RISK AND REW

The latest race to unearth Africa's mineral wealth has exposed the continent's lack of office space and hotels, writes David Thame. But the market is ripe for property investors to fill the gap

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The second dash for Africa has begun. A century ago if you wanted adventure, high rewards and a chance to get your hands on valuable minerals such as gold and diamonds, you headed to the continent. Today the minerals of choice are oil, gas, copper and bauxite. By-products of the latest race to unearth Africa's mineral wealth include a surge in hotel development and serviced office provision, a rash of vast shopping malls and economic growth rates that make European economies look anaemic.

But with high rewards come high risks. In most parts of the world, the hot spots and the not spots are miles apart. In many of Africa's 54 nations, they could be the same place.

Peter Welborn, Africa managing director at Knight Frank, says that minerals are driving an African economic renaissance that is delivering average growth rates of more than 5% a year.

In Luanda, the Angolan capital, and Lagos, Nigeria's mega-city, demand from office occupiers – and a desperate shortage of new office space suitable for international occupiers – has sent rents soaring.

Prime office rents in Luanda are

ARD IN AFRICA

US$150 per sq m per month, higher than in London, Hong Kong or New York, while in Lagos they are US$85.

Welborn says that African economic growth – and property market growth – will outlast the current boom in commodity prices.

"It's true that growth in commodity prices has started to slow, but it's not likely to stop because the world needs those mineral resources," he says. "As resources get developed – oil in West Africa, copper in Zambia – so we'll move on to the next phase of places with enormous unexploited reserves, like Madagascar and Mozambique. This next phase of mineral extraction will continue to drive the African economy, so long as they have sensible governments and political stability," he says.

With a French-backed force taking control in Mali, the recent crisis over hostages at a BP gas plant in southern Algeria and Islamic terrorism growing in Nigeria and Cameroon, safety isn't assured. Beyond these crises, deep political tensions plague a long list of states headed by Cote D'Ivoire and Kenya.

"Like all emerging market economies, you have to balance risk and reward," says Welborn. "The key is to find a local partner who knows First World systems and has ambitions for the locality. But finding that partner requires care – as it does anywhere in the world."

James Whitmee, who as director at Emerging Markets Consultants advises business and governments, says the big opportunities in Africa often go with big political risks. He cites Abidjan, the world's third largest French-speaking city and former capital of Cote D'Ivoire.

"Political instability worries investors. In some places – like Cote D'Ivoire – it can get quite fraught. That happened recently and a lot of international businesses in Abidjan, especially the banks, closed. But Abidjan, as a major and growing port, is very active, and you have big names there like Unilever."

The same mix of risk and reward is apparent in Nigeria. With a population of 170m, one quarter of Africans are

FROM LIBYA TO MOZAMBIQUE VIA ZIMBABWE: THE HOT SPOTS TO WATCH

Ghana Accra is always popular: Sanlam and Atterbury recently acquired a majority stake in the Accra Shopping Mall, the first buy for a projected US$500m African property fund. Watch secondary locations such as Takoradi.

Mozambique Mineral resources are only now being tapped, and much remains to be explored. "Even the smaller towns and second-tier cities, like the port of Pemba, are beginning to see real development," says analyst James Whitmee.

Mauritania Offshore oil discoveries will be important.

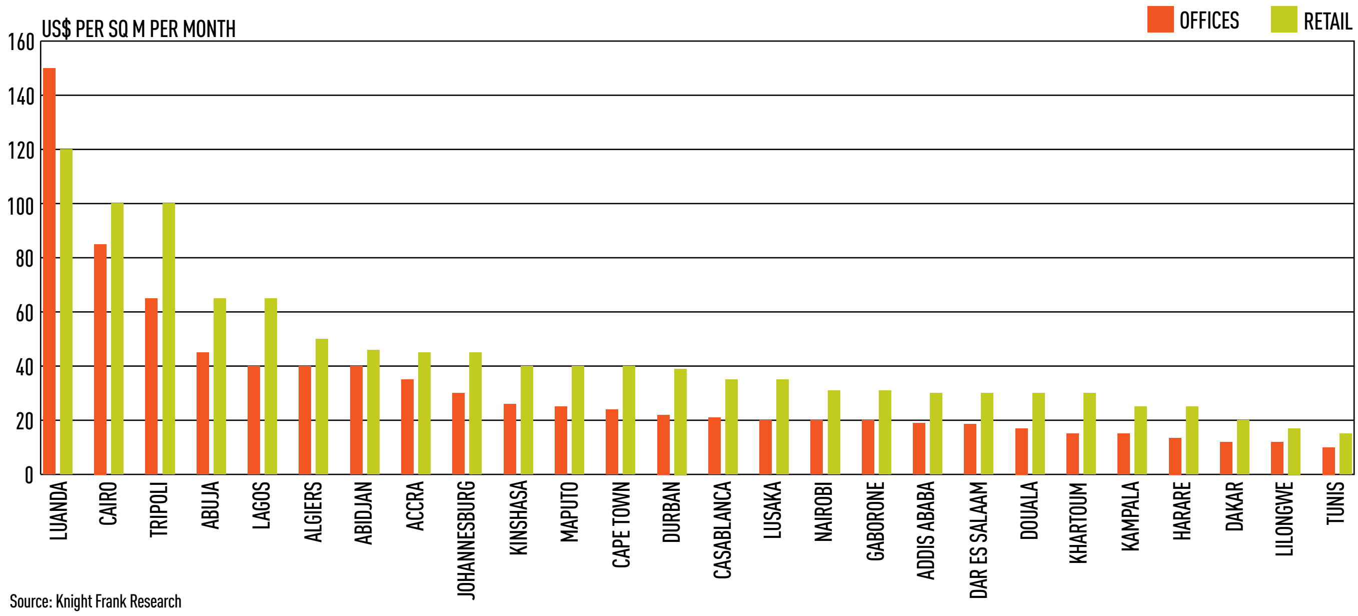
Nigeria A massive land reclamation programme in Lagos is likely to bring the next wave of development. It covers 9 sq km and costs US$6bn.

Tanzania Knight Frank's Peter Welborn says: "The offshore oil and gas interests make Dar es Salaam appealing."

Zimbabwe Annual GDP growth of 11% is forecast, Africa's fastest. Welborn says: "It's growing from a low base, but the dollar link is important and, despite uncertainty about government, Zimbabwe has a lot going for it."

Libya A political clean slate and large oil and gas reserves make Libya more appealing to investors than neighbouring Algeria or, for now, Egypt.

OFFICE AND RETAIL RENTS



Source: Knight Frank Research

Nigerian. The economy is growing by more than 8% a year.

"Nigeria is Africa's biggest market, the most profitable with the most expensive real estate," says Whitmee. "It's overwhelming, there's plenty of corruption, you hear horror stories – but there is more money to be made there if you can manage all the weird stuff. It's the key west African market and I don't see that changing."

David Harper, director at Leisure Property Services and now a founder of Hotel Partners Africa, agrees. Nigeria has bigger upsides – and bigger downsides – than anywhere else.

"Nigeria is huge and has 31 state capitals, each of which need hotel development, so there are many more opportunities than in other countries," he says. "But working there certainly has its challenges, and one of them is people trying to sell sites or buildings they don't own. This is why you need good advice."

Whitmee says that, although commodities dominate today's growth, manufacturing is close behind. "We're now seeing manufacturers and pharmaceutical companies move in to meet growing middle-class demand in Africa," he says.

Countries with few natural resources, such as Rwanda and Ethiopia, have grown fast thanks to liberal trade rules, political stability and a maturing internal market.

Property businesses are beefing up their African presence in anticipation. The discovery of oil reserves under Lake Victoria is boosting growth in the Ugandan capital, Kampala. Turner & Townsend, the project management and construction consultancy, has just opened a new East Africa base there.

Regional boss Elizabeth Natukunda Mwebesa says they will be working with international clients including Barclays and Standard Chartered Bank, which are now expanding in East Africa.

"There's a lot of buzz here," she says. "We've new oil companies setting up and only limited local competition, so things are looking good. This is a very open market."

Local investors are also mopping up growing interest, much of it from South Africa. Welborn says: "South African retailers are leading the way, with developers following. There are now five shopping centres under construction in Lusaka, and a massive shopping centre in Lagos, all driven by South African retail."

South Africa's Standard Bank has launched a R600m fund to invest in Nigerian property; and this month Pretoria-based Sanlam is launching a sub-Saharan Africa Real Estate Fund.

The fund will be listed on the Stock Exchange of Mauritius, and excludes investments in South African property.

Sanlam Properties chief executive Thomas Reilly says: "The fund has an identified pipeline of close to $1bn which we hope to grow into over the next few years. It will no doubt be dominated by exposure to the retail sector (as much as two-thirds of the portfolio). This in our view is central to the opportunity at hand.

"However, quality office and select industrial will also feature where the assets stack up in terms of the A-grade portfolio we are establishing."

Targets are likely to include Nigeria, Ghana, Kenya, Angola, Mozambique, Zambia, and Zimbabwe.

INVESTORS PREPARED TO PAY TOP DOLLAR FOR SERVICED OFFICES

Serviced offices are the first stop for many new international investors in Africa. Limited supply has forced up their rents to some of the highest in the world. Ten of the 25 markets in Africa have rents of more than US$1,000 per workdesk per month.

Instant, the flexible office specialist, says Johannesburg has the most serviced office centres (20), followed by Nairobi with 12 and Lagos with seven. Lagos has the highest workstation rates at $1,600, followed by Lusaka ($1,450) and Abuja ($1,275).

DEMAND FOR HOTEL BEDS LIKELY TO DRIVE DEVELOPMENTS

Hotel development is going to be at the forefront of economic development in Africa, say experts.

In the UK there are 9,000 hotel beds for every 1m people. In sub-Saharan Africa it's just 30 hotel beds for every 1m inhabitants.

"The Hilton Abuja, in Nigeria, earns more management fees for Hilton than any other hotel in the world. The scale of the opportunities for hotel development in Africa are immense," says David Harper, director at Leisure Property Services and now co-founder of Hotel Partners Africa. "Hotels are the bases from which local business grows – they will be important to how Africa's economy develops," he says.