Investors sidestep African real estate

Real estate capital flows are moving increasingly to eastern and southern Europe as opposed to sub-Saharan Africa, according to the commercial real estate advisory firm, JLL.

By Alistair Anderson 4 Nov 2016

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The company has released a capital markets report in which it has identified a lack of liquidity and currency volatility as the two main factors hindering real estate capital flows into sub-Saharan Africa.

"In many respects, a two-speed cycle has evolved with some emerging markets racing ahead and others laggin way behind," said Tom Mundy, a director for capital markets research for Europe, Middle East and Africa.

While transactional volumes of prime real estate in the sub-Saharan Africa region for 2015 were about $400m, transactional volumes so far in 2016 have slowed to about $150m.

Not only were offshore investors not investing in the region, but South African realtors were also bypassing the continent.

"The recent yield compression experienced in central and eastern Europe has, to a large extent, been driven by South African investment groups looking at opportunities in eastern Europe at the expense of opportunities clos to home, to the sum of over $1.3bn in 2016 alone. This is more than the total investment volumes recorded in Nigeria, Kenya and Ghana since 2012," said Mundy.

Anthony Lewis, a director for capital markets in sub-Saharan Africa at JLL said there were various reasons for t region being out of vogue.

"Pricing is an obvious issue with the risk versus reward of investing in emerging European markets so far provir superior to investing in sub-Saharan Africa. This has much to do with the extra risk of low liquidity and an uncle regulatory environment," said Lewis.

"Currency is another headwind as it is the primary driver of volatility in commodity exporting economies. Add to t a reliance on inward investment due to a lack of domestic buyers for investment grade real estate assets plus a falling economic growth rate and you have a challenging investment landscape," he said.

Mundy said Nigeria should be witnessing major investment into its commercial property industry, given its large economy relative to the rest of the continent, its population, which was north of 184-million people and its gener development potential. Yet its reliance on oil and its volatile currency had hindered investment.

Falling prices of Brent crude oil, from which Nigeria derives about 70% of state revenue, had caused the nation' outlook to weaken. This meant the state struggled to pay salaries and to stimulate growth, prompting it to increa borrowing.

Nigeria needed to make structural reforms to its economy in order to attract real estate investment, said Mundy. The market had welcomed the decision by the central bank in May to float the naira, but Nigeria needed to do a better job at increasing its foreign exchange, especially US dollar reserves.

Source: Business Day