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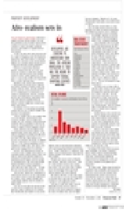

FINANCIAL MAIL 2014/10/30 Page: 29

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PROPERTY DEVELOPMENT

Afro-realism sets in

The development opportunities offered by a rapidly growing African middle class and the potential to earn US dollar-based returns continue to entice developers, property investors and retailers to expand north of SA's borders.

To date, the drive into Africa has been led by a spate of shopping centre developments, spurred by what many believe is a growing appetite for consumer goods among Africa's young and upwardly mobile population.

However, it seems those that have already ventured into the rest of the continent are starting to realise that making money in Africa, widely punted over the past 2-3 years as the world's next big growth story, is easier said than done.

Speaking at the annual Africa Property Investment Summit in Sandton earlier this month, Francois Viruly, associate professor in UCT's department of construction economics & management, said the economic growth and consumption expenditure forecasts that had been bandied about for African countries might have created unrealistic expectations.

For instance, it is becoming increasingly evident that the size of Africa's middle class has been overestimated.

"Africa's middle class is a lot smaller than everyone thought. And developers and retailers are now starting to understand how small the African population is that has the means to support formal shopping centres."

Viruly referred to income figures from Standard Bank which show that 82% of the African population (excluding SA) still earns less than US$4/day. That equates to an income of around R1 320/month. In addition, only 13% of the African population can be regarded as middle class, with Africa's average income ranging from $4 to $20/day.

Investec Asset Management frontier & emerging market equities analyst Diane Laas said too much focus had been placed on population growth figures and not enough on spending power. She noted that though Nigeria had Africa's largest population — more than three times that of SA — its middle class was less than half the size of SA's.

"Just because Nigeria has a population of 170m doesn't mean it is an easy opportunity for retailers. Some retailers thought they could simply replicate their SA models. It didn't work."

Laas says it's not only low income levels that have made it difficult for SA retailers like Woolworths and Nando's to succeed in Nigeria. Lack of road and power infrastructure is also hampering formal retail development. "Traffic congestion is a nightmare and inhibits transport and logistics, especially for food retailers."

Though early movers such as Shoprite have already "paid their school fees", with 16% of the group's revenue now coming from Africa, Laas says most other retailers' forays into the bigger West and North African markets have been difficult.

She believes Mr Price, in the early stages of entering Africa, may also get it right as it is going in "at the right price point".

Laas says it could take many years for disposable income levels in Africa to increase to the extent required to support the entry of retailers that cater for higher-income shoppers. "Maybe in 15-20 years Woolworths could make a successful return to Africa."

Also, the hype around Africa as a burgeoning real estate investment destination has pushed up property prices, making it increasingly expensive for private equity players and listed property funds to buy completed buildings.

Louis Schnetler, CEO of recently listed Delta International, the JSE's first outright African property fund, told delegates that sellers of completed shopping centres and offices in many African countries had become unrealistic in their price expectations. "There has been an awakening of property markets and sellers now want top dollar for their assets." Schnetler says Delta is typically looking to buy yields of no less than 9%-10% yet in East Africa sellers want to offload at yields of 4%-5%. "We are not prepared to pay those prices."

Developers are no longer able to earn the super-returns on new retail developments typically achievable two or three years ago. "The fundamentals no longer stack up and the days of promising internal rates of return of 25%/year are limited," says Amelia Beattie, chief investment officer of Stanlib Direct Property Investments.

Another theme at the summit was the lack of reliable and transparent data, which industry players believe is a key factor hampering the development of sustainable property markets across the continent.

However, the Jones Lang LaSalle 2014 global real estate transparency index released last week shows that sub-Saharan Africa has experienced the greatest progress in real estate transparency among regions worldwide over the past two years.

According to the index, which measures data availability and market regulation, Kenya, Ghana, Nigeria, Zambia and Mauritius have demonstrated significant improvement in transparency scores, all securing a position in the global top 10 improvers.

The report reads: "Major steps forward in regulation, data availability and transaction processes across most key markets have underpinned the positive movement in scores for the region as a whole. But many of these improvements are still at an early stage and sizeable transparency challenges remain in Senegal, Ethiopia and Angola."

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> "DEVELOPERS ARE STARTING TO UNDERSTAND HOW SMALL THE AFRICAN POPULATION IS THAT HAS THE MEANS TO SUPPORT FORMAL SHOPPING CENTRES
> FRANCOIS VIRULY

REAL ESTATE TRANSPARENCY

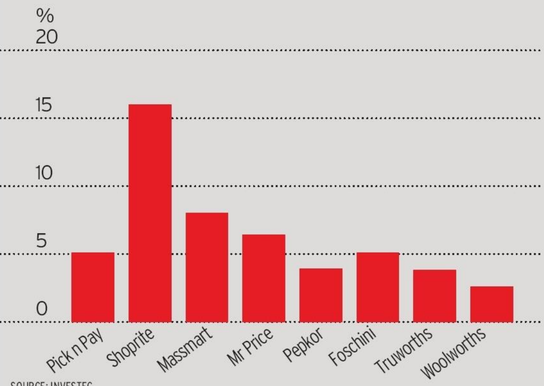
Sub-Saharan Africa

1. SA
2. Botswana
2. Mauritius
4. Kenya
5. Zambia
6. Uganda
7. Ghana
8. Nigeria
9. Mozambique
10. Angola
11. Ethiopia
12. Senegal

SOURCE: JLL AFRICA TRANSPARENCY INDEX

RETAIL SPLURGE

SA retailers' revenue contribution from Africa



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