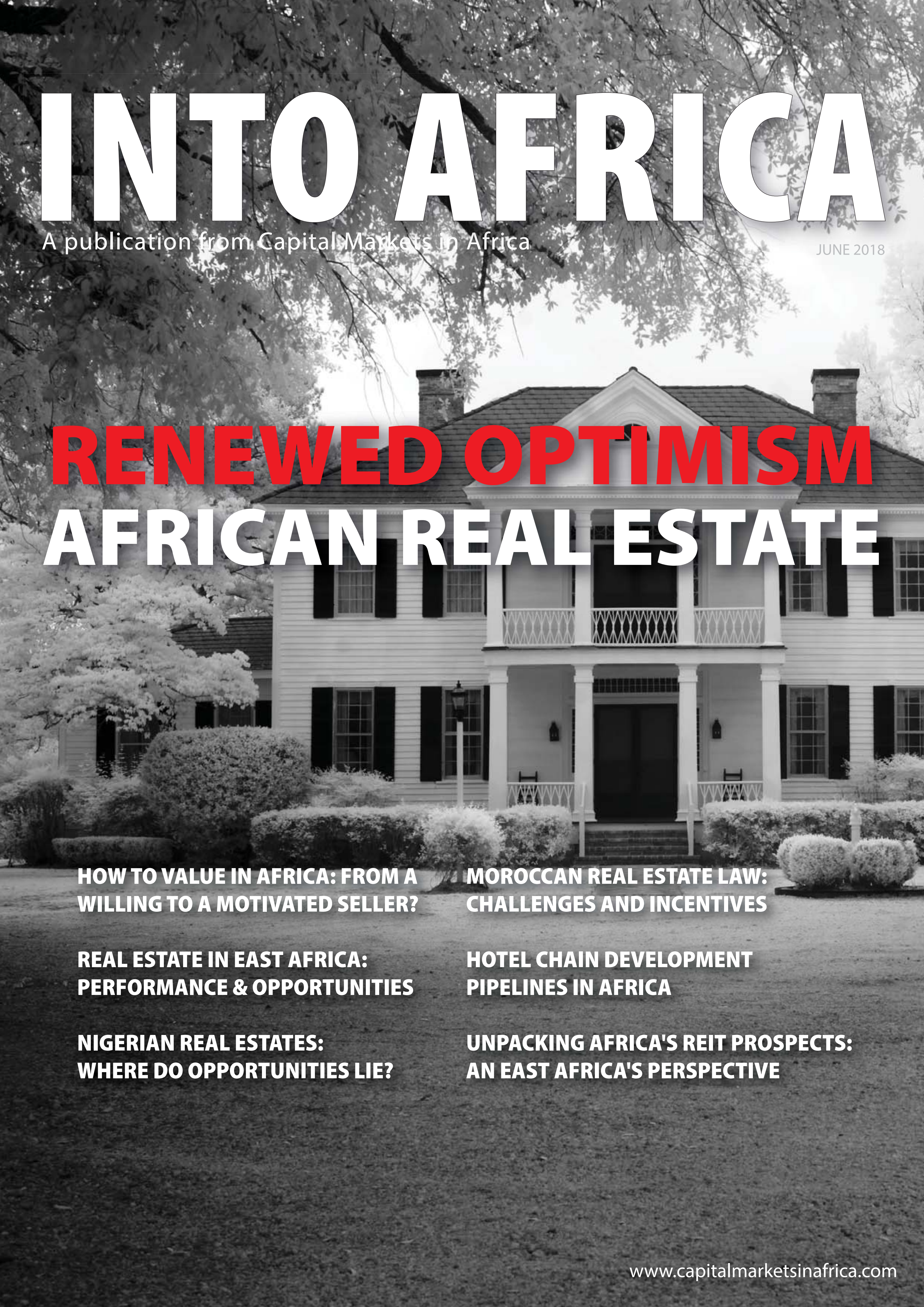

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A publication from Capital Markets in Africa

JUNE 2018

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ANGOLAN PROPERTY: EMERGING TRENDS AND OPPORTUNITIES

By **Diogo Rodrigues,** Managing Partner, Zenki Real Estate Angola

In recent years, the economy has been showing signs of deceleration, losing its strength, mainly due to strong reduction in the oil price in the international market.

The new president and the government are making efforts with new measures that aim to stimulate economic growth, diversify the economy, and expand and foster a greater participation from the private sector in Angola's economic development.

The New Regulation Framework

Regarding the property market, and having been enacted more than one year ago, the new Leasehold Law has already introduced several changes in the negotiation of new leases. The payment of the rents in the national currency (kwanzas) or the inability to request the payment of several rents in advance are amongst the main changes but, it is anticipated that this new law is just a first step to a greater change of the applicable legal framework.

The main goal of the real estate taxation reform was to reduce the tax burden, evidenced by the reduction of the tax rates of SISA (Property Transfer Tax), IPU (Property Income Tax) and Stamp Duty, along with the increase in tax revenue, by broadening the taxable basis and by subjecting to taxation transactions that were usually irregularly concluded without triggering any taxes, together with the introduction of improved and more efficient control mechanisms.

Reduced Appetite for Risk in the Office Market

The transition from a phase of continued buoyant growth to a period of deceleration is marked by the weighing and the reduction to risk predisposition by developers, owners, occupiers and investors acting in this segment of the market. In the last years, we have witnessed an increase in stock of new offices especially until 2015. During the following years we have been watching an evident slowdown in the pace of new projects. As result of decrease of the demand, the vacancy rate continued to increase.

The downward trend of commercialization values accelerated, with prime rent standing at 80 US$/sqm at the end of 2017, reflecting a decrease of 20% compared to 2016. Although the pace of new product construction has declined significantly over the last three years, it should be noted that the new supply is still characterized by the construction and technical infrastructure quality and competitiveness of commercial conditions.

Over the last three years, we have witnessed a sharp reduction in consumption and a decrease in the variety of products available, related with the increase of inflation and restrictions on access to debt and inherent import difficulties. The macroeconomic context has severely conditioned the opening of new commercial complexes.

Currently the prime rents of street stores are between 70 to 80 US$ /sqm. GLA / month while those of stores in commercial complexes range between 80 and 120 US$ /sqm. GLA / month (lower for large stores). Talatona, Kilamba, Morro Bento and Cacuaco, are now related with the emergence of new commercial complexes which made the periphery of Luanda a benchmark of the commercial segment. Nowadays, we have been witnessing the emergence of a change in the model of shopping centers projects development. The recent projects are driven by the big retail players, such as Candando or Maxi. In a clear opposition to the past paradigm of speculative development.

The New Paradigm

The development of the Angolan industry has been a strong commitment of the Government, which has been reinforcing the development of the industrial sector in a more professional way, where real estate development in this segment has been characterised mostly by development for own use and by an increasing speculative supply of industrial and logistic parks. In addition, we have witnessed a greater definition and consolidation of industrial zones, with the Viana area, and especially the PIV, the most active.

Although we have seen a slowdown on demand in the last year, attending to the Government's continued commitment to industrialisation and diversification of the economy, based on import substitution, this segment is expected to show a growth trend in the coming years.

Residential market on demand

In recent years there has been a strong focus on the construction of 1 and 2-bedroom apartments as a way of responding to the lack of supply and high demand from companies that needed product to place expatriate employees. This period was also characterised by reduced construction of apartments of higher typologies, which led, of course, to the current scarcity of apartments with 3 or more bedrooms. Currently, the supply is currently the supply is clearly reduced in relation to demand.

There is a new trend in leasing demand reflected in the search for new buildings instead of old buildings, a consequence of recent price reduction, which is more significant in leasing than in sales. Construction levels slowed down in this sector, as well as in real estate overall, as a reaction to take-up levels decrease. Talatona stays as an alternative to Luanda city centre when considering prime supply. It presents a more diversified offer, including townhouses in closed condos apart from apartment buildings.

Description of Investment markets

In this market sector investors are above all national companies or private individuals, although recently we have seen growing interest by foreign companies in acquiring products that guarantee income.

Investment from International Funds accounts for a small proportion, although measures have been taken to boost the establishment and functioning of the Collective Investment Entities. This lower activity by Investment Funds is explained mainly by the current uncertainty and the characteristics of this sector, whereby transactions usually involve parts of properties, i.e. the purchase/ sale of sections of an asset. It is rare for the whole building to be owned by a single entity. The current scarcity in the supply of single buildings available for sale that will immediately generate income is, in our understanding, one of the factors that has contributed to dissuading investment by International Funds, as it limits the decision making with respect to the property (maintenance, conservation, investment in structural improvements and image, commercial strategy) and consequently limits the appreciation in value of the assets under management.

During the last three years, there was an increase in investment in real estate assets compared to previous periods. This growth is directly linked to the following factors:

- More than 100 % devaluation of the Kwanza relative to the USD
- Inherent demand for exchange rate protection by investors
- Small number of investment alter natives
- Scarcity of foreign currency and obstacles to transfer abroad

Despite the growth in demand for real estate investment products, there was little supply that fulfilled investor’s requirements, met the demand and provided an income. Reasons for this include the intended yield by the investors, which limited Sale & Leaseback transactions and the new Urban Rent Law, which prevents rents from being indexed against foreign currency and therefore does not guarantee an expected income, causing a high degree of uncertainty for investors with regard to future income.

The most sought-after transactions are: 1. vacant assets in prime locations, which are purchased without any occupier, do not provide an immediate guarantee of income, and entail a greater investment risk; and 2. assets with income, mainly in the office sector, with medium and long-term contracts signed with companies that have an international reputation, and which ensure stability and security for the investors. The latter is undoubtedly the most sought-after option, and also the rarest, as the current limitation with regard to the availability of foreign currency and exchange rate risk as potential sellers are not being interested in receiving revenue in national currency, opting to keep their properties in their portfolio generating income. Even though it entails greater risk, as explained above, the most common investment deals in the market in the last two years have involved vacant properties, especially assets belonging to companies linked to the financial sector. This may be because of their willingness to sell in national currency, a more professional profile and a more aggressive commercial positioning compared to the competition.

Throughout 2016 the profile of the investors changed, which until then had been national individuals or institutions, and which now also include foreign investors, especially institutional investors.

The yields on offer, on recent evidence and the transactions completed by Zenki Real Estate, and in contrast to what one would expect given the increased market risk, has fallen slightly compared to previous years. This is above all down to the fact that the decrease in sale prices has been less than the decrease in rental prices, in addition to the fact the investors have put greater emphasis on the property investment risk rather than the exchange rate risk.

Despite the current economic conditions, it is likely that in the following years the demand for properties with income for investment will be identical to the last two years, thanks to a more dynamic domestic market seeking alternative solutions to channel available equity.

Contributor's Profile

Diogo Rodrigues is a graduate of Economics and a Post-Graduate in E-Business. Before joining Zenki, Diogo worked as consultant with noLimits Consulting on several projects in areas such as public, health, financial, energy and justice.

Diogo became Zenki Consultant's CEO in 2008 and has participated on several projects in both Portugal and Angola, including both strategic and financial consultancy. Ever since becoming Managing Director of Zenki Real Estate in 2010, he has managed numerous projects including transactions, tenant representation services, market and strategic studies, as well as the definition and positioning of real estate products for both national and international clients, among them are many Oil & Gas companies. He is responsible for the supervision of all Global Corporate Client introductions in Angola from CBRE.