Maturity of Real Estate Markets in Sub-Saharan Africa: A Comparison between Tanzania and South Africa

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This paper aims to determine the maturity of real estate markets in Sub-Saharan Africa with focus on the United Republic of Tanzania and the Republic of South Africa. The present study is based on literature research and an empirical investigation of local real estate experts’ perceptions concerning the maturity of the Tanzanian and South African real estate market. The questionnaire survey is considering the countries characteristics and their real estate markets within categorical rating scales. The individual markets are investigated on the basis of market maturity features such as market transparency, connectivity with international capital markets, commercial building offer, domestic and international corporate base.

The comparison between nascent Tanzania and emerging South Africa represents the diversity of the real estate market characteristics in the region. Potential foreign real estate investors are provided with objective information concerning the real estate market activity in order to identify the strength and weaknesses, but also the opportunities and risks in comparison to global investment alternatives. As Sub-Saharan Africa represents all African countries located south of the Sahara the region is characterised by diverse geographical, socio-cultural and historical conditions. Therefore, the real estate market maturity indicators can only be carefully adapted to other African countries and the role of real estate market efficiency has to be analysed in future studies. In the future, benchmarking tools such as the Market Maturity could bridge the gap between investment opportunities and the absence of foreign real estate investments activity in Sub-Saharan Africa.

Keywords Maturity, Real Estate Market, Sub-Saharan Africa, Tanzania, South Africa, Transparency, International capital markets, Commercial building offer, Domestic and international corporate base

Introduction

Due to globalisation the number of foreign investments is constantly increasing. Therefore international real estate markets, especially emerging markets, are currently in a phase of change and constant growth. Real estate investors treat the region of Sub-Saharan Africa with restraint, since the investment risks are perceived to be remarkably high. In the course of financial crisis and real estate market turbulences foreign investors’ requirements concerning the economic terms and conditions of real estate markets increased. However, the systemic risks, which clearly seem to prevent the majority of foreign investors as well as some domestic investors to invest in Sub-Saharan Africa’s markets, could be compensated by asset diversification possibilities, high-yield potentials and high capital value performance. In
Tanzania, as a classical example of a country in development, and South Africa, as an emerging market example, problems of governance, legal certainty and social inequality in the housing market also need to be assessed.

The region ‘Sub-Saharan Africa’ represents all African countries located south of the Sahara. Thus, the region is defined by diverse geographical, socio-cultural and historical conditions. In consequence, the economic situations of Sub-Saharan African countries such as the United Republic of Tanzania or the Republic of South Africa are situated at different stages of evolution and market maturity. Therefore, economic parameters especially the real estate market maturity indicators cannot be generalised and adapted to any other African country without the necessary adjustments to the national and local conditions. But even domestic and foreign real estate investors which are specialised in emerging markets with a higher risk profile require the possibility to compare economic performance indicators. Benchmarking tools such as ‘Market Maturity’ could close the gap between investment opportunities and the small scale of real estate investment activity in Sub-Saharan Africa.

The overall research question is: ‘How mature are the real estate markets of Tanzania and South Africa with regard to market transparency, connectivity with international capital markets, commercial building offer, domestic and international corporate base?’

In order to capture the performance of real estate markets at different stages of maturity the economic conditions as well as the social, political, legal and institutional aspects have to be considered. The benchmark instrument ‘Market maturity’ on the basis of Keogh and D’Arcy (1994) proposed paradigm of property market performance and the emerging market study by Jones Lang LaSalle are useful tools to understand market behaviour and trends for Sub-Saharan African real estate markets. For ascertaining the diversity of the real estate market characteristics in the region, major cities of Tanzania and South Africa are used as property market representatives. Dar es Salaam is the largest economic centre of Tanzania and similar to major cities in the neighbouring East and Western African cities. However, compared to emerging cities such as Johannesburg, Pretoria or Cape Town in South Africa, Dar es Salaam’s infrastructure and real estate market can only be described as nascent. Thus, the comparison of real estate markets in two differing countries may give real estate investors an overview of the diversity of developmental stages of real estate market maturity in the region. Therefore, one of the purposes of the present work is to provide potential real estate investors with an objective analysis of the real estate market activity in Tanzania and South Africa. On the basis of market maturity features such as market transparency, connectivity with
international capital markets, commercial building offer, domestic and international corporate base, the maturity of these individual markets shall be assessed. Additionally, the market maturity and the economic development of these countries have to be compared in order to assess the cities position on the global real estate maturity curve. The maturity curve includes the economic development levels (i.e. factor-driven, investment-driven and innovation-driven) and the real estate market maturity levels (i.e. nascent, emerging, developing and mature) of selected countries worldwide.

**Methodology**

The methodological emphasis of this work is placed on research of contemporary literature and an empirical survey. Overall, property investment markets in Sub-Saharan Africa have received little attention in the research literature. Existing literature in Tanzania focuses on the foundation stage in the development of property markets – establishing legal title to land, and land registration systems. The second stage of the process – the development of investment markets that are in competition to attract capital on the continent – has been neglected. Against this background, this work seeks to employ available indicators in Tanzania and South Africa to compare and contrast their performance within Sub-Saharan Africa.

The theoretical frame of the research covers predominately economic-scientific data within the framework of real estate research. Findings on the maturity of the Tanzanian and South African real estate markets are founded on the parameters of Keogh and D’Arcy and Jones Lang LaSalle (JLL).

Existing empirical real estate research gives no indications about the maturity levels of the Tanzanian and South African real estate market. An objective evaluation of theoretical information, which was retrieved from conference papers, market surveys and research databases, can only be achieved by cross-checking these information with empirical evidence. Thus, the self-conducted survey was used as reference to deliver up-to-date real estate market information. The empirical research is based on both the Tanzanian and the South African questionnaire, which sample the market conditions for property investors and the real estate market maturity indicators on the basis of JLL’s emerging market survey (i.e. real estate market transparency, connectivity with international capital markets, commercial building offer, domestic and international corporate base). The goal of the survey was to examine the Tanzanian and South African real estate market from the perspective of real estate investors as well as local real estate researchers and practitioners. Tanzania was selected as a representative country as it has constantly produced average economic performance during
the previous years in comparison to other countries in Sub-Saharan Africa. South Africa is known to be the most developed country in Africa and serves as a role model for the majority of countries on the continent. The contrast of both selected countries – developing and emerging market - aims to display the existing contrasts and development levels in Sub-Saharan Africa.

The questionnaires were sent electronically to AfRES members from Tanzania and South Africa, EPRA and INREV member-companies as well as individually selected real estate professionals and researchers. The number of market survey replies (of around 500 questionnaires distributed) amounted to 44, with 28 replies from South Africa and 16 from Tanzania. As the Tanzanian feedback was very low, because of a smaller number of active real estate professionals in situ, the Tanzanian questionnaire was backed with five interviews of domestic and international real estate practitioners and researchers (Prof. Karl-Werner Schulte, Moses Kusiluka, Sophia Kusiluka, Itika Mwangakala and Edward Mbangukira).

The majority of market survey participants voluntarily revealed their job title as well as their company’s name and investment style. Overall, the respondents all have a direct professional relation with the real estate sector. Most persons stated that they are active as property valuers, property economists, freelance brokers and real estate lecturers. Furthermore, participants also indicated that they are currently managing directors, investment managers and executives of domestic or international real estate companies. At present, respondents of the questionnaire concerning the Tanzanian real estate market are employed or own companies such as Universal Real Estate Services Ltd., Ardhi University, National Housing Corporation and/or Universal Real Estate Services Ltd., LandMasters Combine Limited, Tanzania Ports Authority, Integrated Property Investment Ltd. and Public Service Pensions Fund. Respondents of the questionnaire concerning the real estate market maturity of South Africa are presently employed in property related institutions like e.g. Real Estate Media, Colliers International, DDP Valuers, Rode & Associates, Broll Property Group, Viruly Consulting and Jones Lang LaSalle.

The evaluation of the replies was executed by counting the responses and calculating the percentage share of the different response options of each question. Depending on the perceptions of the survey participants, the empirical results supported or disproved the statements of the theoretical or literature research findings. The survey respondents also had the chance to comment on their response and to express their opinion in regards to the current real estate market situation. Due to the fact, that the group of survey participants was very
small, the replies could not qualify for a representative sample. Thus, the empirical results were only integrated in the work by descriptive statements rather than percentages of the test sample.

**The Market Maturity Paradigm: Key Issues**

Up until 1990, researchers focused on exploring the transformation processes of developed and emerging markets by evaluating market’s behaviour and performance on the basis of traditional economic factors, and the interaction between property supply and demand. As the traditional urban economic theory approach was deemed unsuitable, it was replaced by an institutional approach, which aimed at broadening the focus of the market study to encompass the property markets’ institutional framework. Different researchers notably Walker and Flanagan (1991) and Seek (1993) employed the concept of market maturity in several market studies. The benchmark instrument ‘Market Maturity’ on the basis of Keogh and D'Arcy (1994) proposed paradigm of property market performance to be utilised in order to understand market behaviour and trends for real estate investments. The latter comparative study provides a definitive framework for measuring market performance and it has been applied to property markets in South East Asia as well as in Central and Eastern Europe (see Dugeri 2008). Thus, in order to capture the performance of real estate markets not only the usual economic determinants have to be analysed, but also the different stages of maturity have to be taken into consideration.

Keogh and D'Arcy define a mature property market by extensive information flows and research activity, as well as market openness in spatial, functional and sectoral terms. In addition, they state that sophisticated or mature markets possess standardised property rights and market practice, sophisticated institutions of property professionals, flexible market adjustments, and wide ranging investment possibilities (see Keogh/D’Arcy 1994). But these traditional market characteristics differ from emerging or even nascent markets which may suffer a deficit in transparency, a lack of actively traded commercial real estate investments as well as a low level of quality commercial stock and only small representative offices of multinational corporations (see JLL 2010a).

According to the emerging market study by Jones Lang LaSalle, an international company offering global real estate services, four key elements are able to determine the maturity of a property market:

- Real estate market transparency which is characterised by the free flow of high-quality market information, robust regulatory enforcement and fair transaction processes.
- Connectivity with international real estate capital markets in terms of both capital inflows and outflows.
- Commercial building offer that is equipped for future generations of corporations, in terms of environmentally-sustainable, resource-efficient and well-managed buildings.
- Robust domestic and international corporate base in terms of depth and breadth of activities and functions, leading-edge firms, headquarters and high-order activities.

The market performance regardless of its maturity level is highly influenced by their evolving social, political, legal and institutional characteristics. Considering these factors, the comparison of real estate markets can result in adequate classification of property markets into specific development levels. A simple property market shows poorly developed real estate sectors and lacks in separate markets for user and investor interests. In contrast, the traditional form stands for a sophisticated property market with an active network of real estate professionals (see Keogh/D’Arcy 1994).

In order to measure the global competitiveness of countries and to allegorise the maturity of global property markets a maturity curve can be used with the following categories: Mature Markets, Developing Markets, Emerging Markets, and Nascent Markets. In general, the analytical maturity benchmark provides investors with an effective tool to understand market behaviour in specific property markets. Furthermore, the benchmark allows a comparison of the individual market performances within the global asset allocation context. Nevertheless, market maturity does not necessarily imply efficiency. Whereas in sophisticated economies the concept of maturity may provide a simple explanation of comparative property market activity, emerging economies differ in terms of market dynamics, market evolution, and mentality of market participants. Therefore, the efficiency analysis of a real estate market should include the individualities of local real estate culture, the use and misuse of information, and the role of property professionals within a given market (see Keogh/D’Arcy 1994). Even though, it is important to reveal the coherency of property market efficiency, the conventional concept of exploring the property markets efficiency is criticised as it fails to capture the essential characteristics of real estate as a physical and legal entity (see Keogh/D’Arcy 1999).

**Strengths and Weaknesses of the Tanzanian & South African Real Estate Market**

Compared to Tanzania, South Africa scores higher market transparency and a strong connection to international capital markets within an already functioning investment market. Thus, the country is an attractive corporate base for domestic and international corporations.
Indeed, the country’s property market shows many attributes of a mature real estate market. However, the market suffers under domestic infrastructural problems as well as widespread corruption in governmental departments and to some extent absent professionalism. Tanzania’s real estate market participants face similar problems. In addition, the country’s real estate market lacks basic investment performance indices and an effectively organised real estate society. South Africa’s real estate market presents itself well in the performance measurement of real estate due to available indices and sufficient real estate networking possibilities. In contrast to South Africa’s transparent real estate market, the 2010 Real Estate Transparency Index of JLL did not consider the Tanzanian market even though the report indicated overall tremendous improvement by emerging markets towards meeting globalisation real estate investment standards. Therefore, Tanzania’s real estate market transparency can be estimated to be low or even opaque. Consequently, the pessimistic perception of Tanzania’s real estate market transparency has a negative effect on the market maturity level categorisation. However, investors who prefer to tap underdeveloped markets are able to profit from surpassing return on investment possibilities with calculable market risks in the short term.

Both countries require or recommend partnerships with domestic business partners while foreign investors intend to directly invest in real estate or would like to develop properties on their own. In Tanzania, domestic institutional investors are regarded as reliable business partners for foreign real estate investors. Similar to South Africa’s market conditions, the partnership or business venture process in Tanzania is tedious and requires direct communication and supervision.

The commercial property market activities in South Africa concentrate on the country’s urban agglomerations. Currently, prime yields of commercial space (8% to 10%) in Johannesburg and Cape Town are comparable to those of value added investments. Especially decentralised submarkets around these economic hubs achieved increasing prime rent levels for office space in 2008 – Sandton and periphery (R125/sqm/month), Century City (R130/sqm/month) (see Broll 2009).

In order to estimate the value of a country’s property investment market, a GDP top down approach can be used. As the individual countries are situated in varying stages of development, the country’s estimates have to be adjusted to account for the level of economic activities. Hughes and Arissen (2005), the most recent of these studies, uses two methods
originally developed by Liang and Gordon (2003) to assess the size of commercial property markets. The investible property value formula can be seen in Table 1 below.

<table>
<thead>
<tr>
<th>Hughes and Arisson (2005) estimate a country’s investible commercial property value by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$RE_i = GDP_i \times 0.45$ [1] for developed countries; and</td>
</tr>
<tr>
<td>$RE_i = GDP_i \times 0.45 \times \left(\frac{GDP_i}{20,000}\right)^{1/2}$ [2] for developing countries</td>
</tr>
<tr>
<td>where</td>
</tr>
<tr>
<td>$RE_i$ = country investible commercial value;</td>
</tr>
<tr>
<td>$GDP_i$ = country Gross Domestic Product; and</td>
</tr>
<tr>
<td>$GDP_i$ = country Gross Domestic Product per capita.</td>
</tr>
</tbody>
</table>

Table 1: Formula of Investible Commercial Property Value (see Hughes/Arisson 2005)

In 2010, the U.K.’s investible property value was five times bigger than the REi of all SSA countries. South Africa as the most developed market in this region showed more high-quality commercial building value (over US$ 16 billion, which represents 31% REi share of GDPi) than the combined stock of other selected SSA countries. The performance of Tanzania’s investible property value in terms of its contribution to national development (13% REi share of GDPi) is one of the lowest in Sub-Saharan Africa and comparable to its neighbouring country Uganda.

As shown in the following table, the gap between the advanced countries and the SSA region is remarkable. Eleven countries from different regions of Sub-Saharan Africa (i.e. Eastern-, Southern- and Western Africa) and Europe were selected to estimate the individual countries’ investible commercial property value via GDP and GDP per capita figures from the World Bank Organisation for the years 2007, 2008, 2009 and 2010.
Table 2: Investible commercial property value estimation by countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>R_\text{m} \times \text{time}</th>
<th>Range of \text{R}_\text{m} \times \text{share of GDR (2007-2010)}</th>
<th>\text{R}_\text{m} \times \text{growth (2007-2009)}</th>
<th>\text{R}_\text{m} \times \text{growth (2008-2009)}</th>
<th>\text{R}_\text{m} \times \text{growth (2009-2010)}</th>
<th>\text{R}_\text{m} \times \text{share of GDP (2010)}</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>\text{US}$1,063,337,195,894</td>
<td>constant 45%</td>
<td>-5%</td>
<td>-10%</td>
<td>3%</td>
<td>\text{4.4491%}</td>
</tr>
<tr>
<td>Germany</td>
<td>\text{US}$1,522,213,544,851</td>
<td>constant 45%</td>
<td>9%</td>
<td>-9%</td>
<td>-19%</td>
<td>\text{6.3691%}</td>
</tr>
<tr>
<td>SSA (All income)</td>
<td>\text{US}$ 100,670,266,051</td>
<td>17.13% - 18.05%</td>
<td>12%</td>
<td>-8%</td>
<td>22%</td>
<td>0.7225%</td>
</tr>
<tr>
<td>Ghana</td>
<td>\text{US}$ 5,003,006,676</td>
<td>16.99% - 17.73%</td>
<td>21%</td>
<td>-11%</td>
<td>26%</td>
<td>0.0210%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>\text{US}$ 32,800,499,339</td>
<td>17.23% - 18.41%</td>
<td>33%</td>
<td>-25%</td>
<td>19%</td>
<td>0.1372%</td>
</tr>
<tr>
<td>Uganda</td>
<td>\text{US}$ 2,022,613,254</td>
<td>12.10% - 13.18%</td>
<td>29%</td>
<td>12%</td>
<td>9%</td>
<td>0.0085%</td>
</tr>
<tr>
<td>Kenya</td>
<td>\text{US}$ 4,545,768,083</td>
<td>14.80% - 15.23%</td>
<td>18%</td>
<td>-4%</td>
<td>8%</td>
<td>0.0190%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>\text{US}$ 2,631,244,267</td>
<td>12.42% - 13.35%</td>
<td>31%</td>
<td>3%</td>
<td>10%</td>
<td>0.0110%</td>
</tr>
<tr>
<td>Zambia</td>
<td>\text{US}$ 2,490,561,635</td>
<td>16.34% - 17.87%</td>
<td>30%</td>
<td>-17%</td>
<td>36%</td>
<td>0.0104%</td>
</tr>
<tr>
<td>Botswana</td>
<td>\text{US}$ 4,186,282,379</td>
<td>31.00% - 32.47%</td>
<td>11%</td>
<td>-20%</td>
<td>40%</td>
<td>0.0175%</td>
</tr>
<tr>
<td>South Africa</td>
<td>\text{US}$ 96,406,218,992</td>
<td>25.51% - 26.13%</td>
<td>5%</td>
<td>3%</td>
<td>5%</td>
<td>0.4034%</td>
</tr>
<tr>
<td>Namibia</td>
<td>\text{US}$ 2,866,111,339</td>
<td>26.77% - 29.27%</td>
<td>2%</td>
<td>3%</td>
<td>45%</td>
<td>0.0120%</td>
</tr>
</tbody>
</table>

Since 2009, prime rent levels (US$ 20/sqm/month) and prime yields (10%) remain stable for office space in Dar es Salaam and even increased for industrial space. Nevertheless, information on building costs in Tanzania is scarce and professional property management is rare.

On the contrary to Tanzania’s limited high-quality property stock in Dar es Salaam, Arusha and Mwanza, South Africa features an established core stock of various property types in the city centres or suburbs of Johannesburg, Pretoria, Durban and Cape Town. In addition, South African property can be purchased in fair and open transaction processes via common land titles - long leasehold or freehold. Foreign investors can only acquire land for investment purposes and have to seek the approval of the Tanzania Investment Center. Furthermore, freehold titles do not exist and investors are not able to use land as collateral for mortgage loans. Consequently, the latest economic and legislative reforms, which were important for the country’s further market liberalisation since 1990, still do not provide an attractive investment climate for potential investors. However, the existing regulatory and legal framework generally appears to be adequate for the nascent real estate market in Tanzania. Today, expropriation is considered to be unlikely; nonetheless, South Africa’s white farmers fear that the recent land reform might turn out to be as devastating as in Zimbabwe.
Compared to the nascent countries in Sub-Saharan Africa, South Africa achieved an outstanding ranking, sharing the second position with the U.K. for property financing. The country’s capital market consists of all relevant components of a well developed emerging market. Thus, the securities market consists of long-term bank loans and deposits, the bond market and an international equity market (FTSE/JSE Alliance). Whereas, South Africa offers a diverse range of real estate investment vehicles such as listed real estate stocks (i.e. PUTs, PLS and listed property companies), open-end and closed-end real estate funds and debt securities with property as the underlying asset class (i.e. ABS, CMBS, RMBS and CDO/CLO). Tanzania displays low diversity in regards to available real estate investment products. The country’s capital market is still in its early stages of development and only consists of non-property related debt securities such as treasury and corporate bonds and a stock exchange (DSE), which does not list real estate companies. However, in both South Africa’s and Tanzania’s securities market investors are not able to buy shares of REITs.

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Property finance (ranking)</th>
<th>Dealing with construction permits (no. of days)</th>
<th>Registering property (no. of days)</th>
<th>Cost of registration (% of value)</th>
<th>Total tax rate (% of income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>2</td>
<td>95</td>
<td>8</td>
<td>4.1</td>
<td>17.1</td>
</tr>
<tr>
<td>Germany</td>
<td>15</td>
<td>100</td>
<td>40</td>
<td>5.1</td>
<td>48.2</td>
</tr>
<tr>
<td>SRE</td>
<td>n/a</td>
<td>239.5</td>
<td>67.9</td>
<td>9.6</td>
<td>68</td>
</tr>
<tr>
<td>Ghana</td>
<td>46</td>
<td>220</td>
<td>34</td>
<td>1.0</td>
<td>32.7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>89</td>
<td>150</td>
<td>82</td>
<td>20.9</td>
<td>32.2</td>
</tr>
<tr>
<td>Uganda</td>
<td>46</td>
<td>171</td>
<td>77</td>
<td>3.2</td>
<td>35.7</td>
</tr>
<tr>
<td>Kenya</td>
<td>6</td>
<td>120</td>
<td>64</td>
<td>4.2</td>
<td>49.7</td>
</tr>
<tr>
<td>Tanzania</td>
<td>89</td>
<td>326</td>
<td>73</td>
<td>4.4</td>
<td>45.2</td>
</tr>
<tr>
<td>Zambia</td>
<td>6</td>
<td>254</td>
<td>40</td>
<td>6.6</td>
<td>16.1</td>
</tr>
<tr>
<td>Botswana</td>
<td>46</td>
<td>167</td>
<td>16</td>
<td>5</td>
<td>19.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>2</td>
<td>171</td>
<td>24</td>
<td>8.8</td>
<td>30.5</td>
</tr>
<tr>
<td>Namibia</td>
<td>15</td>
<td>139</td>
<td>23</td>
<td>9.6</td>
<td>9.6</td>
</tr>
</tbody>
</table>

Table 3: Selected African Property markets characteristics

Table 3 features up to date market characteristics such as the access of real estate market participants to finance, the duration of receiving construction permits and the registering of property. Furthermore, the taxation of foreign and domestic investors as well as the overall costs of business registration of selected Sub-Saharan African property markets is displayed. The data was retrieved from the Doing Business Report 2010 which benchmarks business relevant data of 183 countries worldwide.
Even though, South Africa’s real estate market suffers under the global economic recession the country has a robust domestic and international corporate base. Major MNCs and emerging domestic corporations use South Africa as a gateway to other African countries. In contrast, Tanzania’s corporate base is relatively small and characterised by a large informal sector. Major foreign companies are mainly active in the fields of mining, banking and tourism. Furthermore, the expatriate office and housing market in Dar es Salaam is dominated by employees of donor agencies and other multilateral institutions.

In conclusion, the property market of South Africa has more mature market attributes than Tanzania’s nascent real estate market. However, both markets show room for improvement in regards to, amongst other things, access to market performance data, openness towards international capital markets, lower interest rates, infrastructure and sustainable property management. Therefore, South Africa can be classified as an emerging real estate market. In the long-term, the countries property market development largely depends on the progress and evolution of their macroeconomic and governmental environment.

**Opportunities and Threats of the real estate market in Tanzania and South Africa**

Both Tanzania and South Africa have in common that they have access to a rich natural resources base and a coastline which holds considerable advantages in regards to trade and touristic destinations. In contrast to many other countries in Sub-Saharan Africa, both countries do not suffer from artificial borders - a heritage of European colonialism - and ethnically based civil conflicts. Tanzania’s socialistic past in combination with linguistic unity resulted in an outstanding national identity within the region. Thus, Tanzania has the chance to improve its economy on a stable political base, similar to Botswana. In the long-term the real estate markets of Tanzania and South Africa could profit from a stable political situation as systematic risks would decrease and more companies and entrepreneurs would decide to invest or settle down within the region. Nevertheless, political tension still exists between the Tanzanian mainland and the autonomous province Zanzibar. During colonialism, South Africa experienced racial segregation and discrimination. Today, the government favours the previously underprivileged by urging employers to favour coloured South African citizens in the recruitment process of new staff. In addition, the country’s current political peace is threatened by a widening inequality gap between rich and poor. However, Tanzania and South Africa are defined by a stable democratic system which is dominated by one party - the CCM in Tanzania and the ANC in South Africa. Sub-Saharan Africa’s political conflicts often arise through electoral defeat of a ruling party or a leader who is not willing to pass on the
governmental power to his successor. Consequently, Tanzania’s and South Africa’s political stability depends on the outcome of future elections and the ruling parties’ attitude towards upholding democratic principles.

At present, bureaucratic barriers and corruption in regards to the issue of licensing and authorisations for private enterprises hold back potential entrepreneurs from fully exercising their investment initiatives. Whereas South Africa is considered to have the most developed infrastructure system in Sub-Saharan Africa, Tanzania shows serious deficiencies in the energy and transport infrastructure. Consequently, these obstacles have a negative effect on business life in the region and on the pace of the countries’ economic and infrastructure development. Therefore, both governments continue to demonstrate their commitment to promoting good governance by enforcing reforms in, amongst others, public finance management, the public enterprise sector, the banking and the legal sector. Thus, the countries have the opportunity to promote domestic and foreign business or investment activities in order to attract more foreign investors and MNCs. But the long-term improvement of doing business in the region mostly depends on the governments’ consistency and compliance in regards to combating corruption and fraud.

Compared to developed countries, labour in Tanzania and South Africa is available at lower costs, but as tertiary school enrolment is relatively low the skill level of the labour force is considered to be weak. The current progress of higher education as well as the increasing number of real estate related study courses supports the trend towards further professionalization of the real estate market participants in the region. Even though, South Africa’s real estate community is already defined by sufficient expertise, both countries could benefit from further knowledge concerning real estate investment and management by improving the existing property stock quality, generating sustainable real estate sector growth and further integration within the international real estate community.

Even though, Eastern and Southern Africa’s FDI net inflows continue to profit from direct trade links with other emerging countries such as China, India, Brazil and Malaysia, the regions will likely continue to depend on additional bilateral and multilateral financial aid. Whereas South Africa made progress on the United Nations development goals, Tanzania has difficulties in overcoming the obstacles of poverty, illiteracy and diseases. In addition, the small size of Tanzania’s market will remain an obstacle to FDI as investors face limited sources of contribution to financing and little exit possibilities. In the long run, Tanzania’s status of a net importer and aid receiver has to be overcome with the help of increased
productivity in the agricultural sector, more efficient utilisation of natural resources and growing activities in service sectors such as tourism, telecommunication and finance. Otherwise, the country could relapse into isolation from international trade and business activities and its population may continue to suffer from poverty. Currently however, Tanzania shows overall growth of the private sector and improving macro-economic indicators due to the government’s reform efforts and the growth in the mining sector. Thus, it can be assumed that the real estate sector, as well as other sectors will slowly continue to grow. A positive step towards preventing the regulatory burden faced by companies investing in the country has been the establishment of the Tanzanian Investment Centre or the International Centre for the Settlement of Investment Disputes. In contrast to South Africa, Tanzania has withstood the global economic and financial crisis comparatively well due to its limited exposure to the international securities market. However, Tanzania’s growth prospects also had to be downgraded as a result of the decreased level of foreign investment, trade and tourism.

Most countries of the region are categorised as low-income countries. The seven oil exporters recovered quickly from the recent global financial crisis. The region projected annual real GDP growth of around 6.5% in 2011 compared to the world’s growth output of 4.4% in 2011. However, Figure 1 - with data retrieved from the International Monetary Fund - illustrates that the economic recovery in South Africa and other middle-income countries is being delayed by the more severe impact of the collapse in world trade and elevated unemployment levels that are difficult to reduce. The low-income countries of the Sub-Saharan Africa region benefit from growing trade ties with Asia, especially in the commodity market. Furthermore, domestic demand is being supported by automatic stabilisers, expansion in public investment and social support programs, and continued monetary accommodation (see IMF 2011). One may also argue that Africa’s demographic growth may outpace development and may put economic growth at risk.
Although, South Africa’s banking and finance sector still struggles to provide finance seeking investors with sufficient capital and the increasing unemployment rate impedes the country’s recovery from the recent economic crisis, the country remains Sub-Saharan Africa’s most developed and leading economy. The recent real GDP growth and rise in consumer spending indicates a slow recovery of the South African economy.

The future development of the countries’ economy and the real estate markets in Tanzania and South Africa can be summed up as countries with positive growth prospects and good investment opportunities. Furthermore, these growth expectations face currently stable, but generally unforeseeable political and social developments. Thus, real estate investments possibilities in Sub-Saharan Africa always depend on the risk and return requirements of a potential investor. Generally, domestic real estate market participants profit from better access to market information than foreign investors and should use this to their advantage.

**Classification of the countries Real Estate Market Maturity and Economic Evolution in the global context**

In accordance with the Competitiveness Report 2011 published by the World Economic Forum, Tanzania’s economic evolution is defined as factor-driven and South Africa is considered to be an efficiency-driven economy. As the real estate markets are influenced by global economic factors, investors may assume that the real estate market maturity level correlates with the evolutionary stage of the market’s economic environment.

Both nations are considered to be emerging countries. However, they stand at different levels of industrial development. For instance, a factor-driven market such as Tanzania shows
attributes of a low-income economy whose growth is based on the country’s resources. In contrast, an efficiency- or investment-driven market as South Africa is defined by a middle-income economy based on import of technology and knowledge transfer. Additionally, Tanzania and South Africa differ in their capital market development and connectivity to international financial markets. Compared to Tanzania’s securities market with small market capitalisation - Financial Frontier Market, South Africa is defined by a more developed Emerging Financial Market (see DEG KfW Bankengruppe 2011). Consequently, South Africa features more investment possibilities in financial vehicles and real estate investment products. However, the country’s investment-driven economy, which is closely related to the international capital market maintains many opportunities, but also threats. For example, the implementation of the FTSE-JSE Africa Index Series by the JSE has lead to a real estate sector development. Therefore, besides the usual investment property owners such as financial institutions and pension funds, property-holding vehicles, which are listed on the JSE, became active as well in South Africa’s property market. In order to limit South Africa’s exposure to turbulences in the global economy, the country should strengthen its research and development departments to have a broader integration into innovation-driven economies and a more stable background.

Business actions in emerging markets are often affected by counterproductive factors such as bribery and corruption. Poor governance mostly causes a culture of corruption and results in development drawbacks. The government’s instability and high bureaucratic hurdles hinder companies from investing in projects in emerging economies. According to the 2010 Global Corruption Barometer of Transparency International, Sub-Saharan Africa is affected by the highest level of bribery in the world. If emerging countries in the region would like to become more mature, its governments have to increase their efforts to fight corruption. Although past campaigns are thought ineffective by half the public worldwide, almost one in every four respondents still trusts their government most of all to fight corruption in order to act with accountability, integrity and transparency (see Transparency International 2010).

The JLL Transparency survey indicates a close correlation of real estate transparency with corruption. Whereas, transparent and mature markets such as Australia, the U.K. and the U.S. are the least corrupt countries, less transparent markets (i.e. China, Sudan) can be classified as highly corrupt (see JLL 2010b). Looking at South Africa’s and Tanzania’s position on the Corruption Perceptions Index 2010, one may observe that the more transparent real estate market in South Africa also obtained a better corruption ranking (54th position) than Tanzania (116th position). Thus, property investors are able to place their investment decisions and their
maturity evaluation of a real estate market on external market attributes such as the industrial
development or the corruption level of a country.

The following global real estate market maturity curve illustrates the interaction or coherence
between real estate market maturity and the stages of economic development in a global
context. Thereby, the market performance of Tanzania and South Africa can be compared to
the performance of selected countries from all over the world (i.e. Kenya, India, Brazil,
China, South Korea and the U.K.). The diagram is composed of the real estate market
maturity levels (nascent, emerging, developing and mature) on the axis of abscissa and the
economic development stages (factor-driven, investment-driven and innovation-driven) on the
ordinate. The double bend curve of Figure 2 represents the maturity potential of real estate
markets in a developing economy via a generic life cycle composition, which is sub-divided
into three phases.

The first phase shows slow initial growth and is defined by a nascent real estate market in
combination with a factor-driven economy. Tanzania shares its position with the neighbouring
countries Kenya and Nigeria. Although, Kenya is reported to be one of the top African
innovators, the recent competitiveness report declared the country’s economic stage to be
mainly factor-driven. Gradual internationalisation and ongoing economic reforms supported
Nigeria’s property market in becoming the second largest market in Sub-Saharan Africa.
However, similar to both Tanzania and Kenya, Nigeria’s real estate investors face problematic
factors such as inadequate infrastructure, corruption and limited access to finance.
Consequently, these property markets might have problems in attracting mainstream global
property investors.
The second phase features rapid exponential growth, including the transitional development of an investment-driven to an innovation driven economic stage of a country. Furthermore, this phase displays the emerging and developing maturity levels of individual real estate markets. India, Egypt, Brazil and South Africa are ranked in the Global Competitiveness Index as less competitive than for example Poland (score of 4.5) and China (score of 4.8). Even though, China is also considered to be an investment-driven economy, its property markets have gone through a significant transformation – from an emerging to a transitional or developing market maturity. Due to massive infrastructural investments, highly effective government policies and long-term master planning, the country’s property markets in Shanghai and Beijing have widened their distance to other key BRICS cities (see JLL 2010a). When the productivity of the emerging countries increases in the long-term, they cannot increase their competitiveness further by being cheaper. Thus, the transitional economies need to focus on dismantling innovation-driven sectors. Similar to Brazil, South Africa’s real estate market suffers under inadequate infrastructure and inefficient government bureaucracy. However, corruption and crime is perceived to be more problematic in South Africa than in Brazil.

The third and last phase is characterised by slow growth with asymptotic approximation to a marginal value. Sophisticated economies such as the U.S., the U.K. and Germany are defined by low investment barriers and a high-income status. Besides these ‘Western’ countries Hong
Kong SAR and Singapore also provide high-quality scientific research institutions and invest strongly in public or private research and development. Their innovation-driven economies support the countries’ stable domestic and international corporate base. In addition, their legislative and regulatory frameworks are regarded as favourable for maintaining a transparent and internationally connected real estate market.

In general, the global market maturity curve gives a simple explanation and overview in regards to the interaction between economic development and maturity level of selected real estate markets. However, countries in similar categories can still differ in terms of economic evolution and real estate market professionalization. Furthermore, the individual economic development stages do not always signify a corresponding real estate market maturity level. For instance, South Korea’s economy is categorised as innovation-driven, but its real estate maturity level did not reach maturity yet. Thus, a country might be ahead in industrial development, but lacks in property quality and transparency, or the opposite. In consequence, the maturity appraisal of a country’s real estate market such as South Africa or Tanzania has to be cross-checked with the latest available market reports. In addition, foreign investors should consider contacting local real estate organisations in order to generate business or research partnerships and to avoid asset misallocations.

**Conclusion**

This paper has ascertained the real estate market maturity of Tanzania and South Africa through a comparative examination of nascent and emerging real estate markets in a global context. The real estate market in Tanzania can be classified as nascent as it has a low transparency level, a small investible real estate value, a scarce diversity of property investment vehicles and a small corporate base. Whereas South Africa’s real estate market is defined as emerging due to the market’s transparency, upgradeable investible real estate value, good connection to international capital markets and stable corporate base. Unlike Tanzania as well as its neighbouring countries, the real estate market in South Africa is comparable to other emerging markets and it is able to compete with BRICS countries. Overall, the unsystematic risks of both real estate markets are similar to every other real estate market. Consequently, investors have to diversify their portfolio by allocating their assets over different property investment vehicles, various real estate sectors and regions. What both the Tanzanian and South African property markets have in common is that their future development largely depends on the upcoming political elections. In addition, the governmental as well as the economic stability of each country continues to influence the
perception and interests of domestic and foreign investors regarding potential real estate investments in the region. In general, South Africa’s systematic risks (i.e. equity, interest rate, currency and commodity risks) perform better than the market risks in Tanzania and other countries in Sub-Saharan Africa. However, South Africa shows higher risks than mature or sophisticated countries like the U.K or Germany. In contrast, the South African and Tanzanian real estate markets feature high yield potential in the commercial real estate sector and additional investment possibilities for foreign real estate investors.

In conclusion, real estate markets in Sub-Saharan Africa have great potential in enhancing their maturity status in the long-term. Nevertheless, the various countries have to expedite reforms and policies in areas such as governance, business, legal and social systems. In addition, the governments and aid providing institutions have to insist further on the adherence of regulations and democratic elections. Otherwise, the countries' currently poor economic and social situations will worsen or will not change for the better.

In the future, more market-oriented real estate research activities, comparable to this work, are needed. In the long-term, the analysis of real estate markets should go beyond the simple comparison of economic fundamentals to a deeper examination of the maturity issues and the processes within a property market. The maturity benchmark of real estate markets on the basis of Keogh and D’Arcy and Jones Lang LaSalle provides investors with an effective tool to evaluate a specific property market. However, the economic parameters and the real estate market maturity indicators cannot be generalised and adapted to any other country in Sub-Saharan Africa. As market maturity does not necessarily imply efficiency, adjustments to the national and local conditions are obligatory in order to assess the maturity of a specific real estate market correctly. Further research and a broader circle of market survey participants should further investigate the market efficiency to provide potential investors with a final judgement on the real estate market performance and the mentality of market participants.

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