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ANALYSIS:
REAL ESTATE

Investors with a long term investment horizon may wish to consider investment opportunities in the development of commercial African real estate

An analysis of the demand and supply factors suggests that there may be a sustainable investment opportunity in this asset class over the medium term, writes David Lashbrook, Head of Africa Real Estate, Momentum Global Investment Management

Read on pp. 12-14

PROFILE:
ALBERT ALSINA

Mediterrania Capital Partners is one of a handful of private equity firms investing in the Maghreb region (Morocco, Algeria, and Tunisia)

AGF's Anna Lyudvig speaks with Albert Alsina, Founder, CEO & Managing Partner, about the firm's strategy, potential expansion and exit routes

Read on pp. 18-19

MARKET:
KENYA

Cornelis Vlooswijk of Robeco says it may be only a matter of time before Kenya will become the most traded SSA market

For a very long time Nigeria has been the dominant stock market in SSA ex South Africa. However as limitations on USD expatriation reduce investor appetite for Nigeria, more and more investors are lured to Kenya

Read on pp. 16-17

PAN AFRICAN HOUSING FUND

Tracking housing shortage

Africa's population boom is creating demand for residential property. In 2013, Phatisa, an African firm with deep roots in private equity, introduced an eastern and southern African investment initiative in response to the ever-increasing housing shortage - the Pan African Housing Fund (PAHF). AGF speaks with Jan van der Merwe, Fund Partner, PAHF, about investment opportunities, challenges in the housing space and why ESG matters

By Anna Lyudvig

ANNA LYUDVIG (AL): JAN, WHAT ARE THE HOUSING NEEDS IN SOME OF THE MARKETS THAT YOU INVEST IN?

JAN VAN DER MERWE (JVDM): With a few exceptions, most of the housing markets we service are characterised by high demand for quality accommodation in almost all income sub-sectors. The exceptions are generally the top end of the housing pyramid, where developers move to service private investors and cash buyers.

African housing needs tend to focus on affordability, access to platform and social infrastructure, convenient access to work opportunities, and secure sites where working parents do not have to overly worry about the safety of non-working family members. Increasingly, housing needs are being bundled into broader infrastructure needs where potable water, sanitation, steady electrical supply and access to internet services are not just 'nice to haves' and are the basis of sustainable housing projects.

Current levels of housing supply are neither bridging the annual demand, nor are they addressing the historical gaps created by years of undersupply. The Pan African Housing Fund (PAHF) targets middle income and affordable sectors where demand is strong and there is a need for finance, to sit between supply and demand. We do not provide mortgage finance, but there is clearly a need for more thinking here.

AL: WITH A NUMBER OF REAL ESTATE FUNDS IN THE MARKET, WHAT'S UNIQUE ABOUT YOUR INVESTMENT APPROACH?

JVDM: We operate as an ingenious non-listed private equity fund that provides early-stage risk capital to local medium- to large-scale housing developers. As such, we do not really compete with the larger listed funds, many of whom are restricted in investing in residential projects. In a sense, we are unique not just because we bring valuable and scarce risk capital to the table, but also because we bring a joint venture-based approach to housing development. In this I mean that we focus on key partnership aspects including: environmental and social considerations, health and safety, financial and project management, as well as marketing and sales. We look to build on the existing skill sets of our partners with a view to increasing the scale of projects that they can commit to – an approach that allows us to do repeat business with our chosen partners.

Then there is also development equity that goes beyond private equity and development finance, aimed at impacting the communities where we invest. It is about job creation, female employment and skills transfer – in 2015 we facilitated training, both general and specialised, of more than 230 employees. Our investment also impacted 42 local SME businesses, contributing to the overall economy in our target countries.

AL: CAN YOU PROVIDE AN EXAMPLE OF YOUR RECENT INVESTMENT AND THE REASON FOR THIS INVESTMENT?

JVDM: We are particularly excited about medium- to large-scale multi-phase housing development; we have examples of these projects in Rwanda, Kenya and soon in Zambia and Mozambique. Our Rwanda project in Kigali is an investment into a three-phase development of 304 units that brings together Phatisa and a prominent local land-owning family that has assembled a high-quality development team to deliver a well-priced and competitive product. Kigali has a fast-growing middle class and shortage of quality accommodation in the mid-sector; our investment is designed to address this market with a host of innovative housing typologies and building methods.

Phatisa is also mandated to invest, on behalf of PAHF, in mixed-use developments and we are also excited about an upcoming Lusaka project that brings together residential apartments and small-scale retail in an integrated manner.

AL: HOW IMPORTANT ARE ESG ISSUES AND HOW DO YOU ASSESS THE IMPACT OF EACH PROJECT ON THE BASIS OF THE ESG IMPACT?

JVDM: We do not consider any investments without putting environmental social and governance (ESG) at the forefront of our due diligence and sustainability considerations. In this regard, we consider a complete review of the ESG factors as core to our analysis and look to use IFC Performance Standards and Bristol Accords as the basis for project review. This typically takes the form of an environmental and social impact assessment (ESIA) undertaken by independent consultants. This review not only highlights any material risk considerations, but also plays a shaping role in the project by highlighting major areas that could be project-enhancing, such as green technology, environmental issues and access to social infrastructure. By engaging early with our development partners in the ESIA process, relationships are forged, and learnings and insights are shared, all of which are valuable processes in building relationships with our partners.

AL: MANY AFRICAN COUNTRIES REMAIN CHALLENGING PLACES. BASED ON YOUR GEOGRAPHICAL COVERAGE, WHAT ARE SOME OF THE MOST CHALLENGING MARKETS THAT YOU INVEST IN?

JVDM: By limiting our geographic reach (east and southern Africa) we have pre-excluded countries that could have proved to be overly challenging. All of our chosen markets have established rule of law in respect of real estate and land title. While there will always be challenges, it is pleasing to note that after three years of investing PAHF capital, our problems to date have not been country-specific and have rather been commercial in nature.

AL: JAN, AND WHY ARE YOU FOCUSED SPECIFICALLY ON SOUTHERN AND EASTERN AFRICA? WOULD YOU CONSIDER LAUNCHING ANOTHER FUND FOCUSED ON WEST AFRICA?

JVDM: Africa is a big place and we had a limited amount of capital to deploy in our first fund. We generally prefer to operate in markets where we are less than a few hours away from site as our key risks are construction-related. This approach constrains us from offering investment services to too many geographies simultaneously. Also, at the time of fundraising, most of our pipeline had an eastern and southern Africa bias. We felt that it was prudent to rather focus on a few geographies and build capability to offer support only to our partners in these markets as we started out. We are already in discussion in respect of West Africa which, given its large population, is an exciting market to target. Our second fund could well target this exciting opportunity.

AL: CAN YOU TOUCH ON THE RISKS OF INVESTING IN HOUSING? HAVE YOU HAD ANY BAD EXPERIENCES WITH LOCAL COMMERCIAL DEVELOPERS?

JVDM: The risks of investing in housing are, in the broadest sense, not that different to any other investment in real estate development. As such, the key risks that need to be addressed involve the securing of the land title, ensuring that the product has market appeal and can be sold, appropriate construction methods and a professional team that can deliver the project on time and on budget, ensuring the project is fully funded at all times, that access to base infrastructure is secured, and that all ESIA risks have been uncovered and mitigated.

We have thankfully only had positive experiences with local developers. Good structuring and strong legal documentation will always help us ensure that we do not have bad experiences, but partner selection is key. While we operate in a world of construction and operations management, we also understand that there is no more important task than ensuring that we invest in partners who share our ethical view of the world. In reality, we say no to a lot of ostensibly good business for exactly this reason; partnership is key.

AL: AFRICA'S PROPERTY MARKETS REQUIRE CAREFUL NAVIGATION AND INVESTORS ATTRACTED BY AFRICA'S GROWTH STORY NEED TO LOOK BEYOND THE MACRO GROWTH STORY. WHY IS IT IMPORTANT TO UNDERSTAND THE MICRO-ENVIRONMENT OF INDIVIDUAL MARKETS?

JVDM: In our experience, successful housing projects integrate the macro and the micro. Micro is important as all successful residential projects need to offer a value proposition at a neighbourhood level. All the dimensions of a successful scheme suggest that there is no generic approach that can reasonably succeed. Local market knowledge, qualitative and quantitative market research, competitor analysis, local sales teams and understanding of local employment markets all play a role in success. We see these attributes as key to the capabilities our partners offer.

AL: WHAT'S NEXT FOR PHATISA'S PROPERTY TEAM?

JVDM: We have an experienced team with multi-geography structuring credentials, a proven track record, a great pipeline and portfolio management experience that is hard to replicate. We would likely increase the fund size and geographic footprint of Fund 2.