

## **UNLOCKING THE AFRICAN REAL ESTATE POTENTIAL**

### **THE AFRES CONFERENCES 2012-2013**

The growing confidence in the African Real estate market is being driven by high and sustainable levels of economic growth, the opportunities created by a burgeoning middle class, and a shortage of quality retail, office and residential space. While economic growth prospects in the Euro zone and North America remain patchy, GDP growth in Sub Sahara Africa is expected to average 5.5% in 2012. Research undertaken by the financial advisory firm Mc Kinsey, suggest that number of households with discretionary income is projected to rise by 50 percent over the next 10 years, reaching 128 million. By 2030 the continent's top 18 cities could have combined spending power of \$1.3 Bn. Yet the sector continues to be characterized by legal, financial and regulations arrangements that have made it difficult to unleash the sectors potential as a driver of economic growth and development. The opportunities and constraints of the African real estate sector were the focus of the 2012 African Real Estate society (AFRES) annual conference held in Accra, Ghana. The conference,themed "Unlocking the African Real Estate Potential" attracted some 150 delegates from some 23 countries.

A number of speakers emphasized that understanding the real estate environment across the African continent requires that consideration be given to the diverse political, legal and cultural frameworks that characterize the continent. For many countries in Africa the challenge should not lie in mimicking investment conditions and arrangements found in more industrialized countries, but should ensure that an investment environment is created that compares favourably with countries in Asia and Latin America. Once an investor decides to enter emerging countries, the challenge is to identify those markets that offer an acceptable balance between risk and return.

When considering the risk associated with entering African property markets, investors usually distinguish between country and market based risk. Country risk, which investors often have little control over, include legal and political risk, the macro-economic environment and exchange rate related risk. Governments have a critical role in reducing risks in this category. Market or specific risk includes the ability to source appropriate tenants and business partners. To this can be added the availability of professional services, relatively high development costs, and difficulties that often arise when raising capital and debt. Investors who have undertaken several projects across the continent have developed a level of expertise which has made it possible to mitigate and reduce business risk

The conference highlighted the risks and opportunities that rapidly growing African cities offer. While rapid urbanization provides a growing demand for commercial as well as residential space, it also presents challenges. These include the management of urban sprawl, a rising demand for housing and competition for land, the rising demand for infrastructure, and the need to manage town planning schemes.

The Afres Conference highlighted that investors entering the Sub-Saharan property market are driven by a few critical variables. These include relatively high returns, the opportunities to diversify portfolios, and the opportunity to tap into growing market. A study undertaken by the University of Cape Town shows that risk associated with African property markets are often related to uncertainties around land ownership, the poor level of infrastructure and legal barriers and regulations that impose barriers to entry.

In recent years, issues around land tenure arrangements played a central role in Afres conferences. More recently the discussion has shifted to a debate around land release arrangements that improve land accessibility, the privatization of state owned land, and opportunities offered by private / public arrangements. There is also a growing recognition that land management systems should provide transparent mechanisms that encourage foreign investment.

The 2012 conference saw the launch of an international investment panel which considered real estate investor perceptions of African real estate markets. The panel also considered those factors that constrain debt financing as well as the availability of market data across the continent. There is also a growing understanding that sectoral and geographic diversification opportunities exist across African continent. While in the past investors entering the African property market focused on the retail, office and hospitality sectors, opportunities are rapidly presenting themselves in the industrial as well as housing sectors.

In its quest to improve market transparency in African property markets, AFRES is in the process of compiling a number of country studies. These will include data and analysis often sought by property investors. This initiative was strengthened during the 2012 and 2013 conferences, with the initiation of a statistics work group which will compile and disseminate relevant market data.

Having adopted the view that the development of real estate professionals has a critical role to play in sustaining investment activity, Afres has developed critical relationships with numerous universities and professional bodies across the continent and in Europe and North America. This includes a relationship with the International Real Estate Business School (IREBS) which has resulted in traineeships and financial assistance for conference attendance. The University of Reading in the UK has provided two bursaries through Afres for African students to study at post graduate level courses. In 2012 Afres launched the Journal of African Real Estate Research which promotes the dissemination and development of high quality academic and professional research in the African Real Estate Sector.

The next Afres conference will take place in Cape Town from 2-5 September 2014.