

# Property Development in East Africa and the Role Private Equity Can Play

It is still hard to ignore the impact that the global economic crisis has had across many industry sectors around the world. But an analysis by The Economist finds that over the ten years to 2010, six of the world's ten fastest-growing economies were in sub-Saharan Africa, more specifically Eastern and Central Africa, this trend is likely to continue for the forecast period.

In the real estate sector, increased demand for assets from both institutional investors and individual investors is set to continue. Institutional investors (both international and African) are searching for yield and growth opportunities in predominantly commercial real estate whilst individual investors (including the burgeoning African middle class) will continue seeking accessible and affordable urban residential accommodation to house their families.

Sub-Saharan real estate development, in general, has historically been constrained over a long period of time. Market indicators suggest that for the foreseeable future local real estate developers will move to service 'low hanging fruit' in the market before moving into niche sectors such

as affordable, middle income housing and industrial construction. Understandably, high-end commercial and residential developments are underpinned by confident buyers, strong tenants and more attractive profit ratios. As the market matures, developers will seek out further yield and growth opportunities by moving into middle-income consumer segments, including residential and medium-scale retail developments.

To drive development and bridge the gap between demand and supply, investment is required. Banks, insurance companies and private investors historically dominated the funding of large-scale development, but over the last few years private equity firms have stepped forward with a new offering for local real estate devel-

## World's ten fastest-growing economies \*

Annual average GDP growth (%)

2001 - 2010 ^		2011 - 2015 °	
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	Ethiopia	8.1
Nigeria	8.9	Mozambique	7.7
Ethiopia	8.4	Tanzania	7.2
Kazakhstan	8.2	Vietnam	7.2
Chad	7.9	Congo	7.0
Mozambique	7.9	Ghana	7.0
Cambodia	7.7	Zambia	6.9
Rwanda	7.6	Nigeria	6.8

Sources: The Economist; IMF

\* Excluding countries with less than 10 million population and Iraq and Afghanistan  
^ 2010 estimate  
° Forecast

opers. One such firm is Phatisa...

Phatisa is an experienced African private equity fund manager, selected by Shelter Afrique to manage the Pan African Housing Fund (PAHF), a new real estate private equity fund. The Fund attracted a series of international development finance institutions and African investors, including banks and insurance companies,

to first close on US\$ 41.5 million at the end of Q4 2012, and began operating in Q1 2013.

The Fund is targeting affordable and middle-income residential and aligned mixed-use developments and will initially focus on a limited set of geographies including Kenya, Zambia, Rwanda, Mozambique, Tanzania and Uganda.

Phatisa's PAHF aims to deploy funding or risk capital into joint ventures that develop greenfield housing projects, and generally partner with experienced local developers.

Confirming the growing private equity role, Jan van der Merwe (Fund Partner - PAHF, Phatisa) called on real estate developers to turn to private equity for risk capital financing. Phatisa offers experienced real estate developers an innovative, quick and scalable source of financing solutions.

'The private equity financing model is superior in that it concentrates on value creation - active participation in the day-to-day running of the project - instead of gaining interest on existing business profits. Private equity investors only make money when the business gains value; for a bank this is not the case as its policies are founded on receiving interest on loans.'

'Though the scenarios may be different in every real estate project we invest in, we ensure that we actively spearhead project development, improve processes, increase supply chain efficiency and promote the projects' marketing capability', Jan added.

Private equity investors are also keen to improve the business' long term strategy and will go the extra mile to ensure the project accesses additional funding packages at optimal rates.

There are many challenges facing the sub-Saharan residential housing sector and a shortage of risk capital is frequently referenced as a major challenge for developers. Phatisa's PAHF addresses this challenge at a time when demand for housing across the continent is ever increasing.

[www.phatisa.com](http://www.phatisa.com)



## AFRICAN PRIVATE EQUITY DRIVING AFRICAN DEVELOPMENT

As a pioneering indigenous African private equity fund manager, Phatisa's expert team is uniquely positioned to manage sector-specific private equity funds within Africa. Our passion and single-minded commitment to our portfolio partners, investors and stakeholders is supported by reliable, established partnerships and business networks spanning sub-Saharan Africa, and achieved through transparent, ethical and professional fund management.

Operating from offices in Lusaka, Nairobi, Johannesburg, London, Accra and Port Louis, Phatisa manages two African funds\* through a hands-on approach to deal doing and portfolio management to drive value.

Together, we are dedicated to delivering long term sustainable returns for all.

[www.phatisa.com](http://www.phatisa.com)

\* The **African Agriculture Fund**: a food-focused pan-African private equity fund. First close: US\$ 151 million January 2011; established portfolio of five investments across Africa; final close: US\$ 243 million Q2 2013.

\* The **Pan African Housing Fund**: a real estate private equity fund focused on affordable housing in East and Southern Africa. First close: US\$ 41.5 million December 2012; commenced operations Q1 2013; final close target: US\$ 100 million Q2 2014.



Africa Investor Agribusiness Fund of the Year 2012 | Africa Investor Investment Climate Initiative of the Year 2012 | Africa Investor Agribusiness Investment Initiative of the Year 2011