# INDEX

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Africa is home to millions of people and it is drawing attention from some quarters as the next growth story and is being considered as an ideal emerging market investment destination.

Many international companies and organisations are positioning themselves to take full advantage of the opportunities that are emerging as they understand that it is a continent that cannot be ignored. This is not surprising when one looks at Sub-Saharan Africa’s economic growth when compared to other regions.

Having been in existence for 40 years, Broll Property Group has witnessed positives changes and opportunities amid the many challenges experienced on the continent.

The Broll Report 2014/2015 is our annual market guide and compass highlighting pertinent challenges, opportunities and trends in the various real estate markets across the continent.

Our research converts property data and market intelligence into market knowledge which our clients, investors, occupiers and other property professionals can use in making informed investment decisions.

In many parts of Sub-Saharan Africa, the retail sector is experiencing phenomenal growth and development. Some of these markets are seeing formal retail for the first time while others continue to attract more retail developments and international retailers.

Africa’s biggest economy, Nigeria is seen as a gateway to investing in the West Africa region. Despite the country’s low ranking for ease of doing business, Nigeria is reportedly the next frontier for institutional investments thanks to offering sustained returns and growth.

This report sees the addition of our new operation in Mozambique. Growth in the Mozambican real estate market is evident, not only in Maputo but in a number of other regions such as Nacala, Pemba and Tete with natural resources in these areas being the main contributors of this growth.

Through our affiliation with CBRE, a renowned global commercial real estate and investment firm, we are able to offer unrivalled local expertise and global real estate market knowledge with the sole purpose of maximising the potential of your property.

We trust that you will find the Broll Report 2014/2015 an insightful guide into real estate markets across Sub-Saharan Africa that may be your next investment destination.

Malcolm Horne
Group CEO
2014 was a year of mixed fortunes for the global economy. Different parts of the world economy are in different stages of economic recovery. To a large extent this is set to continue into 2015. It will also impact policy setting and exchange rate movements.

A big development in the second half of 2014 was the fall in world energy prices. This also affects the outlook for 2015, providing an impetus to economic growth and occupier demand in net consumer countries and an impediment to growth for producers.

The USA, benefitting from a repaired banking system and having enjoyed record employment growth, a moderate albeit, patchy housing recovery and rising capital expenditures, looks set to remain the main engine of the global economy with the potential to achieve economic lift-off over the course of 2015.

The Eurozone remained mired in a low investment, credit and employment creation environment going into 2015 but there were mixed fortunes within the region in 2014. The core countries including Germany, France and especially Italy disappointed, while some of the peripheral countries, Ireland and Spain, in particular, showed promising signs of renewed growth.

We expect a modest economic improvement in 2015 with the recovering peripheral countries again leading the way although recent business surveys also point towards Germany having a better year than in 2014.

Many countries will also benefit from a more neutral fiscal policy stance and almost all countries will benefit from the “lower for longer” interest rate outlook and euro depreciation that has been re-enforced by the recently announced QE programme and from the boost in real spending power resulting from the fall in energy prices. In Japan, Abenomics¹ has seen a high stakes bet that monetary stimulus will jump start the economy and there has been a beneficial impact on inflation and the exchange rate. However, Japan’s growth and concerns about the country’s longer-term debt and deficit dynamics will continue to weigh on confidence. As with the Eurozone, Japan stands to benefit from the current low oil price.

Across the emerging markets currency volatility, including pressures for broad-based dollar appreciation and the growing potential for trade protectionism are likely to increase financial instability and economic divergence. Divergence will be further heightened by tightening US monetary policy and falling commodities prices particularly oil.

Countries with large dollar debt servicing requirements, far exceeding borrowers’ direct ability to generate dollar revenues, are expected to face heightened stress with the US$ broad-based appreciation likely to accentuate the problem.

We expect China to continue rebalancing the economy from investment and exports led-growth towards domestic consumption and consumer driven growth, albeit working through imbalances will increase macro-economic and market volatility. It will also lead to a decline in potential and actual GDP.

On the geopolitical front conflicts in Ukraine and the Middle East, along with the specter of the Eurozone breakup following Greek’s Syriza’s elections victory, are widely expected to remain in the headlines as no quick solutions are likely. In February (at the time of writing), talks between Greece’s new left wing government and its Eurozone creditors broke down following demands from Greece’s Eurozone creditors to adhere to the credit agreements originally put in place. The event highlights the uncertainty around a resolution of the underlying problems.

¹ Abenomics is based upon “three arrows” of fiscal stimulus, monetary easing and structural reforms.
This is likely to be followed by the UK’s elections that will likely pave the way for a referendum on its EU membership whilst the election in Spain in December could also cause some concerns.

All the above combined lead us to expect the beginning of central banks’ monetary policy normalisation led by the US Federal Reserve followed by the Bank of England although probably not until 2016 in the latter case. Across the emerging markets the Bank of Brazil and Russia may also have to raise interest rates to defend their currencies. Such monetary policy divergence is likely to elevate currency volatility with implications for trade and economic activity beyond this year.

**World, OECD And Emerging Markets Economic Outlook**

![Graph showing economic growth trends for World, OECD, and Emerging Markets from 2000 to 2017 (f)].

*Source: CBRE*
GLOBAL RENT AND CAPITAL VALUE INDICES

Rents and capital values across most sectors strengthened during 2014 amid healthier fundamentals and continued strong investor interest.

On a year-on-year basis office rental values were up in all regions led by the Americas, in particular the USA, with growth of 5.2%. Rental growth in Europe was generally low although there were some notable exceptions in London, Oslo, Stockholm and Dublin.

Capital value growth in Europe in the absence of considerable rental growth partly reflects investor confidence in a continuing and improving economic recovery, particularly in the peripheral markets - the sheer weight of capital and the weakness of yields on alternative assets, particularly government bonds relative to commercial real estate.

Globally, the retail sector continues to outperform other markets however, the industrial sector has become very popular with investors in recent years with the expansion in e-commerce being a key driver. This has led to substantial yield compression particularly in Europe and the spread between yields on prime logistics and other prime property has narrowed considerably.

**Global Rent Indices**

- **Global Office**: Annual Change - 3.04%, Quarterly Change - 1.2%
- **Global Industrial**: Annual Change - 1.99%, Quarterly Change - 0.24%
- **Global Retail**: Annual Change - 4.04%, Quarterly Change - 0.94%

**Source: CBRE**

**Global Capital Value Indices**

- **Global Office**: Annual Change - 6.15%, Quarterly Change - 1.51%
- **Global Industrial**: Annual Change - 6.15%, Quarterly Change - 1.32%
- **Global Retail**: Annual Change - 8.91%, Quarterly Change - 2.25%

**Source: CBRE**
Top Five Growth Markets

Global Prime Office Occupancy Costs

CBRE’s semi-annual survey on Global Prime Office Occupancy Costs found that of the 126 office markets tracked globally over half (74 markets) saw annual increases in prime occupancy costs, 26% (33 markets) registered declines and 15% (19 markets) saw no change. Of the 74 markets with occupancy cost growth, 13 saw increases of at least 10%, led by Dublin, Manila and Seattle. Of the 33 markets with decreases, only two were in double digits - Santiago and Lyon.

London (West End) was once again the most expensive market worldwide followed by Hong Kong (Central) and Beijing (Finance Street). Paris dropped out of the top 10 most expensive list falling to 13th place, while Shanghai (Pudong) moved up to 10th place. Asian markets accounted for seven of the 10 most expensive markets worldwide.

The changes in prime office occupancy costs since our last survey in June 2014 mirrored the gradual, multi-speed recovery of the global economy – strong gains in the Americas, largely due to the strength of the USA, slower growth in Asia Pacific and stagnation in EMEA (Europe, the Middle East and Africa). Overall, global prime office occupancy costs increased at a 2.5% annual rate for the 12 months ending Q3 2014.

Going forward, we expect the gradual recovery of the global economy to continue leading to higher employment rates and further reduction in availability of space across most markets in the short term. In this environment we expect occupancy costs to continue rising from current levels, further limiting options for occupiers. Technology, quality and flexibility are expected to increasingly come into consideration in space use and location decisions as occupiers will seek to contain costs and improve productivity.
2014 was an excellent year for the South African listed property sector recording 26% in returns of which 15% of the total return is attributable to traditional property returns i.e. income return of approximately 7% plus growth in income of approximately 8%. The remaining 12% of the total return is attributable to the re-rating of the sector as SA bond yields only moved out marginally during the year.

Despite the tough macro-economic conditions, South African listed property companies managed to deliver good returns to investors especially when compared to other asset classes as shown in the table below.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>MTD</th>
<th>12 - months</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA Listed Property</td>
<td>1.11%</td>
<td>26.64%</td>
</tr>
<tr>
<td>SA Equities</td>
<td>-0.19%</td>
<td>10.88%</td>
</tr>
<tr>
<td>SA Bonds</td>
<td>-1.51%</td>
<td>10.15%</td>
</tr>
<tr>
<td>SA Cash</td>
<td>0.56%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

In 2014 the top three performing stocks in terms of total return were: Fortress B (100%), Rockcastle (82%) and Resilient (60%). The sector’s three worst performing stocks in terms of total return were: Hospitality B (-58%), Hospitality A (-8%) and Delta International (-1%).

Distributable income growth was largely driven by contractual escalations, support from offshore earnings, restructuring of debt and better cost management.

Listed real estate companies are likely to continue to deliver inflation type income distribution growth over the next 12 months. This will largely be driven by annual rental escalations and support from offshore earnings.

The SA listed property sector trades at a historic yield of 6.52% (excludes Attacq and NEPI). Assuming 12 months distribution growth of approximately 7%, the SA listed sector offers a forward yield of approximately 7%.

### GLOBAL FUNDS

It was no different globally with the UBS Global Investors Index recording a net total US$ return of 20.98%.

The best performing listed real estate market for 2014 was North America, which recorded a net total US$ return of 29.48%. Asia, excluding Australia recorded the lowest net total US$ return for 2014 of 8.64%.

Returns for 2014 appear to have been driven by two major factors - good results that were on the whole better than expected and supportive capital markets.
Results and growth should continue to be good through 2015 as property companies have a number of levers that they can continue to pull to drive growth. Some of these include:

- Reversionary potential on leases stuck at the bottom of the market. The biggest beneficiaries of this should be US retail and New York, Boston, San Francisco and London office markets;
- Market rental growth as supply remains very limited, especially for quality assets;
- Vacancy let up, although most of this has already happened for good quality portfolios;
- Acquisition and development activity, which can be very accretive to earnings growth given the current cost of capital;
- Most listed property companies are getting their best risk adjusted returns from re-developments as quality assets have been bid higher in this low interest rate environment; and
- Reducing the overall cost of debt.

Global Property Returns

Source: Standard & Poor’s, UBS Securities and I-Net Bridge
In 2014 the US 10-year government bond started yielding 3.03% and ended at 2.17% year end. This yield has fallen even further.

It appears likely that long term yields will stay lower for longer as economies are still very fragile and with the very real possibility of deflation in Europe, there is likely to be further capital market support.

Global listed real estate currently trades at an estimated forward FAD (Funds Available for Distribution) yield of 4.6%, which for a long-term investor appears attractive given where current 10-year government bonds are and the current growth environment.

<table>
<thead>
<tr>
<th>Region</th>
<th>2014 Return % (USD)</th>
<th>2014 Return % (Rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Investors Index</td>
<td>20.98%</td>
<td>33.17%</td>
</tr>
<tr>
<td>North America</td>
<td>29.48%</td>
<td>42.52%</td>
</tr>
<tr>
<td>Europe</td>
<td>9.02%</td>
<td>20%</td>
</tr>
<tr>
<td>Asia ex Australia</td>
<td>8.64%</td>
<td>19.58%</td>
</tr>
<tr>
<td>Australia</td>
<td>14.56%</td>
<td>26.1%</td>
</tr>
<tr>
<td>SA Listed Property Index</td>
<td>13.89%</td>
<td>26.64%</td>
</tr>
</tbody>
</table>

*Source: Catalyst Fund Managers and RMB Credit Research*

**FORECAST FOR SA LISTED PROPERTY SECTOR**

The sector’s performance in 2015 is likely to take its direction from capital market movements. The capital market support has been a strong driver of real estate returns in 2014 and we expect a similar influence in 2015. If global rates increase over the next 12 months, this is likely to have a knee-jerk negative effect on the sector’s performance.

In 2014 the sector saw consolidations, new listings and capital raising all of which have continued to contribute to the growth and liquidity improvement. consolidations are expected to continue with the most prominent activity being the absorption of Acucap and Sycom into Growthpoint, Synergy becoming a subsidiary of Vukile and Ascension being absorbed into Rebosis.

Future mergers and acquisitions (and new listings) in the sector are likely especially in a market where competition for direct real estate is high and the REIT structure has supported securitisation of real estate. Beside the tax benefits that REITs provides both vendors and investors, a common global structure that is understandable and transparent is a positive outcome for investors.

Catalyst Fund Managers actively monitor 44 real estate companies listed on the JSE and as at the end of January 2015, the market capitalisation of these (excluding Intu and Capco) was R370 billion.

For an investor with a truly long-term horizon, SA listed property is still an attractive investment alternative. It is a low cost access point to some of the best quality real estate in the country. Further to that the sector provides geographical and sectoral diversification as well as access to strong management teams.

The current forward yield is approximately 7% with 5 year compound growth in income distributions of approximately 7.3% per annum. Assuming a slight de-rate to take into account higher interest rates in the future, listed property still has the potential to deliver low double digit annualised returns on a 5 year horizon.
3. SOUTH AFRICA ECONOMIC OUTLOOK

The economic outlook remains subdued with the Reserve Bank (SARB) decreasing the country’s growth projections from 2.5% to 2.2% for 2015 and from 2.9% to 2.4% for 2016. The bank indicated energy constraints as being a core factor for the decrease in growth projections. Furthermore, the International Monetary Fund has also decreased its growth projections to 2.1% for 2015 down from 2.3% and 2016 growth projections have been revised to 2.5% from 2.8%.

The Q4 2014 economic statistics released by Stats SA indicated that nominal GDP at current prices was R979 billion which was a quarter-on-quarter increase of R16 billion. The industries which were recorded as being the largest, in terms of nominal value added in Q4 2014 were:

- Finance, real estate and business services (20.7%);
- General government services (16.9%);
- Wholesale, retail and motor trade, catering and accommodation (16%); and
- Manufacturing (13.7%).

The quarter-on-quarter real GDP at market prices (seasonally adjusted and annualised) recorded a growth of 4.1%, which was an improvement from figures recorded during the year. The sectors which contributed the most to this growth included manufacturing, mining and quarrying as well as finance, real estate and business services.

Even though the growth rate for the fourth quarter seemed positive, the economy went through a difficult time in 2014 with the real GDP only growing by 1.5% compared to 2.2% growth in 2013.

**Annual Economic Growth**

![Bar chart showing annual economic growth from 2000 to 2014](image)

*Source: Stats SA*
Due to the poor performance of the economy, the country’s rating was decreased by rating agencies such as Moody’s and Standard & Poor’s with outlooks remaining stable. Additionally, Fitch kept the country’s BBB status but changed its outlook to negative. Factors leading to re-ratings can be attributed to a number of constraints and risks such as the current account and budget deficit, electricity constraints, high unemployment rate, labour unrest and ongoing strikes which hampered the performance of the mining and manufacturing sectors in 2014.

**CONSUMER PRICE INFLATION (CPI) AND INTEREST RATE**

CPI was recorded at 6.1% in 2014, which is an increase of 0.4% when compared to 2013. The December 2014 CPI was 5.3% year-on-year - a decrease from the 5.8% recorded in November. This decrease may be attributed to the falling oil and petrol prices as well as food prices.

In terms of outlook, the SARB has predicted that CPI may average 3.8% in 2015 (previously forecast at 5.3%) and 5.4% in 2016, a slight decrease from 5.5% in previous forecasts. The increase in 2016 is on the back of an assumption of higher oil prices and a depreciated nominal effective exchange rate.

In January 2015 the SARB announced the decision to keep the interest rate unchanged at 5.75% with the prime lending rate at 9.25%. Again this decision was partly attributed to the low petrol prices as well as an improved inflation outlook.
The positive inflation outlook is set to benefit South African consumers and there are indications that the SARB may pause the rate hiking cycle for 2015.

ELECTRICITY SHORTAGES AND FUEL PRICES

Electricity shortages remain a big concern for economic growth for 2015 which may negatively affect the rand exchange rate, as well as exports and production which are energy reliant. As a result, market experts have indicated that the country may continue to experience a low growth of between 2 – 2.5% over the next three to four years.

Consumer Price Inflation vs. Interest Rate

Source: Stats SA

The positive inflation outlook is set to benefit South African consumers and there are indications that the SARB may pause the rate hiking cycle for 2015.

Falling oil prices have led to a decrease in fuel prices with domestic prices decreasing by approximately 30% since August 2014. However, the downward spiral of oil prices is not expected to last and this may put further pressure on the economy and consumers.
4. THE RETAIL SECTOR

The retail sector was the second best performing sector in 2013 with a total return of 16.8%, an income return of 7.6% and capital growth of 8.6%. This sector has shown good performance over the past 10 years with annualised total returns for the past three, five and 10 years at 14.7%, 13.2% and 18.9% respectively.

As at September 2014, all shopping centres recorded an annualised trading density growth of around 6.5% with super regional centres (+100,000m²) showing a year-on-year growth of 11.3% and the majority of other centre types showing growth of around 6%. The worst performing centres that showed a sharp slowdown in growth over the last year are small regional centres measuring between 25,000m² and 100,000m².

When focusing on tenant categories not all categories experienced year-on-year trading density growth, with growth percentages varying in terms of centre type. In general, growth was higher in larger centres which may be attributed to the variety of retailer presence compared to smaller centres. The best performing categories were retailers of non- and semi-durable goods, with retailers selling durable goods and discretionary items such as home furnishings, travel, toy and department stores lagging in growth.

Source: IPD
CONSUMER CONFIDENCE

Although consumer confidence showed signs of increasing in 2014, it remains low indicative of a slow recovery in household expenditure. The substantial decrease in the petrol price, lower food inflation and the recovery of strike-affected incomes should increase consumers’ ability to spend over the coming months.

A note of caution – the growth in consumer spending may be negatively affected by increases in taxes, continuous power outages and the continued risk of industrial action.

Consumer Confidence Index

Source: BER
Retail sales have not shown significant growth during 2014 due to consumers remaining under pressure as a result of a slowdown in income growth, rising costs, rising debt due to unsecure lending, high unemployment and the overall rise in the cost of living. The average growth in sales for the year was 2.36% compared to 2.58% in 2013 which continues the slowdown trend recorded over the last few years.

In general, all retailers have shown positive growth, however, trading conditions for some retailers were better than others with growth ranging from 0.9% (food and drink) to 3.5% (textile and clothing).

### Real Annual Retail Sales in 2014 by Type of Retailer

<table>
<thead>
<tr>
<th>Type of Retailer</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile and Clothing</td>
<td>3.5%</td>
</tr>
<tr>
<td>Hardware</td>
<td>2.6%</td>
</tr>
<tr>
<td>General Dealers</td>
<td>2.4%</td>
</tr>
<tr>
<td>Household Goods</td>
<td>2.3%</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>2.1%</td>
</tr>
<tr>
<td>Food and Drink</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

*Source: Stats SA*
Overall sales in 2014 amounted to R707 billion with 41% of sales coming from general dealers and only 5% from household goods.

## Contribution of Type of Retailer to Sales in 2014

<table>
<thead>
<tr>
<th>Type of Retailer</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Goods</td>
<td>5%</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>7%</td>
</tr>
<tr>
<td>Hardware</td>
<td>7%</td>
</tr>
<tr>
<td>Food and Drink</td>
<td>9%</td>
</tr>
<tr>
<td>Textile and Clothing</td>
<td>21%</td>
</tr>
<tr>
<td>General Dealers</td>
<td>41%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Source:** Stats SA

The overall trade in December 2014 increased by 3.4% compared to December 2013 (1.5%). Sales over the festive season have been driven by good performance of household furniture, appliances and equipment (9.8%), pharmaceutical and medical goods, cosmetics and toiletries (5.6%) and textiles, clothing, footwear and leather goods (5.3%).

The worst performing retailers were hardware, paint and glass (-5.4%) and other retailers at -0.8%.

Looking at the performance of national retailers in 2014 the following sales figures were released:

- **Massmart**'s total sales grew by 10.4% to R78.2 billion in the 52 weeks to December 28, compared to R72.2 billion over the same period in 2013.
  - Massbuild (Builders Warehouse, Builders Express and Builders Trade Depot) were up 14.6% (9.1% comparable)
  - Masswarehouse (Makro) were up 11.9% (10.7% comparable)
  - Massmart’s food wholesale business (Masscash gained 8% and 6.3% on a comparable basis
  - Massdiscounters (Game and DionWired) saw sales advance 10.2% and 4.8% comparable

- **Woolworths**' food sales grew 14.1% and clothing sale by 9.4% in the 26 weeks up to December 29 compared to 15.3% and 10.7% respectively for the same period in 2013.

Retail sales for other retailers (excluding new shops) to the end of December include:

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Period</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shoprite Group</td>
<td>6 months</td>
<td>12.5%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Truworths</td>
<td>26 weeks</td>
<td>5.2%</td>
<td>7.1%</td>
</tr>
<tr>
<td>The Foschini Group</td>
<td>9 months</td>
<td>10.5%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Mr Price</td>
<td>3 months</td>
<td>14.2%</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

**Source:** Broll

### RETAIL TRENDS

In 2014, the South African retail sector saw some interesting trends which include an increased focus on tenant selection criteria, international retailers entering the market, debt burdened retailers demanding increased tenant installations, the growth of online retailing and spotlight on security at shopping centres.

The sector also recorded an improvement overall, albeit marginal year-on-year, but consumer confidence is still way below the previous year’s levels and with GDP growth under further pressure, this is not likely to show vast improvement in the coming years.

Notwithstanding the fact that throughout 2014 month-on-month growth has never risen above 4%, some national retail chains such as Woolworths, Mr Price, Shoprite as well as independent groups such as Dischem showed good growth, but overall growth was below 2012/2013 levels.
Despite this general stagnancy, national retailers are cautious yet optimistic about expansion, particularly those that rely on credit as many households are still under financial strain.

**SELECTION CRITERIA AND PROCESSES**

Selection criteria and processes have become increasingly stringent, which is certainly positive from a retail sustainability perspective. These criteria and processes include:

- Adjacent tenants/co-tenancies;
- Pre-opening trading thresholds;
- Trade area delineation in order to avoid cannibalisation of existing stores;
- Size of development as certain fashion nationals will generally not take up space in centres smaller than 12,000m²;
- Government led development corridors, the credentials of developers with a sound track record of quality developments; and
- More stringent radius analyses in order to understand the true dynamics of each consumer base (more reliance placed on research houses).

Further to this tenant failures are still of major concern, particularly among independent retailers saddled by increased occupancy costs and a contraction in retail spend, leading to increased vacancies on certain retail centre types. For example, operating costs for hair salons who by the very nature of their business rely heavily on the use of electricity and water have seen their cost of doing business almost triple in the past five years. This is apart from rental escalations and rates increases.

**ONLINE RETAILING**

Online retailers such as Kalahari and Spree continue to increase their presence and the shift to this format is expected to increase over time as consumers get used to the idea of online shopping, albeit slowly.

For online retailing to be more effective, retailers would need to get the basics right so it’s easier for the consumer. That is, logistics need to be effective, as well as making return policies, processes and secure payment technologies more user friendly.

The online retailing channel may grow at a more rapid rate than most retailers and industry experts anticipate. Trust will drive online retail growth. When consumers start trusting the payment portals of online retailing and have the confidence that product defects and returns can be handled efficiently, the growth in online retailing will start having a more significant effect on bricks and mortar retail.

**UPTAKE OF DIFFICULT SPACE TO LET**

Another interesting trend is the uptake of difficult space to let by health clubs and fitness centres. These tenants, because of the nature of their business, are able to occupy large areas but this often comes at significant investment on the part of the landlord.

Health Clubs, for example, will target most retail formats, but due to ever-increasing failures at some of the smaller neighbourhood centres, these are more often the centres that will have available space.

While the long term sustainability of these operators remains to be seen, industry experts have indicated that South Africa’s overall ratio of gym membership to population is still below that of many mature markets globally.

**INFLUX OF INTERNATIONAL RETAILERS**

There is continued interest from international retailers to enter the South African market due to consumers becoming more knowledgeable and demanding a wider range of retailers. The biggest challenge for these retailers is finding suitable partners in South Africa.
Retailers such as Edcon, Busby and The Surtee Group have negotiated licences for a number of international brands, but there is a limit as to how many brands they can take on given the significant cost of acquiring such licences and the operational challenges of running these brands to international standards. There is also a limited “pool” of suitable partners in the country and the awarding of licences or joint venture agreements by international groups are dealt with extreme caution. We have seen international retailers such as Walmart, Carrefour and Tesco withdraw their presence in certain regions. International retail brands cannot afford brand dilution and there are costs associated with withdrawing from a market.

Continued electricity issues, labour unrest and shopping centre security also play a part in international retailers decision to enter the market. They would therefore prefer to partner with a local retailer who also has a better understanding of the local retail landscape. Many international retailers are not willing to enter this market without a partner to share the risk, unlike Zara, Cotton On, H&M and Forever 21 who are among the largest European and Australasian brands which have opened in new territories on their own throughout the world.

**INCREASED TENANT INSTALLATIONS**

Some debt burdened national retailers now demand increased tenant installation contributions from landlords before they commit to new projects thus placing the viability of certain projects at risk.

**CENTRE FAILURES**

A concerning trend is the number of high profile new centres that have not been particularly successful. These new centres, often 3 to 5 years ahead of their time, opened for trade with internal finishes incomplete, large pockets of retail space unoccupied or still in their fit-out process and in some cases, parking areas still under construction. As a result, these centres are already seeing tenant failures as well as having certain pockets of space still vacant and many will argue that we are nearing over saturation from an urban regional centre perspective.

**TRADING DOWN**

While others are battling to meet their targets, retailers in apparel and those targeting the value chain report positive results. Since many consumers are still under increasing financial pressure, these retailers are willingly trading down to a more affordable product offering to take advantage of more frugal shopping habits by consumers.

**SECURITY AT SHOPPING CENTRES**

In 2014 security risks at shopping centres was under the spotlight with three major cellular providers adopting a more cautious expansion strategy following robberies at some of their stores in different centres.
It is expected that the office sector will remain the weakest link in the commercial property market due to economic conditions and oversupply of office space. Big users who consolidate their smaller offices and move to larger tenant-driven developments result in increased vacancies as large vacant areas are generally difficult to fill.

Nationally, the office vacancy rate was 11.1% as at Q4 2014, a slight decrease from 11.6% recorded in Q3 2014. In terms of average national vacancy rates for various office grades, prime office buildings saw an increase in vacancy rates (6.3%) which is believed to be mostly due to new developments coming onto the market.

Sandton and the surrounding areas contribute largely to this, with a number of new developments and increased construction taking place as a result of demand for offices located near the Gautrain Station and Sandton City.

“Rising vacancies impact on rental growth and as a result, landlords have to look at downward rental reversions on the renewal of leases in order to retain existing tenants.”

A and B-grade vacancies have decreased with vacancy rates of 9.6% and 12.8% respectively. C-grade properties currently have the highest vacancy rate of approximately 19%, however, this rate has decreased and this is believed to be attributed to the conversion of a number of inner city office buildings into residential units.

Rising vacancies impact on rental growth and as a result, landlords have to look at downward rental reversions on the renewal of leases in order to retain existing tenants. At the end of 2014, rental growth for A-grade multi-tenanted office properties was recorded at around 3% with the strongest rental growth recorded in the Cape Town decentralised market (6%), followed by Pretoria (5%) and Durban (3%).

Small and medium users are becoming more price sensitive with demand for space being determined by affordability due to rising costs. Energy efficiency is an increasingly important aspect for new office developments for both tenants and landlords as a result of increasing operating costs.

The office market is further impacted by business confidence which remains depressed thereby putting a damper on job creation thus impacting directly on the demand for office space.

CAPE TOWN

Demand is stable with new stock expected to come onto the market over the course of the year as well as the conversion of a number of CBD buildings into residential units. New developments in Century City will add a significant amount of new space (18,000m²) onto the market.

Nodes such as the Waterfront, Century City and Bellville/ Tygervalley are popular nodes due to accessibility and access to public transport. New nodes to watch out for include Stellenbosch currently bustling with activity driven by innovation and start-up companies while Woodstock/Observatory and Salt River continue to gentrify.

It is expected that P and A-grade offices with green initiatives at competitive rentals will continue to dominate new leasing activity.

DURBAN

The market was muted in 2014 due to oversupply and low economic growth which created intense competition between landlords for the few tenant opportunities that were available. This competition resulted in lower asking rentals, high tenant installation allowances and other
incentives such as rent free periods of up to 6 months.

Oversupply and considerable undeveloped land in decentralised nodes, particularly in Umhlanga and surrounds, has led to compression in asking rentals between nodes considered prime and those not considered prime and between new A-grade and older office properties.

“The CBD will see a possible decrease in office space with a number of buildings earmarked for residential conversions.”

It is expected that demand will remain stable due to economic conditions while the CBD will see a possible decrease in office space with a number of buildings earmarked for residential conversions.

Umhlanga and surrounds remain popular due to the growing mass of businesses that have chosen to be located in this node because it is well-managed, offers secure office environments as well as accessibility to the King Shaka International Airport. Also, the CBD and surrounding office nodes are popular because of their central location, competitive pricing and secure office properties while Westville is also sought after due to accessibility to major arterial roads.

JOHANNESBURG

In 2014 demand for office space was stable while supply saw an increase and this trend is expected to continue in 2015.

Tenants are conscious of cost saving and therefore many are renewing leases rather than moving out while municipal rates and taxes increases are a concern to landlords as this ultimately pushes rentals up.

Increased public transport in the Sandton/Rosebank areas in the form of the Rea Vaya bus with dedicated road lanes will improve traffic flows and encourage take up of space in these areas. Mid-block roads are planned for the Sandton area to make circulation easier in the central business district.

In Johannesburg, Sandton, Waterfall Estate, Rosebank and other areas close to Gautrain stations are most popular because of easy access to major roads and public transport. They also offer facilities such as major hotels, regional retail centres, gyms and restaurants.

Major developments currently under construction in Sandton include the new Sasol head office (67,000m²), Discovery (87,000m²), Webber Wentzel (30,000m²) and Old Mutual (30,000m²). In 2015 approximately 80,000m² of new office development is in the planning stages.

New developments are planned in the greater Sandton and Rosebank areas while Melrose Arch will be developing a sectional title office building of approximately 40,000m² with construction scheduled to commence in 2015.

PORT ELIZABETH

Demand will be stable in 2015 while supply is expected to increase. Owing to weak economic growth, many tenants and companies are looking to scale down in order to cut down on operating costs. Well located nodes such as Newton Park, Greenacres and Humerail will continue to be sought after.

There are plans in the pipeline for the conversion of some office blocks to other uses such as student accommodation.
The South African industrial sector has been under strain lately largely due to labour strikes in the mining, metal and engineering sectors. These strikes along with other aspects such as increased energy prices and power failures have negatively affected production, weakened the exchange rate and have resulted in poor economic growth.

During 2014, the manufacturing sector was dominated by food and beverages, petroleum and chemical products and metals and machinery which contributed more than two thirds to manufacturing production.

The overall manufacturing production decreased by 0.1% compared to 2013 (1.2%) due to lower production figures in four of the 10 manufacturing divisions. The biggest drop in manufacturing was recorded in basic iron and steel, non-ferrous metal products, metal products and machinery (-3%) and glass and non-metallic mineral products (-5.8%). The total estimated sale of manufactured products amounted to R1,835 billion with the contribution of the various divisions set out below.

### Real Sales in Manufacturing Industry

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sales Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum, Chemical, Plastic and Rubber</td>
<td>24.6%</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>12.1%</td>
</tr>
<tr>
<td>Food and Beverages</td>
<td>11.4%</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>7.4%</td>
</tr>
<tr>
<td>Wood and Wood Products</td>
<td>5%</td>
</tr>
<tr>
<td>Furniture and Other</td>
<td>3%</td>
</tr>
<tr>
<td>Glass and Non-metallic</td>
<td>3.3%</td>
</tr>
<tr>
<td>Electrical Machinery</td>
<td>2.9%</td>
</tr>
<tr>
<td>Textiles, Clothing, Leather and Footwear</td>
<td>2.7%</td>
</tr>
<tr>
<td>Radio, TV and Communication</td>
<td>1.1%</td>
</tr>
<tr>
<td>Other</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

*Source: Stats SA*

Manufacturing production showed a year-on-year increase of 1.1% in December 2014 which can be attributed to higher production in food and beverages (8.3%) and textiles, clothing, leather and footwear (6%).
Even though the industrial sector is still outperforming the office and retail sectors, continued poor performance of the manufacturing sector, power outages and labour unrest will negatively affect this sector in 2015.

**CAPE TOWN**

In 2014, demand and supply increased, however, this is expected to remain stable over the course of 2015 with the economy and energy constraints dictating growth in the sector.

There has been very little speculative development taking place, however, many pre-let tenders were awarded in 2014. Montague Park is one example of speculative buildings which was let successfully. Woolworths acquired a large site in Montague Gardens and may commence with building in late 2015. Additionally, land was brought to the market creating a new industrial zone at Rivergate (along the N7) which should be the new activity node within Cape Town.

It is expected that the demand for warehousing with good yard space and access to national roads will remain high.
DURBAN

The sector remained flat with limited high-grade warehousing properties at affordable gross rentals. The poor performance of the economy resulted in a slowdown in infrastructure projects such as the Dug-out Port and Dry Port at Cato Ridge. The commencement of these projects will serve as a catalyst for growth in the industrial, warehousing and logistic sectors.

On the development front, Cornubia has seen the commencement of construction of several large new warehouses and factories. Cargo Compass, Blinds Mart, Afrox and Digistix have opened up distribution facilities at the new Cornubia Industrial and Business Estate which is bordered by Umhlanga Rocks, Mount Edgecombe and Ottawa.

Durban is also seeing high demand for highly visible retail warehousing, however, suitable properties are hard to come by. The move by Mr Price to relocate their distribution centre to Hammarsdale in Durban’s outer west region may lead to a move of retail distribution centres to this area as the supply of land in Durban’s industrial areas has dried up. Furthermore, there is also high demand for land as well as for regional distribution centres measuring 20,000m² to 100,000m² near the Durban Port. Currently, there is no stock to meet this demand.

Mobeni and Jacobs in the south Durban Basin, Riverhorse Valley just north of Durban, Mahogany Ridge and Westmead in the west remain popular industrial nodes.

GAUTENG

As in other provinces the Gauteng industrial market was affected by weak economic growth, electricity shortages and labour strikes with demand for and supply of industrial properties in 2015 expected to be stable.

“In Gauteng, industrial areas such as the East Rand (near OR Tambo International Airport), Midrand and Longmeadow remain popular nodes due to their proximity to major routes. A trend being observed is the high demand for distribution centres in key nodes in close proximity to air, road and rail infrastructure.”

Industrial areas such as the East Rand (near OR Tambo International Airport), Midrand and Longmeadow remain popular nodes due to their proximity to major routes. A trend being observed is the high demand for distribution centres in key nodes in close proximity to air, road and rail infrastructure.

PORT ELIZABETH

The performance of the industrial sector was sluggish in 2014 and it is expected that demand will increase in 2015 with supply being stable. Currently, Coega, Deal Party and Struandale are the most popular nodes as they are well located, close to distribution areas and major arterial roads. The further release of land within the Coega IDZ may lead to a flurry of development activity, however, there are no indications on when land will become available.
South Africa

Country Size
1,219,912km²

Population: 52.98 million
Urban Population: 62.9%

Top 3 Export Products (2012)

1. Gold (incl. gold plated with platinum), in unwrought forms (11.6%)
2. Iron ores and concentrates, non-agglomerated (7.6%)
3. Platinum, unwrought/in powder form (6.6%)

Estimated Adult Literacy Rate
(people over 15 years) 93% (2006-2012)
Estimated Youth Literacy Rate
(people between 15 and 24 years) 98.8% (2006-2012)

GDP annual growth rate (quarterly)
2014: 1.3% (Q4)
2013: 2.9% (Q4)
2012: 1.8% (Q4)

Unemployment Rate 24.3% (2014)
Youth Unemployment Rate
(15 - 34 years old) 36.1% (2014)

Number of Mobile Subscribers
70% of households that have at least 1 mobile phone (2013)

Internet users 24,909,854 (June 2014)

Interest Rate
5.75% (Dec 2014)

Inflation Rate
5.8% (Nov 2014)
Founded in 1975, Broll Property Group is one of Africa’s leading commercial property services company serving the investor and occupier markets.

Our business philosophy is deeply entrenched in the maintenance of high ethical standards in the relationships we have with our clients as this is essential to achieve maximum value and success in their business operations.

Based on the decision of the company to expand and grow its footprints, we have, apart from South Africa, offices in Ghana, Kenya, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Zambia and operate in over 17 countries across Sub-Saharan Africa.

Since 2004, Broll has represented CBRE, in Sub-Saharan Africa and together with South Africa, other CBRE affiliates in the Group include Broll Ghana, Broll Indian Ocean and Broll Nigeria. Through this affiliation, Broll is able to offer unrivalled local expertise and global market knowledge to the benefit of clients.

With over 1,350 experienced property professionals, we manage assets valued over R95 billion.

Our research led environment gives us a competitive edge which has won us numerous awards including being recognised for best Real Estate Research Services in Africa and Real Estate Advisors and Consultants in Africa, among others.

Our vision is to provide unrivalled quality service that exceeds the expectations of our esteemed clients across all service lines and markets in which we operate in.

CORE VALUES

- We believe in always putting our clients’ needs first
- We do not accept any assignment that we do not feel comfortable to deliver on
- We grow through creativity and innovation
- We integrate honesty, integrity and business ethics into all aspects of our business functions
- Attract, develop and retain a diverse group of people to achieve both personal and corporate goals.
7. OUT OF AFRICA

Sub-Saharan Africa is home to an estimated 920 million people of which 43% are estimated to be below the age of 15 with only 3% aged over 65, thus indicating the youthfulness of the population.

Africa’s population is set to reach 1.3 billion people between 2013 - 2050. This increase is expected to lead to economic growth with real GDP growth estimated to reach 4.9% in 2015. With increased population, opportunities in residential and retail sectors may experience exponential growth as the size of potential consumer groups will increase.

Only 37% of Sub-Saharan Africa is estimated to be urbanised, however, the middle class, defined differently by various market experts, is said to be continuously growing and along with this growth comes an increased demand for consumer goods and brand awareness which ultimately creates more retail opportunities.

Amid the promising economic growth in the continent, many countries face challenges such as plummeting oil prices, electricity shortages, the Ebola outbreak and terrorism attacks.

Oil prices fell substantially since mid-2014 and this has negatively affected oil exporting countries but has benefitted oil importing countries, e.g. with Nigeria’s exports primarily consisting of oil and gas, decreases in oil prices impact negatively on the economy, while Kenya will benefit from this decrease resulting in lower energy costs. Electricity shortages are evident in a number of Sub-Saharan African countries with some countries experiencing load-shedding for a number of hours, e.g. in Ghana power outages can last up to 24 hours while South Africa experience power outages that lasts around 4 or more hours.

Over the past five years, about 30% of global oil and gas discoveries were in Sub-Saharan Africa, yet only around one-third of Africans have access to electricity. The continent has vast resources, which when efficiently managed can alleviate infrastructural problems.

Terrorism continues to plague a number of countries and may hamper economic development as well as tourism due to travel warnings which are sometimes issued.

The Ebola outbreak has led to negative economic growth for affected countries and has resulted in high fatality rates. The outbreak negatively affects investment confidence, trade and tourism.

Upcoming elections in a number of countries can be viewed as positive in terms of democracy being achieved but can also be viewed as negative, as elections tend to affect exchange rates and outlooks due to uncertainty and possible unrest.

Even though there are negative aspects which may hinder investments and developments in Sub-Saharan Africa there are also benefits and improvements which have been achieved over recent years.

Globally, the World Bank Group noted that in 2013/2014, Sub-Saharan Africa had the largest number of business regulatory reforms with 39 economies reducing the complexity and cost of regulatory processes, while 36 economies strengthened legal institutions. Around 74% economies implemented at least one reform to make doing business easier.

Foreign investors see Sub-Saharan Africa as an ideal investment location with untapped development and growth opportunities.
2014 saw a decline in the overall performance of the country’s economy due to weak macroeconomic indicators. Economic growth reached 5.1% in the third quarter of 2014, inflation was at 17% and the country’s fiscal deficit was 9.6%. This coupled with Fitch’s and Standard and Poor’s downgrading in March and October 2014 respectively, shook the country’s reputation on the international front with regards to foreign direct investment (FDI) and has experts describing the country’s economic stance as being weak. Inflation and economic growth are expected to average 15.5% and 3.9% respectively in terms of the 2015 budget.

PROPERTY MARKET OVERVIEW

The devaluation of the Ghanaian Cedi (GH₵) prompted the government to implement certain directives to stabilise the devaluation, one of which was the restriction of payments and quotes to only the GH₵ which has since been revoked. This directive had an adverse effect on the property market where the norm on prime property was to quote rent in dollars but in some cases payment was made in GH₵ at the prevailing GH₵/$ exchange rate.

Although the real estate sector did not perform that well, a number of major developments were completed in 2014 thereby increasing stock across all segments. The retail sector witnessed increases in formal retail trading space. These increases can be attributed to the fact that the majority of these developments started some two years ago and are mostly funded by foreign investors. Likewise, the office sector saw the completion of Capital Place and ICB Towers among others.

INDUSTRIAL

The industrial sector’s growth was particularly slow with minimal activity which can be attributed to weak macroeconomic conditions, however, this is expected to improve over the course of 2015. New developments include the development of 40 acres of land in Tema into a logistics and industrial park by a major global logistic service provider.

Accra, Kumasi and Takoradi are the main industrial nodes. The north and south industrial areas, Spintex Road, Tema Community 1 and Tema Industrial in Accra remaining the hub of industrial activity.

Kumasi did not experience much of an increase in demand and supply, however, this trend is unlikely to change in 2015. Takoradi remains the most vibrant industrial market outside Accra with the main areas occupied by the cocoa, oil and gas industry.

An increase in supply is envisioned with some properties located along the Takoradi - Agona Road cleared for development, along with a number of industrial and logistic parks expected to be developed within the main industrial areas as activity increase in the sectors.

OFFICES

The office sector is currently driven by the oil and gas, financial and service companies both local and foreign corporations as well as ancillary service operators all looking to establish offices in the country, in particular, looking at prime properties.

Many of the corporate companies that require head office space usually adopt an owner/occupier strategy and construct their own buildings. Most still prefer to have offices in established major commercial hubs in Accra, Kumasi and Takoradi due to accessibility to established nodes and other amenities which has in turn affected the growth of new nodes.

The sector was dominated by very few institutional developers but with the emergence of oil and gas production and services sector, market dominance has shifted to non-institutional developers and foreign property equity funds/developers.

The outlook for the next 24 months remains bleak as completion of much needed A-grade space comes onto the market. However, the supply of almost 150,000m² of office space during this
period, excluding owner/occupied space, will create an over-supply of A-grade space if the economy does not improve.

Major challenges and risks within the sector include the cumbersome nature of processing title deeds, land litigation over title deeds, currency risk and ability to raise long term finance.

**RETAIL**

Although beginning to mature, formal retail is still in its infancy stages, particularly outside of Accra. Spurred mostly by growing interest of international and South African brands to expand or enter the market.

After a fairly stagnant period, formal retail developments have in recent years picked up momentum following the opening of A & C in 2005 and Accra Mall in 2007 the first modern closed malls in Ghana.

While existing malls boast near 100% occupancy, trading conditions remain tough as personal disposal income comes under pressure due to high inflation, additional government taxes, pedestrian economic growth indicators, power outages, erratic water supply and spending cuts imposed by Government.

"Increasing enthusiasm of international brands and developers has led to an increase in demand for formal retail space."

The sector still remains dominated by the informal retail sector where convenience and price rule. Major foreign retailers presently operating in the country include South Africa brands such as Edgars, Foschini, Woolworths, Game, Mr Price and Shoprite and international main stream brands such as Mango, T. M Lewin, Sunglass Hut and Pay Less Shoes.

The recent increase in enthusiasm of international brands and developers has led to an increase in the development pipeline with approximately 175,300m² of formal retail space to be completed within the next 9 – 36 months in Accra, Tema, Kumasi and Takoradi. However, the economic landscape has changed significantly over the past 6-12 months with both developers and retailers now compelled to critically reassess their business models. The majority of formal retail space is currently located in Accra and Tema.

2014 saw a significant supply increase (by 38,700m²) with the completion and opening of the West Hills Mall and The Junction Shopping Centre in the last quarter of 2014.

In Accra, effective demand was at par with supply in 2014 with asking rentals being slightly above market rates. Demand is expected to remain stable, however, this may vary from city to city depending on first move advantage and the ability of the landlord to provide sustainable rental levels. Rental levels are expected to remain stable, however, they are likely to be discounted for certain retail categories that are price sensitive and more exposed to the downturn in the economy. The outlook for 2015 remains cautious, albeit that the number of developments in the pipeline continues to grow.

**LEISURE**

Although this sector is not very active, locations such as Accra and Akosombo remain buoyant. This sector still has untapped, new development investment opportunities and unlike other sectors, it hasn’t experienced a lot of foreign investments, however, a number of international hotel groups are planning on opening hotels within the next two to three years. Recent additions to the sector include The Royal Senchi Resort Landsdown, Best Western Premier Hotel, Atlantic Hotel and Sunset Hotel.

Despite the fact that the country has not registered a single case of infection of the Ebola virus, there has been some reluctance on the part of tourists to visit the country. This has had a negative impact on the tourism and leisure market overall.

**RESIDENTIAL**

Over the past decade, Ghana’s residential sector registered an estimated 85,000 sale transactions per annum. Currently there is an estimated housing deficit of 1.7 million units with private developers delivering approximately 25,000 housing units per annum. To address this short fall, Government has launched an initiative through projects such as Saglemi Housing Project set to deliver 5,000 housing units of mixed tenure in Greater Accra over a period of five years.

The project is ongoing with 1,500 units expected to be completed by March 2016. The State Housing Corporation is also looking to implement non-luxury infill projects within estates in Accra and Takoradi.

In Accra, demand trends included requests for short-term stays in apartments, purchase of two and three bedroom apartments in prime areas as well as stand-alone homes in first and second class areas. The majority of enquiries were mainly for short-term stay in apartments. Generally, sales activity was lower compared to leasing activity.

Kumasi has always been dominated by private sector developments and remained so in 2014 with few apartment developments such as Christiana Court, The Ark, Georgia Apartments and Lady Victoria Gardens underway. Demand and rentals remained stable. In Takoradi, demand and supply remained static while rentals increased by as much as 25% in 2014.
**Top 3 Export Products (2012)**

1. Petroleum oils and oils obtained from bituminous minerals and crude (33.2%)
2. Cocoa beans (whole or broken, raw or roasted) (31.4%)
3. Cocoa paste (not defatted) (4.4%)

**Estimated Adult Literacy Rate**
(people over 15 years) 71.5% (2006-2012)

**Estimated Youth Literacy Rate**
(people between 15 and 24 years) 85.7% (2006-2012)

**GDP annual growth rate (quarterly)**
- 2014: 5.1% (Q3)
- 2013: 14.2% (Q3)
- 2012: 0.2% (Q3)

**Unemployment Rate** 3.6% (2012)
**Youth Unemployment Rate** (15 - 24 years old) 6.4% (2012)

**Inflation Rate** 17% (Nov 2014)

**Interest Rate** 21% (Nov 2014)

**Internet users** 5,171,993 (June 2014)

**Number of Mobile Subscribers**

- 81% of households that have at least 1 mobile phone (2013)
On average, inflation was high in 2014 at 6.89% compared to 5.72% in 2013. It is anticipated that the inflation rate will continue to decline due to the increased level of government intervention on monetary and fiscal policies and decreases in basic food, oil and electricity prices. Inflation at the end of February 2015 was 5.61%.

Achieving single digit interest rates remains a challenge in spite of the July 2014 implementation of the Kenya Bank’s Reference Rate (KBRR) aimed at enhancing a transparent credit pricing framework, increase the supply of affordable credit as well as to provide a base rate for all commercial banks’ lending. The average commercial banks’ lending rate and the KBRR rates increased from 7.8% in July 2014 to 8.5% in February 2015. Unfortunately the commercial banks continue to charge double digit interest on all loan rates.

“Achieving single digit interest rates remains a challenge in spite of the July 2014 implementation of the Kenya Bank’s Reference Rate.”

**PROPERTY MARKET OVERVIEW**

Kenya continues to be a commercial and infrastructural hub in East Africa. The property market is active across all sectors with increased construction levels underway in various parts of the country to meet the current demand across all sectors. The most recent developments have
predominantly been within the residential and office sectors, however, the focus is now moving into the retail and industrial sectors as well.

**INDUSTRIAL**

The industrial sector is growing with demand surpassing the current supply of warehouse space in the market. We anticipate a substantial increase in the sale and rental prices of warehouses due to the various local and international retailers looking for storage and distribution space in Nairobi. There are a number of new developments currently under construction in Nairobi which will be completed in the first half of 2015. Along the eastern bypass there is around 93,000m² of warehouse space in the planning phase.

**OFFICES**

The Nairobi CBD office market is stable while Westlands is the preferred office location offering A-grade office properties. In Upperhill, office demand has decreased due to the uncertainty around the incomplete infrastructure improvements over the last three years. Areas such as Limuru Road, Thika Road, Gigiri and Karen in Nairobi are slowly seeing the construction of A-grade office developments as more organisations look for space on the peripheries of the CBD due to easy access and decongestion.

**RETAIL**

The retail sector has been stable over the past five years due to developers placing more focus on the residential and office markets. Vacancy and occupancy rates were low in Nairobi in 2014 and this is set to continue in 2015.

It is anticipated that four new shopping centres, measuring approximately 165,000m², will open during the course of 2015 with a further 50,000m² expected to come onto the market in 2016. This massive increase in retail space can be attributed to the growing middle class, demand for a variety of retail offerings, disposable income and business confidence. The sector has seen the entrance of international retailers such as Carrefour, Game, Truworths and Foschini. Popular retail nodes are located along Thika, Karen and Kiambu Road, primarily in close proximity or within the residential pockets of Nairobi.

**RESIDENTIAL**

The residential market is stable with increased supply of residential developments in comparison to the level of demand. There is still a high shortage of low and middle-income housing priced below KSh2 million (low-income) and between KSh4 million – KSh7 million (middle-income). As land prices continue to rise rapidly, property developers may continue to focus on constructing houses above KSh10 million to maintain profit margins of between 25 – 40%. However, in order to address current housing shortages for low and middle-income households, stronger government intervention is required.

The inflow of international companies as well as expatriates into the country will assist in the decrease of vacancies in the high end residential market, however, these tenants/buyers demand high level quality finishes and fittings for both ownership and investment opportunities. Prices range between KSh55 million – KSh110 million depending on the type of residential unit selected, location and amenities provided. There is continued demand for gated estates in the market as they offer community living, security and shared maintenance costs.
Country Size
582,650km²

Population:
44.35 million (2013)

Urban Population:
24.8% (2013)

Estimated Adult Literacy Rate
(people over 15 years)
72.2% (2006-2012)

Estimated Youth Literacy Rate
(people between 15 and 24 years)
82.4% (2006-2012)

GDP annual growth rate
(quarterly)
2014: 5.5% (Q3)
2013: 6.2% (Q3)
2012: 4.5% (Q3)

Unemployment Rate 9.2% (2012)
Youth Unemployment Rate
(15 - 24 years old) 17% (2012)

Inflation Rate
6.02% (Dec 2014)

Interest Rate
8.5% (Dec 2014)

Internet users
21,273,738
(June 2014)

Number of Mobile Subscribers
68% of households
that have at least 1
mobile phone (2013)
Malawi has an agro-based economy and land is the most basic resource which plays a very crucial role towards sustainable political, socio-economic and cultural development. Tobacco is the main contributor to the country’s GDP.

Major investors in the real estate sector include government, institutional investors and foreign and local property companies. The Malawi Housing Corporation, which is an arm of government has partnered with a Chinese company investing in property, while institutional investors such as Old Mutual, Press Properties and NICO Life Insurance are major investors in the residential and commercial market. Considering, economic and political factors and the eagerness of the government to incentivise prospective investors that are willing to invest in the country, the real estate sector is expected to grow substantially in the next 5 to 10 years.

INDUSTRIAL

Overall sector performance was poor due to slow activity and increased direct competition from imported products which act as substitutes for local products. Low economic growth and political instability have impacted the sector with many businesses downscaling as a result which led to increased vacancies.

In 2015, the sector is expected to slowly pick up as industrial activities begin to resume. However, no meaningful movement is expected in terms of rental and yield increases with the exception of demand driven and purpose built developments. Although there are no meaningful new developments, there is some activity taking place in small scale developments.

OFFICES

The sector was relatively stable in 2014 although, like many other sectors, it was affected by unfavourable economic conditions. As a cost saving measure, some tenants have relocated their businesses to converted residential units which are more cost effective than formal offices. Currently, there appears to be high demand for banking space and small office space in order to accommodate emerging non-governmental organisations.

While demand is expected to remain stable, rental growth should be in line with inflation while yields should increase marginally.

RETAIL

The continued depreciation of the Kwacha is expected to negatively impact the sector as this will lead to general price increases and increased rentals. This may result in lower consumer demand as well as possible rental arrears and increased vacancies. A possible hike in the interest rates by the Reserve Bank of Malawi will also lead to a further increase in costs which will erode disposable income thus negatively affecting the retail sector.

With the exception of the recently completed 18,000m² The Gateway Malawi there has been no new major retail developments. Cities such as Lilongwe, Blantyre and Mzuzu remain popular nodes for retail activity.

Demand is expected to decrease due to the continued depreciation of the Kwacha and general price increases with supply being low as a result of low economic growth and high construction costs. The retail sector recorded some growth with rental escalations averaging around 15%, however, rentals and yields are expected to remain stable in 2015.
**Malawi**

**Country Size**
118,480 km²

**Population:**
16.36 million (2013)

**Estimated Adult Literacy Rate** (people over 15 years) 61.3% (2006-2012)

**Estimated Youth Literacy Rate** (people between 15 and 24 years) 72.1% (2006-2012)

**Urban Population:** 16% (2013)

**Top 3 Export Products (2012)**

1. Tobacco (partly/wholly/stemmed/stripped) (50.1%)
2. Natural uranium and its compounds (10.4%)
3. Raw sugar, cane (8%)

**GDP annual growth rate (yearly)**
- 2013: 6.1%
- 2012: 1.9%
- 2011: 2.9%

**Unemployment Rate**
- 7.6% (2012)
- Youth Unemployment Rate (15 - 24 years old) 13.5% (2012)

**Inflation Rate**
23.7% (Nov 2014)

**Interest Rate**
25% (Dec 2014)

**Number of Mobile Subscribers**

54% of households that have at least 1 mobile phone (2013)

**Internet users**
12,150,362 (June 2014)
The contribution to the GDP by the real estate sector has been gradually increasing since 2009 (5.3%) to an expected 5.5% in 2014.

There has been an increase recently in the supply of office space both in Port-Louis and Ebene Cyber City as well as the addition of several new shopping centres, the extension of some existing ones and a number of high-rise residential buildings. The growth in real estate activities increased by an estimated 2.7% in 2014 compared to 2.9% in 2013.

The construction sector registered negative growth in the first and second quarters of 2014 and has been declining since 2010. This may be attributed to a drop in the number of major private construction projects.

Over the past three decades, Mauritius has gone from a low-income to an upper middle-income country due to economic growth levels. By the 3rd quarter of 2014, GDP growth rate reached 3.5% and it is expected to be around 4.1% in 2015. Economic growth is driven by information and communication, finance and insurance and manufacturing while contraction in the construction sector has also been experienced.

**PROPERTY MARKET OVERVIEW**

The construction sector registered negative growth in the first and second quarters of 2014 and has been declining since 2010. This may be attributed to a drop in the number of major private construction projects.

**INDUSTRIAL**

In 2014 rental values and vacancies remained stable while an increase in supply was recorded. However, low yields with limited rent increases as well as ageing stock in general have made the industrial market relatively unattractive for investors.

Most industrial properties are either owner occupied or occupiers own only the building while the land is held on a leasehold basis. A number of occupiers have also moved from large premises to smaller units in order to reduce occupancy costs and consequently, increase revenues.

Prime industrial nodes include Phoenix, Pailles Plaine Lauzun, Coromandel, La Tour Koenig, Riche Terre Industrial Park as well as industrial areas in close proximity to the port areas of Port Louis and the airport.

**OFFICES**

Port Louis and Ebene Cyber City are prime office locations and demand for office space is still relatively strong and is expected to remain stable. A slight decrease in new supply is envisioned due to the marginal oversupply that the sector is currently experiencing. Rental values are expected to remain stable until excess space is absorbed by the market, thereafter an increase in rental values is expected. However, an increase in demand to buy office properties has been observed in Ebene Cyber City and this trend is expected to continue in the short to medium term.

In Port Louis newly built office properties have been able to secure tenants at low entry rentals. This trend is expected to continue and as a result, the vacancy rate is expected to decrease. In addition, a slight increase in demand to buy newly built office space has also been observed.

All major office development projects were completed in 2014 and there are no further major developments in the pipeline. Meanwhile, the sub-prime office market, mainly comprising of
small scale office blocks located in some residential towns and within some beach resorts, remained relatively stable in terms of supply and demand.

The office park section of the Bagatelle Town project is now complete with offices currently on the market for sale. Although the buildings are of good quality with good standard finishes, this will probably cater for the secondary office market due to its location even though it is located midway between Ebene Cyber City and Port Louis.

RETAIL

Prime retail areas in Mauritius include the Plaine Wihem area outside of Port Louis with the Jumbo, Trianon and Bagatelle Shopping Centres, high street retail in Rose Hill town centre, Port Louis CBD, Caudan and resort locations such as Grand Baie in the north.

Overall, in 2014, the retail sector performed well coupled with sustained activity in household consumption expenditure. Prime retail centres typically showed low vacancies with an occupancy rate of more than 90% and growing rental income. Demand for prime retail properties is expected to remain stable in 2015 with no new stock expected in the short to medium term.

LEISURE

The leisure market comprises mainly of hotels. As at end of September 2014, there were 115 licensed hotels of which 108 were in operation and 7 were not operating due to renovation works. The total room capacity of the 108 operating hotels was 12,481 with 25,620 beds.

During the first nine months of 2014, the room occupancy rate of all licensed hotels in operation averaged 62%, an increase from the 59% for the first nine months of 2013. Out of the 108 operational licensed hotels, 52 are considered “large hotels” (i.e. well-established beach hotels with more than 80 rooms) and represent 48% of all hotels in operation and 76% of both total room capacity and total bed places.

“The room occupancy rate of all licensed hotels in operation averaged 62%, an increase from the 59% for the first nine months of 2013.”

In the same period, these large hotels achieved a room occupancy rate of 64% up from 61% for the first nine months of 2013. They also registered a higher bed occupancy rate of 57% compared to 54% for the same period in the previous year.

Based on observed trends, the forecast of tourist arrivals for 2014 has been revised to 1,038,968 representing an increase of 4.7% over the previous year. Statistics Mauritius estimate that tourist arrivals in 2015 will reach 1,100,000 and tourism earnings are forecasted to be around Rs50,000 million.

The RIU Hotels and Resorts from Spain and TUI AG, a German multinational travel and tourism company completed the takeover of three hotels previously known as Indian Resort, Le Mornea and Le Moreva. These are currently under renovation and are expected to open in February 2015 under the RIU brand. In addition, Shangri-La Hotels of China has acquired a 26% stake in Le Touessrok luxury hotel from Sun Resorts Hotel Group which was re-launched as Shangri-La Le Touessrok Hotel and Spa in August 2014.

Investments by flagship brands from Europe and Asia are expected to encourage arrivals from traditional as well as emerging markets. Chinese tourists’ heightened interest in Mauritius resulted in the first flight of the China Southern Airline to Mauritius at the end of June 2014. The world’s largest charter airlines owned by TUI AG, Thomson Airways, had its inaugural flight from Gatwick Airport in London to Mauritius on 28 April 2014.

Furthermore, Air Mauritius has reduced its seat capacity towards Europe and has re-distributed this within Asia and Africa. The drop in seating from Europe has been offset by Emirates Airline. In addition, due to the completion of the Sir Seewoosagur Ramgoolam International Airport, it is expected that the absence of seats on desirable routes will be reduced as the airport will be able to accommodate bigger planes. The Mauritian government has expressed its interest in generating more flights from new markets and the Mauritius Tourism Promotion Authority is working towards new marketing strategies to attract new markets.

RESIDENTIAL

Prime residential areas include Floreal and Moka in the central plains, Trou Aux Biches, Grand Baie and Pointe Aux Cannoniers in the northern coastal zone, Flic-en-Flac, Black River and Tamarin on the western coastal zone and Blue Bay in the south-east coastal zone.

As per Mauritian legislation, foreigners can only acquire property which falls under The Integrated Resort Scheme (IRS) and Real Estate Scheme (RES). Foreigners benefit from a Permanent Residence Permit for investments above US$500,000. Popular IRS schemes include Azuri on the north-east coast, Anahita on the east coast and Tamarina and La Balise on the west coast. RES schemes are smaller in size (less than 10ha) and successful developments are mainly found in prime resort/residential areas such as Grand Baie, Flic-en-Flac, Tamarin and Black River.

Owing to better locations and lower prices, RES projects have been more successful than IRS projects, prompting some promoters of IRS projects to restructure their developments with lower entry prices.

Demand for residential land parcelling still remain relatively high, especially for gated-community projects, with several projects being sold relatively quickly but the demand for residential apartments has declined due to the recent arrival of several major high rise residential apartments on the market, thus flooding the market with residential properties.

Currently the only residential development in the pipeline is Imperial Gardens (RES) which will comprise several high rise residential towers consisting of more than 200 apartments with Anahita World Class Sanctuary (IRS), which will provide several villas currently under construction.
MAURITIUS

Country Size
2,040km²

Population:
1.3 million (2013)

MAURITIUS

Country Size
2,040km²

Population:
1.3 million (2013)

Urban Population:
41.8% (2013)

Estimated Adult Literacy Rate
(people over 15 years)
88.8% (2006-2012)

Estimated Youth Literacy Rate
(people between 15 and 24 years)
96.8% (2006-2012)

Number of Mobile Subscribers

Number (Million)


GDP annual growth rate
(quarterly)
2014: 3.5% (Q3)
2013: 3.3% (Q3)
2012: 3.6% (Q3)

Unemployment Rate 7.9% (2012)
Youth Unemployment Rate (15 - 24 years old) 22.9% (2012)

Inflation Rate
0.2% (Dec 2014)

Interest Rate
4.65% (Dec 2014)

Internet users
519,150 (June 2014)

Top 3 Export Products (2012)

1. Tunas, skipjack and bonito (15.3%)
2. Cane or beet sugar (in solid form) (10.5%)
3. T-shirts, singlets and other vests, knitted/crocheted, of cotton (7.4%)

Population:
1.3 million (2013)

Urban Population:
41.8% (2013)

Estimated Adult Literacy Rate
(people over 15 years)
88.8% (2006-2012)

Estimated Youth Literacy Rate
(people between 15 and 24 years)
96.8% (2006-2012)

GDP annual growth rate
(quarterly)
2014: 3.5% (Q3)
2013: 3.3% (Q3)
2012: 3.6% (Q3)

Unemployment Rate 7.9% (2012)
Youth Unemployment Rate (15 - 24 years old) 22.9% (2012)

Inflation Rate
0.2% (Dec 2014)

Interest Rate
4.65% (Dec 2014)

Internet users
519,150 (June 2014)
**Top 3 Export Products (2012)**

1. Cloves (whole fruit, cloves and stems) (15.8%)
2. Shrimps and prawns (7.2%)
3. Titanium ores and concentrates (5.5%)

**Estimated Adult Literacy Rate** (people over 15 years) **64.5%** (2006-2012)

**Estimated Youth Literacy Rate** (people between 15 and 24 years) **64.9%** (2006-2012)

**GDP annual growth rate (yearly)**
- 2013: 2.6%
- 2012: 1.9%
- 2011: 1.6%

**Unemployment Rate** **3.6%** (2012)

**Youth Unemployment Rate** (15 - 24 years old) **5.7%** (2012)

**Country Size** **587,040km²**

**Population:** **22.92 million** (2013)

**Urban Population:** **33.8%** (2013)

**Estimated Adult Literacy Rate** (people over 15 years) **64.5%** (2006-2012)

**Estimated Youth Literacy Rate** (people between 15 and 24 years) **64.9%** (2006-2012)

**GDP annual growth rate (yearly)**
- 2013: 2.6%
- 2012: 1.9%
- 2011: 1.6%

**Unemployment Rate** **3.6%** (2012)

**Youth Unemployment Rate** (15 - 24 years old) **5.7%** (2012)

**Internet users** **17,321,756** (June 2014)

**40% of households that have at least 1 mobile phone** (2013)

**Inflation Rate** **5.89%** (Oct 2014)

**Interest Rate** **9.5%** (Nov 2014)
Mozambique gained its independence from Portugal in 1975, and although it was viewed as being one of the world’s poorest countries when it became independent, it has now become one of the fastest growing economies worldwide.

The country went through approximately 16 years of civil war which ended in 1992 when a peace deal was signed along with a new constitution which was developed in 1990. Political unrest has plagued the country for a number of years with unrest between government and rebel forces still taking place as recent as 2014.

Despite these negative issues, Mozambique is rich in natural resources and over recent years discoveries have been made in the country’s oil, gas and coal reserves which are vastly untapped. As a result increased investor interest in Mozambique has grown rapidly and economic growth as well as increased development is expected to take place.

“Growth in the Mozambican property market is evident not only in Maputo but in a number of other regions such as Nacala, Pemba and Tete.”

In December 2014 a new international airport was opened in the northern part of the country in Nacala, which is home to one of the deepest natural ports on the East African coast. The airport is envisioned to be a hub for coal exports and will allow for easier and quicker access to the northern parts of the country.

Additionally, other developments planned and/or underway include the Nacala logistics corridor, redevelopment of port infrastructure and railway developments.

Growth in the Mozambican property market is evident not only in Maputo but in a number of other regions such as Nacala, Pemba and Tete. A main contributor to the growth of the property market is the natural resources present in these areas.

An increase in demand has been seen in the development of residential units, offices, retail and hotels which may be attributed to limited supply and increasing demand. With regards to retail developments, areas which have been identified as being of interest to developers include but are not limited to Pemba, Nacala, Nampula, Beira and Tete.

In relation to land ownership in Mozambique, all land is owned by the government and developers can only lease land for 50 year periods subject to renewal. Such leases were developed after the country gained its independence and as such no leases have expired as of yet, thus the renewal process of leases is yet to be tested.

Mozambique is a popular tourist destination due to its tropical climate, its fauna and flora, large portions of unspoilt coastline with surrounding islands as well as being a popular diving and snorkelling destination. The country is however susceptible to natural disasters such as floods and droughts which in some cases have resulted in the loss of lives of hundreds of people and have affected thousands.
**Top 3 Export Products (2012)**

1. Aluminium, not alloyed (28.8%)
2. Light oils and preparations (14.8%)
3. Natural gas, liquefied (5.4%)

**Estimated Adult Literacy Rate** (people over 15 years) **50.6%** (2006-2012)

**Estimated Youth Literacy Rate** (people between 15 and 24 years) **67.1%** (2006-2012)

**GDP annual growth rate (quarterly)**
- 2014: 7% (Q4)
- 2013: 2.7% (Q4)
- 2012: 14.8% (Q4)

**Unemployment Rate** **7.5%** (2012)

**Youth Unemployment Rate** (15 - 24 years old) **12.8%** (2012)

**Inflation Rate** **1.93%** (Dec 2014)

**Internet users** **1,467,687** (June 2014)

**Interest Rate** **7.5%** (Dec 2014)
Namibia is often described as Africa’s optimist and with good reason. Not only does it enjoy one of the continent’s most pleasant, peaceful and politically stable environments, but also boosts infrastructure to rival many developed countries.

Its natural resources include diamonds, uranium, copper, lead, zinc, gold, semi-precious stones, industrial minerals, salt and fluorspar. The country has rich fishing grounds, with their stock of both demersal and pelagic species, placing the country among the top 10 nations in the international fishing sector. Namibia’s agricultural sector is also important to the country’s economy with a thriving red meat industry and the cultivation of crops such as maize, wheat, pearl millet, groundnuts, beans and cotton.

**ECONOMY**

The economy is expected to expand by 5.6% in 2015, supported by robust construction works, recovery in agriculture and sustained growth in wholesale and retail trade. The relatively stronger growth prediction for 2015 is underpinned by increased construction activities related to mining and public works programmes. Inflation is expected to average 5.6% in 2015 and interest rates are likely to show a moderate up cycle.

**PROPERTY MARKET OVERVIEW**

With its sophisticated infrastructure and a well-developed economy, Namibia offers a wealth of business and property investment opportunities to both local and foreign investors. It has a wealth of attractions and advantages for foreign-owned companies looking for business opportunities thanks to its advantageous legislative and fiscal environment.

The commercial property sector continues to show signs of growth with numerous developments at various stages of construction and these are mainly located in the northern, central and western parts of the country. Across all sectors, fundamentals are strong, most notably is that value growth in the commercial sector is on par with South African commercial property portfolios.

In recent years Namibia has become a new international property hot spot with new developments and ambitious construction projects springing up in most major hubs as well as areas which provide adequate disposable income to warrant development. Most of these developments have been retail in nature such as The Grove Mall of Namibia and smaller convenience centres with grocery stores.

“Possible property reform may introduce amendments to laws which will regulate foreign land/property ownership and urban land development.”

The Property Valuations Act is set to regulate the transparency of valuations done in Namibia. A possible property reform may introduce amendments to laws which will regulate foreign land / property ownership, urban land development as well as measures to curb escalating rentals and sales prices.

Over the last couple of years many locals and foreigners have invested in property as they see value in the Namibian property market. However, like any investment, one needs to understand what the legal requirements are and how these work before investing.

**INDUSTRIAL**

The sector is currently stable and offers good rental income with long-term tenants in sought after locations such as Prosperita, northern and southern industrial areas as well as the Brakwater areas. There is currently an under
supply for units measuring between 250m² and 500m² thus pushing asking rentals upwards. In the northern part of Windhoek there are plans to develop smaller industrial parks, an industrial business park in the Brakwater area as well as another in Lafrenz.

**OFFICES**

In general, office demand has improved and smaller to medium sized developments will come on stream over the next 2 to 3 years. There is an increasing demand for newly built prime office properties with a couple of developments on the northern and southern boundaries of the Windhoek CBD as well as the southern suburbs of Windhoek currently under construction or near completion. These developments will come on stream towards the end of 2015 or early 2016.

Interest in the Windhoek CBD is improving, however, parking still remains a constraint. Locations such as the Windhoek Maerua Mall area located on the southern fringes of the Windhoek CBD and Oshakati in northern Namibia are the most popular office nodes.

**RETAIL**

Retail performed well in 2014 with demand for retail space at regional centres very high while Northern Namibia has seen exceptional expansion as well as future growth for value centres. Walvis Bay is expected to see substantial retail growth over the next 2 to 3 years.

The opening of The Grove Mall, a 55,000m² regional centre in October 2014 had a significant impact on the Windhoek retail landscape bringing new national retailers to the local market. Going forward, The Grove Mall could impact existing retail centres trading in Windhoek with expected decreases in retailer turnovers. Auas Valley Shopping Mall, a convenient shopping centre opened in September 2014, West Lane Centre in Pioneers Park in the western areas of Windhoek also opened while Otjivanda Shopping Centre in Grootfontein is due to be completed in April/May 2015.

Popular nodes for retail include Windhoek Central, Kleine Kuppe/Grove Area (Windhoek), Maerua Mall area (Windhoek), Swakopmund CBD, Walvis Bay CBD, Oshakati CBD and Rundu in Northern Namibia.

**LEISURE**

The leisure sector is stable with the Swakopmund Strand Hotel opening in August/September 2015 while two new hotels are in the planning stages for both Windhoek and Swakopmund.
Top 3 Export Products (2012)

1. Diamonds (non-industrial unworked) (30.1%)
2. Unrefined copper (copper anodes for electrolytic refining) (13.4%)
3. Natural uranium and its compounds (13.2%)
Lagos is home to over 17 million people and accounts for up to 65% of the country’s economic activity despite it not being the capital of the country. Other major developed areas include the capital Abuja, Port Harcourt, Kano and tourism hotspot Calabar – home to multiple cultural and leisure attractions.

For the first time in 25 years, GDP was rebased resulting in Nigeria becoming the largest economy in Africa at $510 billion. Agriculture, the film industry and other services sectors now contribute a large percentage to the GDP, with real estate accounting for 8.01% in 2013. A fast growing population, rising middle class and a large youth population also support current and future growth prospects.

However, Nigeria’s economic performance in 2014 was not particularly commendable. Globally, the Nigerian stock exchange recorded the worst performance with the All Share Index falling 16.22%. Over the second half of 2014, the oil price was slashed from over $100/barrel to sub $60/barrel levels by end of 2014. The drop in oil prices is a serious blow to the economy as up to 70% of government revenue and 95% of foreign exchange revenues are linked to this resource. This also comes with downward revisions to the 2015 budget benchmark oil price in a bid to reduce expenditures by 6%.

Consequently, the volatility and uncertainty led to the devaluation of the naira to N183 per Dollar in late December 2014. Political instability and insurgency in the north also mean that tension across the country is high, even more so given the 2015 elections shaping up to be the most highly contested since the return to democracy in 1999. Nevertheless, the long-term outlook for Nigeria is still robust given the strong demographics and impressive growth prospects.

Nigeria, Africa’s most populous nation is located in the western region of the continent. Its population was estimated at 168.8 million in 2012 and 173.6 million in 2013 with over 60% of the population aged below 24 and over 42% urbanised. The National Population Commission expects the population to grow to 211 million people by 2020.

**PROPERTY MARKET OVERVIEW**

The sector has shown good growth having contributed 8% to GDP in 2013, growing from 2% in the years prior to the GDP rebasing. The rebasing exercise pushed even more investment interest towards Nigeria in all sectors. Domestic and international institutional investors such as insurance companies, private equity firms and sovereign wealth funds have expressed an interest in developments and acquisitions. Risks that may affect the property market include, but are not limited to:

- **2015 elections** – Political instability is one of Nigeria’s inherent investment risks and this is further heightened during election periods. While this may not have a direct impact on real estate prices, some investment decisions especially those coming from domestic investors may be put on hold until the elections are over.

- **Terrorism** – Boko Haram a terrorist group in Northern Nigeria is a major risk factor and has been the cause of an estimated 6,347 deaths in 2014.

- **Oil price and devalued naira** – If the fall in oil prices persists, there could be damning implications for Nigeria’s economy. The devaluation of the naira and poor sentiment will result in poor/low consumer spending in the short to medium term, which would present difficulties for the retail market. The office sector however would be less influenced as market prices are currently being affected by the increased supply of quality office developments coming onto the market.
INDUSTRIAL

This sector has good potential with demand outstripping supply. Most tenants are owner occupiers, typically developing or acquiring their own properties. There is demand for industrial spaces in key nodes which will be further enhanced once key express ways and access roads such as the Lagos-Badagry and Lagos-Ibadan routes are completed.

Reform in the power sector will have a positive spin-off for the industrial sector. Power often pushes up cost of doing business by around 40% and the benefits of the privatisation (though sluggish) will be an incentive for companies to expand or begin production, thus driving demand for space. The government launched the National Enterprise Development programme which is aimed at boosting the industrial sector by leading to the establishment of some car assembly plants of brands such as Hyundai and Kia among others.

OFFICES

Multiple prime grade office transactions and a handful of rental pre-lets concluded during the year. Demand throughout the year was driven by companies in the oil and gas as well as financial services and technology sectors. Strong on-going and prospective development activity across the country, especially in Lagos show that developers and investors are taking an aggressive stance to meet growing demand.

Victoria Island, Ikoyi and Ikeja are the top three popular office nodes in Lagos State. Victoria Island is the commercial capital of Lagos State, with most international and domestic blue chip companies' head offices based in this location. Multiple new commercial developments across this region serve as a significant indication that this region will remain a key hub. Ikeja is more of a residential region with strict planning and zoning regulations to keep this region predominantly residential. Ikeja is the capital of Lagos State, typically a much older region and this is where the state secretariat is located with most government activity taking place in this region. Many companies prefer Ikeja due to lower rentals.

Abuja has a growing office market, but most activity is largely driven by governmental activity. The CBD is the purpose built commercial region in the city centre and commands the highest rentals. Other nodes with current activity are in Maitama and Wuse II where prime grade developments are under construction. Port Harcourt is the capital of Rivers State and is at the heart of the country's oil industry. Most oil companies own the space they occupy, however, prime grade space in this region is scarce.

RETAIL

Growth in this sector has been impressive following the opening of the first modern shopping mall in 2005. Over the past decade, similar malls have opened in established cities like Lagos and Abuja with a few others in less established cities like Enugu and Kwara.

In 2014 we saw a shift in interest as the development pipeline is strong in both Abuja and Lagos and this is expected to continue in 2015. Investors are keen on gaining first movers advantage and supporting the expansion initiatives of various domestic and international brands.

Consumer responsiveness of formal retail in second-tier cities is mixed - many are not used to the system of a one-stop destination for all their retail needs. We expect Nigerians to adjust over the next few years.

Meanwhile, set against the second-tier cities where developers are keen on making an entry as quickly as possible, retail developers in more established cities like Abuja and Lagos are taking location, tenant mix and size into a lot more consideration. Although some developers would like to develop malls larger than 25,000m², there are currently not enough tenants to fully occupy these malls. This is set to change as new retailer interest in Nigeria (apart from South Africa) is increasingly seen from brands and franchisees from the Middle East and Europe.

Lagos, Abuja, Port Harcourt and other cities in the south-east are key hubs for retail centres. Although Port Harcourt is the oil and gas hub, the region has been largely neglected as it has not seen retail expansion similar to Abuja and Lagos.

Jabi Lake Mall in Abuja is set to become a major entry point for retailers for many new global luxury brands given the mall's stylish design and Abuja's higher buying power.

LEISURE

The leisure market is growing rapidly with global hotel brands including Marriott, Grand Hyatt and The Luxury Collection among others looking to develop in Nigeria. According to the latest HRG report, Lagos had the fifth highest average room rate at £214.98 when ranked alongside Paris, Zurich, Geneva and New York City. Moscow topped the list at £259.37. With growth in hotel room supply, the sustainability of these high rates may not be as certain.

RESIDENTIAL

According to the World Bank, there is a large deficit of around 17 million housing units at the lower end of the market with available “affordable housing” concepts proving to be not so affordable after all. There is also shortage of affordable housing units for the growing middle class in Lekki, Ikoyi and Victoria Island.
Top 2 Export Products (2012)

1. Petroleum oils and oils obtained from bituminous minerals and crude (84%)
2. Natural gas, liquefied (10.8%)

NIGERIA

Country Size
923,768km²


Urban Population: 50.9% (2013)

Estimated Adult Literacy Rate (people over 15 years)
51.1% (2006-2012)

Estimated Youth Literacy Rate (people between 15 and 24 years)
66.4% (2006-2012)

GDP annual growth rate (quarterly)
2014: 5.94% (Q4)
2013: 6.77% (Q4)
2012: 3.64% (Q4)

Unemployment Rate 7.5% (2012)
Youth Unemployment Rate (15 - 24 years old) 13.7% (2012)

Number of Mobile Subscribers

78% of households that have at least 1 mobile phone (2013)

Internet users 70,300,000 (June 2014)

Inflation Rate 7.9% (Nov 2014)

Interest Rate 13% (Dec 2014)
The general property market continues to grow and the quality of service delivery is gradually improving, a factor which has been attributed to the entry of tenants, property developers and property management companies from regional developed countries such as Kenya.

In 2014 the sector saw emphasis on institutions and businesses to occupy properties with correct permits that meet local authorities’ rules and regulations. As a result, tenants relocated from residential homes which were converted into offices to office buildings that cater for their needs.

It is expected that existing policies will continue to impact positively on the property market in 2015. For example, in 2014 developers were required to go through 13 procedures, spanning across a cumulative total of 104 days to acquire all required permits and documents before (construction permit) and after construction (occupancy permit and a freehold land title among others).

The financial cost for all these procedures were equally high and an impediment for smooth investments. The Rwandan Implementer, charged with this particular indicator and the City of Kigali’s Construction One Stop Centre have been involved in ongoing consultations with all concerned parties to find ways of improving efficiencies. The consultations have seen significant improvements with a reduction of procedures from 13 to 10 and time taken to acquire the relevant documents from 104 days to 77.5.

Most of Rwanda’s industrial parks are used as warehousing facilities given that the country imports most of its finished products from Kenya. Around 20% of those who have built their own industrial warehousing facilities are located in new and upcoming Special Economic Zones (SEZ) located close to the airport. Little manufacturing is done locally.

Rwanda SEZ - a flagship of the Rwanda Development Board in partnership with the private sector, remains the key developer of industrial developments in Kigali which is the most active town currently when compared to other locations.

Unless there are new key players in manufacturing and bulk retailers entering the market, demand for properties will remain stable in 2015. The development of SEZ hubs will see an increase in supply and the sector is expected to make downward adjustments in current asking rentals.

Government institutions, NGOs and international companies setting up operational offices in Kigali are drivers of the market. Rwanda currently seeks knowledge based human resources and more operations are being provided by consulting institutions in sectors such as banking, insurance, telecommunication and manufacturing which will further drive office space demand.

Currently, there is little demand from international organisations and these are considered key tenants for office space. However, landlords will have to adjust rentals and competitively market large vacant spaces to attract potential tenants.
In addition to available rental space from existing properties, there has been an additional +20,000m² in the last quarter of 2014, a factor which could affect reduction in rental pricing. Two major office developments opened in 2014, the Rwanda Social Security Board Tower (13,436m²) and the 6,000m² Bosco building near parliament. With ongoing construction activity and a bigger supply to come onto the market, the office sector is expected to make downward adjustments in asking rentals.

New developments currently under construction or in the planning stages include Cogear Bank Headquarters, City of Kigali Headquarters, Kigali Heights and the planned headquarters for I&M Bank.

**RETAIL**

Formal retail is a new phenomenon in Rwanda, however, with evolution in shopping patterns and entry of regional brands such as Nakumatt Holdings and Simba Supermarket demand for formal space is on the rise. The construction of shopping malls is changing the retail market from high street trading to enclosed centres which is gradually becoming popular with locals adapting to formal retailing under one roof.

“Construction of shopping malls is changing the retail market from high street trading to enclosed centres.”

Demand is expected to remain relatively stable given the slow entry of new business operators into the country. Furthermore, the low purchasing power of consumers continues to affect new retailers entering the market which has seen some of them scale down operations and newcomers reluctant to start operations.

**LEISURE**

Rwanda enjoys excellent security, low crime rates and free flowing traffic. The country has capitalised on this to host international conferences and regional meetings while hotels and other service providers capitalise on this to increase their revenues.

Gorilla driven tourism and the country’s natural scenery, the prominent Thousand Hills, continues to draw more tourists which bodes well for the leisure sector in 2015.
Top 3 Export Products (2012)

1. Niobium, tantalum, vanadium ores and concentrates (23.7%)
2. Coffee (not roasted/decaffeinated) (23.5%)
3. Tin ores and concentrates (19.2%)

Estimated Adult Literacy Rate (people over 15 years) 65.9% (2006-2012)
Estimated Youth Literacy Rate (people between 15 and 24 years) 77.3% (2006-2012)

Country Size: 26,338 km²
Population: 11.78 million (2013)
Urban Population: 19.7% (2013)

Internet users: 1,110,043 (June 2014)

GDP annual growth rate (quarterly)
2014: 6.2% (Q4)
2013: 4.1% (Q4)
2012: 8.1% (Q4)

Unemployment Rate 0.6% (2012)
Youth Unemployment Rate (15 - 24 years old) 0.7% (2012)

Inflation Rate -0.4% (Dec 2014)
Interest Rate 6.5% (Dec 2014)

60% of households that have at least 1 mobile phone (2013)
In 2014 Zambia was the seventh fastest growing economy in Sub-Saharan Africa and the 10th fastest in the world with an estimated GDP growth of around 6%. Notwithstanding the fact that Zambia has some of the world’s biggest reserves of copper and vast tracts of arable land, the efforts by the government to diversify the economy, showed in the country’s economic performance. Economic growth was underpinned by agriculture, manufacturing, construction, energy, transport, communication and the financial sector.

“The current account deficit was 6.5% of the country’s GDP in 2013 and predicted to be around 5.4% in 2014 with predictions for 2015 around 3%. The reduction of the deficit is in line with the government making capital available for private sector growth with expenditure aimed at infrastructure, improved public service delivery and a more efficient government wage bill.

The Kwacha had depreciated considerably in the first half of 2014 but due to measures taken by the Bank of Zambia it became more stable towards the end of 2014. The inflation target for 2014 was 6.5% and recorded 7.9% at the end of 2014. This may be attributed to the depreciation of the Kwacha.

Zambia has a small population of around 14.6 million people and is one of the most urbanised countries in Sub-Saharan Africa with around 40% of the population living in urban areas. The country has an average annual population growth rate of 3.3% with an urban population growth rate of 5.1%, indicating a high rate of urbanisation.

ECONOMY

Zambia ranks 13th out of 48 countries in Sub-Saharan Africa according to the African Retail Development Index 2014. This index is based on macroeconomic and retail-specific variables for each country. These variables include country and business risk, market size (retail sales per capita, population, urban population and business efficiency), market saturation (share of modern retailing, number of international retailers, modern sales area per urban inhabitant and market share of leading retailers) and time pressure.

Political instability affects macroeconomic policy making and 2015 will be filled with uncertainty pending the outcome of bi-elections. Also the weaker local currency against the US$ is likely to impact purchasing power as goods will become expensive.

Retail supply is still in its early stages of development, both in terms of quality and diversity of retailers and in terms of the shopping centres themselves. Only 20% of retail space is formal retail. Zambia’s capital Lusaka is where most businesses operate as it has a more developed infrastructure and a vast number of consumers. The potential for retailers to be successful in Zambia is illustrated by the success of South African retailers in the country. These include Shoprite, Pick n Pay, Mr Price and the Foschini Group. Shoprite, in particular is a leader with 23 outlets followed by Pick n Pay with 9 outlets. Pick n Pay opened its first two outlets in 2010 and picked prime retail locations such as Makeni Junction Mall and Levy Business Park in Lusaka.

RETAIL
DEVELOPMENTS

There are a number of retail construction sites in the works, including plans for a new satellite town just outside of Lusaka which will be anchored by a 100,000m² retail centre, 3 hotels including at least one 5-star hotel, 3 office parks, convention centre, high density residential units and at least 8,000 expensive residential houses around the shopping mall.

However, there are risks for retailers. Zambia is landlocked and relies on its neighbouring countries’ co-operation in exporting and importing, which add up to 40% of the cost of the final product.

New or potential entrants include Giordano who opened a store at East Park Mall in January and Choppies is planning to enter the market in 2015. Major centres within Lusaka include Manda Hill and Levy Junction while high street retail is still spread across the city with few consolidated commercial areas.

New developments include Mukuba Mall (Kitwe), Kafuba Mall (Ndola) and Solwezi City Mall (Solwezi) while upcoming cities of Kafue, Solwezi and Chingola are seeing demand for increased retail space. Furthermore, continued urban migration is further fuelling the demand for retail space.

The strong performance of the sector is linked to improvement in transport infrastructure, stable macro-economic fundamentals and the upgrade of roads which will open up growth opportunities for the retail sector as accessibility becomes a consumer preference.
### Top 3 Export Products (2012)

1. Cathodes and sections of cathodes (47.6%)
2. Unrefined copper (copper anodes for electrolytic refining) (26.1%)
3. Maize (excl. seed) (5%)

### Country Size

- **Population:** 14.58 million (2013)
- **Urban Population:** 40% (2013)
- **Country Size:** 752,614 km²

### Estimated Adult Literacy Rate (people over 15 years)

- **61.4% (2006-2012)**

### Estimated Youth Literacy Rate (people between 15 and 24 years)

- **64% (2006-2012)**

### GDP annual growth rate (yearly)

- 2013: 7.1%
- 2012: 7.3%
- 2011: 6.6%

### Number of Mobile Subscribers

81% of households that have at least 1 mobile phone (2013)

### Unemployment Rate

- **13.1% (2012)**
- **Youth Unemployment Rate (15 - 24 years old)**
  - **24.9% (2012)**

### Inflation Rate

- **7.9% (Dec 2014)**

### Interest Rate

- **12.5% (Dec 2014)**

### Internet users

- **2,313,013 (June 2014)**
Africa, the world’s second-largest and second-most-populous continent is also a sought after leisure destination. From the flora to fauna, the wildlife and heritage places as well as the many places of attraction throughout the continent, the leisure sector is seeing growth in the number of visitors as well as new hotel developments to meet demand.

**GDP, TRAVEL AND TOURISM**

According to World Travel and Tourism Council reports, travel and tourism in each African country surveyed contribute directly to their respective country GDP’s via economic activities generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). It also includes, for example, restaurant activities and leisure industries directly supported by tourists visiting those countries.

Of the 11 countries featured in this report, Mauritius is at the top of the list contributing 11.3% with Nigeria having the lowest percentage contribution of 1.6%. Direct contributions of travel and tourism to GDP in 2013 can be seen in the figure below.

**Direct Contribution of Travel and Tourism to GDP (2013)**

![Bar chart showing direct contribution of travel and tourism to GDP for 11 African countries in 2013.](chart)

*Source: World Travel and Tourism Council*
Continued growth is expected for all countries. When looking at 2014 growth percentages for direct contributions to GDP, Ghana is expected to achieve the highest growth of 9.7%, followed by Zambia (8.1%), with the lowest percentage growth expected in Nigeria (2.5%) followed by Kenya (2.9%).

Furthermore, growth projections for 2024 (2014 – 2024 annualised real growth adjusted for inflation) reveal that Namibia is expected to achieve a 9.1% growth, followed by Zambia at 7.6% with the lowest growth being forecast for South Africa (3.9%).

Tourism Growth Projection (2014 – 2024)

Source: World Travel and Tourism Council

TOURISM STATISTICS

The United Nations World Tourism Organisation (UNWTO) indicated that in 2013, approximately 55.7 million international tourists visited the African continent. Roughly 36.2 million visitors travelled to Sub-Saharan Africa and 19.5 million visited North Africa.

Jovago, known as Africa’s leading hotel booking platform, compiled a list of the most visited countries in Africa in 2013 according to the number of visitors in conjunction with figures released by UNWTO.
Top 10 visited countries in 2013 by number of tourist arrivals

<table>
<thead>
<tr>
<th>Country</th>
<th>No of Tourist Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>+ 10 million</td>
</tr>
<tr>
<td>South Africa</td>
<td>9.5 million</td>
</tr>
<tr>
<td>Egypt</td>
<td>9.1 million</td>
</tr>
<tr>
<td>Tunisia</td>
<td>6.2 million</td>
</tr>
<tr>
<td>Algeria</td>
<td>2.7 million</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.1 million*</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1.8 million</td>
</tr>
<tr>
<td>Kenya</td>
<td>1.6 million*</td>
</tr>
<tr>
<td>Uganda</td>
<td>1.2 million</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1 million*</td>
</tr>
</tbody>
</table>

Source: Jovago and UNWTO
(Note: *2013 data not provided by UNWTO thus Jovago made assumptions based on 2012 data.)

DEVELOPMENT PIPELINE

A 2014 hotel chain development pipeline in an Africa report by the W Hospitality Group noted that Sub-Saharan Africa superseded North Africa in terms of hotel chain development pipelines. Since 2010 Sub-Saharan Africa has showed a growth trend whereas North Africa has been relatively stable with a decrease being recorded in 2014.

Hotel Chain Development Pipeline – Number of Hotels

A possible reason for stagnant growth and subsequent decrease in growth for North Africa may be as a result of unrest in a number of markets e.g. Egypt.

Terrorism and political unrest in many African countries are likely to negatively impact the leisure market. In mid-2014 and early 2015 the US and British governments warned citizens against travelling to countries such as Kenya and Nigeria as a result of terrorist attacks in these countries.

The W Hospitality Group report surveyed 38 countries up from 31 countries surveyed in 2013. New countries added to the report included Cameroon, Congo, DRC, Equatorial Guinea, Liberia, Niger, South Sudan, Togo and Zambia and at the time of releasing the report the DRC, Liberia and South Sudan did not have any branded hotels.

When focusing on the different regions within Africa, the breakdown of rooms in the pipeline can be seen in the following figure. It can be noted that in Sub-Saharan Africa, the focus is on West Africa, followed by East Africa, Central Africa and then Southern Africa.
2014 Hotel Chain Development Pipelines - Sub-Regional Breakdown (rooms)

HOTEL GROUPS EXPANDING

A vast number of hotel groups have expanded and/or have plans to expand across the continent with a number of developments being planned or underway, all of which are expected to lead to increased job creation during construction as well as sustainable local employment on completion.

Some examples include, but are not limited to:

- At the end of 2014 the Middle East and Africa hospitality group, Rotana Hotels signed an agreement for a 5-star 254 rooms, suites and apartments property in Dar es Salaam, Tanzania. The company currently has a presence in North and Northwest Africa in Algeria, Mauretania, Morocco and Libya. They have also indicated interest in other Sub-Saharan Africa countries.

- Radisson Blu (a subsidiary of Carlson Rezidor), which has hotels in Ethiopia, South Africa, Cote d’Ivoire, Nigeria and Rwanda is scheduled to open its first hotel in Nairobi, Kenya, in 2015. This 5-star hotel will feature 271 rooms, a 600m² ballroom, restaurant and a health club. Furthermore, Park Inn Nairobi, a business and leisure facility, is expected to be launched in addition to Park Inn Cape Coast and Park Inn Rwanda.

- Carlson Rezidor also plan to open a Radisson Blu hotel in Uganda and another in Ghana. The Radisson Blu Hotel Kampala will be the group’s first property in Uganda and is expected to open towards the end of 2016 while the Radisson Blu Hotel Accra Airport is expected to open in 2017. The Carlson Rezidor group currently has 30 hotels under development on the African continent.

- Marriott International, which acquired the Protea Hospitality Group at the beginning of 2014, has nine developments set to open by the end of 2015. Further to this, the group has indicated that they plan to open 30 new hotels across Africa by 2020 in countries such as South Africa, Nigeria, Uganda, Ethiopia, Ghana and Rwanda.

- City Lodge is set to build two new hotels in Nigeria and Tanzania with construction expected to commence in 2015 on both hotels. The group continues to develop in South Africa and has noted that possible opportunities and considerations are underway in countries such as Kenya, Uganda, Mozambique, Namibia and Zambia.

Although it may take some countries longer to reach booming tourism figures, the number of visitors and new developments, mostly luxury type accommodation, speaks to the sector’s expansion and growth. From market reports it is evident that the continent has vast potential with room for growth in this sector, particularly for hotel groups to develop budget and mid-market brands currently in short supply.

Source: W Hospitality Group
In the past few years a lot has been said about economic growth, urbanisation and the rise of the African middle class, but not much on the affordability of housing on the continent.

Recent reports forecasted that Sub-Saharan Africa’s GDP growth will be about 4.9% compared to 4.5% in 2014. This forecast was down from an initial 5.8% due to the continued fall in commodity and oil prices.

Notwithstanding the continued growth of the various economies, a large percentage of the population remains poor with an estimated 46.8% of Sub-Saharan Africa’s population living on $1.25 or less per day. The desire to share in economic wealth has led to people moving from rural areas to cities looking for access to goods and service, education and work opportunities.

Data also shows that around a third of Africans live in urban areas and the UN predicted that by 2025, an estimated 45% of the population or around 145 million people will be urbanised.

Furthermore, economic growth has resulted in the emergence of the middle class (anyone who spends between US$2 and $20 a day). In 2011 the African Development Bank estimated that around 34% of the continent’s population, or 327 million people can be regarded as middle class, however, the percentage of middle class in most countries is relatively small with around 60% belonging to the “floating class” (those who survive spending between $2 and $4 per day). The floating class is very vulnerable and can easily slide back into poverty.

The shift in population and the emergence of the middle class resulted in increased demand for housing, however, affordability remains a major challenge in the African housing markets. Rapid urbanisation and constraints such as poverty, a lack of long-term financing, availability and high cost of serviced land and rising cost of building materials will mean many of the urban population will end up living in urban slums.

“Property markets in most countries are starting to develop and have shown encouraging growth over the last two decades.”

In general, property markets in most countries are starting to develop and have shown encouraging growth over the last two decades with countries such as Angola, Mozambique and Kenya seeing urban property prices jump by as much as 100% which puts pressure on housing affordability for first-time buyers. The shortage in the supply of housing in various countries is set out below:

- Kenya requires around 234,000 new housing units per annum but only provides between 20,000 - 30,000 of which only 20% is aimed at low income households.
- In urban areas within Zambia 600,000 units are needed annually with less than 1% of this amount being provided.
- Ghana estimates that the backlog in the provision of affordable units is between 300,000 and 500,000 units with an annual demand of 75,000 to 140,000. The current supply of formal housing is around 3,500 per annum and this is overshadowed by the supply of informal units.
- It is estimated that South Africa requires around 1 million affordable housing units which are currently being built at only 20,000 units per annum.
• The housing gap in Nigeria is around 17 million units with the biggest demand being for rental units and affordable low cost housing. Current supply focuses on luxury apartments for sale.

• The total housing needs in Kigali (Rwanda) alone stands at 458,265 units of which 78% should be low cost units.

• The demand for housing in Namibia is around 100,000 houses with just a little under 4,000 houses added to that list every year. In Windhoek the backlog stands at 7,000 houses.

• In Malawi housing stock is low and this drives prices up thereby making housing unaffordable for many. Only 20% of housing delivery is by the formal sector.

From the above, the inadequate production of affordable formal sector housing has resulted in the rapid explosion of housing in slum areas and informal settlements which lack adequate decent shelter, clean water and sanitation systems, electricity and affordable public transportation systems.

These areas are usually characterised by overcrowding and house both the ultra-poor and more affluent households who may not have the opportunity to enter the formal housing market due to affordability factors or lack of opportunity.

While the Africa growth story attracts many investors wanting to enter the continent, some of Sub-Saharan Africa’s poor population continue to live in poverty in slums and informal settlements.
GHANA
Is the Legislation on Real Estate Fit for Purpose?

What was initially intended to address the vulnerability of residential tenants to unscrupulous landlords now has challenges for the commercial property sector.

The Rent Act of 1963 (Act 220) was passed to protect residential tenants from arbitrary increases in rent and frequent evictions by landlords.

Furthermore, the Act established the Rent Control Division, responsible for monitoring and establishment of guidelines relating to the monitoring of landlord and tenant relations.

Ghana’s real estate sector has experienced a boom benefitting from direct inflow of foreign investments largely due to the oil find in 2007 and the enabling economic environment coupled with ease of doing business.

The combined rent roll from existing commercial property stock is estimated to be in the region of US$55 million per annum. For the most part, occupancies are structured on short-term lease agreements which range from 2 to 5 years.

While the significant evolution of the real estate sector is evident from the last 12 years, the Act’s application in modern commercial property transactions now seems like an unsuitable fit as it poses new challenges for commercial property lease agreements.

CHALLENGES

All tenancy agreements or leases are drafted in accordance with the Rent Act of 1963 and in this respect enforcement of specific provisions, particularly terminations and breaches are required to be in line with the Act. From the asset management perspective, the Act has proved to be very restrictive by way of its application to the contemporary commercial real estate market.

With particular reference to lease terminations and rent defaults, property owners have faced excessive challenges since the Act as it does not provide adequate protection to the landlord seeking redress in the event of tenant defaults.

RENT ARREARS RECOVERY

Consequently, commercial property owners are incurring heavy losses on their investments due to their inability to successfully prosecute tenants in default of rent. In some cases, tenants have accumulated large arrears and have subsequently absconded.

Previously, property owners have protected such risk exposure by way of collecting 2 to 3 years rental advances, currently, it is difficult to obtain more than one year advance rental payments due to the large sums involved.
The Act allows for not more than six months advance rent, however, the tenant can elect to pay higher, which used to be a market norm some 4 years ago. Additionally, the eviction process is a lengthy and costly exercise with minimal chances of recovery of any costs incurred.

“Conservative estimates indicate that property owners are holding in excess of $5 million worth of rent arrears.”

Conservative estimates indicate that property owners are holding in excess of $5 million worth of rent arrears on their books, not to mention abortive legal costs, particularly from sitting tenants. Sitting tenants in this instance means occupying tenants within their lease periods and statutory tenants.

**ASSET MANAGEMENT AND TENANT MIX**

With specific regards to shopping malls, these properties’ longevity and continuous investments depend largely on the landlord’s ability to change the tenant and retail mix in the mall to cater for changes in taste and demand from shoppers.

In an evolving retail environment new retail brands popular among consumers continue to enter the market. Landlords must continuously reassess the tenant mix to meet consumer demand.

However, by granting existing tenants the right of occupation in perpetuity, the Act prohibits landlords from meeting consumer demand as they cannot replace tenants who no longer add value to the mall’s tenant mix.

Secondly, asking rentals for commercial properties is a factor of market conditions where the economic principle of supply and demand determines the level. The Act allows for existing tenants to remain in the premises after lease expiry and to continue paying the rental that was applicable to the expired lease agreement.

Market conditions may dictate that the market rental for the premises may be significantly higher than such old rental resulting in landlords incurring financial losses. Such rental to be paid by a statutory tenant can only be changed by the Rent Magistrate, which entails a long, costly procedure for the landlord – the landlord would have to apply and there are costs to pay to the Rent Office.

Going forward, ultimately the goal is to seek exemptions to the Act where both parties are able to enter into a tenancy agreement which can be ‘contracted out’ either in whole or from specific clauses. This would effectively create a good basis for flexible and innovative lease options which adds value to an investment.
Kenya is strategically located within the eastern part of the African continent, providing products to its landlocked neighbours to the west. To this extent Nairobi has well-developed industrial areas that accommodate various manufacturers and non-manufacturing companies. These areas include:

- The main industrial area located on the periphery of the CBD, Athi River and Baba Dogo, Dandora, Kariobangi, Mathare North all of which accommodate mainly manufacturing companies.

- The secondary industrial areas are located along Mombasa Road, Embakasi and Mlolongo all of which accommodate mainly distribution and light manufacturing companies.

"New industrial areas are situated in Thika, Kikuyu and Ruiru towns which are on a positive growth curve attributable to improved infrastructure."

New industrial areas are situated in Thika, Kikuyu and Ruiru towns which are on a positive growth curve attributable to improved infrastructure and government developments. These towns cater for manufacturing companies and are currently attracting distribution and light manufacturing companies.

While the main industrial area is congested and consists of older warehouses, it remains popular due to the in-built infrastructure, close proximity to the CBD with the majority of the warehouses being owner occupied, therefore low vacancies in this area. The secondary and upcoming industrial areas are more strategically located in relation to main arterial roads and/or the recently completed bypasses.

They are easier to access with the opportunity for companies or developers to purchase cheaper parcels of land to construct more modern warehouses in decongested industrial areas.

**DRIVERS OF THE INDUSTRIAL MARKET**

The manufacturing sector continues to remain a key contributor to the economy. It mainly focuses on the production of electronics, vehicle assembly, publishing, small-scale consumer goods (plastic, furniture, batteries, textiles, textile, cigarettes and flour), cement, aluminum, steel and glass among others.

In the past three years the manufacturing sector has been declining due to high costs of production, strong competition from imported goods, high costs of credit, volatility in oil prices and the general elections. However, the sector experienced positive growth in 2014 due to political stability, stronger monetary policies and increased government intervention which includes the development of industrial parks in Nairobi and other urban areas, improvement of the current Export Processing Zones and the implementation of the Special Economic Zones Bill. All these interventions allow for easy importation of necessary raw materials and exportation of finished goods.
From a logistics and distribution perspective, the World Bank Logistics Performance Index undertaken in 2014 ranked Kenya at 74 with Germany being ranked as number 1, South Africa 34, Rwanda 80 and Tanzania 138. Kenya scored lowest in the efficiency of the clearance process by the border control agencies but scored highest on the timeliness of shipments in reaching destination within the scheduled or expected delivery time.

Over the years, the standards and best practices in warehousing have evolved with practitioners now placing greater emphasis on time, cost, energy consumption, technology, high quality concrete floors for efficient logistics facilities and efficiency of warehouse operations through the implementation of various management systems that monitors the warehouse’s throughput (in pallets/trucks/hour) among other outputs.

While the international industrial markets such as Germany, South Africa, United Kingdom and the United States have constructed and manage sophisticated logistic and distribution centers, the market in Kenya is slowly shifting in this direction due to the increasing international investors influence with more organisations looking to invest and/or set up in Kenya.

Current demand for warehousing exceeds supply as Fast Moving Consumer Goods (FMCG) companies continue to increase their storage capacity due to increased demand for consumer goods driven by the growing population, increased spending power and easy access across borders within the East African region. However, there is a need for local industrial developers to begin constructing warehouses as per best practice international standards in order to achieve higher returns on investment as demand for more sophisticated warehouses is on the rise.
Windhoek has and will in future experience a major construction boom in the retail sector. The latest regional mall to open its doors within the Kleine Kuppe suburb of Windhoek on 23 October 2014 was The Grove Mall of Namibia. The Grove Mall measuring 55,000m² is the biggest single retail development in the history of Namibia. In addition to this, Westlane Shopping Centre with a GLA of 5,400m² opened its doors during the latter part of 2014, providing the Windhoek suburb of Pioneerspark with a convenient shopping experience.

Megabuild Centre, located just opposite The Grove Mall in Kleine Kuppe, measuring 18,000m² will be completed in the second quarter of 2015 with at least two more convenience centres being planned for Kleine Kuppe which will open within the next 24 months. Wernhil Park Shopping Centre, located in the heart of the Windhoek CBD, is in the process of completing the extension of the centre from 37,000m² to just under 60,000m².

Looking at the above, it begs the question whether Windhoek in general might soon be faced with an oversupply of retail which ultimately could have a significant impact on overall trading densities, rental level, foot traffic and ultimately property values.

Over the past 10 years, the threat of decentralisation as well as retail oversupply has always been a concern yet none of the two ever materialised. The availability of disposable income and the need for being entertained has drawn shoppers to retail malls in Windhoek, which has very little else to offer from an entertainment perspective. This has resulted in double digit year-on-year trading density growth for many retailers and further fuelled the need for an even bigger retail offering for Windhoek.

“The availability of disposable income and the need for being entertained has drawn shoppers to retail malls in Windhoek, which has very little else to offer from an entertainment perspective.”

The Grove Mall of Namibia answered the call for more retail space and not only did it fill the undersupply of retail within the southern suburbs of Windhoek, but the centre also enticed several new retail brands to enter the Windhoek retail landscape, thus making it a prominent and worthwhile destination for mainly the middle to upper income consumers. New retailers opening at The Grove include Vida e caffè Lacoste, Levinsons, Wakaberry, John Craig, Old Khaki, Earth Child, Forever New, Guess, Coricraft, Dischem and Poetry to name but a few.

Based on the latest census figures Windhoek’s current population is around 350,000 people (although the unofficial figure may be closer to 450,000 – 500,000). Looking at the population figures the possibility for any further retail extensions would thus be questionable however at 37,000m², The Wernhil Park Shopping Centre currently draws approximately 1.2 – 1.3 million feet a month and by all accounts is substantially overtrading. In
addition to this, the centre, being a CBD based Centre, has evolved from focusing on all income segments to drawing mainly the lower to middle income segment of Windhoek. This in itself sets it apart from the Grove Mall as well as Maerua Mall in Windhoek. The aim to further grow CBD market share within a city that is growing at a fast pace and thus allowing substantial development outside of the CBD, is reason enough to further expand. The Wernhil Phase 4 extension, which is due to kick off early 2016, will thus be focusing on three key areas, namely, to ease overtrading, provide additional space based on substantial retailer demand and to ensure it counters the ever present risk of decentralisation.

Further supporting Wernhil Park’s decision to expand is the growing trend of CBD living. The future 77 on Independence lifestyle apartment and retail development will add to the much needed upliftment of Windhoek’s CBD by providing residential apartments within this area.

CBD residential developments have not been a focus by developers in the past, and 77 on Independence as well as several other residential CBD developments (some already under construction), will hopefully not only strengthen the focus on the existing CBD living niche, but will also create a trend for other developers to follow suit and assist by adding CBD living opportunities and by doing so, aid in the curbing of decentralisation within Windhoek. 77 on Independence is planned to include 165 upmarket residential apartments as well as a small retail mall which will link Independence Avenue to the Old Breweries Craft Market. The development commenced mid-2014 and is earmarked to be completed by the second quarter of 2016.
In recent periods, Nigeria has emerged as an appealing destination for institutional investors worldwide. This rise has been centred on the country’s strong demographic profile, impressive GDP growth rates and inherent opportunities due to infrastructure deficits and low financial services penetration rates.

Although the country’s ranking for ease of doing business is very low, Africa’s largest economy offers high yields and continues to attract investors looking for attractive returns on investments. Many investors eyeing the country see Lagos as the entry to West Africa and those with flagship investments in South Africa look to Nigeria for subsequent investments.

**INSTITUTIONAL INVESTORS**

The Nigerian institutional investment market, among the core asset classes like equities and fixed income, has been impressive in the last decade, with large domestic and international institutional investors making investments. Attractive returns, despite a host of risks, has meant aggressive interest from yield seeking investors and frontier/emerging market funds who have placed heavy weightings on Nigeria.

However, institutional investment into the real estate sector was initially sluggish, mainly because of the shortage of investment grade assets, meaning that investors needed to develop to make an entry into the market.

It was not until 2004 with the development of the Palms Shopping Mall for $40 million that investor confidence and investment awareness gradually grew. The developer of the mall exited the investment in 2007, demonstrating inherent opportunities and strong returns, thereby encouraging other investors to enter the market through their own developments. From the initial investments in retail, the sector now boasts investments in hospitality and office properties from private equity, domestic institutional investors and African focused property funds.

As a result, the success of the primary market and a strong development pipeline has led to an influx of new global investors and has opened up the way for the secondary investment market, leading to what could be a potentially vibrant market for quality asset acquisitions. Investors in this sector include global financial service firms, global and domestic insurance companies, property funds, investment banks and asset management firms.

Global funds with European and American origination are also eyeing the market as they are looking to diversify their portfolios and improve performance with high yields often seen in this market.

These investors would typically invest by developing prime grade office or retail properties in first tier cities such as Lagos and Abuja, while others focus on shopping centres in various locations across the country. This demonstrates that even though Lagos remains the focal investment point, investors are increasingly looking further afield.

Investors are mostly interested in the office and retail sectors. The retail and office markets are both currently dominated by developments with limited acquisition transactions seen. Nonetheless, there is aggressive
interest from investors, both domestic and international to acquire stakes (in part or full) in prime office properties. Demand currently outstrips supply in the industrial sector thus pointing to untapped growth potential. As the Nigerian economy begins to industrialise in the next decade following new policies from the government, we believe we will see more activity in this sector.

**DRIVERS OF INVESTMENT GROWTH**

The expansion of international property funds and financial service investors in Nigeria are contributing to growth in institutional investment. Additionally, many local financial services investors, in particular insurance and pension funds that have large capital bases are also looking to allocate more funds to the real estate sector. Nigeria’s strong demographic profile, an emerging middle class and rapid urbanisation attracts many investors while demand for quality retail offerings further boosts investment in this particular sector.

A report by the World Bank Group in June 2014 ranked Nigeria 185 out of 188 countries when it came to registering property - it has remained in this position for the past two years. With stakeholders and investors keeping up pressure on the government to reduce fees and make the land registration process easier, government agencies have finally responded. In early 2015, an executive order was signed by the Lagos State Governor, reducing land transaction fees in the state from 13% to 3%.

The government also recently began the process of implementing a new e-approval system where the Governor can approve certificates of occupancy electronically. This was also followed by the creation of a draft bill to consolidate all land registration legislation into a single legislative document to ease the land registration process and reduce bureaucracy. On the other hand, local pension funds are keen to invest in the real estate sector but stringent regulatory requirements from the National Pension Commission mean they are unable to allocate more than 5% in the real estate sector. In developed economies, Pension Funds often allocate up to 20% and more into the real estate sector.

Lack of market data remains a challenge as investors would need information about the market in general to guide their investment decision making. Political instability and wide spread corruption are among the challenges currently faced. Some of these factors often lead to misallocation of funds and the inhibition of legislation for personal benefit. Many of these factors will be heightened during the 2015 elections, expected to be the most contentious since 1999. Power is one of Nigeria’s greatest problems. According to estimates from the federal government, power related challenges increase the cost of doing business by up to 40% and this stifles investment across the board. This often stands as a strong disincentive for international market players keen on making an entry.

**IMPACT ON REAL ESTATE SECTOR**

With expected growth in the secondary investment market, developers are starting to develop better quality and more marketable assets for investments. In efforts to maintain a competitive edge, we are observing that they are beginning to introduce/include mixed-use elements or build to meet international best practice in sustainability. Already, some are embracing sustainability practices by building to standards set by the US Green Building Council (LEED).

As new global investors enter the office and retail sectors, many local investors will begin to adjust to incorporate typical practices from new entrants. For example, new dynamics are being seen with leasing practices as landlords begin to consider more tenant friendly incentives.
Over the past five years, market analysts have described Zambia as a fast growing economy with growth averaging between 6.5% and 6.9% annually compared to the economic growth rate for the SADC region which averaged around 5.14%.

Zambia has primarily been dependent on the sale of copper for income generation. Following the slump in copper prices, successive governments have been keen on diversifying the Zambian economy and sectors such as manufacturing, agriculture, tourism and transport have received support from the government. Like most African countries, Zambia is faced with an imbalance between development projects to undertake and the availability of resource.

Zambia has managed to overcome this challenge by opening up its economy to foreign direct investments (FDIs) and today FDIs are reflected in the foreign ownership of local economic revenue generation production facilities. Predominantly, foreign direct investment has been seen in sectors such as agriculture, manufacturing, mining, services and tourism.

“For an investor perspective, borrowing is treated as tax deductible expenses and hence this reduces the amount of corporate tax payable in the country.”

If Zambia’s developmental course is to be maintained, there is a need to analyse the flow of foreign direct investments and seek out the best options in which the country could maximise the positive potential of this investment.

**SOURCES OF FDIs**

Although over the years, the composition and amount of FDIs received came from various sources, certain countries remain major contributors to FDI in Zambia. Among these countries are Canada, the United Kingdom and China. Other countries contributing to FDI include Ireland, South Africa, Singapore and the Netherlands.

**COMPOSITION OF FDIs**

The composition of FDIs has evolved over the years. FDIs were mainly generated through reinvested earnings followed by borrowings from affiliates. This trend has changed somewhat in that, the bulk of FDIs are now dominated by borrowing from affiliates and less of reinvested retained earnings.
This shift has two implications - from an investor perspective, borrowing is treated as tax deductible expenses and hence this reduces the amount of corporate tax payable in the country where revenue is generated. From a government perspective, the government would want to maximise the potential tax contribution and hence this move would be opposed by the government.

**SECTORS FUNDED BY FDIs**

FDIs have mainly been channelled to the mining and quarrying (US$1,375.5 million) as well as manufacturing sectors (US$444.2 million) of the economy. This huge share of FDI is mainly attributed to the capital intensity nature of the activities undertaken in these sectors. Other sectors that have benefited from FDIs include banking services (US$196.4 million), agriculture (US$86.3 million), wholesale and retail (US$30.5 million) and real estate (US$23 million).

**FDIs 2013 (US$ million)**

Source: Bank of Zambia
Even though the country has witnessed an increase in FDIs over the years, this process has had some challenges. Notable among these challenges are:

- **Inconsistent government policies**
  In a bid to maximise revenue from FDIs, the Zambian government has developed a number of policies that are meant to benefit locals. Notable among these policies has been the statutory instrument number 55 (or SI 55) which sought to control the balance of payments position, the SI 33 which sought to enforce pricing and settlements in the local currency. Others include the minimum wage meant to set a benchmark on the minimum wage for local employees. These policies have often been received with mixed feelings from the investing foreigners and in most cases, have led to a reduction in FDIs during the periods they were introduced.

- **Essential commodities prices**
  Like any other country in the world, the cost of doing business in Zambia is affected by the price of essential commodities. Prices of fuel have continued to push up the cost of doing business and this has indirectly affected the flow of FDIs in the country.

- **Political stability**
  Although Zambia has remained politically stable over the years, recent industrial unrests have had negative impacts on FDIs. The industrial unrests have mainly risen from the implementation of the minimum wage.

Zambia continues to attract foreign direct investment and this form of investment has helped the country in its national development. Though FDIs have increased over the years, the majority of it has been channelled to the mining and manufacturing sectors of the Zambian economy. Over the years, FDIs have evolved from simple equity capital investment to reinvestment of retained earnings and now borrowing from affiliates.
While much has been written about decentralisation out of the Durban CBD and surrounds in the last few years, recently the migration of tenants between Central Durban and the decentralised nodes of Westville and Umhlanga/Riverhorse has seen an increase in two way traffic.

Many businesses left the CBD for decentralised locations over the last 12 years citing deteriorating security, traffic congestion, perceived mismanagement of public spaces and public transport, taxis, informal trading and insufficient parking together with other issues. The last few years has seen improvements, particularly in crime reduction due to heightened security measures and focus on urban management initiatives.

Decentralised office parks offer ample parking, a secure managed environment, low rise offices and often opportunities to own and develop due to small building sizes. Furthermore, growth in secure upmarket residential estates in the north and west together with the north migration of the King Shaka International Airport further enhanced the decentralised trend.

The last few years has seen the number of businesses vacating Central Durban for decentralised nodes leading to increased vacancies in the central area. Even companies needing to be in close proximity to the harbour and courts (shipping and logistics companies, attorneys and call centres) were relocating to decentralised nodes.

Property experts predicted that this wave of exits would stop when those blue chip companies who needed to be in more prestigious office parks had all moved and the rental gap between decentralised offices and the central offices grew large enough to motivate companies to return to Central Durban to take advantage of lower rents.

This price gap has been muted due to the oversupply of and weak demand for office space in the decentralised nodes meaning that since 2010 decentralised asking rentals have remained stagnant or have come down with ongoing negative perceptions around the central area continuing to fuel the decentralisation movement over the last few years.

In 2014 a number of key businesses were still moving out of the central areas most notably, PriceWaterhouseCoopers, KPMG, FNB and ABSA who are developing new offices in the Umhlanga area. However, during the same period, some businesses located in decentralised nodes started moving back into the central areas of Durban driven by functional public transport. Businesses such as call centres benefit from increased accessibility of Central Durban to and from all outlying/decentralised nodes.

The impact of lower rentals, urban regeneration initiatives, future office developments at The Point and public transport advantages on enticing businesses back to central Durban remain to be seen. Decentralisation will continue to drive development in the northern Umhlanga node and create opportunities for conversion of underutilised offices in the CBD into residential apartments.
Growth of Real Estate Occupier Services

While many multinational corporates already have a successful track record spanning decades in Africa, many more are in the process of developing their operations across the continent.

Increasingly attractive as an expansion destination, Africa delivers the potential for a strong and loyal consumer base from a largely under-serviced, yet rapidly urbanising population, now supported by a generally less restrictive regulatory environment.

Requirements from a real estate solution for corporate occupiers therefore depend on the growth phase of the individual company and vary enormously along the spectrum from an initial supporting functional role to an integrated platform for business enhancement.

Real estate services for occupiers revolve around managing the accommodation value chain from start to finish. Elements include managing property transactions, lease administration and reporting, finance and data functions, estates management and the strategic integration of real estate with business strategy.

Cornerstones common across all stages of the business cycle, however, are the need for a fit-for-purpose real estate portfolio that provides value for money.

AFRICAN MARKETS

Across Africa supply is evolving to meet those needs. Real estate is truly becoming a creator of change and is in fact changing the face of entire markets and cities.

Within this context, corporate real estate is increasingly seen not only as a facilitator to business and economy, but as a potential source of competitive advantage for corporates in terms of attracting and retaining customers and employees alike.

Major themes across many occupier portfolios currently tend to revolve around improving levels of space utilisation, portfolio optimisation and structuring portfolios to unlock inherent value and ensuring flexibility - all with a driven focus on reduction of total occupancy costs and delivering financial benefits in line with business objectives.

The real estate demand considerations for corporate occupiers operating within Africa can be broadly categorised into three groups: risk and compliance issues, functional requirements and value adding benefits.

“Major themes across many occupier portfolios currently tend to revolve around improving levels of space utilisation, portfolio optimisation and structuring portfolios to unlock inherent value and ensuring flexibility.”

From a risk perspective, multinational companies in particular have global corporate standards and strict governance and compliance requirements across all jurisdictions. These must be adhered to as closely as possible but – as with anything in Africa – applied with a degree of pragmatism to balance risk and associated cost.

Occupiers' priorities for the functional requirements of their real estate focus not only on supporting productivity and efficiency, but also ensuring service provision to enable business continuity. This is particularly crucial in parts of Africa where the property itself often needs to include provision of backup infrastructure.
Further to this, real estate can be used to add value to occupiers by positioning the company as a market leader with a high profile brand image, providing a competitive staff offering and contributing to a company's sustainability obligations.

TAILOR-MADE OCCUPIER PORTFOLIO STRATEGIES

Meeting this cross-section of real estate needs is achieved through strategies crafted to optimise the portfolio to manage internal and external uncertainties with enough flexibility to adapt to changes in the operating environment. Sources of such change may include fluctuations in market supply and demand, the competitive landscape, the company’s own business model and an evolving and dynamic customer base.

While there are many synergies between strategic initiatives across countries, industry sectors and companies, each process must be tailored from a common base for the individual company's needs. This builds and takes advantage of economies of scale and allows for best practice to be disseminated across the region.

The execution of these strategies requires local knowledge and experience but delivered to the same global standards as clients would expect in any other location around the world.

“The entire professional market benefits from upliftment and interconnectivity, whereas such skill sets were traditionally imported, often on a short-term basis.”

The Broll delivery model of occupier services through regional hubs combined with central oversight provides on-the-ground professionals with local skills and know-how, integrated with centralised process development and quality controls of the central team.

The ripple effect of such global service standards delivered in-country reaches across markets and industries. The entire professional market benefits from upliftment and interconnectivity, whereas such skill sets were traditionally imported, often on a short-term basis.

Global brands have an expectation of world class service from their service partners, no matter in which country of operation. Broll’s platform is based on well-proven processes and technologies using global best practice which has been tailored to the African markets. Our clients are therefore able to benefit from leading edge occupier services confident in the experience that Broll brings.
ARTICLE OF INTEREST

Real Estate Valuations in Sub-Saharan Africa

Sub-Saharan Africa lies south of the Sahara Desert and consists of African countries that are fully or partially located south of the Sahara (excluding Sudan, even though Sudan sits in the eastern portion of the Sahara Desert). For the purposes of this commentary it also excludes South Africa, Botswana, Namibia and North Africa.

An increase in global investor appetite in Sub-Saharan African real estate markets is positive for the continent, but such investment is not without considerable risk. While the challenges facing investors in real estate in Sub-Saharan Africa are manifold for reasons of politics, language, culture, legal structures and lack of market intelligence to name a few, the fact remains that the tried and tested and universally accepted principles of real estate investment have to be applied to cross boundary valuations required by global investors.

Investment in real estate in Sub-Saharan Africa is presently motivated largely by occupier demand as is the case with the purchase of a business, for example in which the property assets forms part of the purchase consideration. However, the interest in property may also be motivated by the desire to lease for a particular dedicated purpose that is industrial, offices, retail and/or residential.

Apart from occupier demand driven investment, there is an increasing interest in direct property for investment purposes where the investor is seeking a return which provides more stability and growth potential than that available from other investment classes.

Market rent is defined as the estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing landlord and a willing tenant on appropriate lease terms, in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Whatever the motivation for the purchase or leasing of a property asset is, the investor demands a professional approach to the valuation assignment and expects a high level of service delivery and duty of care from the valuer.

The methodology to be used in interpreting market value of a real estate asset for a particular assignment is often dictated by the purpose of the valuation. The purpose may be for acquisition or disposal or for financial statements and the asset in question may be specialised for a particular production facility use or may be one for which there is evidence of market value taken from transactions in the immediate locality.

With each of these examples, a different valuation methodology may have to be adopted. This is where the expertise and advice of the valuer can add considerable value to the transaction. Broll Valuation and Advisory Services together with its joint venture partners in Sub-Saharan Africa and its international affiliate network with CBRE Global has accumulated considerable market intelligence that equips it well to undertake valuations of properties of all types throughout the sub-continent.
Having been asked repeatedly why Broll offers asset management services, the answer is rather simple: because of a true passion for property and a desire to see true asset management flourish. As with human beings, investment properties have a hierarchy of needs which includes operational and strategic involvement of both the asset and property managers.

**REAL ESTATE HIERARCHY OF NEEDS**

Maslow’s theory suggests that the most basic level of needs must be met before the individual will strongly desire (or focus motivation upon) the secondary or higher level needs. As with Maslow’s theory of human nature, the same can be applied to successful real estate investments.

Fulfilling the hierarchy of needs requires a dedicated and specialised management approach from both asset managers and property managers. The key to success is aligning the interests of the property investor, the tenants and the manager utilising a blended recipe of skill, experience, knowledge, relationships and proactive operational efficiency including establishing proper checks and balances in the property operation process.

The holistic real estate management solution must satisfy the hierarchy of needs, not one aspect of such hierarchy is more important than the other – each being both mutually exclusive and inclusive.

At the base of the pyramid is facilities management which includes building and property operations, maintenance, tenant service requests, on-site management and staff, procurement, health, safety and environmental aspects; all of which provide the foundation to fulfil basic needs and provide the safe, secure and comfortable commercial environment for all users of the respective property.

This is followed on the next level of the hierarchy by property management which includes services such as lease administration, rent and service charge management, tenant relationship management, accounting, building management staff, human resources and marketing, all of which address the needs of contractual commitment fulfilment and relationship building.

Further up the pyramid is asset management which includes aspects such as market intelligence and research as well as property sector specifics, projections, appraisals and capital projects, strategic leasing and renewals planning, value add initiatives and income risk mitigation, all of which address the strategic long term planning and investment growth of the asset under management.

The pinnacle of the pyramid is investment or fund management which focuses on investor relations, the property portfolio strategy, the acquisition or disposal strategies and looking at the overall total returns of the property investment as well as aspects of gearing and financial structuring for property transactions. Often the asset and fund management functionalities are combined.

The bottom line is that true asset management should add value as a multiple of its cost to the investors/owners.

**ASSET MANAGEMENT FUNDAMENTALS**

Asset management, at its core definition, is a specialised field of real estate management that involves the supervision of an investor/owner’s real estate assets at the investment level within macro and micro economic and industry environments.

Asset managers generally focus on long-term, strategic and financial planning rather than day-to-day property
operations. They are expected to apply a proactive analytical, evaluation and planning approach to real estate investment performance.

Asset performance does not occur in a vacuum and therefore, should be managed with cognisance of all factors that have, do or may impact the investment asset in the micro and macro arena. It is the very premise of the cost of asset management, together with a desire to retain intellectual property in-house, which has led the majority of property investors/owners to employ asset management skill in-house.

However, the flip side of the coin is that should a property investor/owner retain the services of an asset management service solutions provider, it would benefit from the extensive intellectual property, experience, skill, industry lessons and industry knowledge that the asset management company could offer.

The industry has also identified that not all asset managers – whether independent, out-sourced or in-house – encapsulate the same levels of competence to implement all four primary strategies of true asset management - such strategies being the following and accordingly Broll has structured its asset management services to be able to offer either the whole or component parts of strategy service to our clients:

- **Investment Strategy**
  Directs and fulfils investment objectives, risk mitigation protocol, structure and diversification of portfolios, acquisitions and disposal.

- **Management Strategy**
  Sets, monitors, measures and manages the reporting requirements and performance of the investment assets either directly or through a managing agent as well as keeping abreast and implementing global best management practice.

- **Development Strategy**
  Identifies and directs development, redevelopment or refurbishment opportunities within green or brown field environments.

- **Financial Strategy**
  Directs funding structures, budgets, forecasts and scenario planning models.

Let’s use a fishing analogy:
There is no doubt a probability of the amateur fisherman catching a fish or two with his (or her) rolled up piece of bread soaked in the secret family recipe of chicken stock and alcohol, however, the probability of consistent and more fruitful fish catching is much higher when the fisherman (or woman) is experienced and applies that same knowledge or experience together with the appropriate “tools of the trade” (and some patience), so we are advised by the fishing fraternity.

Asset management is not unlike fishing, however, the true asset manager will apply a combination of the following as their “tools of the trade” and “key” to unlocking property potential in a consistent and proactive manner:

- Knowledge and ongoing research;
- Experience;
- Strategic relationships with industry role players, tenancies and management partners; and
- The “eager want” to adopt a “hands-on” management style – get up off that chair behind your desk and get to your properties.

Without truly knowing what is driving an asset’s success or what may potentially detract from its success, an asset manager cannot drive the performance of a real estate investment asset in a sustainable manner.

In summary and in respect for true asset management, Broll Asset Management encourages all asset managers to undertake the following challenges as part of their responsibility:

**Challenge 1:** Turn information into optimisation.
**Challenge 2:** Turn descriptive analytics (what happened?) into predictive analytics (make it happen!).
**Challenge 3:** Aspire to transform hindsight into insight into foresight.

The journey in all the challenges above does get more difficult along the way BUT, the compounded value add will outweigh the degree of difficulty.
In 2014 auctions saw an increase in attendance and new investors entered the market for the first time and this trend is set to continue in 2015. The auction platform attracts buyers, investors and sellers because of its immediate process. The buyer controls the entire process and bids what they are comfortable with.

Besides the adrenalin and excitement, people simply like the theatrical drama of the unfolding process during an auction event. Since the global financial crisis, property buyers and investors are now more astute and savvy. They research and know exactly what it is they want to buy and at what price.

Often, auctions uncover the highs and lows of where the market may or may not be steering towards. There is a perception that auctions are for distressed sellers, however, that is not necessarily the case as some property owners and sellers prefer the auction method compared to the traditional way of selling property which often is a very lengthy process.

Over the years the SA Institute of Auctioneers and its members have seen to it that the industry is well regulated and transparent as well as engaged consumers to become more literate and know what they sign up for ahead of the auction event itself.

The auction stigma definitely existed in certain situations surrounding a sale of a property, however, through successful auctions and transparency, auctions have become acceptable platforms to buy and sell property.

Many listed property funds and corporates choose to use the auction process as a preferred sales solution and this is proof that market perception has changed. However, this is only possible once the seller understands the process and how the platform works, it’s often the lack of information that may create negative perceptions about the sector.

Auctions work when there is demand and demand is determined by price and uniqueness of the property.

**BUYERS, INVESTORS AND SELLERS**

It is a well-known fact that buyers who attend auctions ultimately become sellers. Sellers want immediate results – the best price in the shortest possible time and in the most transparent way. Sellers vary from banks, corporates, government entities, private individuals and listed property funds. On the other hand, buyers/investors also know what the best yields on the properties they buy are as well as the potential.

**DEMAND FOR COMMERCIAL PROPERTY**

Although the property sector has faced tough times following the global financial crisis, the commercial property sector has grown tremendously with prices having increased across the board.

Retail property has seen the largest growth in demand while small to medium-sized and owner occupied industrial properties will follow suit for properties in demand in the sector. Meanwhile, office properties experienced the lowest growth in demand due to oversupply and new developments currently seen in the market.

As building prices continue to escalate, property prices will enjoy growth as it becomes more expensive to replace or build. With banks still reluctant to finance land, there is still a tremendous amount available for sale although, not many of these properties are being sold because of the high asking prices.

Commercial property auctions will still remain the number one asset class for the auction model.
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