

Tax and forex in Africa: A property investor's perspective

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A combination of political volatility, regulatory uncertainty and economic stagnation has seen South Africa understandably falling out of favour with local and global property investors of late. However, much of the rest of Africa remains a relatively attractive investment proposition across a variety of sectors, including real estate.



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Of course, lumping all of Africa together as a single investment destination is not only grossly incorrect, it is also very naive, and potentially disastrous for the misguided investor who makes this mistake.

Tax, foreign exchange regimes

Every African country is unique, and presents its own investment opportunities, challenges and quirks. So, assuming that investors have fully assessed an investment opportunity in an African country, and established that it makes sense from a growth, viability and supply and demand perspective, they would be well advised to acquaint themselves with the tax and foreign exchange regimes of the country before forging ahead with their plans.

Many African countries offer relatively appealing tax incentives as a way of attracting international investors. While these can be a significant deciding factor when choosing an African investment destination, it is essential to bear in mind that not all tax incentives are created equal. So, while complete exemption from tax for a given investment period may be attractive initially, the financial benefits could be relatively short-lived if the investor is faced with inordinately high capital gains tax on exit.

Carefully assess tax incentives

In fact, for many of the uninitiated, or ill-prepared African property investors, what looks like an appealing tax deduction is often just a tax deferral, so it is imperative that tax incentives are carefully assessed to determine which offer represents the best, true value over the full term of the investment and, preferably, beyond.

Then there is the issue of how complex the tax incentive really is, how difficult it is to access fully, and how easy it is to deal

with the tax authorities in the various countries or jurisdictions under consideration. Failure to fully assess and understand all of these components can very quickly dull the sheen of what may have initially looked like a very bright reason to pursue an investment opportunity.

Ins and outs of foreign exchange

Another aspect of investing in Africa that can be surprisingly challenging is getting to grips with the ins and outs of foreign exchange. Given that the majority of global investors will fund their African real estate investment in hard currency, an understanding of currency risk over time is essential. In a number of African jurisdictions, often volatile inflation and interest rates have a direct impact on local currency values against international currencies like the US dollar.

Given that the factors that influence inflation and interest rates are often uncertain and unpredictable, the resulting currency volatility can be hard to predict as well. Add to this the fact that foreign exchange regulations in many African countries can often be quite fluid, the challenges are clear.

That said, on the back of gradually increasing investor inflows, many African country foreign currency regimes are becoming more predictable and certain, with many linking more directly to global market forces, thereby allowing for more certain determination of flows and rates. In time, this should also help with the development of a more mature and viable derivatives market in Africa, which will undoubtedly add to the potentially lucrative investment opportunities offered by the continent.

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