

African investment offers key property returns

Investment in Africa took centre stage at the second series of South African Property Owners Association (SAPOA) and IPD (Investment Property Databank) research events, sponsored by Absa. The strategic session, held in on Friday 22 June 2012, provided specialist insight to empower investment decisions.



Pieter Steyn

South Africa's commercial real estate sector leads the African continent, with a maturity and sophistication that compares favourably with any developed market. But, with scores of opportunities for property investment and development arising in Africa, the next decade could see other African countries developing comparable commercial property sectors.

Stan Garrun, MD of IPD SA, notes, "There are plenty of opportunities for South African property investors and developers in the rest of Africa. What has been talk for years is now tangible reality. More appetite for risk and higher reward following the GFC has unleashed this potential. Many international companies including South Africans are working very successfully in Africa; several have been quietly getting on with it 'under the radar'. However it is a diverse continent of 56 different countries and assuming 'one size' fits all is hazardous. A strategic approach, backed by good information and an understanding of what is happening on the ground is essential for investors. It is not for the faint hearted or the arrogant."

Presenting snapshots of over a dozen African markets in which Absa operates, head of commercial property finance at Absa, Pieter Steyn, notes that local property investors and developers enjoy opportunities in South Africa, as well as the UK, Germany and Australia, among others.

However, he says, "With the exponential growth of the African economy and the opening of its business markets, diversification into African opportunities should be seriously considered as key element of a short- to medium-term investment strategy. Each developer or investor needs to decide their own tactics based on core strengths, limits, capital and other resources, as well as risk appetite."

He adds there's already a greater movement of South African corporate and property developers into Sub-Saharan Africa.

This contrasts with the previous trend of in-country development for in-country retailers and corporates.

He contends that the African giant has awoken. "The massive potential in Africa is being recognised. Opportunities for first-mover pioneers are being snapped up at a rapid rate. Many global companies wanting to diversify from their home markets are moving in to grab opportunities on the continent to gain competitive advantage. Several have identified South Africa as a springboard into the rest of Africa. Major South African retailers are penetrating the African markets to take advantage of the rapid urbanisation and increasing customer sophistications. Telecommunication giants are also moving in to take advantage of the increasing population growth."

Steyn believes this is the tip of the iceberg.

Identifying potential countries

A champion of commercial property in Africa, chief executive of Buna Group Caswell Rampheri is insistent there's never been a better time to enter certain African markets.

But he cautions that investors need to do their homework, as real estate is a long-term investment. "The starting point is identifying countries with sustainable stable democracies and the absence of war. Nigeria and Ghana lead the pack in the west. Zambia and Mozambique stand out within the SADC. Kenya and Uganda are options in the east, with significant development happening or about to begin."

He adds there is undoubtedly a need for more development in Africa. However, often the associated costs and risks are prohibitive.

"Few investors, both local and foreign, have appetite for development risk. Creative management is needed if we are to meet Africa's real estate demand. Moreover, until African markets reach critical mass there will be little diversity in investment models, such as listed property investment vehicles, which will continue to choke investment."

However, he points out more mature markets, like Kenya, are in the forefront of transforming African real estate investment and are aiming to introduce REITs (Real Estate Investment Trusts) which could address issues like tradability and liquidity. He notes it will take a decade or more before there's enough maturity in other African countries to compare performance with South Africa.

South Africa property sector could lead

Neil Gopal, of SAPOA, says, "The South African commercial property sector is in a unique position to lead successful real estate development and investment in Africa. This is underpinned by the strength of our property sector and our globally respected development expertise."

Both Steyn and Rampheri are upbeat about the excellent opportunities in the South African commercial real estate market, which leads property investment on the continent.

Rampheri stresses there are still profitable real estate opportunities in South Africa, especially in under-serviced markets. "Investment will remain strong for a foreseeable future. There is no African country that measures-up to South Africa's market performance right now. It is mature, sophisticated, institutionalised and diversified."

Steyn highlights the solid performance of the South African property industry over the last five years amounting to annualised total returns of 14.5%, having outperformed cash, equities and bonds. "We have a very resilient commercial property sector relative to the western world. Its growth took place in response to the demands of a growing economy rather than in isolation of it. Any significant bubble was therefore avoided."

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