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# AFRICA HORIZONS

A UNIQUE GUIDE TO REAL ESTATE INVESTMENT OPPORTUNITIES

EDITION 1

2019

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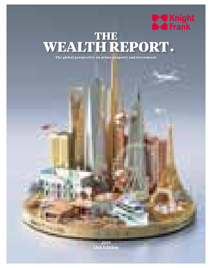


The Wealth Report 2019

(Y)our Space 2018

# Welcome to *Africa Horizons*

EDITION 1

For those investors who don't understand the breadth of opportunities that Africa offers, the continent can present a daunting prospect. Its size, diversity and unique challenges mean potentially rewarding investment options often end up filed away in the "too difficult to consider" box

To help overcome this barrier and provide investors with the help they need to make better informed decisions, I am delighted to share with you the inaugural edition of *Africa Horizons*, Knight Frank's new research report focusing specifically on investment opportunities across arguably the world's most exciting continent.

Africa is on the move. In terms of trade, global influence, wealth creation, transparency and ease of doing business, all the indicators are shifting in a really positive direction.

As the article on page 30 clearly shows, this has already been recognised by China and the Gulf States, which have pumped billions of dollars into Africa via trade and investment deals, many of them focused on improved infrastructure.

For private and institutional investors this sovereign-level interest provides a springboard for taking advantage of the opportunities that are emerging across individual sectors, including healthcare, hospitality and student housing.

Inevitably, challenges remain, particularly for those investors who rush in unprepared. However, for those armed with the best insight and advice, their future investment strategy in Africa can be very rewarding.

Knight Frank has the most comprehensive African network of any real estate business and we look forward to helping you invest in this amazing continent.

I hope you enjoy *Africa Horizons* and find it useful and thought provoking.

**Peter Welborn**
Chairman, Knight Frank Africa

# Content

# At a glance

Africa's growing economic heft is slowly asserting itself globally, and nowhere more so than in real estate, where opportunities for shrewd, forward-thinking investors and developers abound. Liam Bailey, Knight Frank's Global Head of Research, shares his key takeaways from *Africa Horizons* 2019

**01**

## The economy

By 2023

nearly half of African households will have an annual income exceeding

**US$5,000**

Economic growth underpins the continent's real estate markets – and with an acceleration in GDP expansion to 4% this year there is a real focus on emerging as well as established property sectors.

The future African Continental Free Trade Agreement, which will remove 90% of tariffs on goods moving between 49 countries, will ensure this economic expansion continues. By 2023 almost half of African households will have an annual income exceeding US$5,000, spurring greater demand for consumer goods and services which in turn will lead to greater demand for hotels, retail and logistics property, as well as office requirements.

While inward investment continues to be a significant growth driver, African-owned companies are increasingly dominating the continent's markets. Over two-thirds of the 400 companies in Africa with revenues in excess of US$1 billion were founded there. Global companies wanting to take advantage of the prospects offered in Africa will need to build relationships with local partners.

**02**

## Trade and investment

**US$6.7bn**

Nigeria's rail contract to link Lagos to Kano

China's Belt and Road Initiative is prompting a rise in trade-related infrastructure. The rate of investment from China has increased by 25%, including Nigeria's US$6.7 billion rail contract to link Lagos to Kano and Egypt's US$3 billion contract for Cairo's new CBD, which will include the continent's tallest skyscraper.

Good news on the economy is prompting greater activity from regional property investors, helping to drive investment yields lower in nearly 40% of markets.

**03**

## Residential opportunities

**72m**

More African people aged 15-24 by 2028

Many of the key opportunities opening up to investors stem from demographic trends. For example, a 21% five-year rise in student numbers, and an additional 72 million Africans aged 15-24 by 2028, are supporting rapid growth in student accommodation requirements.

The number of people living in urban centres is expected to almost treble to 1.4 billion by 2048, driving the need for more middle-income housing.

Burgeoning demand in the hospitality sector, for both business and tourism requirements, means the hotel market is a critical opportunity play.

So too is healthcare. In Nigeria alone the attempt to reach a bed-to-population ratio in line with the global average would require 32 million sq m of new medical facilities, representing an investment of more than US$82 billion.

**04**

## Food and tech

**40m ha**

Just under 4% of Zambia's land with agricultural potential is cultivated annually

With a growing urban population, more people will be unable to grow their own food. The annual retail value of food and beverages consumed in sub-Saharan Africa will rise to US$1 trillion by 2030, up from around US$300 billion in 2010.

In Zambia, just under 4% of the 40 million hectares with medium to high potential for agricultural production is cultivated annually. Additional investment to bring more land forward for productive use is already bringing in new agricultural players, many of whom are from Gulf States worried about food security in their own, less fertile, countries.

Additional opportunities are being exploited in eco-tourism across east and southern Africa.

# The big five

Key economic themes set to drive growth across Africa

**James Roberts**
Chief Economist, Knight Frank

## 01

### A NEW CYCLE

Economic growth is forecast to accelerate to 4% this year, up from 3.5% in 2018, according to the African Development Bank. This is a significant rebound from 2016, when growth slowed to just over 2% following sharp commodity price falls. Africa is gaining significant economic momentum, and this is set to continue.

East Africa will see the strongest growth at almost 6%, extending a prolonged period of outperformance by the region, where economic success is led by diversification.

A potential driver of future growth could be the African Continental Free Trade Agreement, which promises to remove 90% of tariffs on goods moving between 49 countries, and liberalise trade in services. So far, 19 nations have ratified the agreement, which will come into force once 22 signatories have affirmed the treaty.

## 02

### AFFLUENT AFRICA

By 2023 more than 46% of African households will have an annual income of over US$5,000, up from 41% in 2018, according to Oxford Economics. The number of households with an income of over US$20,000 is forecast to rise by 32% to 17 million over the same period.

This will result in greater consumerism, and more sophisticated patterns of spending and private investment, particularly as stronger growth is expected for higher income bands. This means much more than just busier shops. A growing number of Africans will be in a position to invest in their children's future, resulting in higher school and university enrolment. Demand will increase for personal investment products like pensions and mutual funds, boosting financial services firms.

## 03

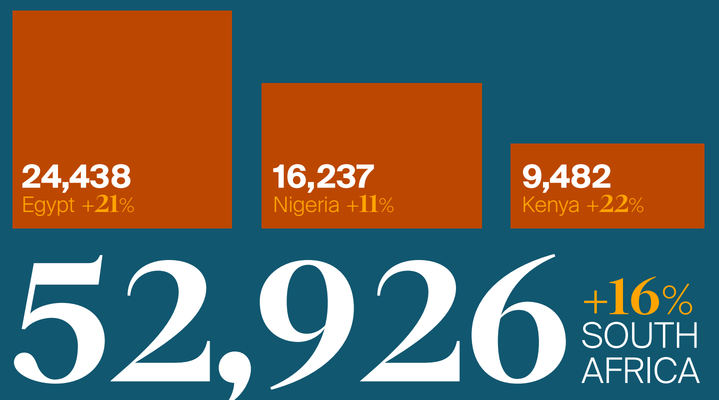
### COMPETITIVE CAPITAL

A 2017 McKinsey report estimated the annual revenue for Chinese firms in Africa at US$180 billion, with a potential surge to US$440 billion by 2025 (see page 30 for more on the Belt and Road Initiative). In 2018, Africa's exports to China jumped by 31% to US$100 billion, according to the Chinese Ministry of Commerce. India's Ministry of Commerce and Industry says trade with Africa increased by 22% to US$63 billion in the 2017/18 fiscal year.

Growing competition between these emerging powers and countries with longer-standing economic ties, such as the UK, US and France, to win lucrative investments and open up new trade, should put African nations and businesses in a stronger position to negotiate a bigger share in the profits.

## Super wealth

Number of millionaires in 2018 and five-year forecast growth



Source: GlobalData WealthInsight

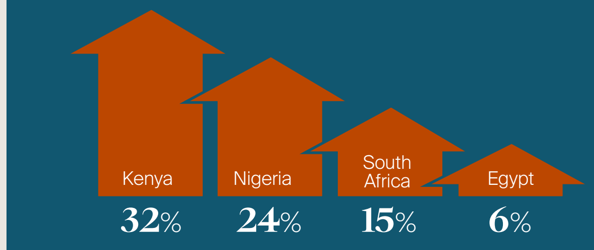
## City living

% of Africa's population living in urban areas

Source: UN

## Burgeoning middle

Increase in households earning over US$5,000 2018–2023 in real terms



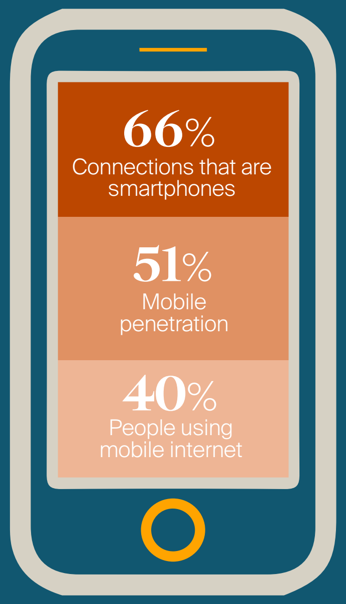
Source: Oxford Economics

## Get connected

Mobile usage in sub-Saharan Africa by 2025

165m

NEW MOBILE SUBSCRIBERS



Source: GSMA, *The Mobile Economy 2019*

## 04

### TECH REVOLUTION

In 2018, Google said it planned to open an artificial intelligence laboratory in Accra, Ghana. Its Launchpad Accelerator programme will offer support and advice to start-ups in 17 African countries in 2019. Csquared, another company owned by Google's parent, Alphabet, has been busy constructing fibre optic networks in cities including Accra, Entebbe, Kampala and Monrovia. These tech innovations have the potential to transform all aspects of business and daily life.

Mobile phones allowed widespread telecoms services in parts of Africa without landline networks, and provided a platform for other services, such as e-money in Kenya. Drones could have a similar impact, delivering goods to remote communities and mapping the areas they fly over, enabling further development.

## 05

### GREEN POWER

Africa could be one of the beneficiaries from the revolution unfolding in the market for renewable energy. Between 2010 and 2017, the average cost of producing solar energy fell by 73%, while onshore wind power dropped 22%, according to the International Renewable Energy Agency. BP's 2018 *Energy Outlook* report predicted a 40% increase in power consumption for Africa between 2020 and 2030, which will make renewables an attractive option.

Renewable energy will spur economic growth in Africa by getting electricity to remote communities. Countries without their own oil were previously vulnerable to energy price spikes, so renewable power could be a game-changer. Cheap and abundant electricity will help many African nations to develop their manufacturing industries and irrigate land.

# Africa – it's a big deal

Below the surface, the continent's property investment market is moving up a gear. We take a closer look

**William Matthews**
Head of Commercial Research

In Africa, contrary to the global trend, recorded transaction activity peaked in 2016, and has eased since. Just under US$2 billion of deals were publicised in 2018, predominantly involving assets in South Africa.

This, however, doesn't tell the full story. Commodity price volatility and incidences of political uncertainty in recent years have certainly tempered overseas demand, especially from time-limited funds, yet domestic capital is typically more patient.

By taking a longer-term perspective, and in some cases a lower return profile, local investors have remained more active than headline figures suggest. This explains how yields in most major markets have remained stable in the face of weaker reported transactions.

Indeed, in the 35 office markets included in this analysis, yields fell in 13 locations over the past two years, remained stable in a further 16, and rose in just six.

This is a double-edged sword. On one hand, falling yields are, of course, a positive reflection of demand. In some markets they are also warranted by the quality of new buildings developed in recent years, which employ all of the modern office concepts that investors (and, most importantly, occupiers) have come to expect. On the other hand, for global investors at least, lower yields invite closer comparison with competing investment markets elsewhere.

There is some evidence of this impact, as the past two years have seen African investors spend more than US$3.5 billion on commercial real estate overseas. The focus has been on central and eastern European markets, but the UK, Spain and Italy have also experienced demand from African investors.

Private capital remains an important driver of investment activity in much of Africa, but is ultimately somewhat opaque. By contrast, the rise of real estate investment trusts (REITs) has begun to provide additional transparency in some markets. With around 30 vehicles, South African REITs are a key source of investment demand, both domestically and across the continent. Although the South African REIT index fell during 2018, these companies were responsible for over US$0.5 billion of transactions.

Elsewhere in Africa the REIT market continues to evolve, albeit slowly, and with a focus on residential development. Grit Real Estate, a REIT with commercial assets in a number of African markets, was listed on the London Stock Exchange in 2018, demonstrating how such structures can also be used to channel capital into African real estate markets indirectly.

## Pension assets

Looking ahead, domestic investors are clearly set to remain a very important source of demand, and not just from a private wealth perspective: institutions such as pension funds are relatively small today, but are set to grow significantly over the coming years in order to support a growing middle class.

OECD figures show that pension assets in some African countries have grown by around 50% over the past decade, far exceeding the pace in western Europe or North America. Longer term, we also expect greater demand from Asia (see page 30).

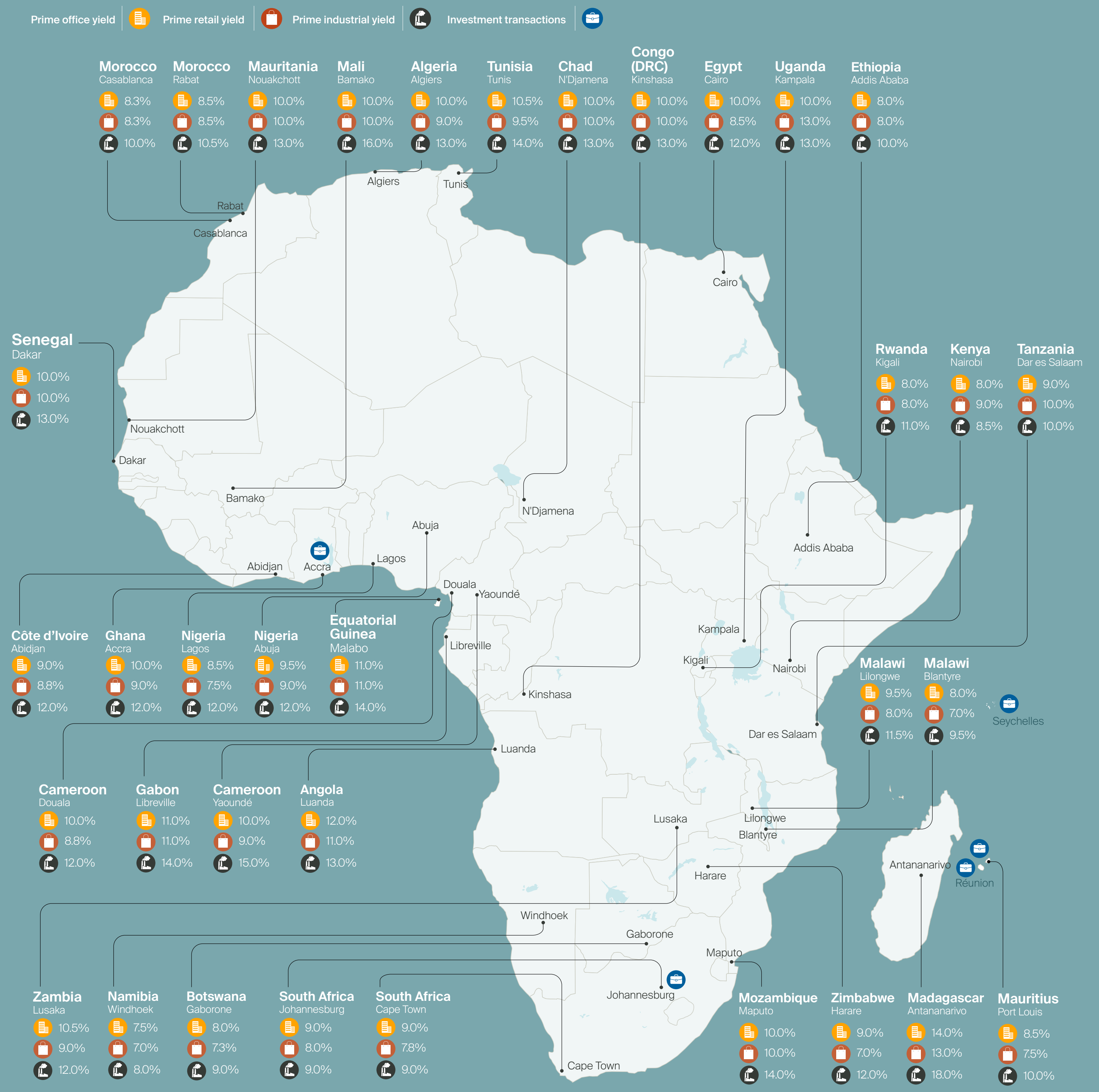
Healthy economic prospects suggest that Africa will remain a compelling investment destination for those targeting key centres. In addition to the office markets in these locations, rising wealth will favour sectors exposed to consumer spending, such as logistics and, selectively, retail.

More generally, while accepting that parts of the continent will be closely tied to the global economic cycle via commodities, we envisage rising investor demand for those African locations that can demonstrate something of a counter-cyclical nature, combined with rising domestic wealth.

> *"Healthy economic prospects suggest that Africa will remain a compelling investment destination for those targeting key centres"*

Page 30: How China and the Gulf States are investing in Africa

**Happy returns**
Prime real estate yields 2018



**Selected sub-Saharan Africa investment transactions 2018**

| Date | Property | Location | Sector | Seller | Buyer | Estimated price |
|---|---|---|---|---|---|---|
| **Q4 2018** | Investec HQ | Johannesburg, South Africa | Office | Growthpoint Properties | Investec | US$189.7m |
| **Q4 2018** | Banyan Tree Seychelles | Anse Intendance, Seychelles | Hotel | Banyan Tree | Aabar Investments | US$70.0m |
| **Q1 2018** | Outrigger Mauritius Beach Resort | Bel Ombre, Mauritius | Hotel | Outrigger Enterprises | Singha Estate | US$57.9m |
| **Q1 2018** | 5th Avenue Corporate Offices | Accra, Ghana | Office | Greenline Development Ltd | Grit | US$20.5m |
| **Q4 2018** | Intersport Gifi | Le Port, Réunion | Retail | SCI Katsura/Groupe Ravate | CBo Territoria | US$14.1m |

Sources: Knight Frank, Real Capital Analytics

# Office gossip

Progressive international and local businesses are driving innovation in office occupier markets across Africa. We share the latest intelligence

**Dr Lee Elliott**
Head of Global Occupier Research

Sustained business investment in Africa belies the traditional perception of the continent as somewhat of a corporate backwater.

In 2017 there were more than 700 separate inward investment projects, with half originating from companies domiciled in the US, UK, France, China or Germany. Contrary to popular belief, the dominant source of that investment was not China but rather the US.

The destination of this investment was broad, although South Africa, Morocco, Kenya, Nigeria and Ethiopia accounted for just over half of the projects.

Investment has also extended beyond the historical focus on infrastructure and extractive industries, as international businesses bring services and products to markets that are experiencing globally unrivalled rates of population growth, urbanisation and consumer market expansion. For those seeking the next frontier in B2C products and services, Africa is an inevitability.

Yet Africa is not dependent upon international business. There is a growing roster of sizeable African companies undergoing rapid, transcontinental growth. Indeed, a recent study by management consultants McKinsey maintains that of the more than 400 companies in Africa with revenues in excess of US$1 billion, 70% were founded in Africa.

In terms of business growth in the tech sector, while few African tech start-ups have hit the heights of unicorn status – e-commerce platform Jumia, which operates across 23 African nations, is the only African company with the prized valuation of US$1 billion – there is a flourishing network of high-growth, high-tech companies in Lagos, Nairobi and Cape Town.

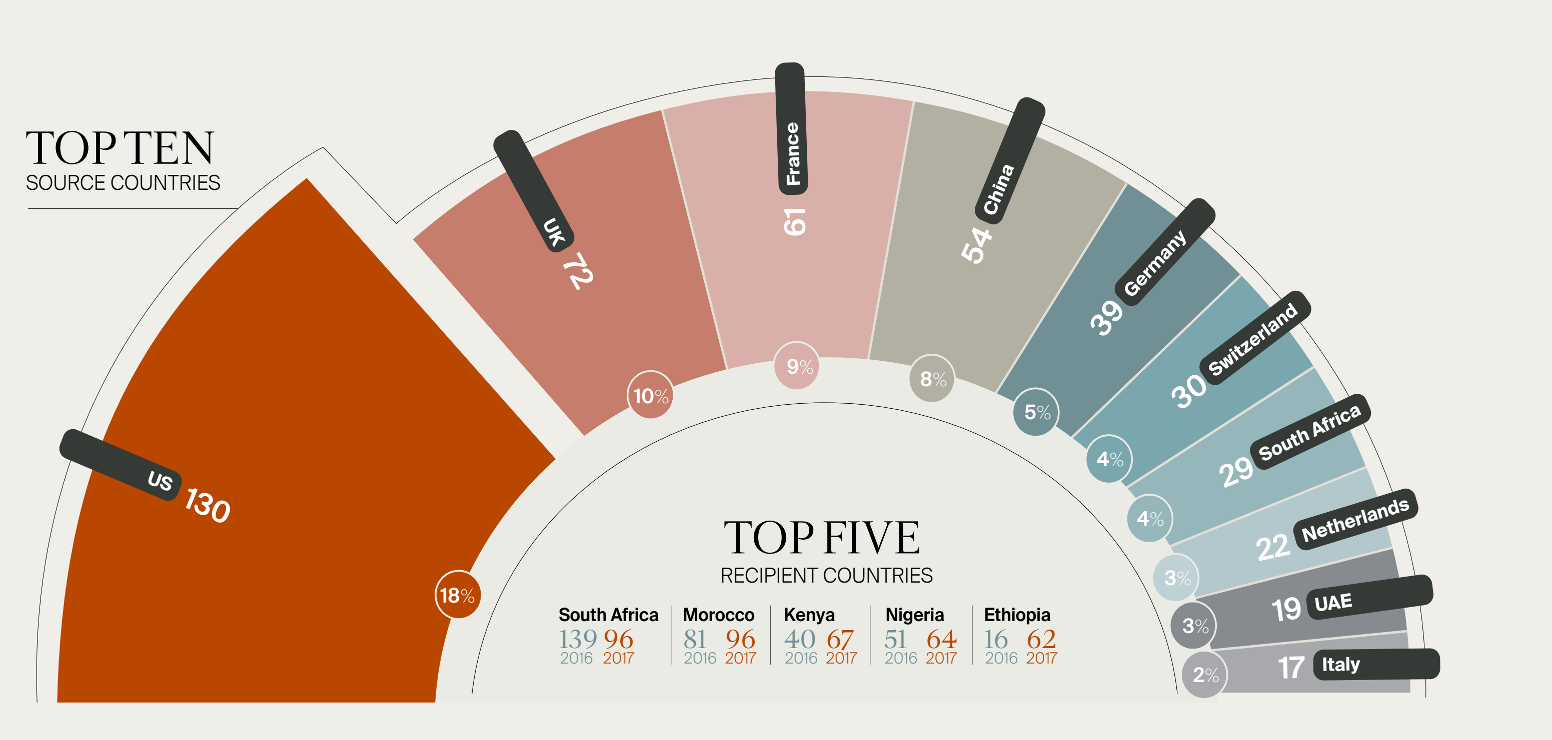
Africa has a strong base of international, indigenous and fast-growing businesses, all seeking to take commercial advantage of the continent's growth trajectory ahead of their competitors. From a real estate perspective, this has meant that occupier requirements have become more greatly influenced by global trends.

On pages 12–13, we share the ***five key themes*** recently identified in our *(Y)our Space* report that serve to signal the future direction of Africa's occupational markets, which, fuelled by the requirements of discerning occupiers, will mature rapidly over the medium term.

They will reveal greater levels of quality, service, amenity and flexibility, allowing occupiers to see and utilise real estate as a strategic driver rather than a limiting factor for their business. ▶

For a copy of our *(Y)our Space* report, contact **lee.elliott@knightfrank.com**

**Invest Africa**
Number of foreign direct investment projects into Africa in 2017 by source* and recipient countries



| | South Africa | Morocco | Kenya | Nigeria | Ethiopia |
|---|---|---|---|---|---|
| 2016 | 139 | 81 | 40 | 51 | 16 |
| 2017 | 96 | 96 | 67 | 64 | 62 |

Source: *Turning Tides*, EY Attractiveness Program: Africa (2018) *Includes South African investment into rest of continent

# THE GREEN REVOLUTION

Investors gain as Nigeria's office market becomes more transparent – and more environmentally aware

**Frank Okosun,** Knight Frank Nigeria

There are two new trends in Nigeria's commercial real estate market. First, developers, investors and practitioners are more willing than ever before to share transaction details and operate more transparently. And second, most prime office developments that have been delivered in recent years or are expected to come on stream are going green.

Just ten years ago, obtaining a transaction rent or sale price, lease terms or even just basic details of transacting parties would be like finding a needle in a haystack. Today, much of this information is published freely on websites and in industry reports.

The rationale is clear: the more transparent a market is, the more investors and developers will understand its dynamics and the more likely they are to want to invest in and develop the space.

The Global Real Estate Transparency Index, which has been published biannually since 2010, ranks countries by the level of transparency of its real estate markets. Countries such as Australia, Canada, the UK and the US have topped the list while Asian and African countries (except South Africa, currently 21st) have lagged behind.

Nigeria debuted at 96 out of 97 countries in 2012, rising to 86 in 2014 before jumping to 67 in 2018. To put this in perspective, in only six years Nigeria has moved about 30 spots from being the second most opaque country measured to the 67th most transparent of 195 countries in the world.

Similarly progressive is the focus on energy efficiency in recent real estate developments. A case in point is the Nestoil Tower, which includes almost 10,000 sq m of office space and adjoining residential apartments.

The project was delivered in 2017 and attained LEED Silver certification for energy efficiency. The unique form and design of the building is quickly earning it iconic status on the Lagos landscape, especially at night with its eye-catching lighting. Located in the heart of Victoria Island, one of the country's busiest and most prominent addresses, Nestoil Tower is an investor or occupier's haven.

Several other projects have also attained energy efficiency certifications, including Heritage Place, which also obtained LEED Silver certification, and Cornerstone Tower, which is EDGE certified. This is to be welcomed. Consciousness of energy management and environmental friendliness will go a long way towards influencing more desirable commercial real estate spaces and reducing occupation costs while being friendly to the environment in years to come.

**Greenhouse** The Nestoil Tower in Lagos is very energy efficient

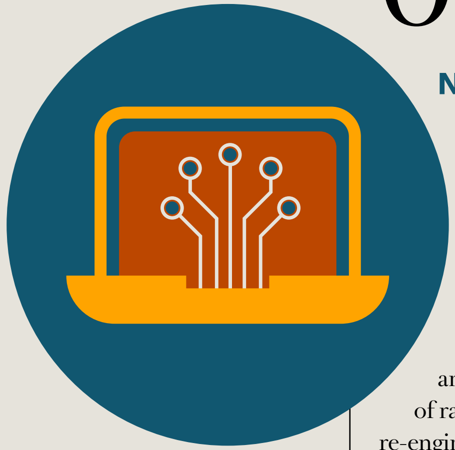
# Key occupier trends

> *“Africa has a strong base of international, indigenous and fast-growing businesses all seeking to take commercial advantage of the continent’s growth trajectory ahead of their competitors”*

## 01

### PRODUCTIVITY PUSH V2.0

Real estate is a clear strategic device for business, and occupiers will increasingly focus on effective, rather than simply cheap, real estate solutions. There will be a flight to the quality stock emerging in core African markets as they seek to support increased personal and collective productivity by strengthening the interaction between people and property, via the creation of a serviced and well-supported workplace experience. As an example, in Nairobi a major global corporation is relocating from its ten-year-old, purpose-built but under-utilised and costly headquarters, to a multi-let building with no branding privileges.



## 02

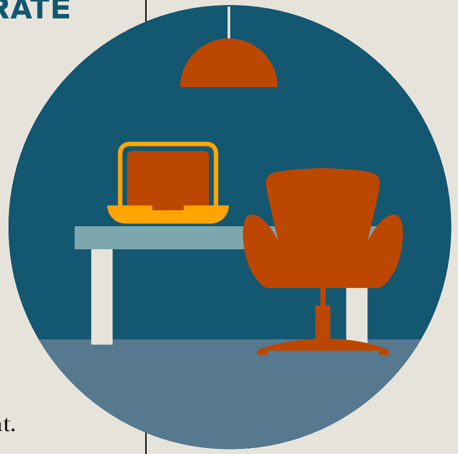
### NEXT WAVE TECHNOLOGY, NEW BUSINESS MODELS, NEW OCCUPATIONAL DEMAND

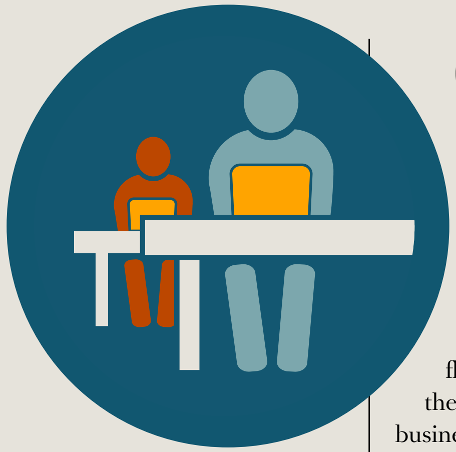
Next wave technologies such as artificial intelligence (AI), robotics and automation will create a period of rapid organisational and process re-engineering, and may ensure that the back-office functionality that has taken root in southern African is under some threat. However, it will also generate new tech businesses seeking to advance such technologies in those tech-heavy markets previously mentioned. The so-called Silicon Savannah will have a role to play in the global advancement of next wave technology.

## 03

### CHANGING CORPORATE CONSTITUTIONS

One of the great business attractions of Africa is its dynamic, young population. As workforces around the globe continue to age, and while the tech savviness and creativity of youth remains in demand, we anticipate that corporate occupiers will increasingly seek to source such skills from the African continent. Consequently, the amenity-rich, vibrant workplaces that have come to characterise global tech occupiers will become a strong feature of African occupational markets.

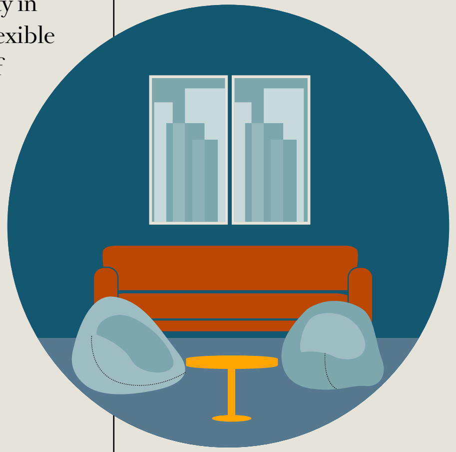




## 04

### FLEXIBLE SPACE-AS-A-SERVICE BECOMES THE DEMAND DEFAULT

A clear feature of the global workplace is that it has become a flexible mechanism more aligned to the short-term horizons of modern business. Now, co-working is taking root in Africa too. As well as a range of smaller operators, WeWork has recently committed to its first African facility in Rosebank, Johannesburg. While flexible serviced space has been a feature of the African landscape for some time, particularly in the absence of mature product or, in some cases, market transparency, today’s drive towards flexible space is underpinned by different drivers. These include the need to have space that supports a rapid growth trajectory, enables scale up and scale down and, crucially, provides an instant operational solution.



## 05

### MOBILITY & MERGERS SHAPE FUTURE DEMAND

Global corporate M&A activity is booming, and will undoubtedly involve African businesses. These mergers will serve to further bolster occupational standards and provide a stimulus towards higher quality space. They will also fuel a further future characteristic of the market; that is, the movement of occupiers towards those locations that provide the right office product, the best amenity base and access to the greatest pool of emerging talent.

# The Africa House

Residential investment opportunities are tapping into the continent's changing demographics

**Flora Harley**
Senior Analyst, Knight Frank Research

Residential housing markets in African countries can be hard for investors to navigate, as they are diverse and often possess characteristics quite different to those of more established markets. Over the following pages, we examine some of the types of developments and areas where opportunities will lie in the coming years.

## Student accommodation

A continent-wide trend is the demand for accommodation from the mounting number of university students throughout Africa. There were an additional 2.5 million students in tertiary education in 2017 compared with 2012, according to the UNESCO Institute for Statistics – a 21% increase.

This is a consequence not only of increasingly youthful populations, but also the commitment to raise the university participation rate in countries such as Kenya and South Africa as a way to increase economic growth and reduce inequality.

Over the next five-year period student numbers are likely to continue increasing significantly. An additional 72 million Africans will be aged 15–24 by 2028, with the highest growth – 13 million – in Nigeria.

Across Africa, however, the primary focus of many institutions is on growing their academic facilities and therefore they do not have the space or resource to develop their own accommodation. Increasingly, they are looking to collaborate with developers and landlords in joint ventures to provide suitable options.

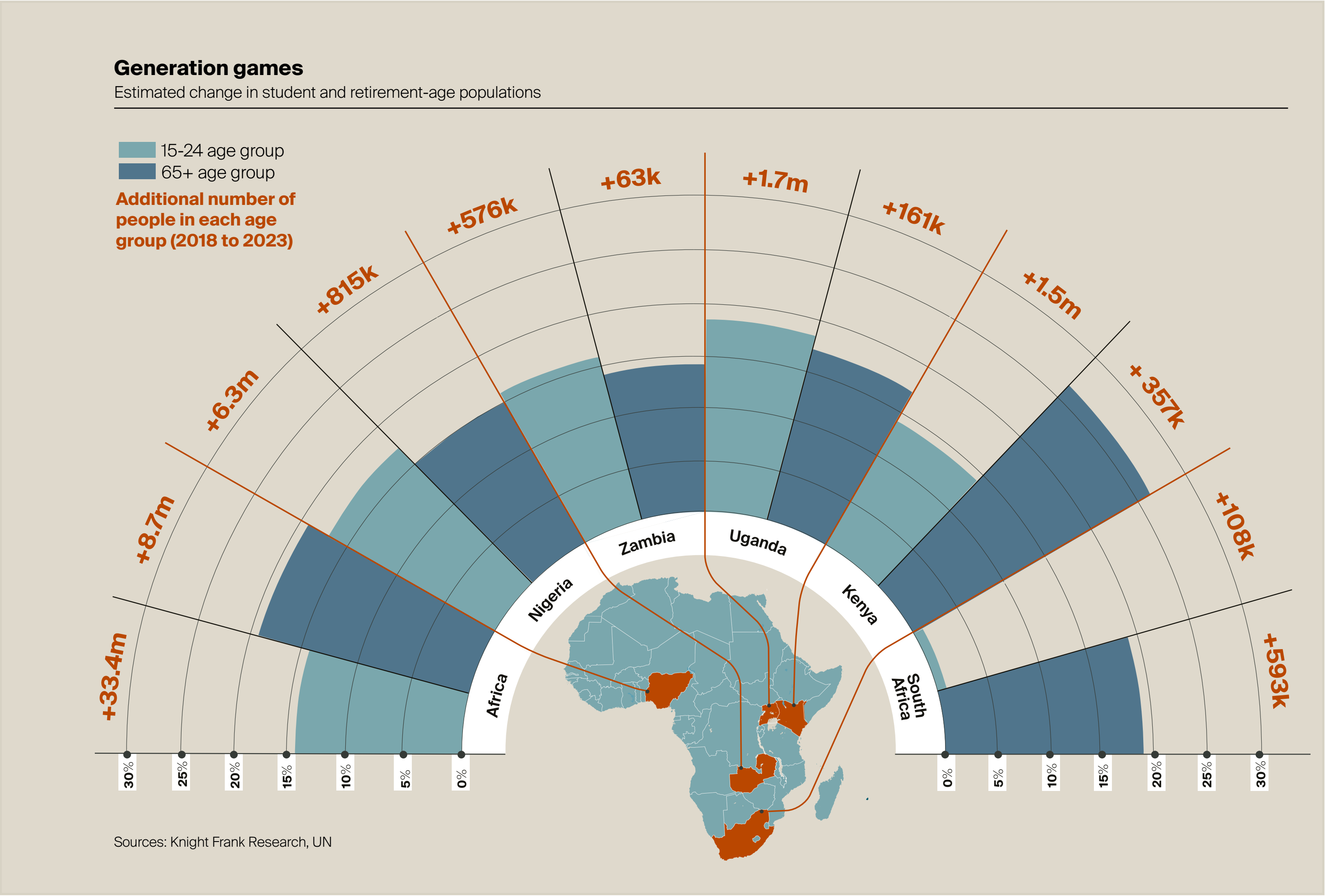
Adding impetus to this search is the growing compulsion for institutions to provide accommodation to maintain their university status. There is already a requirement in Kenya to own land and this will soon be enforced in Zambia and Uganda.

For investors wishing to tap into this demand the potential rental income is significant. "Student accommodation in Africa is not the same as in other areas," explains Anthony Bonnett, Real Estate Director of Maarifa Education.

"Developments usually involve four to eight bunk beds per room with a desk and cupboards and communal facilities such as kitchens, bathrooms and living/study space. The typical rent varies between US$75 and US$100 per person per month, so for a six-bed dorm at the average rent of US$80, a landlord would get $480 for a typical 15 sq m room per month," he says.

**Full marks** Student accommodation is improving in Africa

*Image: Andersen and Andersen International Architects for Royal Lutanda Lusaka*



**Generation games**

Estimated change in student and retirement-age populations

Sources: Knight Frank Research, UN

But capitalising on this opportunity does not come without challenges, from finding the right site to navigating property ownership rights. Key to unlocking the right sites is local knowledge combined with assessments of demographics, existing facilities, developments, both current and planned, and other influencing factors.

## Education hotspots

### Zambia

There are already close to 40,000 students attending recognised universities in Lusaka alone, with the Higher Education Authority of Zambia estimating that there were over 61,000 students attending lectures on campus (as opposed to distance learning) in 2016/17. Provision and participation is supported by the country's Vision 2030 ambition to increase university and skills training output by 2% per annum.

However, currently only a fraction of students are living in formal student accommodation. There has been limited activity from institutional investors and developers to date, although there have been formal requests from local institutions asking for submissions for student housing on land earmarked for new campuses. There is increasing private sector tertiary education with new colleges and universities opening, including Cavendish University, the University of Lusaka, Texilla American University, Lusaka APEX Medical University, UNICAF and DMI – St Eugene.

### South Africa

Despite being the most established market within the continent, South Africa still has some way to go. While the population of 15 to 24-year-olds is set to rise modestly compared with other African nations, there is still expected to be significant growth in the student population. The latest UN estimate, as of 2016, puts the number in tertiary education at just over 1 million.

The South African government has shown its support for increasing enrolment by announcing in its 2019 budget that R111.2 billion (US$7.9 billion) will be used, over the medium term, to fund 2.8 million "deserving students from poor and working class families to obtain their qualifications at universities and technical and vocational and training colleges."

In the last few years interest and investment in student accommodation has grown, and the sector is attracting a larger pool of investors. While the typical "hostel" style of accommodation is popular in South Africa, there is a mix of development styles, such as those offering private rooms, or sharing with one or two other people, with shared communal facilities.

**Kenya**

The number of students in Kenya is growing exponentially and current hostels cannot keep up with demand. The latest Kenyan National Bureau of Statistics estimates from 2017 put the number of students at 520,893. With expected growth of 15% – almost 1.5 million – in the population of 15 to 24-year-olds, this is likely to increase and operators in the student accommodation market already run near to full capacity.

### Senior living

Not only is a growing young population presenting opportunities; investors should also consider the other end of the age spectrum. Over the next ten years the number of people in Africa aged over 65 will grow by 19.5 million, or 43%. Culturally, older generations have been looked after by their families. However, there has been a more recent move in many areas toward looking at purpose-built retirement accommodation. The developments most in demand include a mix of lifestyle amenities and medical facilities. In South Africa, for example, many retirement villages have been built, some within larger gated communities and others as standalone secure villages.

### Middle-income housing

The combination of a growing middle-income class and increasingly urban population is driving demand for more affordable housing. Over 547 million people, or 43% of Africa's population, currently live in urban centres according to the UN. This figure is expected to almost treble to 1.4 billion people by 2048. However, to date, there have been very few affordable housing projects specifically targeted at middle- and lower middle-income earners constructed on a large scale. This follows the widening gap of affordability of housing across the globe, a concept that we discuss in our *Urban Futures* report.

"The cost and affordability of finance and design has made residential housing difficult to provide on a large scale in countries like Zambia where the market is dominated by self-build", says Tim Ware of Knight Frank's Zambia office. "Even quicker and cheaper construction methods such as prefabricated homes have not worked as most owner occupiers prefer the traditional brick or concrete block homes," he adds.

Due to limited access to affordable finance and absence of available product, many individuals opt to build homes over several years. However, with a growing middle-income class employed in both the formal and informal sector, there may be increased demand if homes are made available at the right price point. Francis Bbosa of Knight Frank Uganda says: "In Uganda there are opportunities in the middle-income housing segment – those earning USh 0.5 million to USh 1.5 million a month – particularly in the greater Kampala areas of Naalya, Namugongo, Buwate, Kira, Seeta, Kitende, and Najjera."

**Going up** Developments such as Garden City in Nairobi are catering to middle-income earners

# Welcome to Africa

From luxury safari camps to island retreats to conference hotels, Africa's hospitality sector is booming. Knight Frank's specialist team looks at how the numbers add up

**Ali Manzoor**

Head of Hospitality, Knight Frank Dubai

Average hotel occupancy levels throughout Africa rose to 61% in 2018, up from 58% in the previous year, according to data provider STR Global.

This was primarily driven by north Africa, where occupancy levels rose by six percentage points in 2018. This is good news for the industry and investors given that most north African markets have exhibited depressed performance in recent years, partially due to security concerns.

In contrast to the volatility of many north African markets, hotels across sub-Saharan Africa exhibited a more stable performance, with average occupancy levels unchanged in 2018 at 60%.

The sub-Saharan region also records consistently stronger room rates than in north Africa: an average of US$127 in 2018 compared with just US$91. However, looking at these numbers in aggregate hides the wide variation between individual countries within a region, which can reach as high as more than 400%.

From a supply standpoint, north Africa has the largest proportion of hotel keys within the continent, followed by southern and eastern Africa. Looking at the development pipeline, the projects that have broken ground account for only 5% of the existing supply, which is limited in relation to more mature markets and suggests that there is significant room for further development.

**Room with a view** Luxury safari camps such as Samara in South Africa's Karoo are benefiting from the demand for eco-travel experiences

*Image: David Smith*

On a country level, Mauritius and the Seychelles were 2018's top performing markets in terms of both occupancy and room rates. Both markets are dominated by luxury resorts, and have been relatively immune to the security concerns that have had a negative impact on resort locations elsewhere in Africa. The two countries are expected to remain the continent's top performing markets in the short to medium term, and as a result are an increasingly popular target for investment.

Following a two-year period of declining foreign direct investment, the Seychelles witnessed a year-on-year increase of 24% in 2017 to US$192 million, of which tourism-related projects accounted for a substantial proportion. This was stimulated by certain measures taken by the government – such as reducing the corporate tax rate – which helped create an attractive environment for foreign investment.

As a result, the Seychelles continues to be the beneficiary of increasing interest from Gulf countries, the most notable recent example being the acquisition of the Banyan Tree hotel group's holdings in the Seychelles by a UAE-based entity. This Gulf Cooperation Council-led investment is a phenomenon that is being replicated in hospitality hotspots across the continent including in Morocco, Egypt and emerging locations in sub-Saharan Africa. A surge in demand for luxury eco-tourism experiences is also driving investment into sub-Saharan safari destinations, from private individuals, institutional investors and high-end chains.

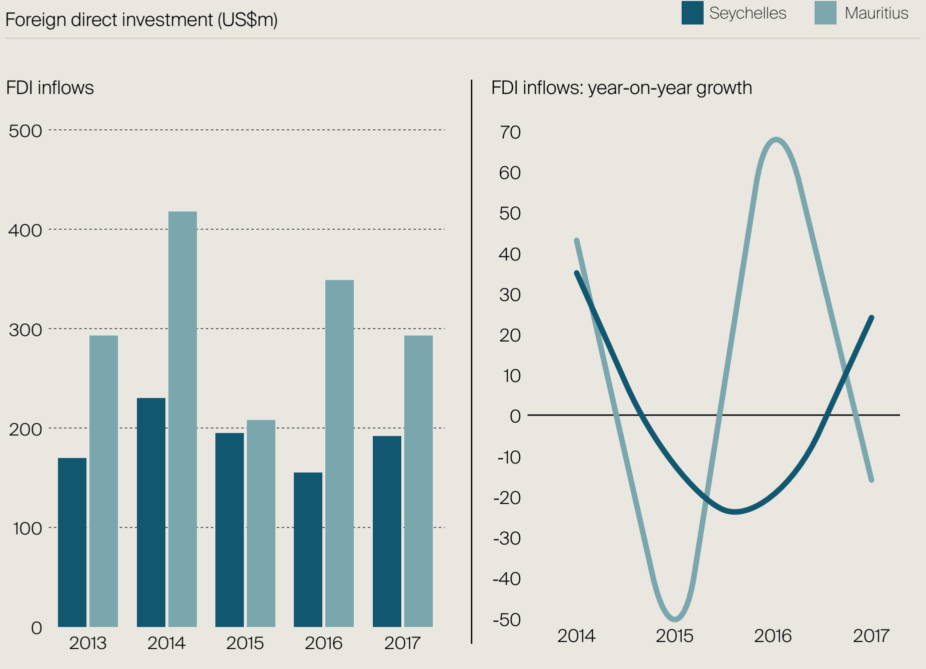
As we continue to see increases in intra-regional and international trade flows across the continent, we expect corporate and conference, meeting and exhibition demand to push the sector forward. This expectation is widely felt amongst many hotel operators, and is often reflected in ambitious expansion targets. Hilton Worldwide, for example, has recently announced plans to double its African footprint over the next five years.

For further analysis of the wider hospitality sector, please contact **ali.manzoor@me.knightfrank.com**

For more on wildlife-based tourism opportunities in southern Africa, please contact **tanya.ware@zm.knightfrank.com**

### Treasure islands

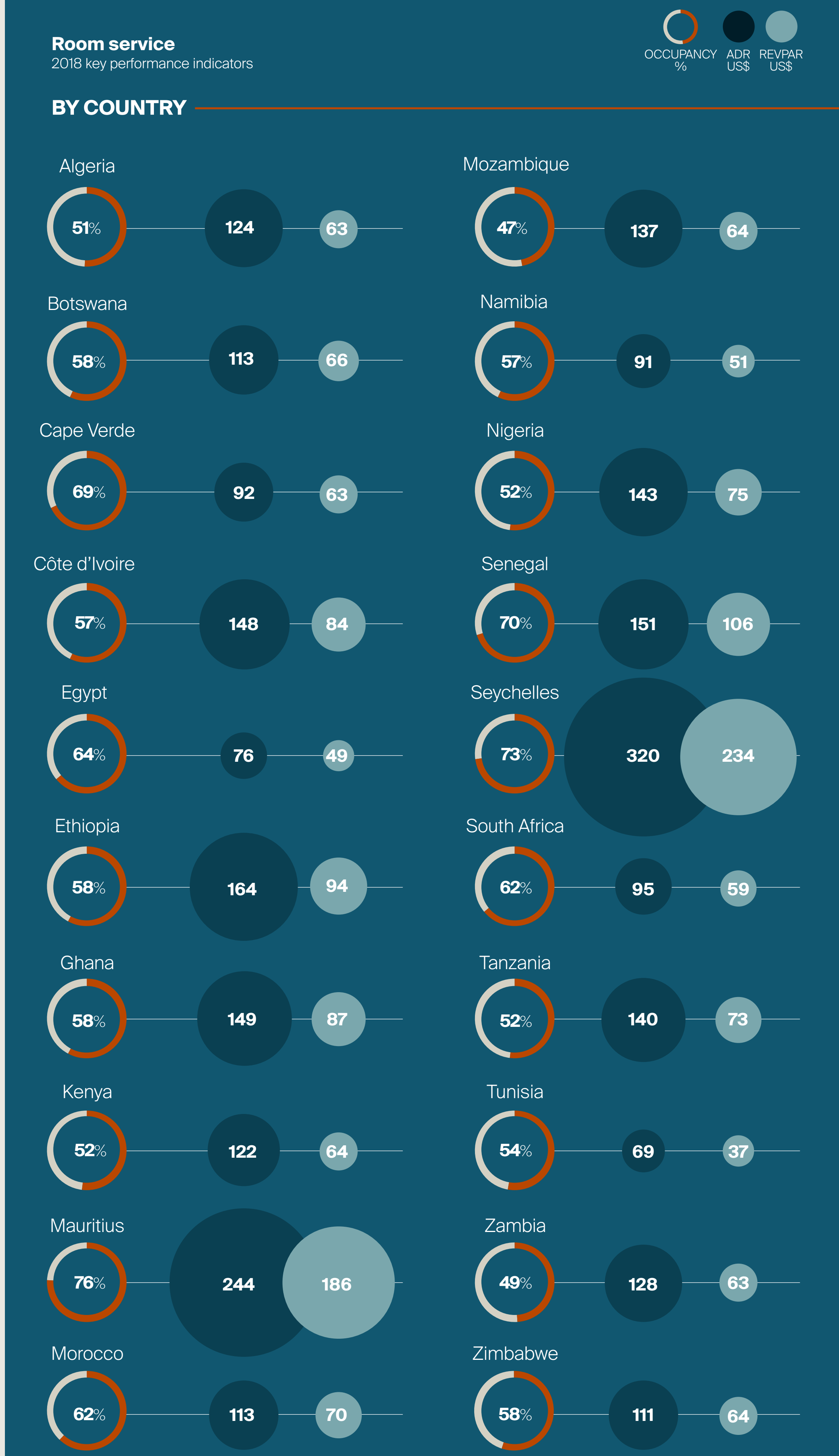
Foreign direct investment (US$m)



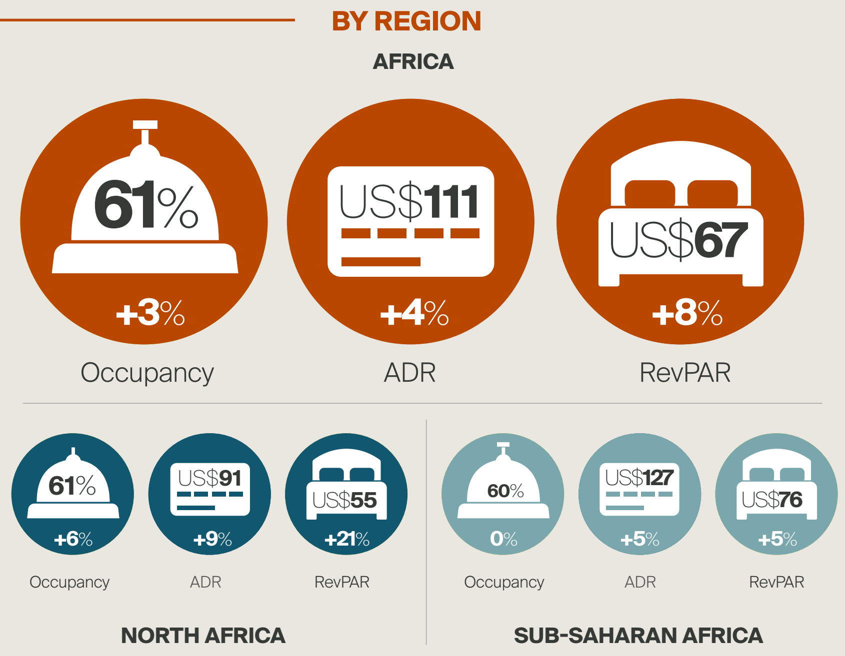
Sources: STR Global, UNCTAD

### Room service

2018 key performance indicators

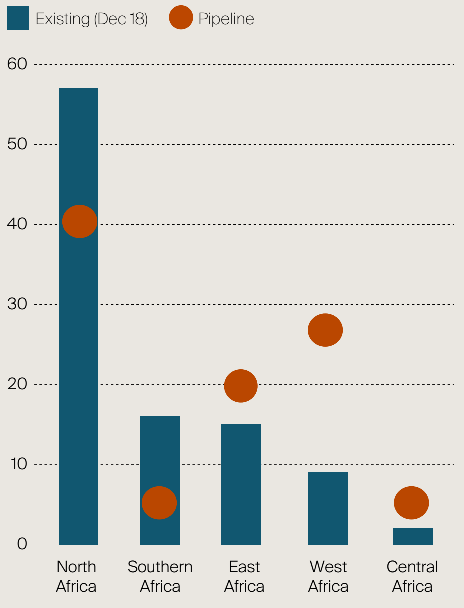


## BY REGION

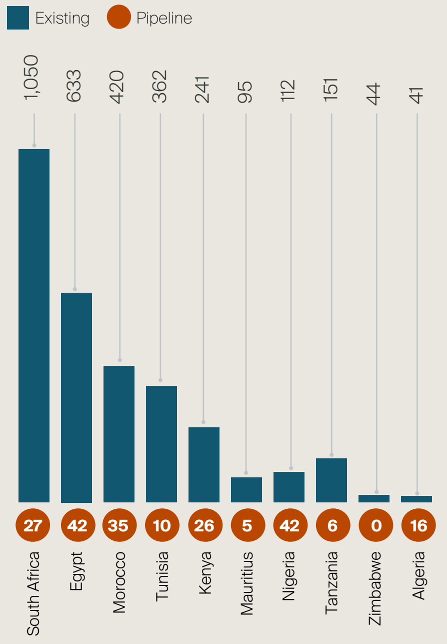


### Cape to Cairo

Distribution of chain and branded hotels in Africa



Chain and branded hotels: top ten countries in Africa



GLOSSARY

**Occupancy %:** The number of rooms sold as a proportion of available rooms for a specified period

**Average daily rate (ADR):** Total room revenue divided by the number of rooms sold during a specified period

**Revenue per available room (RevPAR):** Total room revenue divided by the total number of available rooms during a specified period

# What the doctor ordered

The huge demand for healthcare facilities in Africa will reward those investors and operators prescribed with the best advice

**Shehzad Jamal**
Head of Healthcare and Education, Knight Frank Dubai

There is an acute shortage of healthcare facilities across Africa, and much of the current supply can be classified as basic when compared with the developed world.

With such an open canvas, there is an opportunity for both small and large market participants, such as private investors, institutional funds, real estate developers and healthcare operators, to enter the sector.

However, the healthcare sector is a complex one, with specialist human resource, capital and management requirements. Significant pitfalls await the unwary or inexperienced. Just as no surgeon would rush into a major operation without proper planning – assembling the right team, having all the necessary equipment in place and gaining a thorough understanding of the patient and their background – investors and operators need to be well prepared before jumping in.

Alongside real estate experts, the Knight Frank Healthcare team includes medical doctors and corporate finance specialists who offer a wider perspective on the market and can identify where and what the opportunities are. The following pages provide a flavour of the types of insights the team can offer.

## REGIONAL HEALTHCARE INVESTMENT ACTIVITY

### North Africa

Gulf-based hospital groups such as Saudi German Hospitals and Emirates Healthcare Group have invested in Egypt, and there is also interest in countries such as Morocco and Tunisia.

### East and central Africa

Asian operators have historically been present in the region and, having built up scale in their home countries, more are now looking to enter Africa by way of built-to-suit (this helps reduce investment in real estate) and management agreement options.

### South Africa

The healthcare sector is developed, with some service providers having facilities abroad. Recently, Growthpoint launched the first healthcare-focused property company that is to eventually list on the local bourse. Investors are keen to invest in such vehicles as the underlying assets have a low correlation to the economy, leases are long term and yields are competitive.

## Establishing need

One of the key indicators of a healthcare infrastructure gap is the ratio of beds to population. The global average hospital bed-to-population ratio is 2.7 beds per 1,000 people, while the OECD countries have an average of 4.7 beds per 1,000.

Taking into consideration the global average hospital bed-to-population ratio and the latest available hospital bed ratio for the ten most populous African countries, the current and forecast healthcare infrastructure gap has been identified (see chart below).

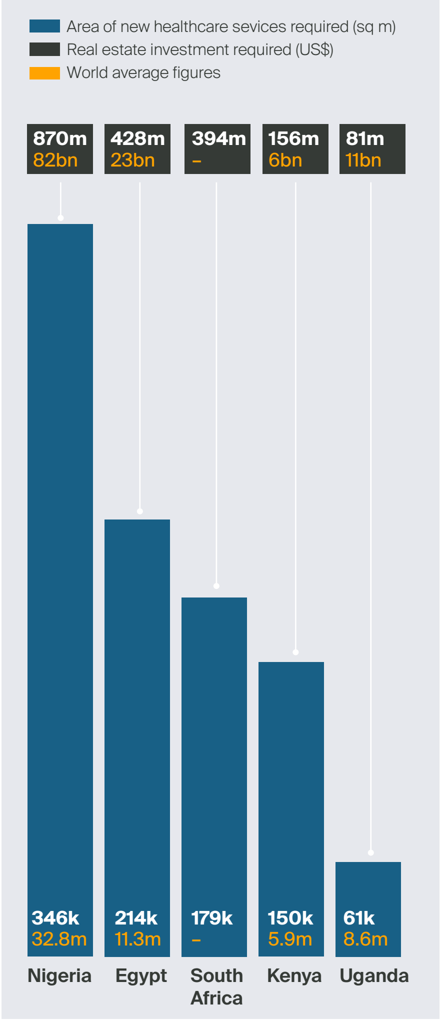
With the exception of South Africa, the majority of the countries fall short of the global average and require significant investment in healthcare infrastructure. This gap cannot be satisfied by governments alone, and therefore requires significant private sector investment.

To put this into perspective from an investment point of view, we have calculated the incremental demand for the year 2019 in terms of built-up area and construction cost for several African countries. To keep up with demand based on the global average bed-to-population ratio, Nigeria, for example, requires 32.8 million sq m of new facilities costing over US$82 billion.

Another key indicator of the need for improved healthcare services and infrastructure is the mortality rate for infants and young children. Globally, mortality rates have dropped steadily since 1950 as basic healthcare infrastructure has improved (see chart on page 22). However, mortality rates (both for infants and under-fives) for Africa are still currently similar to

### Waiting room

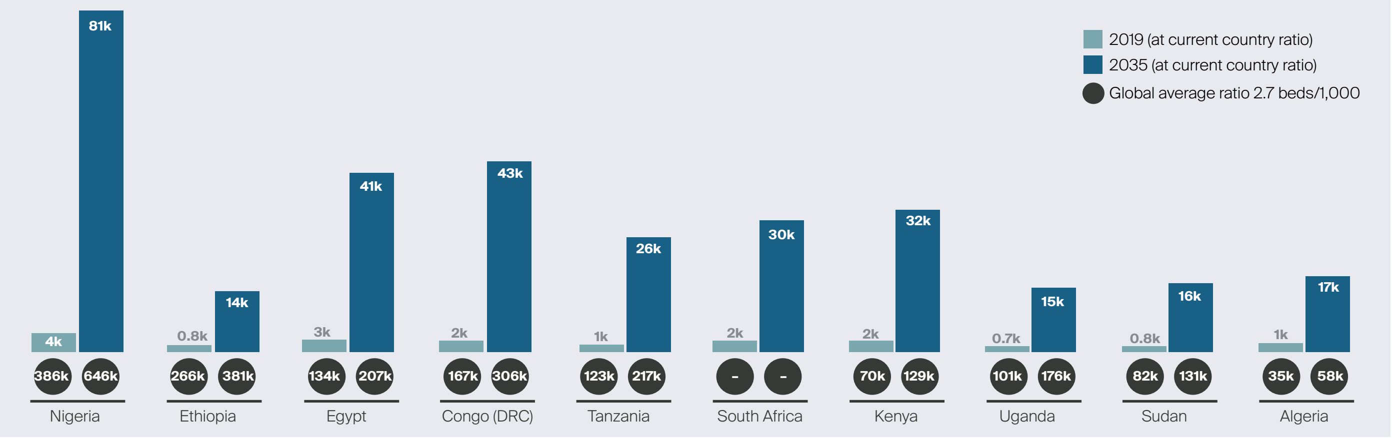
Investment required to match healthcare demand (current bed:population ratio)



Sources: WHO, World Bank, UN, Knight Frank Research

### Bedtime

Number of extra hospital beds required in the ten most populous African countries



Sources: WHO, World Bank, UN, Knight Frank Research

# AT A GLANCE

## The opportunities

The statistics on this page highlight an immediate opportunity within the obstetrics, gynaecology and paediatric segments, which can be delivered via the following models:

- **Rural areas** – demand rests in availability of primary care services which in turn creates demand for ambulatory care centres and mid-sized birthing centres manned by nurses and midwives.
- **Urban areas** – require specialised centres of excellence for maternity and paediatric care which can deliver comprehensive care, as well as improvements to existing facilities.

that of Europe in the 1950s. This is a clear indication of the demand potential in the region, provided the right type of healthcare facilities are introduced.

Taking a more granular view across the continent, although there has been improvement across the board in mortality rates, wide disparities remain. This reflects the uneven delivery of healthcare services.

Egypt stands out in terms of overall improvement. In the 1950s Egypt had the weakest healthcare system in Africa, but today it serves as a medical tourism destination for a significant number of African counties. The country, however, still presents significant investment potential as the mortality rate falls short of developed nations.

## Demographics and disease

While mortality rates can provide a good indicator of the overall level of healthcare need in specific countries, potential investors and operators need to dig deeper to get the full picture. This involves looking in more detail at demographic and disease trends.

Africa has a young population – 80% of the population is aged under 40 – while most of Europe is faced with an ageing population. This means the two continents present very different healthcare challenges. In Europe, the focus is on lifestyle-related diseases and those related to a long life expectancy, while in Africa communicable diseases and basic healthcare issues are the biggest issues.

But it is of course wrong to generalise about a continent as big as Africa. By looking more closely at epidemiological profiles, we can further narrow the demand to the level of specialisation required along the length of continent.

In north Africa, for example, lifestyle-related diseases, such as ischemic heart diseases, strokes and diabetes are more prevalent, while in southern Africa, there is a higher burden from communicable diseases such as AIDS, tuberculosis and lower respiratory tract infections. The table to the right looks in more detail at the causes of death and disability in individual countries.

## Masterplan opportunities

Africa is in dire need of improving its healthcare sector, with services across the board scarce and fairly basic. For investors and operators, there are opportunities in all of the following areas:

**Tertiary care hospitals:** the backbone of a country's health sector, these hospitals accept referral cases from primary healthcare facilities.

**Specialty hospitals:** the analysis above identifies many acute healthcare conditions for which specialty hospitals are required to cater to market gaps.

**District hospitals:** these act as district level referral points for inpatient services.

**Primary/ambulatory care facilities:** these reduce the burden on hospitals by acting as a first point of contact and referring inpatients to hospital when required.

**Telehealth:** improves the reach of the healthcare services in remote areas which are highly underserved.

But need and demand on their own, however pressing, do not provide the complete rationale required to attract investors. Investor-friendly legislation and schemes are also needed. These include the introduction of some kind of mandatory insurance system, more public/private partnership initiatives, technology-based healthcare such as telemedicine in remote areas and help with visas for specialist staff.

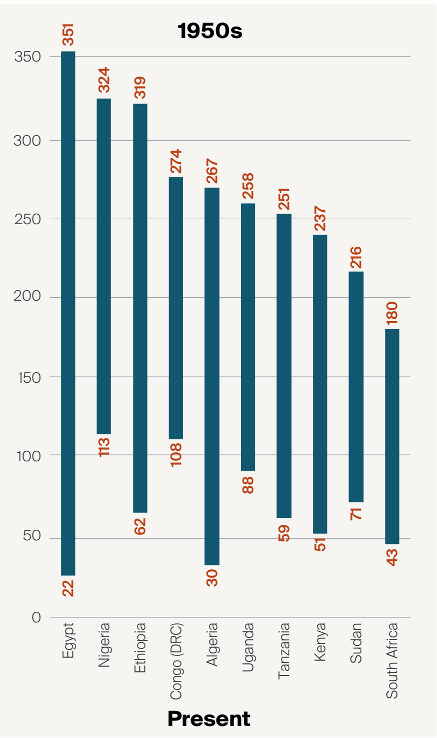
One of the biggest potential healthcare opportunities in Africa involves working with masterplan developers who are creating new neighbourhoods or even entire cities. Incorporating decent healthcare facilities into these new developments makes sound financial sense, as evidence points to greater footfall, higher rents and more egalitarian neighbourhoods.

It is clear that across Africa there is huge demand for better healthcare facilities. It is also clear that there is a significant role for private investment to play in servicing this demand. Those armed with the best advice are most likely to succeed.

For more information please contact
**shehzad.jamal@me.knightfrank.com**

### Brighter future

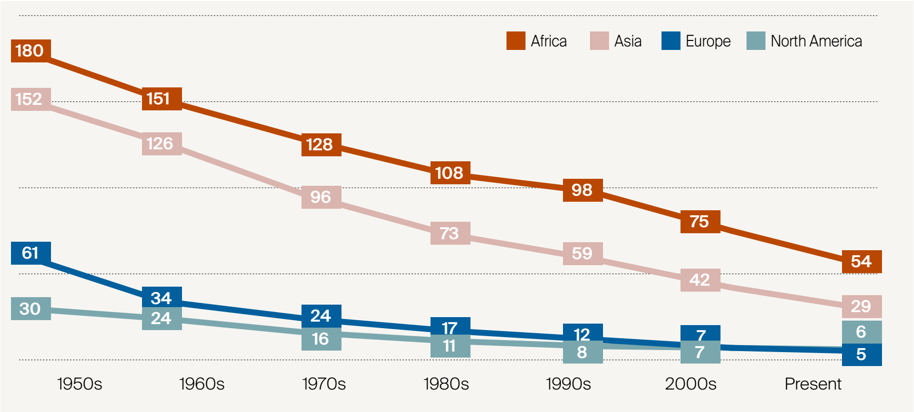
Deaths under age five per 1,000 live births



Source: UN

### Health of nations

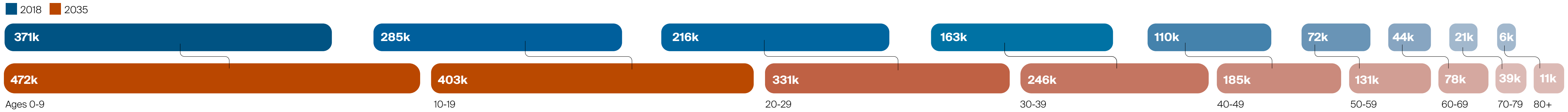
Infant deaths per 1,000 live births



Source: UN

### Growing pains

Population by age groups in Africa (1,000s)



Source: UN

### Health check

Most common causes of death and disability

NORTH ↑ … ↓ SOUTH

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Algeria | Ischemic heart disease | Neonatal disorders | Stroke | Congenital defects | Lower back pain |
| Egypt | Ischemic heart disease | Stroke | Cirrhosis | Lower resp. infection | Diabetes |
| Sudan | Ischemic heart disease | Neonatal disorders | Congenital defects | Stroke | Diarrheal diseases |
| Ethiopia | Neonatal disorders | Diarrheal diseases | Lower resp. infection | Tuberculosis | Ischemic heart disease |
| Nigeria | HIV/AIDS | Lower resp. infection | Neonatal disorders | Malaria | Diarrheal diseases |
| Congo (DRC) | Malaria | Lower resp. infection | Tuberculosis | Neonatal disorders | Diarrheal diseases |
| Kenya | HIV/AIDS | Lower resp. infection | Neonatal disorders | Diarrheal diseases | Tuberculosis |
| Uganda | HIV/AIDS | Neonatal disorders | Malaria | Tuberculosis | Lower resp. infection |
| Tanzania | Neonatal disorders | HIV/AIDS | Lower resp. infection | Tuberculosis | Congenital defects |
| South Africa | HIV/AIDS | Lower resp. infection | Neonatal disorders | Ischemic heart disease | Tuberculosis |

Source: Institute for Health Metrics and Evaluation

# Coast to coast

Economic growth along the eastern and western African seaboards is boosting trade and driving opportunities in the logistics sector

**Charles Macharia,**
Head of Research, Knight Frank Kenya

**Ian Lawrence,** Knight Frank Africa

## West Africa – positive sentiment

Trade drives investment in infrastructure and ports. These in turn require a new breed of logistics facilities to keep the flow of goods running smoothly.

As the chart on the opposite page clearly shows, the conditions for investment in this sector are looking fertile. The growth in export revenues from all but one of west Africa's biggest exporting nations – Nigeria, Ghana, Côte d'Ivoire, Guinea and Senegal – has been extremely positive.

Guinea has performed particularly strongly, with growth in excess of 50%. This reflects the country's rich bauxite deposits – one of the key reasons for growing investor interest in this market.

However, Nigeria is still playing catch up and growth will need to continue at this rate for another four to five years for the country to get back to the level of export receipts that it was achieving in 2011/12 prior to the collapse in oil prices.

West African governments, for so long heavily reliant on oil revenues, are now looking far more seriously at ways to diversify their economies. In Nigeria, for example, indigenous and multinational corporations have very visibly increased their investment in physical plants, information technology and staff training with a view to improving operational performance.

There has also been new foreign direct investment in telecommunications, tobacco, cement manufacture and the brewing and beverage sectors. However, warehousing stock is still generally of poor quality and falls significantly below international standards, offering investment opportunities.

Ghana, to the west of Nigeria, has attracted a flurry of announcements from vehicle makers, including Nissan, Volkswagen and China's Sinotruk, interested in setting up production plants there.

On the investment fund side, US-based BlackIvy has had a great start to its WestPark industrial development east of Takoradi-Sekondi, where space has already been pre-leased to Bosch with other occupiers taking an active interest.

In Dakar in Senegal, the industrial market had been in decline for around a decade. However, over the past few years the market has become very tight, due principally to the entry of oil and oil support companies such as BP, Total, Kosmos, Cairn and Woodside. The development zone out near the new airport is also catering for industrial market growth with the Diamniadio International Industrial Platform.

Similarly, in Abidjan, Côte d'Ivoire, the three existing industrial zones (Vridi, Yopougon and Koumassi) are essentially full, pushing new industrial development outside the city, and in particular on to the main highway corridors north of the city and the route to Yamoussoukro, the capital.

This has led to new out-of-town industrial locations at PK24 and out towards Grand Bassam. PK24 has already achieved something of a critical mass with the Heineken/CFAO Brassivoire brewery and a total of 62 hectares already allocated for new factory development.

The least developed of the markets with the highest receipts from exports in west Africa is Guinea. Development outside the port in Conakry is minimal and informal, with ad hoc industrial units developed to suit specific requirements.

However, growth predictions for Guinea are encouraging the government to test the market to establish whether a special enterprise zone might be developed in Boké to kickstart the wider development of the city.

There have been setbacks in the region, one being Procter & Gamble's decision to withdraw from the firm's recently completed state-of-the-art manufacturing facility within the Agbara Estate in Lagos, Nigeria. Others include state intervention in setting industrial land rents in Côte d'Ivoire.

However, with leading developer groups, such as Double Kingdom, Africa Capital Alliance, Landmark, BlackIvy, CHEC, RMB Westport, Rendeavour and Actis all involved in the race to produce international standard logistics hubs across the region, the trend to improve the quality of existing stock has significant momentum behind it.

Undoubtedly this will lead to the large warehouses commonplace in Europe and North America soon becoming part of the cityscapes of west Africa.

## East Africa – focus on Kenya

Kenya is the logistics hub of east Africa and significant new investments, including the rail link between Nairobi and Mombasa, are set to cement its position.

In addition, the government has ambitious plans to industrialise the nation by boosting its manufacturing base from 11% of GDP to 20%. Its strategy includes the establishment of Special Economic Zones (SEZs) that will offer local and international investors incentives such as lower levels of corporation tax – 10% for ten years.

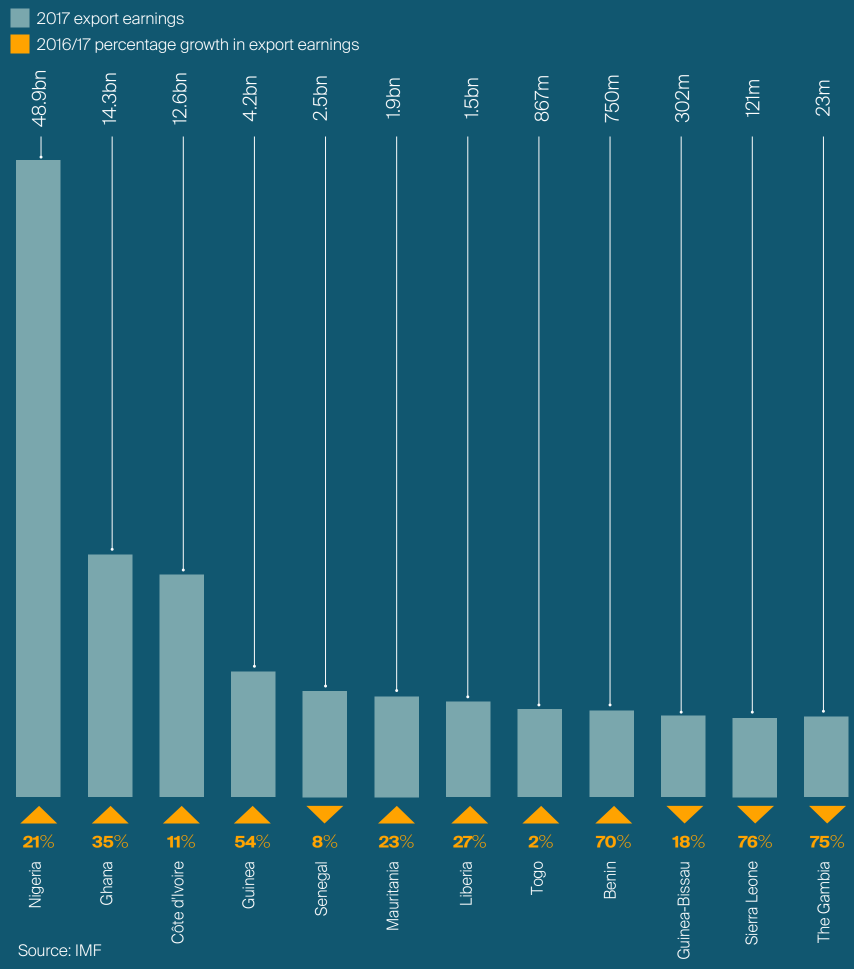
Currently, industrial parks that have been designated as SEZs include Tatu City and Africa Economic Zones Limited in Eldoret County. Others in the process of being licensed include Northlands City to the north of Nairobi, Dongo Kundu in Mombasa, Naivasha Industrial Park, Konza City and Lamu Port-South Sudan-Ethiopia-Transport (LAPPSET).

From a logistics perspective, Kenya's formal retail sector has undergone rapid transformation over the last couple of years. International retailers such as Shoprite and Carrefour have entered the market, with Nairobi a key part of their expansion plans in the sub-Saharan region.

At present, many retailers import goods and make use of small storage facilities at their stores, but as retailers gain critical mass within Kenya, they are increasingly requiring large centralised warehouses. This sector is a key

**Trading nations**

West African export volumes



Source: IMF

> *"Kenya is the logistics hub of east Africa and significant new investments, including the rail link between Nairobi and Mombasa, are set to cement its position"*

source of warehousing demand, albeit food and beverage companies generally build their own facilities, while retailers prefer to lease warehouses.

This continued expansion of international and Kenyan companies is expected to generate demand for increasingly sophisticated logistics properties, particularly around Nairobi. But this will be accompanied by a continued shift in activity from the existing industrial area to emerging hubs such as the Northlands Ruiru areas.

A-grade warehousing commands monthly rentals north of US$6/sq m, which is almost double that of the predominant current stock of older units that lack modern design features such as cross-docking and intermodal facilities.

In addition, challenges such as poor infrastructure and high land costs have made investment in the industrial area increasingly difficult, pushing developers to seek sites elsewhere around the city.

Nairobi, however, is benefiting from major road improvements, including the construction of the northern, eastern and southern bypasses, with work now under way on the western bypass.

This is in addition to the largest infrastructure project in Kenya – the construction of the Standard Gauge Railway. The cost for Phase 1 alone, running from Mombasa to Nairobi, has been estimated at over US$3.8 billion.

The most significant logistics and light manufacturing development to take advantage of this improved accessibility is the 457-acre Tatu Industrial Park, located to the north of Nairobi. Investors in the project include Unilever, Kimfay, Dormans, Chandaria Industries and Africa Logistics Properties (ALP), which is funded partly by the Commonwealth Development Corporation and the International Finance Corporation.

In September 2018, ALP launched ALP North, its 49,000 sq m Grade A warehousing park, which was 75% pre-let signifying an increased demand for top quality warehousing. It has since signed a long-term lease for 3,000 sq m with Kensta, East Africa's largest regional print and packaging company.

ALP West, ALP's second project, is its 49-acre site at the Tilisi Logistics Park along the A109 – the main highway to the west of Kenya – where it plans to construct a 100,000 sq m logistics and distribution warehousing complex.

Improvon Group, working in partnership with private equity fund Actis, has announced the launch of a 204,386 sq m warehousing development worth an estimated KSh11 billion. Nairobi Gate Industrial Park will sit on 103 acres and is located off the eastern bypass.

Nairobi's improved logistics facilities and infrastructure, combined with improved links with the port of Mombasa, will open up further opportunities in the wider Great Lakes region, which includes landlocked countries such as Uganda, Rwanda and South Sudan.

**On the road** ALP North logistics hub, Nairobi

**Low hanging fruit** South African table grape farm for sale with Knight Frank

# A growing opportunity

Africa has some of the world's most fertile farmland. We look at the diverse range of options for investors ready to dig in

**Andrew Shirley**

Head of Rural Research

I had a farm in Africa. This simple yet evocative sentence opens *Out of Africa*, the memoir of Karen Blixen (immortalised by Meryl Streep in the film of the same name) that charts her life in Kenya between the two world wars. Blixen's coffee farm in Karen, now an affluent suburb of Nairobi, failed to prosper due to poor planning and basic agronomic mismanagement.

Today, the allure of African agriculture remains strong, attracting private, institutional and sovereign capital from around the world, but the lessons of *Out of Africa* remain as salient as ever. Expert advice and preparation are key to success for those who want to benefit from the myriad of opportunities offered across this vast continent.

So why choose African farmland? Demographics are an obvious starting point. The world's population is growing and – by and large – becoming more affluent. By 2050 it is predicted that there will be over 2 billion more people on the planet than there were in 2015. Africa is forecast to account for over half of this increase, with 1.3 billion new mouths to feed over the next 30 or so years.

In addition to this significant rise, a far higher proportion of people will be living in cities and unable to grow their own food. According to figures from the World Bank, the annual retail value of food and beverages consumed in sub-Saharan Africa is set to rise to $US1 trillion by 2030, up from around $US300 billion in 2010. Of that total, well over 50% will be spent in urban areas. In 2010 the proportion was around a third.

Not only are higher-value foodstuffs like meat set to see the biggest rise in demand as living standards improve, but consumers are increasingly looking for value-added and branded products across all food categories. This trend offers opportunities for investors across the entire food chain, not just primary crop or livestock production.

Africa certainly has sufficient resources to deliver the food required to feed its growing population – the continent has more uncultivated land suitable for crop and livestock production than any other region of the world and currently utilises only 2.5% of its renewable water sources, compared with 5% worldwide – but agricultural productivity has largely been flatlining and food self-sufficiency has declined with food imports rising. This despite the Maputo declaration of 2003 and the Malabo declaration of 2014 where African nations pledged to commit 10% of national spending to agriculture.

Few countries have come close to achieving this target and a number are increasingly looking to overseas investors to drive the required increase in food production and reduce their reliance on imports. A number offer tax and other incentives to promote inward investment.

Those investing in African agriculture are motivated by a number of factors. For some, an increase in capital values is seen as the main priority, while others are more focused on operational returns.

Food security is the primary concern of Gulf States. These tend to operate at a governmental level by striking deals with countries such as Sudan and South Sudan – generally inaccessible to private individuals and non-sovereign funds – that involve leasing huge tracts of land, often extending to hundreds of thousands of hectares.

It is, however, still possible for private investors to access large blocks of undeveloped land at relatively low prices. In Zambia, for example, the government is opening up areas of tribal land to investors, but the risks are greater due to the cost of infrastructure creation and often distance from market, points out Tanya Ware, head of farm sales for Knight Frank Zambia.

Investors also have the choice of producing for export or home markets. There is a growing, mainly European, demand for high-value crops such as flowers, citrus, table grapes and out-of-season vegetables like mangetout.

Viticulture is another option. According to figures from the Knight Frank Luxury Investment Index provided by Wine Owners, the selling price of top quality South African wines traded on the secondary market has increased by 245% over the past five years, compared with 47% for those from Bordeaux and 85% for wines from California.

Numbers from industry body Wines of South Africa also show that the value of exports rose by 4% to almost R9 billion in the year to June 2018.

Susan Turner, Managing Director of Knight Frank South Africa, says the market for vineyards remains firm with prices averaging around R500,000 per hectare of vines (£29,000/ha).

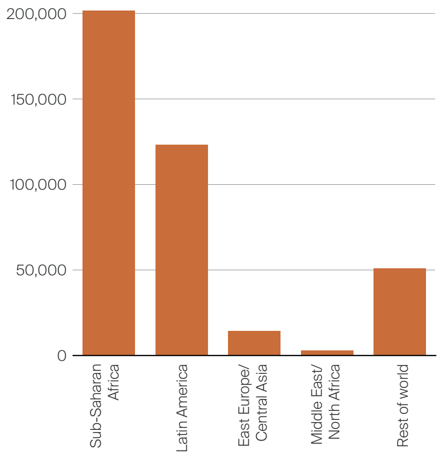
While commercial winemaking in sub-Saharan Africa is largely limited to South Africa, opportunities to "farm" wildlife are spread across the region. Travellers are becoming more adventurous and are increasingly driven by the desire to help conserve wildlife and be part of sustainable projects, as well as just tick off the big five, according to Kerry Golds of upmarket safari operator Abercrombie & Kent.

British businessman Mark Tompkins and his South African wife Sarah bought 70,000 acres used for goat farming in South Africa's Karoo region. They have since rehabilitated the land and introduced species such as cheetah and elephant last seen in the area over 100 years ago. With an emphasis on conservation, the Samara reserve is run as a profitable business. "The moment you introduce elephant, buffalo, lion, leopard and rhino – basically the big five – your land value almost doubles," says Mr Tompkins.

As the map on the left shows, there are myriad opportunities across the continent. "I have a farm in Africa" looks set to become an increasingly widespread claim among investors.

## Pastures new

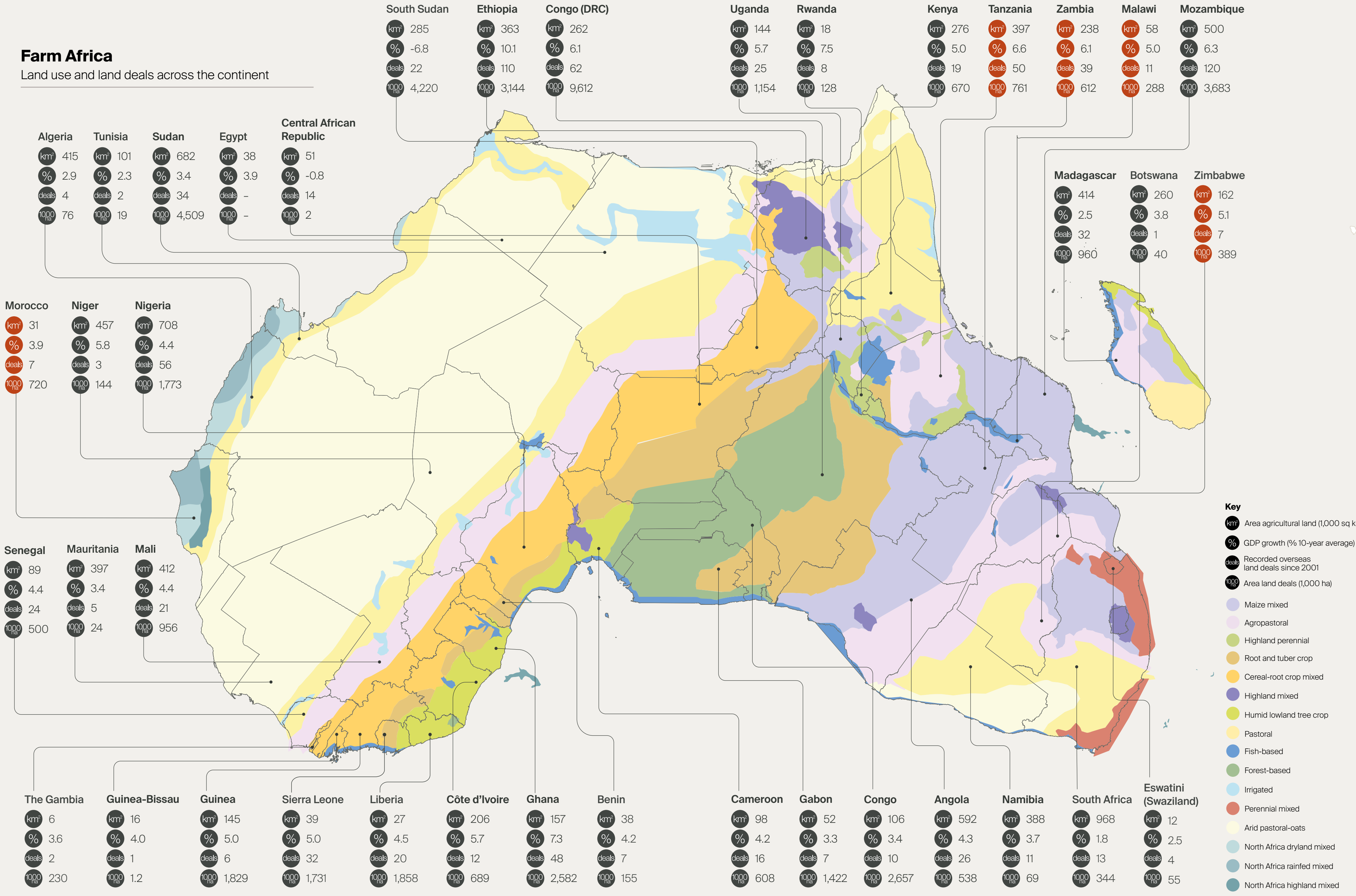
Potential availability of uncultivated land (1,000 ha)



Source: World Bank, derived from Fischer and Shah

## Farm Africa

Land use and land deals across the continent



| | km² | % | deals | 1000 ha |
|---|---|---|---|---|
| South Sudan | 285 | -6.8 | 22 | 4,220 |
| Ethiopia | 363 | 10.1 | 110 | 3,144 |
| Congo (DRC) | 262 | 6.1 | 62 | 9,612 |
| Uganda | 144 | 5.7 | 25 | 1,154 |
| Rwanda | 18 | 7.5 | 8 | 128 |
| Kenya | 276 | 5.0 | 19 | 670 |
| Tanzania | 397 | 6.6 | 50 | 761 |
| Zambia | 238 | 6.1 | 39 | 612 |
| Malawi | 58 | 5.0 | 11 | 288 |
| Mozambique | 500 | 6.3 | 120 | 3,683 |
| Algeria | 415 | 2.9 | 4 | 76 |
| Tunisia | 101 | 2.3 | 2 | 19 |
| Sudan | 682 | 3.4 | 34 | 4,509 |
| Egypt | 38 | 3.9 | – | – |
| Central African Republic | 51 | -0.8 | 14 | 2 |
| Madagascar | 414 | 2.5 | 32 | 960 |
| Botswana | 260 | 3.8 | 1 | 40 |
| Zimbabwe | 162 | 5.1 | 7 | 389 |
| Morocco | 31 | 3.9 | 7 | 720 |
| Niger | 457 | 5.8 | 3 | 144 |
| Nigeria | 708 | 4.4 | 56 | 1,773 |
| Senegal | 89 | 4.4 | 24 | 500 |
| Mauritania | 397 | 3.4 | 5 | 24 |
| Mali | 412 | 4.4 | 21 | 956 |
| The Gambia | 6 | 3.6 | 2 | 230 |
| Guinea-Bissau | 16 | 4.0 | 1 | 1.2 |
| Guinea | 145 | 5.0 | 6 | 1,829 |
| Sierra Leone | 39 | 5.0 | 32 | 1,731 |
| Liberia | 27 | 4.5 | 20 | 1,858 |
| Côte d'Ivoire | 206 | 5.7 | 12 | 689 |
| Ghana | 157 | 7.3 | 48 | 2,582 |
| Benin | 38 | 4.2 | 7 | 155 |
| Cameroon | 98 | 4.2 | 16 | 608 |
| Gabon | 52 | 3.3 | 7 | 1,422 |
| Congo | 106 | 3.4 | 10 | 2,657 |
| Angola | 592 | 4.3 | 26 | 538 |
| Namibia | 388 | 3.7 | 11 | 69 |
| South Africa | 968 | 1.8 | 13 | 344 |
| Eswatini (Swaziland) | 12 | 2.5 | 4 | 55 |

Sources: World Bank, Land Matrix

### Morocco

Almost 90 million hectares of the country are suitable for some form of agriculture, with 16 million having access to irrigation. Agricultural exports account for about 11% of foreign exchange earnings. Major crops include citrus, apples and olives, but many others are grown including high-value niche crops such as blueberries, perfume roses and saffron. The ambitious "Green Morocco Plan" for agriculture was launched in 2018 and aims to increase productivity and exports. The plan includes incentives for private investment into agriculture.

### Zambia

Over 40 million hectares of the country are classified as having medium to high potential for agricultural production, but only about 1.5 million hectares are cultivated annually. There are significant volumes of water available for irrigation. Agri-businesses benefit from a range of tax incentives and capital allowances provided under the Zambia Development Act. Corporation tax for agricultural businesses is only 10% compared with 35% for other sectors of the economy and investors are also allowed to import agricultural equipment free of import duties.

### Malawi

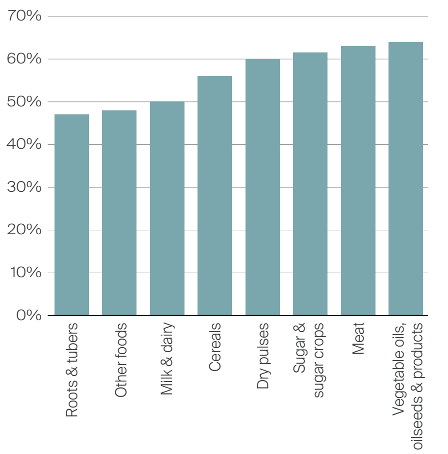
Malawi's government has established the Green Belt Authority, a state-owned enterprise, to engage local and foreign investors to invest in irrigation systems for commercial farming purposes. It is estimated that 400,000 hectares of land in the country are suitable for irrigated cropping, yet only 74,000 are currently being utilised. A number of potential areas have been identified for investors, each targeted at specific crops including sugar, cotton, rice, maize, cassava and bananas. Tea, tobacco, pigeon peas and macadamia nuts are also grown.

### Tanzania

Popular crops for agri-business investors include sugar cane, tea, maize, soya, barley, seed crops and more recently avocado pears. Incentives include: reduced import tariffs on project capital items (0% for investment in agriculture); favourable investment allowances and deductions, for instance a 100% capital allowance on agricultural expenditure; zero-rated VAT on agriculture inputs: straight line accelerated depreciation allowance on capital goods; up to five years' carry over of all business losses against future profits; and the unrestricted right to transfer 100% of foreign exchange earned profits and capital outside the country.

## On the menu

Estimated % change in food demand in sub-Saharan Africa, 2015–2030



Source: World Bank, derived from Alexandratos and Bruinsma

# The 21st century Silk Road

China and the Gulf States are pumping billions of dollars into Africa. We review their influence in terms of trade, investment, and access

**Justin Eng,** Senior Manager, Knight Frank Asia-Pacific Research
**Taimur Khan,** Research Manager, Knight Frank Middle East

## China – a new Silk Road

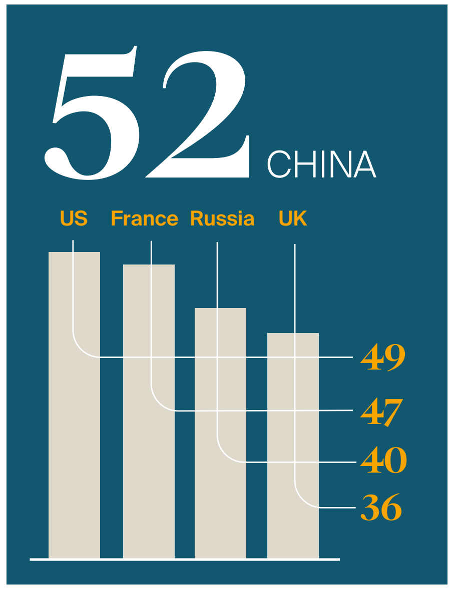
Back in 2013 Africa announced Agenda 2063, an ambitious 50-year strategy to improve the overall economic and social wellbeing of the continent via the acceleration and implementation of pan-African initiatives to drive growth and sustainable development.

In the same year, China announced its Belt and Road Initiative (BRI) – a new platform to help forge better multilateral co-operation with the Asia-Pacific, European and African regions via trade and commerce.

One of the major economic corridors identified as part of the BRI was a maritime route that would link South-East Asia and Oceania to India and then Africa and the Middle East. While independent of each other, Agenda 2063 and the BRI share many common objectives that bridge or further cement existing relations between China and the African nations.

**Diplomatic mission**

Number of embassies or consulates in Africa



Source: Pardee Centre for International Futures

China itself is no stranger to Africa and had a long history of investing into the continent prior to 2013's BRI. Taking the period between 2009 and 2013 as an example, Chinese private and public enterprises invested US$27.4 billion on average annually into various African economic sectors such as transportation, energy and real estate.

However, following the BRI announcement, the rate of investment has seen a marked increase with Chinese investments averaging US$34.5 billion per annum – up 25% – for the five years from 2014 to 2018. China also now has more embassies and consulates in Africa than any other nation.

Within the BRI, infrastructure and real estate are big necessary features, as they lay the foundations needed to drive investment into other sectors. These two sectors have accounted for more than half of all investments since the BRI announcement.

Some notable deals struck under the BRI umbrella include the 2016 US$6.7 billion rail contract awarded by Nigeria to the China Civil Engineering Construction Corporation for the construction of a railway linking its economic capital Lagos to its second largest city Kano.

Another, this time in the real estate space, was Egypt's 2018 US$3 billion contract to China State Construction Engineering Corp for the construction of a new CBD in Cairo, which will also house the continent's tallest skyscraper.

Looking ahead, with the BRI and Agenda 2063 key policies for China and Africa, we expect Chinese investment activity, especially for the infrastructure and real estate sectors, to pick up momentum in the coming years, which will be a boon for Africa's property markets.

**Reaching out**
China (top) and Dubai are strengthening their links with Africa

## The Gulf States – gateway to Africa

For centuries the Gulf States and Africa have traded enthusiastically with each other and the two land masses share a rich heritage. Historically, these ties were strongest with north Africa: however, over the course of the last decade we have also seen links strengthen further with sub-Saharan Africa.

As a result, bilateral trade between the two regions has increased more than ninefold over the last two decades and as at 2018 stands at over US$65 billion. The UAE has been a key contributor to this growth, with bilateral trade growing almost 4,000% over the same time period. Currently the UAE accounts for over 50% of the Middle East's trade with the African continent.

The catalyst for this growth has been the significant amount of capital invested into Africa's relatively poor infrastructure. This has been the case across a range of countries and sectors. The scale of investment required is immense: the World Bank estimates that up to US$96 billion per year is required to bridge Africa's existing infrastructure gap alone.

Accordingly, Gulf States have been very active in the region over recent years with the likes of Kuwait, Qatar, Saudi Arabia and the UAE all involved in significant agricultural, port and telecom investments across Africa.

The Middle East has 33 foreign direct investment (FDI) projects accounting for 5% of total FDI into Africa, but the UAE is leading the way by a considerable distance and is the ninth largest investor in Africa with 19 FDI projects in 2017. These projects have created an estimated 74,000 jobs, according to fDi Markets data.

Agricultural investments look set only to increase further given the lack of arable land across the Gulf States to service their growing populations. Food security is becoming an increasingly paramount issue.

Dubai-based DP World, the global port operator, which operates across 40 countries and boasts a portfolio of 78 marine and inland terminals, has invested considerable sums in its African business. Currently DP World operates eight ports in Africa (see map on page 32), which cover almost 200 hectares in total.

In addition to this, DP World continues to develop its broader portfolio across the continent with the addition of inland container depots, logistics facilities and Special Economic Zones. These are critical investments, given that maritime traffic is expected to increase from an estimated 300 million tonnes in 2017 to over 2 billion tonnes by 2040.

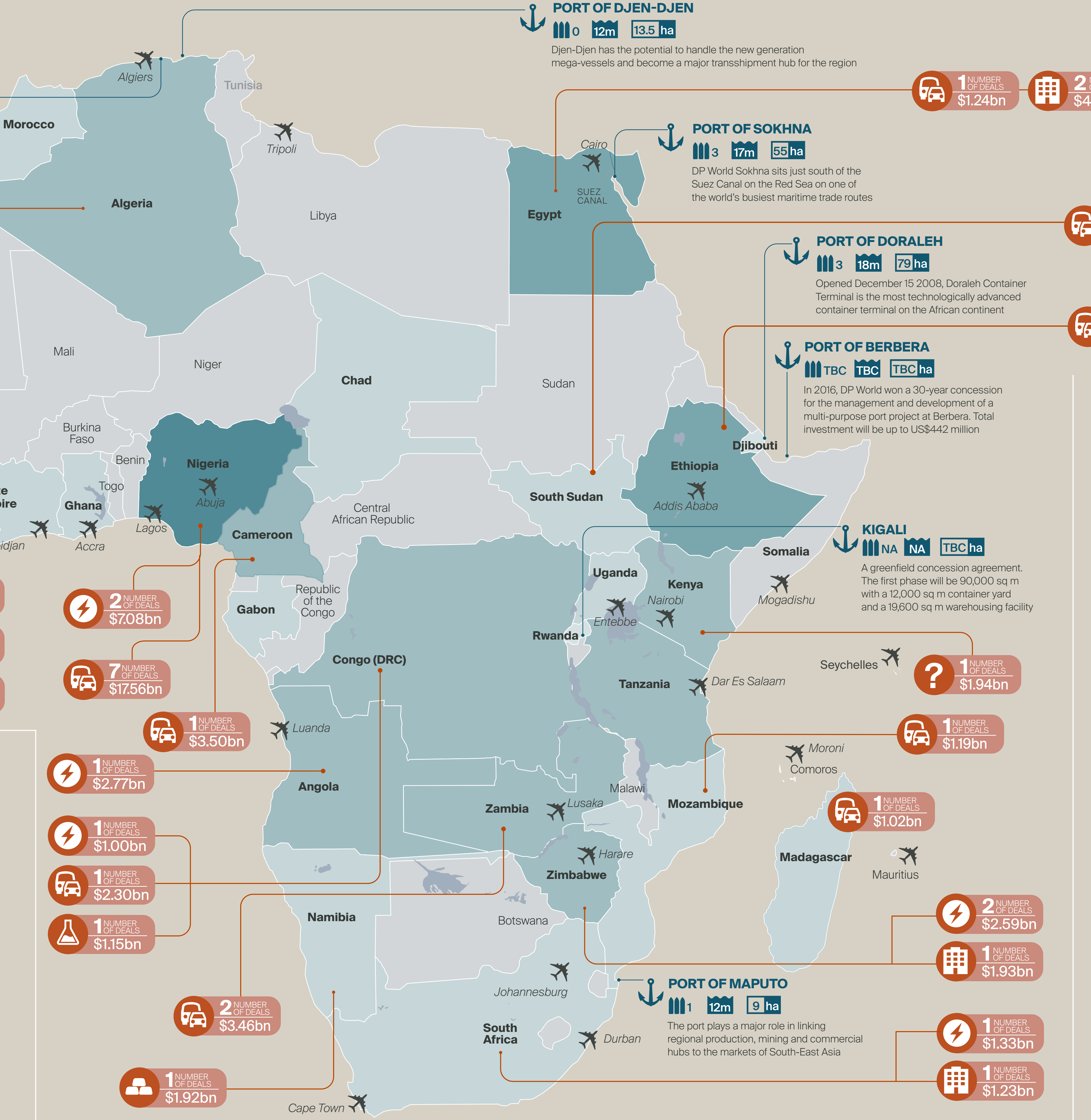
UAE-based airlines also fly to 20 African countries facilitating commerce with the rest of the world. Travelling via the UAE, a third of the world is accessible within four hours and two-thirds within eight hours from its hub airport, Dubai International Airport.

Infrastructure investments and transport links such as these not only strengthen the historic ties between Africa and the Gulf States, but are crucial for the potential of Africa to be fully realised.

For a copy of Knight Frank's detailed report on the Belt and Road Initiative, contact **justin.eng@asia.knightfrank.com**

## Follow the money

Mapping Gulf and Chinese activity in Africa



**PORT OF ALGIERS**

6 | 11m | 34 ha

DP World assumed management control of the Port of Algiers in early March 2009 in a joint venture shareholding with EPAL, the Algiers Port Authority

**PORT OF DAKAR**

TBC | TBC | TBC ha

The second phase of the project will be to design, finance, construct and manage the new Port du Futur container terminal

**PORT OF DJEN-DJEN**

0 | 12m | 13.5 ha

Djen-Djen has the potential to handle the new generation mega-vessels and become a major transshipment hub for the region

**PORT OF SOKHNA**

3 | 17m | 55 ha

DP World Sokhna sits just south of the Suez Canal on the Red Sea on one of the world's busiest maritime trade routes

**PORT OF DORALEH**

3 | 18m | 79 ha

Opened December 15 2008, Doraleh Container Terminal is the most technologically advanced container terminal on the African continent

**PORT OF BERBERA**

TBC | TBC | TBC ha

In 2016, DP World won a 30-year concession for the management and development of a multi-purpose port project at Berbera. Total investment will be up to US$442 million

**KIGALI**

NA | NA | TBC ha

A greenfield concession agreement. The first phase will be 90,000 sq m with a 12,000 sq m container yard and a 19,600 sq m warehousing facility

**PORT OF MAPUTO**

1 | 12m | 9 ha

The port plays a major role in linking regional production, mining and commercial hubs to the markets of South-East Asia

## Chinese influences

**Total Belt and Road (BRI) investment (US$bn)**

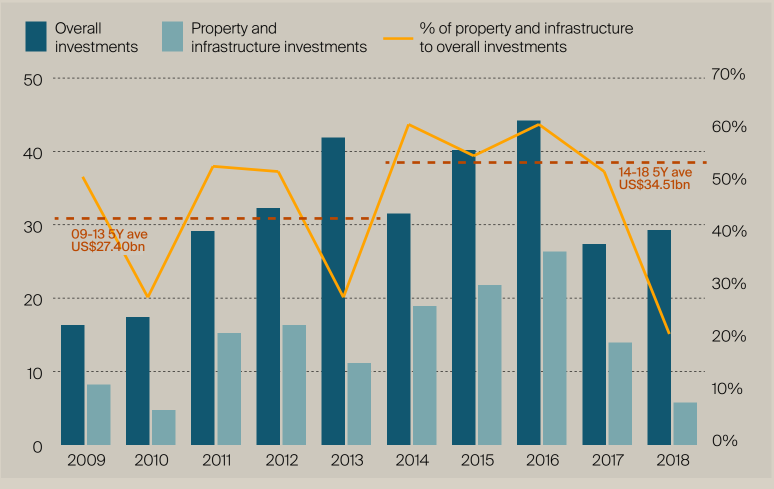
| | |
|---|---|
| 0–5 | 10–20 |
| 5–10 | 20+ |

**BRI investments over US$1bn by sector**
2013–2018

| | |
|---|---|
| Chemicals | Real estate |
| Energy | Metals |
| Transport | Other |

**China in your hands**

BRI spending in Africa (US$bn)



Sources: Knight Frank Research, The American Enterprise Institute

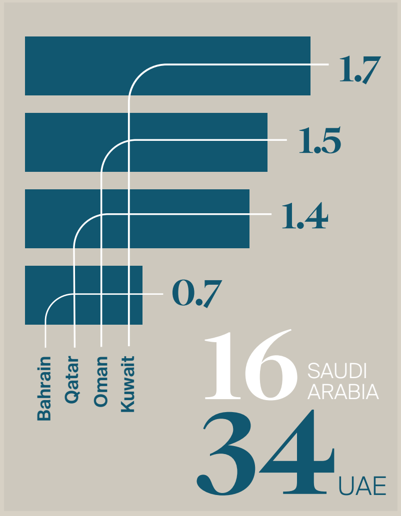
## Gulf influences

**Ports and airports**

| | |
|---|---|
| ⚓ | DP World port developments |
| 3 | Berths |
| 17m | Depth |
| 55 ha | Terminal area |
| ✈ | Locations flown to by UAE airlines |

**Bridging the gulf**

GCC bilateral trade with Africa 2018 (US$bn)



Source: IMF DOTS

# A continent of opportunities

**Andrew Shirley**
Editor, *Africa Horizons*

I make no apology for being bullish about Africa. My first job after leaving university was working in the agricultural sector in southern and east Africa and my role at Knight Frank has seen me visit this amazing continent numerous times over the past decade.

Does that make me biased? Perhaps, but having spent the past few weeks pulling together the articles for this report and speaking to our teams in Africa and the Middle East, it is clear that you don't need to love Africa to be convinced by the rationale for investing there. The numbers speak for themselves.

There is no real estate sector that isn't set to benefit from the demographic and economic changes sweeping the continent. I was particularly interested in the feature on page 17 looking at the increasing demand for student housing.

Before the images accompanying the text arrived, the idea of rooms with bunks for six or more students sounded rather Spartan, but in reality the rooms are spacious and designed to offer privacy. An innovative African solution benefiting both landlords and students with limited financial resources.

Office markets and the logistics sector are also modernising rapidly, following hot on the heels of the trends we are seeing in the UK, offering new opportunities for investors and better working environments for occupiers.

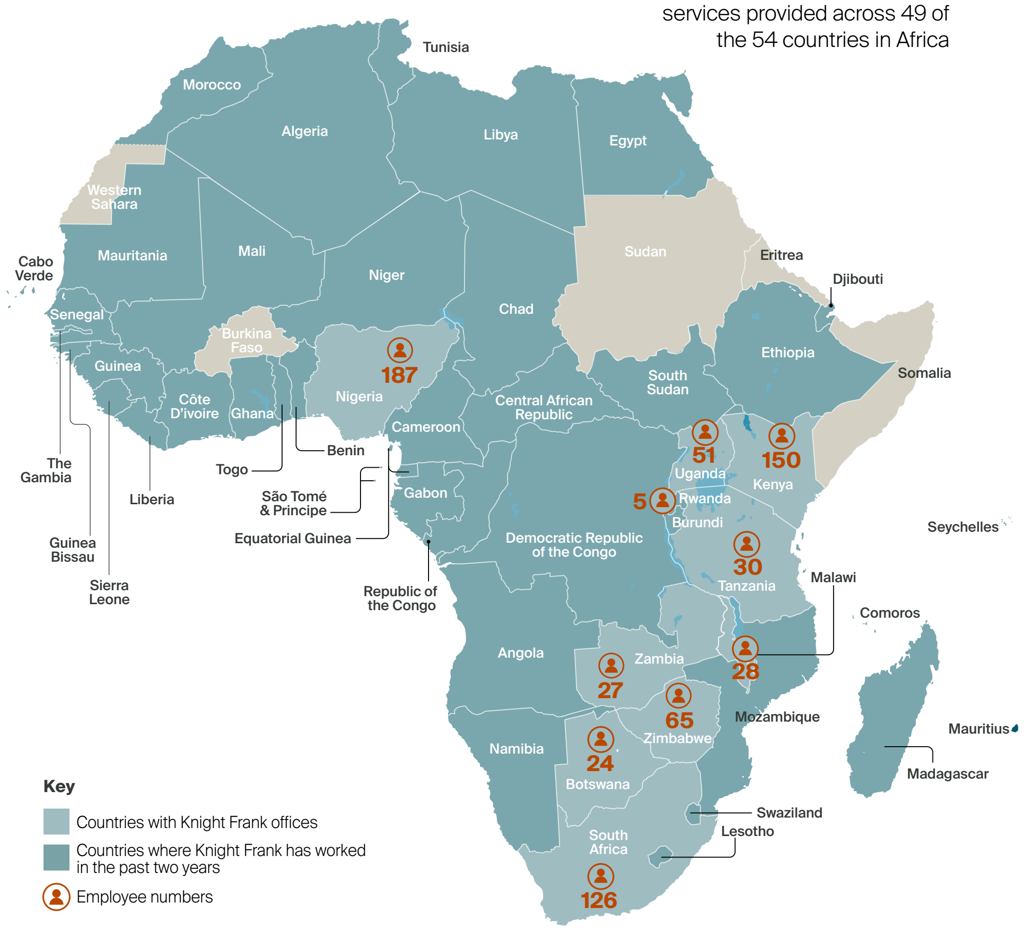
But those searching for opportunities need to treat the continent, which could swallow the US, China, Europe and India with room to spare, with respect. Investors would never expect property markets in London and New York, about 3,500 miles apart, to behave the same, yet Cape Town and Cairo, 1,000 miles further distant, are often lumped together as "Africa".

In just 36 pages we barely scratch the surface, but *Africa Horizons* attempts to highlight some of the continent's diverse investment opportunities. I hope you enjoy reading it as much as I enjoyed editing it. I'd love to know what you think.

# Knight Frank in Africa

## 49
## COUNTRIES

Full consultancy and valuation services provided across 49 of the 54 countries in Africa



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