

DAVID LASHBROOK, HEAD OF AFRICA INVESTMENT STRATEGIES, MOMENTUM GIM

"Acute shortage of residential and office buildings in Sub-Saharan Africa"

If you are an investor and keen on going to Africa, then this might be of interest! One of the next stages of development in Sub-Saharan Africa is real estate. Since tenants are willing to pay high rentals, real estate projects are bound to give double digit yields. David Lashbrook, Head of Africa Investment Strategies at Momentum GIM, gives the reasons behind the recent launch of Momentum Africa Real Estate Fund, which is managed by Intercontinental Trust Limited, based in Mauritius



A CHARTERED ACCOUNTANT

Born and raised in Zimbabwe, David Lashbrook jointly leads Momentum's frontier Africa real estate, fixed income and equities investment business. David joined Momentum Global Investment Management in December 2006 to set up the Operational Due Diligence process within the funds of hedge fund team before switching to investment research, where he focused on credit, convertible arbitrage, asset-backed and distressed strategies. Prior to joining Momentum, David was a Vice President at Maples Finance Limited in the Cayman Islands where he provided fiduciary services to a portfolio of hedge funds, trusts and private equity vehicles. He previously worked as an Account Manager at Fortis Prime Fund Solutions (Cayman) Limited and at Schroder Investment Management, RBS and ING Barings in London. He completed his accounting training at Ernst & Young in South Africa and is a qualified South African chartered accountant and a CFA charterholder.

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↳ Can we talk about a boom in Sub-Saharan African real estate? Which factors have led to this boom?

No, I wouldn't necessarily say there is a boom in Sub-Saharan African (SSA) real estate, but I would say there is a very exciting opportunity. This is best illustrated by an example. The greater Johannesburg area in South Africa has a population of 8 million that is supported by 84 regional sized shopping malls; a ratio of 1:100,000. The corresponding metrics for the urban areas of Ghana, Nigeria, Kenya, Zambia and Mozambique are 121 million people, yet only 13 malls, a ratio closer to 1:10 million! In addition, SSA's urban population is forecast to expand by a factor of five, to more than one billion, between 2000 and 2050.

↳ Why this sudden interest on behalf of investors?

The result of the supply/demand imbalance noted above is that tenants are willing to pay reasonably high rentals. This allows property developers to put real estate projects together at exciting double digit rental yields. In addition, Africa's political and macro-economic situation is improving as a continent. Despite the fall in commodity prices, the International Monetary Fund (IMF) predicts SSA's economy will grow by 4.9% this year. Inflation is now in single digits in many countries and governments are managing interest rates more responsibly. This makes it easier for international investors to invest.

↳ Can we say that real estate is the next stage of development in Africa, bearing in mind its growing young population?

Real estate is certainly one of the next stages of development. As highlighted in the first point above, there is an acute short-



age of retail facilities. The same goes for residential and office buildings. However, one cannot ignore the shortage of infrastructure (roads, railways, etc.) and power. As a continent, Africa's power supply per capita is by far the worst in the world. If this was improved, it could unlock a whole new manufacturing industry and Africa would be well placed to benefit because of its geographical situation in the centre of the world and its young, growing population.

↳ We are talking of real estate, and it's vast by definition. Which type(s) of development is highly in demand in this part of Africa, and why?

All types are in high demand: retail (e.g. shopping malls), commercial (e.g. office buildings), industrial and residential. This demand is caused by a rapidly growing population and insufficient investment in real estate in the past. Lack of finance has been a huge obstacle to real estate development in Africa in the past.

↳ Residential development does not seem to attract investors as much. Are there particular reasons for this?

Many countries in Africa don't have a residential mortgage market. So, as an investor, unless you have an off take agreement with the government or another institution, you would be taking the credit risk of the individual buyers of those properties who are paying them off piecemeal.

↳ Are there key risks to property development in Africa?

The four key development risks we seek to mitigate prior to commencing construction are: (1) confirming secure land title and zoning – this can be more challenging in Africa than elsewhere, (2) substantially completing design and costing, (3) pre let-

ting an acceptable minimum of 60% the floor space and (4) obtaining a term sheet for debt funding. These risks are not necessarily particular to Africa, but they probably are more challenging to overcome than elsewhere. To help us further mitigate these risks, we always engage with a local partner on our development projects.

↳ Where does Momentum Africa Real Estate Fund fit in this whole equation?

The Fund will develop shopping malls, office blocks and light industrial premises in SSA.

↳ Why focus on Sub-Saharan Africa only?

The rental yields as mentioned earlier are highly attractive to investors. In addition, rentals and rental escalations in SSA are denominated in US dollars. For example, we may be able to put a project together in Rwanda at a yield of 12% in US dollars (annual rental/cost of the developed property including land) compared with only 7% in rand in South Africa. The double digit US dollar yield is far more attractive for international investors.

↳ The Fund is domiciled in Mauritius.

Most of your transactions are expected in Ghana, Mozambique, Rwanda, Nigeria and Tanzania. Mauritius being part of Sub-Saharan Africa, can we expect a project or a future development here?

Yes, we actually have one project in Mauritius in the pipeline already.

↳ Do you think you'll be able to achieve the target of USD 250m by June?

Yes, since the \$50m first close at the end of January, we have seen increased interest from investors. \$150m of the remaining \$200m capacity is already reserved, so there is currently only \$50m available.

ADMINISTERED BY INTERCONTINENTAL TRUST LIMITED

Momentum GIM, in conjunction with Eris Property Group, has successfully closed the first tranche of its African Real Estate Fund with USD 50 million of institutional, family office and High Net Worth investor capital. The fund, currently being administered by Intercontinental Trust Limited, based in Mauritius, will focus on the development of retail, commercial and light industrial real estate in Sub-Saharan Africa outside of South Africa, offering investors access to Africa's strong economic growth and its emerging consumer. The fund is aimed at long-term institutional investors and it has a USD 250 million fund raising target for its final close on 30 June this year.