermarkets and convenience stores proliferate and the modern and traditional channels commingle.

Contributor’s Profile

João Terlica is the co-founder and managing director of Sagaci Research. He has over 18 years of experience in market research and strategy consulting, mostly in emerging and frontier markets, for such organisations as The Boston Consulting Group and the Office of Tony Blair.

[2] https://www2.deloitte.com/content/dam/Deloitte/za/Documents/manufacturing/ZA_Deloitte-Africa-automotive-insights-Ethiopia-Kenya-Nigeria-Apr16.pdf
[3] http://www.lojasbemmequer.com/
[4] https://www.groupe-casino.fr/en/wp-content/uploads/sites/2/2017/06/RA-2016-GB.pdf

HOW REAL-TIME LOCATION INTELLIGENCE AND ANALYTICS ARE DISRUPTING RETAIL IN AFRICA

By **Adrian Maguire,** Founder & CEO of MagniFi and Fatti South Africa
Michelle Jooste, Head of Analytics, MagniFi and Fatti South Africa

CHANGE ISN'T COMING, IT'S ALREADY HERE

Shopping Centre owners in Africa are leading the way in utilizing Real-Time Location Intelligence (RTLI) and behavioural analytics to understand shopper profiles and to compare and measure these outcomes across buildings, countries and portfolios, in an attempt to stay competitive and relevant in a new era of an educated consumer.

Shopping Centres are amid a hurricane of change with an On-Demand generation that requires immediate fulfilment. Experience, convenience and content has become essential to the On-Demand shopper, which means it is critical for Landlords to bring online and offline together. There is a need to improve the overall mall experience by introducing innovative ways to enhance the customer journey and ensure that the physical shopping experience is as personalized as online.

Creating a solid foundation for further technological advancement

Many South African Shopping Centres and Mixed - Use Developments have in the past ignored and underestimated the need for something as simple as Wi-fi & Fibre. This 'commodity' was introduced to Landlords by big telecommunication companies that offered to install infrastructure and supply data to shoppers at no cost to the Landlord. These models were only implemented in regional Shopping Centres with specific footfall for optimal advertising and awareness purposes, but seldom gave the Landlord or the shopper the full benefit.

After several years of delivering below average connectivity and insufficient bandwidth to shoppers, Landlords recognized the need for high - speed data, not only in common areas, but throughout a development. Offering intervallic connectivity restricts shoppers from entering stores with poor coverage. Therefore, it is vital to offer seamless connectivity and optimally utilise the technology as part of a value proposition to the shopper.

Mobile phones are incredibly capable devices. Combine them with connectivity, integration and cloud-delivered enterprise applications and they will drive a huge amount of change.

A solid Wi-Fi infrastructure enables the integration of multiple software systems, which creates an Omni-Engage environment where asset managers can analyse behaviour and engage shoppers across various real-time media platforms.

The adoption of retail technology in South Africa and the rest of Africa

South Africa has the 6th most Shopping Centres in the world and is building even more (SACSC – South African Council of Shopping Centres). In an already saturated market with an over-supply of retail, it has become vital for owners to stay ahead of technological advancements which could help attract more visitors. Property Owners across SA embrace new innovative technologies and the endless capabilities thereof.

In the rest of Africa, retailers and developers (mainly from South Africa) equally understand the need for analytics and technological advancements when planning expansions, new developments and tenant mix. They are also realizing the need for more information that could help bring a secluded African shopping centre to life at an office in London or Johannesburg. Developers in Africa understand the value of sharing analytical insights with fellow developers to determine whether additional development would be sustainable.

Technology has paved the way for data and shopper analytics to completely disrupt the way in which people manage a mall. Shopping Centres adapt to technological environments at their own pace, rarely forced to implement change straight away. However, there is a risk in delaying the adoption of these digital advancements and insights as the value is based on how long you have been gathering the data.

Traditional Management would suspect something but avoid the difficult challenge to investigate or address the problem. RTLI and analytical insights usually validate and quantify the gut-feeling and encourage instantaneous decision-making based on facts and trends.

Technological advancements have enabled Fatti to collect a wealth of insights across Africa and in various industries. Fatti utilizes the MagniFi solution to understand shopper behaviour, create actionable insights and form strategies in which management teams and retailers can engage selected profiles. Fatti has been analysing behavioural journeys for the past 5 years and the change throughout the years clearly reflects the need to keep one's eyes on the road and one's hands on the wheel.

What is really happening underneath the roof?

The main objective of a property management team, is to attract as many people as possible to the mall and to ensure loyal returns.

A Tenants' main objective is to attract as many people as possible into their store and to understand the make-up of their shopper.

The question is, how is technology assisting both Management and Tenant to better understand their current situation, the effects they have on each other; their inter- dependencies and comparisons, as well as the ways in which **change** will improve both their environments.

MagniFi has created, amongst others, intelligent mall Apps, 3D blue-dot navigation, security tracking, asset tracking, social media integration, intelligent digital signage, captive portals, personalized marketing and in-mall AI, however, the following tech offerings have significantly changed the way in which Shopping Centre owners manage their assets and engage their shoppers. Whilst complying to the privacy regulations.

Real-Time Location Intelligence allows you to locate people or things in a virtual fenced area, enabling property managers to understand people movement, in real-time. RTLS not only provides a platform with a holistic oversight of the activity inside the mall, it also logs and analyses the behaviour of approximately 80% of shoppers every 3 seconds. Fortinet together with Fatti, deploys a full single-cell Wi-Fi network, which is the only network in the world that can currently track the full journey of an individual device.

Behavioural Analytics has changed the decision - making process, allowing management to make decisions in real-time. For Shopping Centres to stay competitive, they need to understand what they do right and build on it. They also need to understand what they do wrong and change it. Asset managers in Africa have experienced the valuable impact of actioned analytics inside a retail environment and it has revealed previously unknown challenges and opportunities.

Fatti not only offers Landlords the ability to understand the mall behaviour, but also individual store behaviour. Knowing 400 000 unique people visited a mall 500 000 times is one thing but understanding that 40% of these visitors visited an individual department store for approximately 55 minutes without entering any other store, enables management to form strategies based on these new and relevant findings.

Fatti also reveals the shopability of shoppers that visit a specific store. Shopability is based on the amount of time shoppers spend inside the mall, the number of stores they enter and their return rate to the mall. The same is implemented on store level.

Many developers plan a retail centre according to department stores which will attract enough people, but they fail to understand the shopability of the type of shopper that these department stores attract. If Landlords knew the value of the shoppers that certain anchor stores attract, they would most definitely return to the drawing board.

One of the shopping centres in Africa, has been utilizing the Fatti analytics for more than a year. They recognized the need for entertainment and relaxation inside the mall. Following the development of this entertainment hub, the change in trends correlate with the change in turnovers and peak times. Many developers would be cautious to include entertainment, as they feel it keeps people from spending money inside stores. At this specific shopping centre, the shopper behaviour analytics revealed otherwise.

Analysing behaviour regularly, gives insight into the distribution patterns of a mall – distribution of people across the mall; distribution throughout the day, the week, the month; distribution between entrances; distribution between floors; distribution across parking lots etc. This 'birds eye view' of the complete asset, enables owners to manage a property remotely.

Personalized Engagement based on profiles detected inside the shopping centre, enables marketing and individual retailers to customize communication and automatically send notifications to shoppers that enter a virtual geo-fenced area, without an App. The areas are easy to change, and the communication is easy to modify.

Again, what makes this unique, is that Fatti enables management to change relevant communication as the profiles change, not restricted to time or place. This is something marketing should utilize without utilizing the old shotgun approach.

The survival of the Bricks-and-Mortar Shopping Centre will ultimately be based on the decisions made in a fast-changing environment, both from a mall and tenant perspective. Without the insights gained through shopper behaviours, the stake holders face a big disadvantage to online and other informed competitors.

Contributors' Profiles

Adrian Maguire founded Fatti in 2013 and is currently the CEO of MagniFi which owns the Intellectual Property. Adrian still acts as COO of Fatti, which specializes in Shopper Behaviour Analytics and Real – Time Shopper Intelligence. The MagniFi location engine gathers, monitors and manages location and behavioural information about people and valued assets. The business has now expanded worldwide in various verticals ie Luxury Ocean Liners, Theatres, Soccer Stadiums, Schools, Offices, Banks and Individual Retailer Stores. Adrian has over 25 Years' experience in telecommunication services. His career started at Grintek Telecom, then he moved to GTS and Smart Village where he deployed some of the first open-access fibre and PLC networks in Africa.

Michelle Jooste, following a Retail Career of 6 Years at Atterbury Properties, Michelle started at Fatti as the Sales Executive in 2015. Being part of retail for several years, it was easy to understand retailers, engage them and offer ways to help them change their business. Following Michelle's involvement in the technical side of the business, she moved to MagniFi as the Head of Analytics, focusing on creating new opportunities for Real-Time Intelligence in other verticals. She still mannages the Shopper Behaviour Analytics for Fatti, which purely focuses on Shopping Centre

THE HOUSING DEFICIT IN AFRICA: RE-ENGINEERING INNOVATIVE SOLUTION

Africa is developing particularly dynamically. The United Nations estimates that around 1.2 billion people live on the continent, and by 2050 it will be almost 2.5 billion. "The gap between what is needed in reasonable housing solutions and what is actually being built is enormous, especially in Africa," says Harald Rath, managing partner of GHS Global Housing Solutions.

The Austrian company **GHS Global Housing Solutions** specializes in cost - effective housing solutions. With its patented system, consisting of a lost formwork made of PVC, filled with concrete and reinforced with iron, the company can meet all customer requests worldwide. Starting with a small family home of 35 m² up to schools, kindergartens and entire universities. The advantages of the housing system are modular construction method, easy to build up in a few days and solidity. "Our housing system is earthquake-resistant and hurricane-proof and has a lifespan of more than one hundred years - hard PVC is the same robust material we use in Europa for window construction," confirms Mr. Rath. GHS houses are built all around the world, mainly in Africa and South America, in total there are likely to be around 700.000.

Furthermore GHS Global Housing Solutions designs and builds local manufacturing plants – so called GHS Turn Key Plants. In such plants the GHS housing system is produced locally. "If the housing demand of a potential customer is over 2000 50 m2 units, we recommend a local GHS production plant. Currently we are in negotiations about local GHS production plants in African countries, Latin- and South America," affirms Mr. Rath.

The demand of decent housing solutions is enormous and GHS provides essential, reasonable housing to guarantee affordable accommodations.

For further information please contact:

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Phone +43 (0) 7588/200 88-0
Email : office@ghs-housing.com

GHS housing solutions, like here in Chincha – Peru, offer affordable accommodations for a better life all around the world.

Medical centre in South Africa built out of the GHS housing system

Happy children in a school building, built out of the GHS housing system in Barra Velha - Santa Catarina Brazil.

UNPACKING AFRICA'S REIT PROSPECTS: AN EAST AFRICA'S PERSPECTIVE

By **Kenneth Masika,** Chief Executive Officer, STANLIB Fahari I-REIT Kenya

Introduction

Real Estate Investment Trusts ("REITs") are tax advantaged entities, either company or trust, that typically own, manage, acquire and to a limited extent develop real estate with the intention of generating annuity income streams and long term capital appreciation. By being licensed as a REIT, a company or trust is exempted from taxation at the corporate level, as long as it distributes a defined threshold of its taxable income to investors and continues to comply with any other specified requirements tied to tax exemption. In Kenya this threshold is set at 80% of distributable income. Historically this has resulted in long term, stable and growing income streams to the REIT investors.

According to Nareit, a leading producer and sponsor of research on REIT investment, REITs were first established in the United States in 1960 as a means to provide retail investors access to larger and more diversified portfolios of commercial real estate, similar to mutual funds. As with any new product, the REIT model was slow to catch on, growing gradually in size, impact and market acceptance. Nareit indicates that the creation of headline real estate sectors - populated mainly by REITs up to 98% - in leading industry classification standards underscores the growing importance of REIT-based real estate investment in the equities marketplace.

While the United States remains the largest listed real estate market, the listed real estate market is increasingly becoming global with more than 37 countries having REITs, including Kenya and South Africa. In Africa, currently Nigeria, Ghana and Tanzania are considering or operating REIT-like structures.

Nature of REITs in Africa

REIT is a globally recognised indirect real estate investment vehicle. Their structure varies across jurisdictions with some set up as companies and others as Trusts. Some are broad-based while others focus on specific sectors or activities e.g. retail, office, industrial, hospitality, and developments REITs. The regulatory and tax frameworks also vary. In Kenya, a REIT must be a Trust, and can be set up either as an income REIT (I-REIT) or a development REIT (D-REIT). In South Africa, a REIT can be a company or trust REIT.

Despite the REIT structure having existed over many years, little has been done in Africa. Only 11 out of 29 South African REITs are included in the EPRA (European Public Real Estate Association) annual global REIT survey making a paltry 1.5% of the global REIT index (Euro 25,711 Million). Nigeria's REIT (N-REIT is not included despite having been in existence for over 10 years (since 2007). Kenya has had only one REIT since 2015.

In the past, REITS have been compared to equities due to their strong total returns and volatility while others equate them to bonds due to their high and predictable yields. In reality, a REIT is a distinct asset class warranting a separate allocation within an investor's portfolio, depending on one's investment goals and risk tolerance. An appropriate allocation to real estate can improve a portfolio's potential to generate higher returns at lower volatility. According to South Africa REIT (SA-REIT) Association Monthly Chart Book for April 2018, the South Africa REITs have consistently outperformed both All Share and Bond indices on a Total Return perspective from the year 2002. This is expected to be replicated across Africa with various regulators providing guidance on this distinctive asset class.

What investors expect from REITs

Despite these variances, generally there are a few common things that investors keep in mind when assessing any REIT including:

a) REITs are true total-return investments. They provide high predictable dividend yields along with moderate long-term capital appreciation. Investors look for companies that have done a good job historically at providing both. Investors should review the weighted average remaining lease term of the portfolio, Inflation protection capability of the lease terms and current passing rental versus market rent.

b) Liquidity matters: Unlike traditional real estate, most REITs are traded on stock exchanges. Investors get the diversification real estate provides, without being locked in long term.

c) Strong management makes a difference. Investors look for companies that have been around for a while or at least possess a management team with a broad level of experience.

d) Quality counts. Investors favour investment in REITs with quality high grade properties and quality of tenants. This includes tenant concentrations, their financial health, quality of leases, cash flows and expense management. Also of concern are costs associated with release of space to the landlord – loss of rent, incentives, commissions

There is potential and room for growth of REITs in the foreseeable future in Africa. In addition, REITs will continue to be attractive to investors because of their relatively high dividend pay-out ratios combined with zero corporate income taxes.

Drivers of real estate performance in Africa

Economic growth: Economic expansion is the primary driver of commercial real estate,typically increasing demand for space, rents and ultimately growth in net operating income (NOI). Real GDP growth across Africa is expected to rebound with sub-Saharan Africa's GDP projected to rise to 3.4 per cent in 2018 on account of strong domestic demand. Nigeria is expected to grow by 2.5 per cent in 2018 by recovery of oil production coupled with improvement in the supply of electricity. In East African Community ("EAC") countries, real GDP is projected at 5.4 per cent in 2018.

The resulting job creation and wage increases reverberate throughout all property sectors. Additional office space is required to house new employees; warehouse and distribution space is needed to address increased inventories; retailers, many with leases tied to a percentage of sales, pay higher rents to landlords as consumers spend more; new households are formed, increasing demand for housing, business and leisure travel accelerate, raising hotel occupancy and room rates.

Demographics: Population change, immigration, migration patterns and household income are significant contributors to the growth, development, and consumption of real estate. A recent United Nations report predicted that the world population will hit a staggering 9.8 billion by 2050, and forecasted that over half of the expected growth between 2017 and 2050 is likely to occur in Africa led by her six countries namely Nigeria, Egypt, DRC, Ethiopia, Tanzania and Uganda. Equally important are the trends and preferences of large age cohorts. Millennials for example have put off getting married, having children, and buying a house, which has fuelled multi-family housing and urban densification in the past. As demand and space requirements change, buildings may be at risk of becoming obsolete, and the once-popular neighbourhoods or destinations can experience a decline.

Supply and demand: Excess demand and tight supply will favour landlords, whereas a prolonged, favourable environment can lead to a glut of new construction and downward pressure on occupancy and rents. A cycle of oversupply, equilibrium, and undersupply has historically been the norm for real estate. According to Peter Welborn, the Chairman of Knight Frank Africa, the global slump in oil prices in Africa has been balanced out by other industries. He indicated that real estate demand stemming from oil companies and the associated service supply sector has eased in all the African oil-driven markets. Conversely, he further indicated that in the retail sector, the demand across Africa from the growing middle class has continued to create a marked increase in activity, particularly in the francophone countries. This increase in tenant demand has encouraged new schemes to be proposed. Abidjan, the economic capital of Ivory Coast, is a really good example where the proposed schemes are supported by offshore investors."

In the Africa's awakening real estate market report,, Ilse French, Africa real estate leader at consultancy PwC indicated that other key growth drivers for Africa's property market are ongoing industrialisation, which is funded by foreign investors, namely China, and growing intra-African trade and investment.

Comparing REIT Legislation in Africa - SA & Kenyan REITs

In SA, until 1st April 2013, REITs did not exist, however comparable vehicles such as Property Loan Stocks (PLS) and Property Units Trusts (PUTS) did. Kenya got its REIT regulations in June 2013. Below is a summary comparative analysis of

Provision	Kenyan I- REIT	SA REIT
Structure	Trust	Trust or company
Minimum Asset Value	KES 300 million	R300 million
Investment requirements	Within 2 years must invest 75% of its total TAV in income producing real estate within Kenya	Not to enter into derivative instruments that are not in ordinary course of duty. Can invest globally
Minimum Distribution	At least 80% of the net after tax income (other than realized capital gains on the disposal of real estate assets) should be distributed	At least 75% of taxable income annually
Income Restriction	Earn at least 70% income from rental or real estate licenses	Earn at least 75% income from rental or real estate licenses
Leverage	Can borrow up to 35% Total Asset Value, unless trust documents impose lower cap, max 60% for 6 months by ordinary resolution	Maintain debt below 60% of its gross asset value
Management Model	Must have a REIT Manager and Trustee who are licenses entities by CMA	A Trust REIT must have a Trustee and an external REIT Manager authorized by and reporting to the Financial Services Board. No prescribed model is imposed on company REITs; most operate on an insourced REIT management model as opposed to an external REIT Manager. Company directors are liable for on-going compliance with JSE listing requirements and Companies Act.

Figure 1: high Level Comparison of SA & Kenyan I-REITs

SA REIT versus Kenyan I-REIT.

The REIT opportunity in Africa

While REITs are largely unknown or misunderstood in most parts of Africa, what makes them a distinct asset class is their differentiated source of returns. The underlying real estate and contractual lease obligation generates stable, long term and growing income stream. Through occupancy growth, rent growth, or redevelopment of properties, REITs have the ability to grow their income stream. So, whether through attractive potential total returns, stable and significant income, enhanced diversification, or a hedge against inflation, we believe REITs can help democratize property ownership across the globe. To date, listed real estate especially in rest of Africa has not enjoyed the same wide-scale adoption as stocks or bonds. But through organic growth, strong results, and industry initiatives and changes that formalize REITs as a separate asset class, that will likely change. As a result, investors who haven’t previously invested in real estate would be well served by taking a more in-depth look at the asset class.

Since the listing of STANLIB Farahi I-REIT as the inaugural REIT on the Nairobi Securities Exchange in November 2015, no other REIT has come into the Kenyan market. The market is ready for another REIT. The growth of REITs in Kenya is likely to come from large pension and insurance funds as well as private players converting parts or all of their unlisted property portfolios to a REIT for purposes of rebalancing their portfolio asset allocations, or seeking an exit.

By delaying the creation of more REITs, the Kenyan capital market is depriving itself the opportunity to attract foreign investment into the real estate sector. Foreign investors are already partaking in the real estate sector through property development and ownership, however, more foreign investment can be attracted through REITs. The greatest advantages of REITs from an international investment perspective include:

- REITs are an investment vehicle commonly understood internationally
- Their tax exemption status makes them more attractive compared to other asset classes
- Listed REITs provide investors with transparency
- Their performance can be easily benchmarked against other REITs
- They provide investors liquidity
- Regulation of REITs provides investors with comfort over their investment

Despite the slow adoption of this investment vehicle in Kenya and other parts of Africa, REITs remain an excellent opportunity for attracting retail and institutional, local and foreign investors into the real estate sector.

Contributor‘s Profile

Kenneth Masika is the Chief Executive Officer, STANLIB Fahari I-REIT. Kenneth has over 18 years’ experience in the Property Industry most of which he gained as a partner at Lloyd Masika Limited. Kenneth’s specialities include Urban Property Valuations both in Kenya and in the East African region. He is also well versed in Property Management and Estate Agency Services. He holds a B.Sc. in Land Management from The University of Reading, UK. He is a full member of The Institution of Surveyors of Kenya and a licensed and registered valuer by The Valuers Registration Board of Kenya. Kenneth joined the STANLIB Kenya team on 1 November 2016.

MANAGING THE COMPLIANCE ASPECTS OF INVESTMENT FUNDS IN AFRICA

By **Ameer Caunhye,** Head of Compliance and Risk, AXIS Fiduciary Limited Mauritius

To err is human, to forgive divine. How far is this adage supported in the financial services sector? Whilst one would have a tendency to close an eye on a mistake, the same cannot be expected of Compliance Officers. As gatekeepers, they have the responsibility to ensure compliance with the regulatory framework as well as policies and procedures within an organization. In recent years, the African continent has opened up to the world as the fertile land for investment opportunities. Development Finance Institutions, private equity firms, institutional investors, private investors, all want to have a share of the cake. There are, however, a couple of challenges which may come in the way and affect investments if appropriate measures are not taken. This article focuses on the compliance aspect of investing in Africa and some of the ways that this can be managed from a Compliance Officer's as well as well as from an investor's perspective.

Most African countries are members of the FATF - Style Regional Bodies (FSRBs). These include the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), the Middle East and North Africa Financial Action Task Force (MENAFATF), the Groupe d'Action contre le blanchiment d'Argent en Afrique Centrale (GABAC) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)[1] . Despite these watchdogs, Africa has witnessed a continuous rise in terrorist activities, so much so that the 2017 Global Corruption Perceptions Index by Transparency International has shown that very few African countries scored favourably[2]. It is therefore imperative that investors know in whose hands their funds will go and how to mitigate risks such as investing in a business which offers bribes or which is pooling funds from other investors who may not be injecting funds obtained legitimately in the structure. There are many other such factors which may impact negatively on investments and it is therefore wise to proactively address these.

Traditionally, compliance in the financial services sector emphasizes on the prevention of money laundering and combatting the financing of terrorism. The consequence of failing to do this can be dramatic and sanctions range from monetary fines to imprisonment. The natural methodology to comply is to devise an internal control framework which would embed the regulatory requirements and specific internal policies and procedures. Whilst each organization or jurisdiction has its own set of regulations, the internal control framework of investment businesses are more or less similar in that they typically cover areas pertaining to procedures for application of due diligence measures, risk profiling and assessment, identifying and reporting suspicious transactions and rules of governance to name a few.

With regard to investment in Africa, two distinctive features are the high possibility of having a Politically Exposed Person (PEP) connected to an investment, either openly or through nominees, and the payment of bribes to obtain licences. As such, the internal control framework has to cater for such scenarios that irrevocably warrant the application of enhanced measures. Where necessary, having recourse to specialized consultants should be considered. It is also important to have an assessment at least once a year to identify any deficiency in the framework and to ensure alignment with the latest developments both locally and internationally. The best way to ensure that the internal control framework has been properly designed is to have it vetted by a professional in this specific field.

However, elaborating and locking the best possible framework does not entail that it will be strictly followed. This is where the human factor and its limitations step in, and which in turn sets in motion the compliance machinery. As a matter of fact, the basic principle on which some organisations rely is the fear of sanctions to be imposed on staff in case

[1] http://www.fatf-gafi.org/about/membersandobservers/#d.en.3147

[2] https://www.transparency.org/news/feature/corruption_perceptions_index_2017#resources

of breach. Other more forward-looking and sophisticated firms adopt a different approach and rather choose to reinforce controls, pre-eminently through technology, to minimize the risk of human errors in certain aspects of their business. This is justly what drives FinTech companies to constantly introduce software that provide specialized solutions for greater visibility on procedures and to minimise oversight. Automation of processes is one of the recent trend. It not only optimises efficiency but also reduces cost. In today's technology-driven world, Compliance Officers are rejoicing at how easily their systems may integrate with the continuously evolving screening capabilities of certain software.

Whilst the above are a few ways to manage compliance aspects internally, there are also a number of external factors that need to be taken into consideration. One such element is the fact that investors usually tend to structure their investments through international financial centres for their many benefits and that is commonly the case when investing in Africa. The risks are many when investing directly into an operating entity and Special Purpose Vehicles (SPVs) are often chosen as investment channels. The choice of the jurisdiction for housing the SPV is important and investors look for a jurisdiction boasting political stability, ease of doing business and an excellent legal and regulatory framework. Such jurisdictions would legitimately possess regulators bent on ensuring compliance with the legislative framework with a view to foster public and investor confidence in the financial system. Unanticipated compliance hurdles are avoided when using a jurisdiction that adheres to international standards and initiatives such as the FATF and the OECD. More and more, the regulatory framework is taking the shape of global standards while compliance obligations are going much beyond the ambit of local laws. After FATCA and CRS, the next international regulation to have a worldwide scope is the General Data Protection Regulation (GDPR). Reputable financial centres will be in phase with the latest developments and will have their framework aligned with international standards.

Service providers also play a key role in ensuring compliance. Fund administrators, corporate service providers, law firms, audit firms and banks are usually under the supervision of a regulator or recognized supervisory bodies. They are therefore conversant with compliance requirements and their expertise may prove useful when it comes to why and how to abide by the regulatory framework. Those who form part of an international group are not only subject to regulatory requirements but also to group policy. Group policies tend to capture requirements in all jurisdictions where the group has a presence. The most stringent framework is usually adopted as model. This explains why group standards are often more exacting than local requirements. Assurance standards such as ISAE 3402 are also adopted by some service providers for control reporting and to further stimulate investor confidence. Structures which have the benefit of being assisted by service providers have the advantage of being guided to prevent non-compliance with the framework.

In recent years, the environment has evolved dramatically and those who were in the category of "too big to fail" have been hit hard by regulators for failing to maintain robust internal control systems. The penalties which they paid were consequential and financial services businesses in Africa have also not been spared of the sanctions from their regulators. The nature of the business is such that compliance has to be one of the core functions of organizations and the latter are using their compliance abilities to market their products. Investment funds in Africa have to be twice as diligent because of the presence of higher risk elements. The message which is given by regulators is clear and it would not be a surprise nor too harsh if future shouts either comply or get out of the marketplace.

"To err is human, to forgive divine. How far is this adage supported in the financial services sector? Whilst one would have a tendency to close an eye on a mistake, the same cannot be expected of Compliance Officers."

Contributor's Profile

Ameer Caunhye is the Head of Compliance and Risk at AXIS Fiduciary Ltd, a leading Mauritius - based independent trust company providing full spectrum of fiduciary and corporate services to an international client base. Ameer holds an LLB (Hons) from the University of Northumbria and joined the financial services sector in 2010.

MOZAMBIQUE REAL ESTATE SECTOR: MARKET OVERVIEW & ANALYSIS

By **Bernardo Simões,** Managing Director, Zambujo & Associados Mozambique
Nuno Tavares, Partner and General Manager, REC Mozambique

Macroeconomic Context

Mozambique's economic growth slowed to around 3% in 2017compared to 3.8% in 2016. The outlook remains challenging and requires an urgent rebalancing of the policy mix to ensure long-lasting macroeconomic stability as well as strengthen sustainable growth prospects. According to the Economist Intelligence Unit (EIU), international donors are unlikely to resume financing the country until the International Monetary Fund (IMF) does so.

However, the country managed to reduce the inflation to 7% as a result of a restrictive monetary policy and of the stabilization of exchange rates in the last 6 months. As a result, the country's external position has improved, allowing Banco de Moçambique (BM) to accumulate substantial foreign exchange reserves.

Large financing needs, coupled with a tight monetary policy to stabilize inflation, continue to justify high interest rates, reducing the availability of credit to the private sector, particularly to SMEs, but also for the households with housing loans, with repercussions on economic activity, employment, and on the socioeconomic conditions of Mozambican families.

The government currently intends to reduce the fiscal deficit by containing payroll expenses and increasing revenues, as proposed in the 2018 budget. Despite the government's rigorous fiscal policy efforts, the overall fiscal deficit is expected to exceed 8 % of GDP.

General Real Estate Market Analysis

The real estate sector in the first quarter of 2017 experienced a severe fall in line with the trend of 2016. In the second half of 2017 ask prices remained stagnant, especially in the residential segment, with effective transactions taking up to 9 months to close, at 10% to 15% discounts.

The residential segment should gain some traction in the second half of 2018, especially in rentals, with the arrival of new expats motivated by the start of the natural gas projects. However, Maputo has an oversupply of new apartments with 1,200 units to be marketed and 1,100 apartments finishing construction throughout 2018. We believe that sales prices will only rise on a five-year horizon, when demand can overcome the accumulated excess supply.

Regarding the office segment, rental prices have fallen 35% in 2017 even in reference buildings in Maputo, namely JAT-V , Rani Towers, and JN130. This trend was emphasized in the last quarter of 2017 with new buildings such as JAT-VI and JN 3410 Phase 2 (or Anadarko building). This decline in rental prices will be attenuated in 2018, as the adjustment in recent years has been considerable. On the other hand, the downward correction of rents has brought some dynamics to the rental market and although the occupancy rate has generally been reduced to 60%, there are attractive occupancy levels at some office buildings such as JAT-V. The relocation phenomenon has grown throughout 2017 and is expected to continue in 2018. Several companies are moving their headquarters and offices to buildings with competitive rents. As an example, Bollore Logistics moved recently to JAT-V. At the end of 2017, houses adapted to office usage in the prime areas of the capital also demonstrated some dynamics in rental, with OPWAY relocating to a converted house, located at Julius Nyerere Avenue in Maputo.

The retail segment has been the most dynamic in recent months. With the opening of the two largest Shopping Centers in the country, "Baía Mall" located in the marginal of Maputo and "Novare Matola" in EN4-Matola, the current area of formal retail spaces totals 87 thousand square meters. This added 50 thousand square meters to the total retail area (almost tripling the existing srock), which represents a "revolution" in a segment that is considered fundamental for the local economy and for the Country. On the other hand, the opening of these Regional Shopping Centers, had a negative impact on smaller commercial areas, with occupancy rates dropping to nearly 50%, in properties such as Shopping24, at Av. 24 de Julho, Marés Shopping, Shopping at Hotel Glória, Galeria Rani Towers and "Recanto dos Lazeres" (next to Club Naval), all located along the marginal of Maputo. In this smaller-sized segment only the commercial gallery of the new JAT-VI building will perform well in 2018, with its official opening scheduled for April

2018.

Finally, the industrial segment remains stagnant, with the qualified existent spaces not adjusted to the demand in the main industrial zones of the city.

Market Analysis: Sofala Province

After presenting the worst performance of the residential segment in 2016, essentially due to the considerable slowdown in demand and the rise in interest rates, 2017 was marked by the stagnation of this segment, demand remains weak and more limited offer with some projects stopped still due to poor sales performance. Nevertheless, this segment presents an oversupply in the market with the products still not adjusted to the existing demand.

Average yields remained low at around 8.7%, reflecting lower rents and investors accepting lower yields. Sales prices remained unchanged, even though they were expected to attract new investors, but this decline is still expected in the first half of 2018.

The office segment remained in over supply and with the average rents falling gradually over the year. We are of the opinion that rents will still continue to decline next year as the vacancy rate is increasing.

The retail segment presented the best performance during the year mainly due to the opening of the two new shopping centers, “Baía Mall” and “Matola Mall”, and the consolidation of the expansion plan for some retailers. It is expected that the entry of these retail units into the market by the end of the current year.

We are of the opinion that the retail segment will be the most promising in the coming years due to the existing potential for absorption of new units in almost the entire country. While the industrial and Logistic segment continues to be stagnant, with an unadjusted supply over the demand (old construction 1975).

Market Analysis: Cabo Delgado Province

The delays in the development of natural gas projects and the slowdown in foreign investment continue to plague the real estate market in Pemba, which keeps demand levels still low for the various segments.

During 2017, the residential segment continued in oversupply position, with some vacant enterprise, reduced transaction and various works of construction stops. This scenario continues to press the owners to reduce the asking prices for lease and sale. While the industrial segment remained very timid, continuing the expectation of a recovery of the economy and the projects related to Natural Gas in the region.

The retail segment, in contrast to the others, showed signs of recovery with the inauguration of the new shopping centre "Pemba Mall". Other retail units did not have the same luck, the cases of the "Chinese Commercial Market" without any occupation and "Bahia Commercial" with little demand.

Overall, the real estate market is expected to grow, with demand increasing for the various segments, following the recovery of the national economy and some progress in Natural Gas projects in the second half of 2018.

Market Analysis: Nampula & Tete Province

The opening of the “Centro Tete Mall” marked 2017 with an impact on the commercial dynamics of the surrounding provinces. This segment has gained some momentum over the last few years with the opening of new small units in Tete expansion zones, with an impact on the slight increase in the income and entrance figures of new retailers in the city. The residential segment remained stable, with no major changes in terms of housing demand and supply. The projects are mostly occupied by expatriates and employees of foreign companies based in Tete.

Nampula did not show major changes in the real estate market during 2017. Rents in the residential segment tended to fall slightly due to lack of demand. The retail segment, despite being one of the most dynamic in the city, did not show great changes. With the entry on the market of the commercial building "Millennium Centre," the office segment registered an oversupply, and a decrease in occupancy rates of other commercial buildings. Besides, the "Millennium Centre" building has a reduced occupancy rate with less than 50% of the occupied spaces.

Nacala, despite having grown exponentially between the years 2011 and 2015, as a consequence of the strong demand, in the following years it experienced a market decline in the same intensity that was felt in the main cities of the country. The year 2017 continued the market decline in almost all segments, with construction works halted throughout the city. However, a promising future for the 2018 is expected in the hotel and residential segments with the entry into operation of the new Nacala International Airport and the entry of a new operator in the Mozambican aeronautical market.

SAVING JOBS IS A PRIORITY FOR AFRICAN COMPETITION AUTHORITIES

By **Joyce Karanja-Ng'ang'a,** Partner, Bowmans Kenya

Avoiding or limiting job losses when companies merge has become a major priority for competition authorities throughout East and Southern Africa. Kenya and Zambia have joined South Africa in regularly setting conditions to minimise employment losses, and so have other member states of the Common Market for East and Southern Africa (COMESA).

The unmistakable message from national and regional competition regulators participating in the recent Africa Competition Law Conference 2018, hosted in Johannesburg by Bowmans, was that public interest issues in general and jobs in particular are high on the agenda.

As more than one of the speakers put it: South Africa is viewed as the godfather of public interest in competition matters but Kenya, Zambia and other members of COMESA are catching up.

The difference – for the time being at least – is that where public interest conditions attached to merger approval in South Africa have expanded to include a much wider range of issues, competition authorities elsewhere seem to be focusing on employment.

That said, it is difficult to gain a detailed sense of trends because many of the authorities do not publish their decisions. However, recent experience is that the Competition Authority of Kenya (CAK) routinely attaches conditions around employment when considering merger applications.

Taking a dim view of job losses

Even in pure share sale transactions, where the only change is in equity ownership and employment levels will be unaffected, the CAK will often err on the side of caution by imposing a condition relating to the retention of employees.

In mergers where it is clear that job losses are inevitable (such as when a failing firm is being acquired, or where there is a business or asset transfer, or where the merger will otherwise result in there being overlapping positions that are unaffordable to retain), the CAK will often liaise with the parties to get an indication of how many employees the acquirer/ merged business is able to retain. The CAK will then usually issue a conditional approval that stipulates, for example, that no more than an identified number of jobs may be cut.

Zambia is also routinely linking merger approval to restrictions on job losses. However, Zambia's Competition and Consumer Protection Commission is more likely to tolerate retrenchments if other benefits to the economy would carry more weight. Examples could be a significant increase in taxes paid to the government if the merger goes ahead, or a demonstrably positive impact on poverty alleviation (such as through the acquiring company's support for small and medium enterprises or community development).

Regional view from COMESA

At the conference, a broader regional perspective on public interest criteria was provided by the COMESA Competition Commission (CCC), which is based in Malawi. The COMESA region is made up of 19 member states.

The CCC representatives made it clear that job retention is an important consideration in merger applications directed to it (mergers with a cross-border or regional dimension).

However, while preserving jobs is a crucial factor for the CCC, it is willing to consider balancing factors, such as how job losses could be offset by poverty alleviation or other benefits. The crux is that the merger parties should be ready to substantiate any claims to this effect.

Public interest guidelines in the pipeline

One of the most encouraging messages to emerge from the Bowmans Africa Competition Law Conference 2018 is that public interest guidelines will soon be forthcoming for the COMESA region.

It is to be hoped that national competition regulators will follow suit and publish their own guidelines, since merging companies and their attorneys in some countries are often in the dark as to regulators' thinking.

In Kenya, public interest conditions tend to be expressed in a single sentence, stating for example, that merger approval is subject to the loss of no more than, say, 20 jobs. Little or no detail is given about how long the condition applies or what the position would be if those employees wanted to resign or retire.

Greater clarity on the public interest aspects of merger control would be warmly welcomed throughout the region and is eagerly awaited.

BUILDING THE BUSINESS CASE FOR HOUSING MICROFINANCE IN SUB-SAHARAN AFRICA

Six-year study with 47,000 households demonstrates how housing microfinance can be win-win for poor people and financial institutions

A new study from Habitat for Humanity says that housing microfinance can and should become a mainstream offering for financial institutions in Sub-Saharan Africa as they respond to growing housing needs in the region, particularly from poor people.

The business case study is entitled “Building the Business Case for Housing Microfinance in Sub-Saharan Africa”. It builds on a project carried out over six years in Kenya and Uganda called “Building Assets Unlocking Access”. The project was a partnership between Habitat’s Terwilliger Center for Innovation in Shelter and the Mastercard Foundation. So far, the project has reached over 47,000 households and mobilized more than US$43 million in capital to benefit over 237,000 individuals

The business case study argues that housing microfinance, small non-mortgage backed loans for short terms, can become a mainstream offering in the market to address growing housing needs in the region, incremental building patterns, and the land tenure realities of low-income households.

There are an estimated 1.6 billion people in the world living in substandard housing. This figure is climbing, especially as the world becomes more urbanized and people migrate to cities for economic opportunity. In Sub-Saharan Africa, however, as much as 99 percent of people do not have access to formal financing – credit, savings, mortgages – that can let them start building or improving their homes. Traditionally, they build homes gradually as their resources allow. Developer-built, bank-financed homes are rare in Africa, serving fewer than five percent of households in most countries

“Solving the housing challenges in Africa will require a massive amount of capital investment and most of that will need to come from the private sector,” said Patrick Kelley, Vice President of Habitat’s Terwilliger Center for Innovation in Shelter. “Financial institutions of all kinds have a role to play, especially those already deeply embedded in communities and who understand people with informal sector livelihoods.”

Habitat’s Terwilliger Center for Innovation in Shelter partnership with the Mastercard Foundation sought to motivate local financial service providers in Kenya and Uganda to develop housing microfinance loans to fund the incremental building process common among low-income households. The results have proven that there is demand for housing microfinance among families or individuals earning as little as US$5 a day who are seeking to build, extend, or renovate their home.

“At the Mastercard Foundation, our focus is on helping economically disadvantaged people, especially young people in Africa, to find opportunities to move themselves, their families and their communities out of poverty,” said Ruth Dueck-Mbeba, Senior Program Manager at the Foundation. “This project has provided access to appropriate finance for decent housing. We believe that decent housing can provide more than four walls and a roof over one’s head. It offers people hope, dignity, and a place in their communities. This report should help financial service providers to scale these products, which would benefit their enterprises as well as the lives of many poor people in Africa.

Financial institutions in the region that have ventured into housing micro-finance have often reported it to be a popular product with their clients. To understand the demand side factors, the value proposition of these products, the competitive advantage of financial service providers offering it, and the differentiated features that make housing microfinance a strategic product, the business case study surveyed the work of two financial institutions: Kenya Women Microfinance Bank, or KWFT, and Centenary Bank in Uganda.

The study argues, through the lenses of these two institutions in different geographies, that success and profitability of a housing microfinance product relies on a number of factors: connection with the financial service provider’s mission, good marketing, a clear pricing structure, understanding of land tenure realities, an opportunity to attract new clients, and secure long-term capital to fund the expansion of such portfolios.

“Financing incremental housing solutions is a natural step in the progress of greater financial inclusion. Centenary and KWFT are providing a great example of how financial institutions will benefit from understanding their clients and developing products that serve them well,” said Patrick Kelley.

To find out more about the project, visit https://goo.gl/MiDQH7

AFRICAN EQUITY MARKET INDICATORS AS AT 30-MAY-2018

Country Name	Index Name	Index at 30-May	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	8,545	1.16	-3.56	-8.61	8,419	9,349	2.231
BRVM	IC Comp	217	-8.01	-10.75	-17.34	214	272	10.707
Egypt	EGX 30	16,760	-8.39	11.59	26.60	12,899	18,414	15.394
Ghana	GSE ALSI	3,194	-8.46	23.82	66.47	1,912	3,536	10.020
Kenya	FTSE NSE15	173	-3.53	1.17	19.76	145	197	14.569
Malawi	MSE ALSI	29,422	8.60	36.22	88.92	15,574	29,422	10.543
Mauritius	SEMDEX	2,254	-1.44	2.33	8.75	2,061	2,310	2.977
Morocco	MORALSI	12,391	-4.89	0.02	7.41	11,495	13,388	5.624
Namibia	Local	1,306	-6.89	0.52	23.36	12	1,461	21.070
Nigeria	NIG ALSI	38,606	-6.40	0.95	32.83	28,468	45,322	8.467
Rwanda	RSEASI	133	-0.04	-0.34	4.90	124	133	0.757
South Africa	JSE ALSI	55,602	-4.52	-6.56	2.67	50,750	61,777	14.794
Swaziland	SSX ALSI	415	0.40	2.18	7.56	386	415	1.185
Tanzania	DAR ALSI	2,317	-4.63	-3.32	7.93	404	2,490	16.483
Tunisia	TUNIS	7,564	6.17	20.41	32.57	5,693	7,646	7.586
Uganda	USE ALSI	2,075	-4.48	3.69	25.57	1,652	2,270	15.055
Zambia	LuSE ALSI	5,561	-0.38	4.37	17.85	4,588	5,608	1.709
Zimbabwe	IDX (USD)	357.59	8.14	10.37	121.83	25	534	10.007

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 30-MAY-2018

Country Name	Currency Name	Index at 30-May	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	116.67	-1.39	-1.63	-6.91	107.60	117.28	2.691
Angola	Kwanza	237.63	-4.86	-29.30	-29.67	164.88	237.63	11.479
Botswana	Pula	0.10	-1.67	-1.28	3.40	0.08	0.11	10.259
CFA Franc	CFA Franc	577.86	-3.83	-2.36	1.93	527.24	592.54	9.421
Egypt	Pounds	17.91	-1.46	-0.76	1.18	17.57	18.17	5.092
Ethiopia	Birr	27.54	-0.34	0.13	-16.01	23.05	27.61	3.432
Ghana	Cedi	4.68	-4.46	-3.35	-8.12	4.27	4.70	14.037
Kenya	Shillings	101.53	-1.16	1.63	1.84	99.91	104.18	2.341
Malawi	Kwacha	723.45	0.32	0.29	0.32	717.67	731.27	4.968
Mauritius	Rupee	35.05	-3.01	-4.21	-0.66	31.74	35.22	12.969
Morocco	Dirham	9.50	-2.15	-1.82	2.76	9.09	9.85	4.316
Mozambique	Metical	59.97	-0.46	-2.23	-1.13	57.57	62.95	10.196
Nigeria	Naira	362.31	-0.63	-0.64	-10.44	305.45	369.50	1.900
Rwanda	Franc	860.00	0.29	-0.70	-2.05	425.00	876.23	8.588
South Africa	Rand	12.52	-0.50	-1.13	4.85	11.51	14.57	17.296
Tanzania	Shilling	2,278.68	-0.37	-1.93	-1.87	2,137.00	2,284.31	6.074
Tunisia	Dinar	2.56	-4.64	-3.91	-3.67	2.35	2.62	9.577
Uganda	Shilling	3,762.63	-1.30	-3.17	-4.22	3,552.25	3,765.00	2.024
Zambia	Kwacha	10,275	-3.4063	-2.9129	-10.00	8,766	10,400	12.653

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 30-MAY-2018

Country Name	Maturity	Price at 30-May	Mid-Yield at 30-May	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US$ M)
Angola	12-Nov-25	113.091	7.197	-0.077	-2.222	102.261	118.576	USD
Cameroon	19-Nov-25	111.925	7.392	0.520	-7.004	111.835	122.002	USD
Congo	30-Jun-29	84.899	8.088	0.458	-4.015	65.758	89.100	USD
Cameroon	19-Nov-25	111.925	7.392	0.520	-7.004	111.835	122.002	USD
Egypt	30-Apr-40	95.191	7.318	0.021	-6.019	90.170	103.215	USD
Ethiopia	11-Dec-24	98.822	6.851	0.470	-5.941	96.463	107.070	USD
Gabon	16-Jun-25	98.499	7.225	0.253	-5.414	95.607	106.780	USD
Ghana	14-Oct-30	126.913	7.391	0.276	-7.985	120.972	141.231	USD
Kenya	24-Jun-22	102.005	6.469	0.359	-4.417	98.766	108.350	USD
Ivory Coast	31-Dec-32	95.072	6.589	0.170	-5.136	92.702	101.626	USD
Morocco	11-Dec-42	104.182	5.196	0.009	-8.450	101.977	116.038	USD
Namibia	29-Oct-25	95.762	5.965	0.470	-6.331	94.831	105.604	USD
Nigeria	12-Jul-23	103.327	5.616	0.234	-2.880	100.110	107.418	USD
Rwanda	02-May-23	101.854	6.181	0.195	-3.003	101.022	106.237	USD
Senegal	30-Jul-24	101.345	5.984	0.295	-6.507	100.259	109.777	USD
South Africa	24-Jul-44	92.608	5.934	0.084	-7.853	89.925	103.430	USD
Tanzania	09-Mar-20	102.790	6.767	4.201	-2.260	102.554	106.233	USD
Tunisia	19-Sep-27	108.862	6.938	0.138	-1.540	108.580	111.481	USD
Zambia	30-Jul-27	93.530	10.063	1.212	-16.963	93.129	114.654	USD

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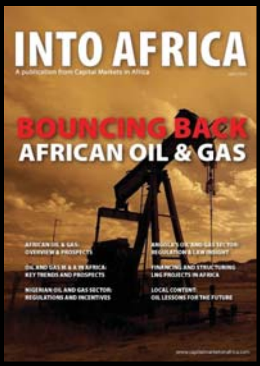
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