How African property markets can move beyond the 'pioneering' phase

By Selwyn Blieden

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Property pioneers have already taken the first steps in shaping Africa's urban landscapes, constructing landmark malls, hotels and office blocks that could be called iconic. This is just the start. Modern, fully functioning cities require a well-oiled system of residential, commercial and industrial development and civil infrastructure, with the real estate skills and services to match.

Selwyn Blieden is head: Africa coverage, commercial property finance, Barclays Africa Group.

The question is: Who will design, build, manage, maintain - and of course fund - the many different commercial developments that Africa's cities demand?

The short answer is that a local property ecosystem must emerge to take over from where the big-ticket, mostly foreign, private equity-funded pioneers have left off.

Without an effective, self-sustaining ecosystem, comprising all the key components of a workable property market, the continent's urban centres could suffer the effects of what is known as "urbanisation without growth", or "poor country urbanisation".

That means more urban sprawl with little or no economic growth potential and worsening shortages of urban housing, commercial space and inadequate civil infrastructure.

On the other hand, a well-functioning property ecosystem could enable the kind of orderly, planned and constructive growth that Africa's property markets need. Such an ecosystem would also give funders the comfort that property investments made today will still be standing in 20 years' time and that their loans will indeed be repaid.

African funding for African property transactions

When it comes to financing, it seems likely that property markets across Africa will rely increasingly on African sources of funding. One need only look at property transaction trends on the continent to see that foreign funding is in short supply and unevenly spread.

Research commissioned by Barclays Africa Commercial Property Finance shows that between 2003 and 2016, only two of the top 10 African cities that received significant inflows of foreign real estate investment were in sub-Saharan Africa. They were Lagos in Nigeria and Johannesburg in South Africa. The other eight were all in North Africa.

The continent has a number of African-based funders with the resources to provide financing to property market players. Their ability to do so, however will depend on how smoothly and efficiently the African property ecosystem develops.

Critical components of an ecosystem

Essentially, a property ecosystem should have all the components needed for a well-functioning, nuanced property market that caters for property developments of all sizes and in all market segments. It would encompass planners, regulators, developers, owners and service providers, from architects and engineers through to contractors, construction businesses, environmental impact assessors, leasing agencies and facilities managers. All of them would operate within clear parameters and abide by well-enforced rules and regulations. Funders would observe this and invest accordingly.

At this point, however, there are numerous gaps that need to be addressed before this ecosystem can get off the ground in earnest.

Attributes of well-run ecosystems

One of the hallmarks of well-run property ecosystems is that there are significant players, owners and developers with formal corporate governance structures in place. Another characteristic would be the existence of well-understood contracting mechanisms between sector stakeholders such as lessors, lessees, owners and contractors. However, in certain jurisdictions, family-owned businesses with less established governance structures dominate.

In addition, our research indicates that inappropriate urban planning regulations and inadequate urban service provision deter foreign real estate investment attraction and economic growth within some jurisdictions in Africa.

A common but serious drawback in many sub-Saharan African countries is the lack of reliable data for risk assessment. It is extremely difficult for funders to control their risk without access to good data on demographics and pricing trends, among others. There is definitely a gap in the market for property indices in Africa.

Another concern for funders is the underdevelopment of the regulatory environment in some jurisdictions, hampering efficient planning, approvals and transfers.

Time for focused conversations

These components will take time to put in place, but the sooner we start having focused conversations about them, the sooner a much-needed property ecosystem will take shape and the sooner our property markets will grow - and grow sustainably.

The signs are encouraging: Barclays Africa research shows that property finance in our target jurisdictions grew by an estimated 13% between 2013 and 2015, which is significantly faster than normal GDP growth. Granted, property markets in Africa are highly diverse, with some growing above 20% and others at zero. There's no doubt that Africa's nuanced property markets face challenges, but there are opportunities as well.

ABOUT THE AUTHOR

Selwyn Blieden is head: Africa coverage, commercial property finance at Barclays Africa Group.