Positive forecast for property market conditions in Sub Sahara-Africa

09 Dec 2010 - eProp - BPG

Intro
There are strong signs that Sub Sahara-African economies are benefiting from rapidly developing telecommunications, mineral extraction and the energy sector

This together with rising urban centres and a fast growing consumer class, is expected to positively influence commercial property markets despite the negative influence of the global recession on property-related investment across the continent, explains leading property company Broll's African Liaison, Leonard Michau.

"Oil and gas revenues have helped to fuel government spending on infrastructure, which is often required for property developments to occur and for the property sector to prosper," explains Michau.

Contributing to this, Michau lists political and economic reforms in many African countries, which are being well received by international investors. He adds that African economies are also seeing the benefits of continued integration into the global economy and that inflation in many countries has been brought under control, which in turn has stabilised interest rates.

Added to this, the World Bank's new Infrastructure Recovery Assets (INFRA) Fund and the Infrastructure Crisis Facility (ICF) have played an important role in stimulating infrastructural expenditure in conjunction with the public and private sectors.

"African cities such as Lagos, Nairobi, and Luanda continue to show significant growth and offer opportunities in the residential as well as commercial property markets," notes Michau.

The African Development Bank expects that economic growth in Africa could rise from 2.3% in 2009 to 5% in 2010 and to 7% in 2011. South Africa, Nigeria, Ghana and Kenya have been highlighted as the four countries expected to spur Africa's recovery which are expected grow 2 to 3 times faster than in wealthy developed countries. Ghana is expecting real GPD growth of 12% in 2011 of which 5% can be attributable to the recent discovery of oil reserves.

In addition to Broll, a number of South African property developers and national retailers are also venturing into Africa. As an example, Mr Price, Edcon, Foschini, Metro Cash & Carry, Pick n Pay and Pepkor are all investigating the possibility of entering the African market or expanding their existing operations.

"With an undersupply of shopping malls, demand has outstripped supply and this has triggered significant retail developments throughout Africa," Michau points out. "Many of these developments are anchored by South African retailers such as Shoprite and Game who entered the market early and have a competitive edge over new arrivals," says Michau.

The announcement by the Federal Government of Nigeria lifting the ban on the importation of textiles is likely to increase the demand significantly for shopping malls in Nigeria which, Michau believes, is a sector which offers opportunities for the astute developer.

Broll's research reveals that market commentary from across the continent suggests that although African property markets have largely escaped the global recession, the pace of retail and commercial developments may have suffered somewhat from a lack of available finance and changing perceptions of risk.

"We are, however, seeing a movement by several local and foreign banks to sharpen their focus on Africa which will have a positive impact on the availability of finance," adds Michau.

The forecast for market conditions is positive for all these African countries in which Broll operates or is affiliated, including Nigeria, Namibia, Malawi, Ghana, and Kenya. (Refer to tables included).

"Most are expecting an increase in retail and office rental trends, while industrial rental trends tend to be more erratic, with only Ghana expecting an increase," points out Michau. "The development pipeline is scheduled to continue in Nigeria, Ghana and Kenya."

While opportunities remain considerable, developers are often faced with complicated land-rights issues, poor infrastructure and high building costs. Michau warns that there exist pockets of great risk and instability.

While the fundamental risks are widespread throughout Africa, each country also has its own unique set of challenges and risks that should be assessed accordingly. "For those investors who are prepared to do their homework and are patient, the long term returns look extremely promising," observes Michau.