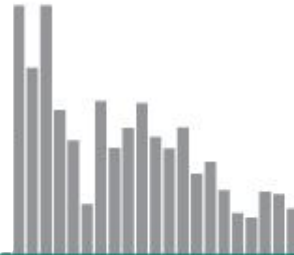




# “African Property: Latent Potential”

**Phil Barttram, Head of Research  
OMIGPI**



# The Donald Rumsfeld Approach

**There are known knowns.** These are things we know that we know.

**There are known unknowns.** That is to say, there are things that we know we don't know.

**But there are also unknown unknowns.** These are things we don't know we don't know.

**Donald Rumsfeld**



# OMIGPI's Perspective – African Property

## Known Knowns

- ❑ Emerging Markets driving growth
- ❑ The world is on the move
- ❑ Africa will benefit from undeniable growth trends
- ❑ There are already Cities with potential

## Known Unknowns

- ❑ Barriers to entry
- ❑ Country Policy /Sovereign Risk
- ❑ The Property Potential is difficult to gauge

## Unknown Unknowns

- ❑ Always be there - but experience will reduce them



# Emerging Markets – take up the mantle of growth

- ❑ Emerging economies will contribute the majority of global growth in the medium term. (IMF)
- ❑ World trade is starting to pick up... And investors are increasingly allocating funds away from government bonds in search of higher yields. (IMF)
- ❑ Financial Markets in emerging economies were remarkably resilient during the global crisis, gaining new-found respect.
- ❑ Brazil, Russia, India and China are currently the largest recipients of global investors' interest and capital flows.
- ❑ Investor interest is starting to shift to the next wave of growth, and Africa is moving into scope.
- ❑ Real Estate, as an asset class, meets investors' requirements for predictable income yields and diversified returns.



# Alpha Cities are not stagnant



Figure : Alpha World Cities 2000 (Source: GaWC<sup>12</sup>)

....Going full circle ... back to where we started



**And Africa is already benefitting from ChIndian growth**

# The African Investment Case

- ❑ The recent financial fall-out and the decline in global growth has not undermined the central argument for the African Property investment case; i.e. high growth and regional diversification.
- ❑ Africa continues to provide an opportunity for exceptional growth for those willing to take the lead and able to select investments that meet the risk/return profile of their investors. This window of opportunity, for those with an understanding of Africa and its idiosyncrasies, is beginning to close.
- ❑ Increasing coverage of the region by the larger research houses (Standard Bank, Nedbank and Macquarie First South are now providing regular updates) is providing real and credible data on the area's growth prospects.
- ❑ Our growth strategy will require us to build and/or buy Property across the continent – our success will depend on how, where and when we do this.
- ❑ Our own property experience in Africa, and the potential to dovetail with our colleagues in the OMIGSA boutiques as well as existing corporate relationships, provide us with lower barriers to entry ... and should lead to enhanced returns for our investors.

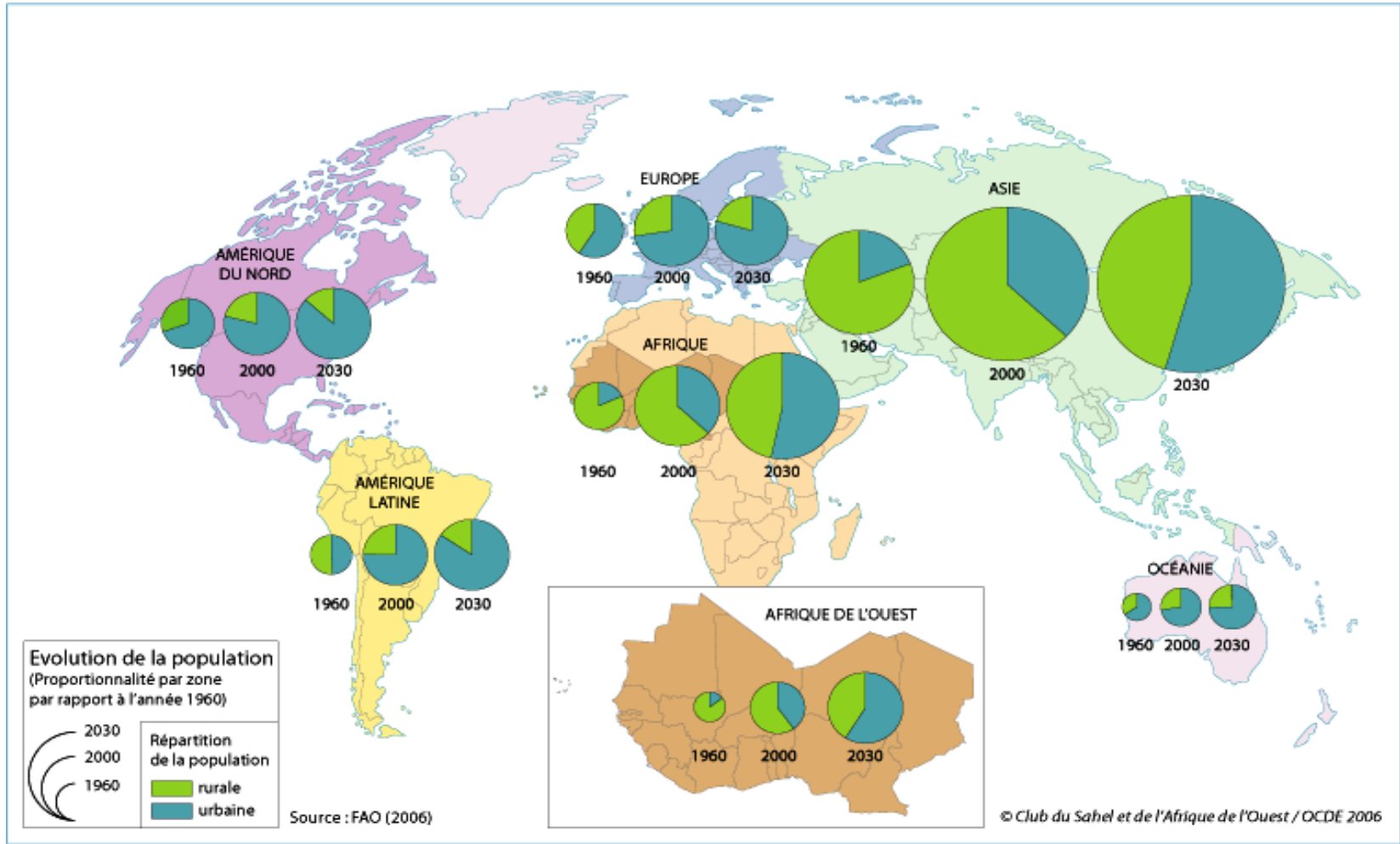


# Undeniable Growth Trends

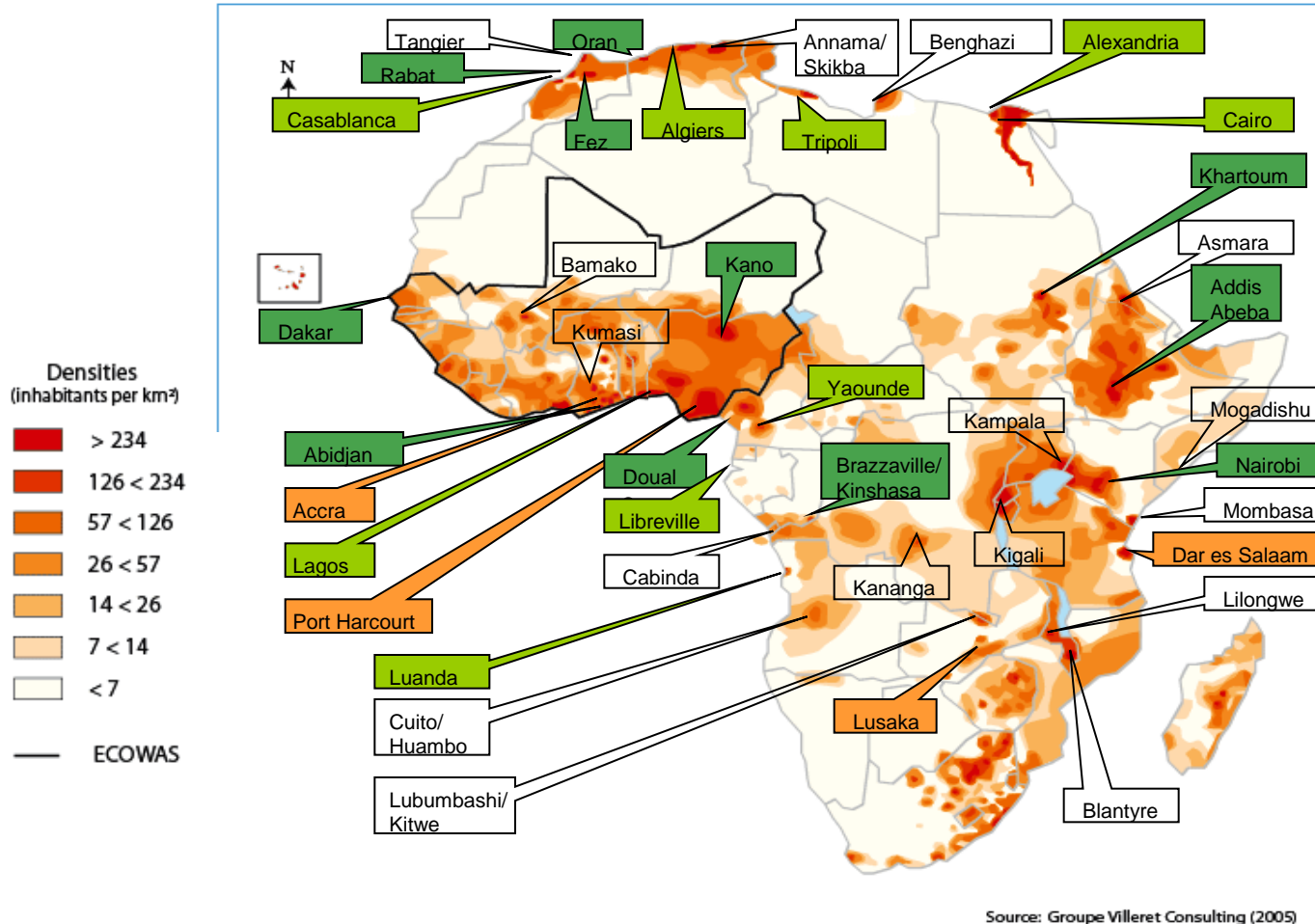
- ❑ By 2050 Africa's population will have doubled ... adding another 900 million consumers to the continent (Vijay Majahan - Africa Rising)
- ❑ Africa is changing – currently 35 democracies compared to only 8 in 1991 (Source: DTI)
  - ❑ Improved wealth and globalisation is leading to a growing middle class
  - ❑ Restored macro-economic stability
  - ❑ Greater predictability & increased reliability of policy & regulatory framework
  - ❑ Increased transparency and improved decision-making
  - ❑ Privatisation initiatives
  - ❑ Reduced corruption
  - ❑ Investment protection & promotion
  - ❑ Intra and inter-regional initiatives



The further along the road of urbanisation, the higher the level of development, the **less** the future demand on basic urban infrastructure . By implication ... the higher the level of urbanisation, the greater the demand / supply imbalance for property



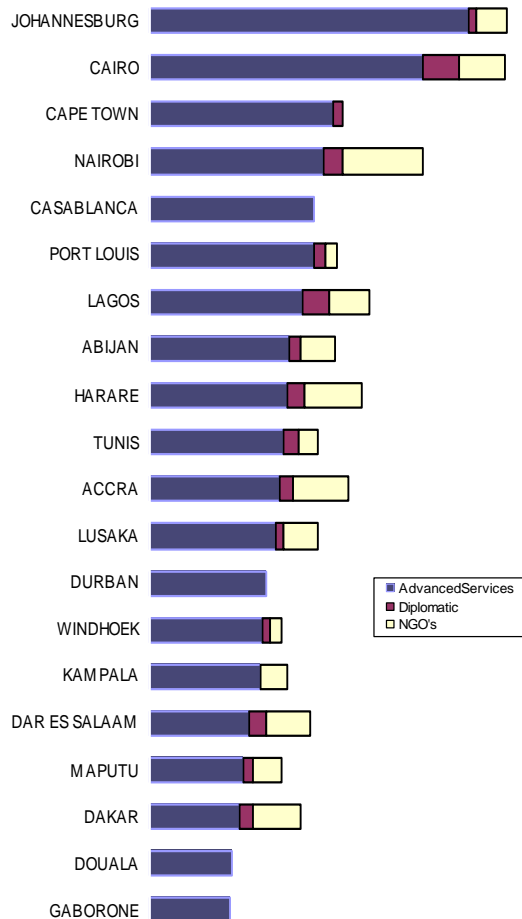
# Geographic concentration of population, GDP and household consumption rises sharply with development, then levels off



density in Africa (2000)

# Some cities, for whatever reason, are better connected than others

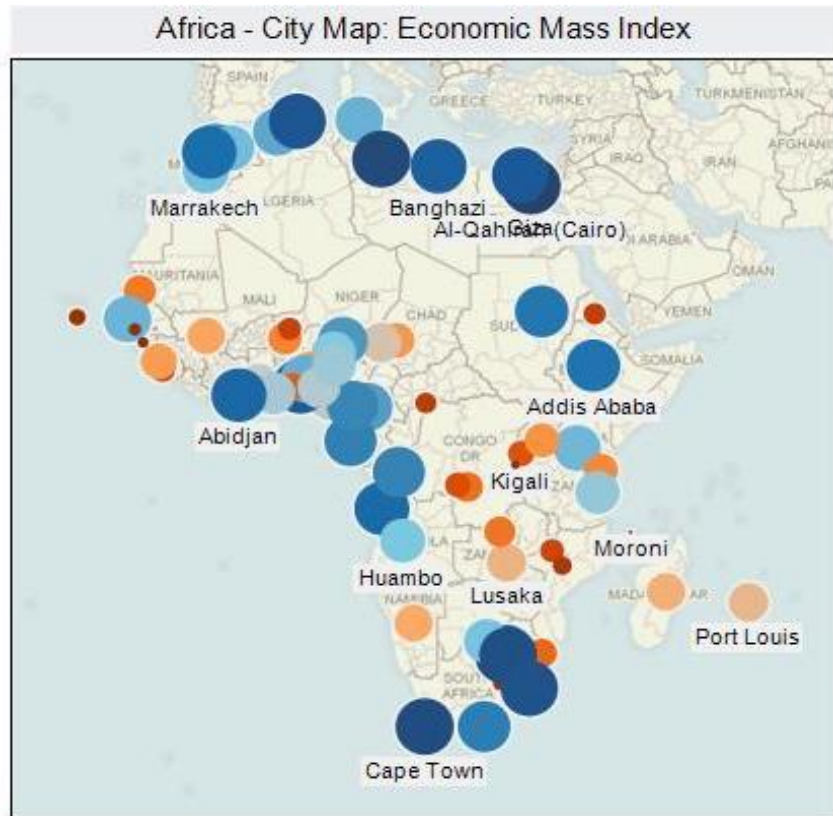
How 'global' are these cities?  
Relative connectivity



- Connectivity provides an indication of a city's relative importance as a business node in the network that shapes globalisation.
- Eight years ago Africa's three high-volume trans-Indian Ocean routes - Mumbai-Nairobi, Johannesburg-Mumbai, and Hong Kong-Johannesburg, were declared *'the'* revelation of a study that explored the possibilities linked to global flight patterns.
- Airbus' recently published global market forecast for the next 20 years seems to reconfirm this pattern. ALL of the top ten growth routes are within, or between, emerging markets?
- Five of the top ten growth routes are linked to China and all but five are en route to Africa?
- Connected cities have a higher demand for commercial property

)Taylor, P.J. et al., 'Measurement of the World city Network', GaWC Research Bulletin 10

# Start with the City



City Economic Mass Index



Country Score

0 to 1

Source: OMIGPI Research

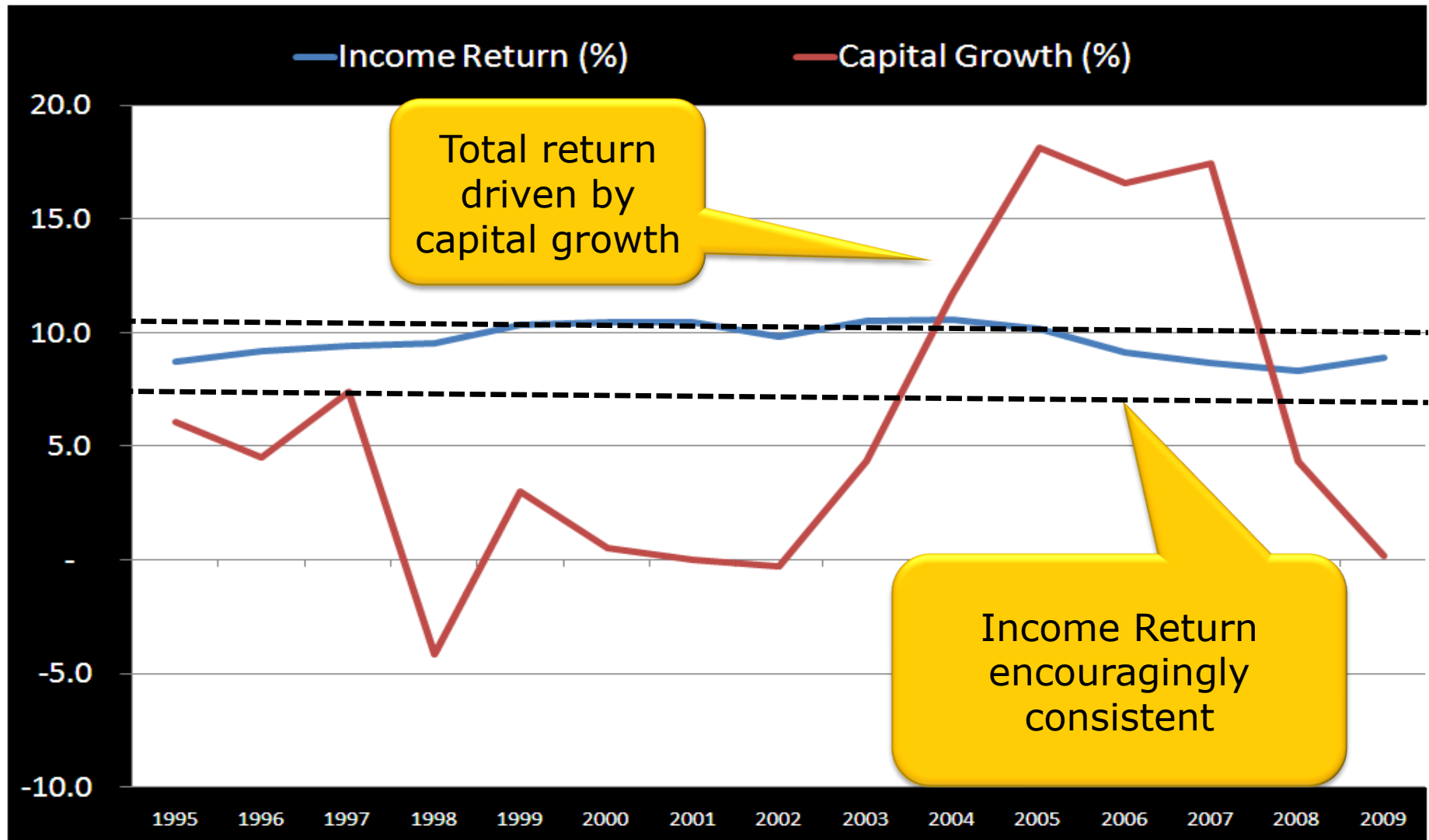
- ❑ City Filters – Identified African cities with the highest potential growth.
- ❑ The filters estimate the potential spend as a function of the number of people and their earnings.
- ❑ We weight the filters according to what we believe is important for property returns

# South Africa must form part of the African Property Sell

	TOTAL OCCUPATION COSTS US\$/ANNUM*			TOTAL OCCUPATION COSTS EUROS/ANNUM			TERMS	
	Current per sq ft	Current per sq. m	% change 12 months	Current per sq ft	Current per sq. m	% change 12 months	Typical lease term (yrs.)	Typical rent free (months)
Hong Kong	126.79	1,365	30.4	80.02	861	9.6	3 or 6	2-3
Mumbai, India	210.97	2,271	52.4	133.14	1,433	28.0	3+3+3	1
Tokyo (Inner Central), Japan	220.25	2,371	35.9	139.00	1,496	14.2	5	1
Buenos Aires, Argentina	49.24	530	16.9	31.07	334	-1.8	3-5	1-3
Rio de Janeiro, Brazil	74.60	803	35.6	47.09	507	13.9	5	1-2
Los Angeles	62.06	668	21.7	39.17	421	2.3		
New York Midtown	103.43	1113	22.7	65.27	702	3.1		
Toronto, Canada (CBD)	62.44	672	19.5	39.41	424	0.4		
Stockholm, Sweden	86.69	933	38.3	54.71	589	16.2	3-5	2-3
Munich, Germany	67.55	727	22.9	42.63	459	3.3	5+5	3-6
Cape Town (Claremont), South Africa	15.78	170	-6.7	9.96	107	-21.6	5	0
Johannesburg (Sandton), South Africa	20.03	216	5.1	12.64	136	-11.7	5	0
London (City), England	164.18	1767	-0.9	103.60	1115	-16.8	10	15-18
London (west End), England	299.54	3224	24.2	189.01	2035	4.3	10-15	9
Sydney (CBD), Australia	68.52	738	38.7	43.36	467	13.9	8	9.9
Moscow, Russia	232.37	2501	92.7	146.64	1578	61.9	7	6
Paris, France	141.98	1528	27.1	89.61	965	6.8	3/6/9	3-6
Tel Aviv, Israel	56.79	611	53.2	35.84	386	28.7	3-5	0-2
Singapore, Singapore	139.31	1500	105.0	87.92	946	72.2	3	1
Dubai, United Arab Emirates	128.49	1383	43.4	81.09	873	20.5	3-5	1

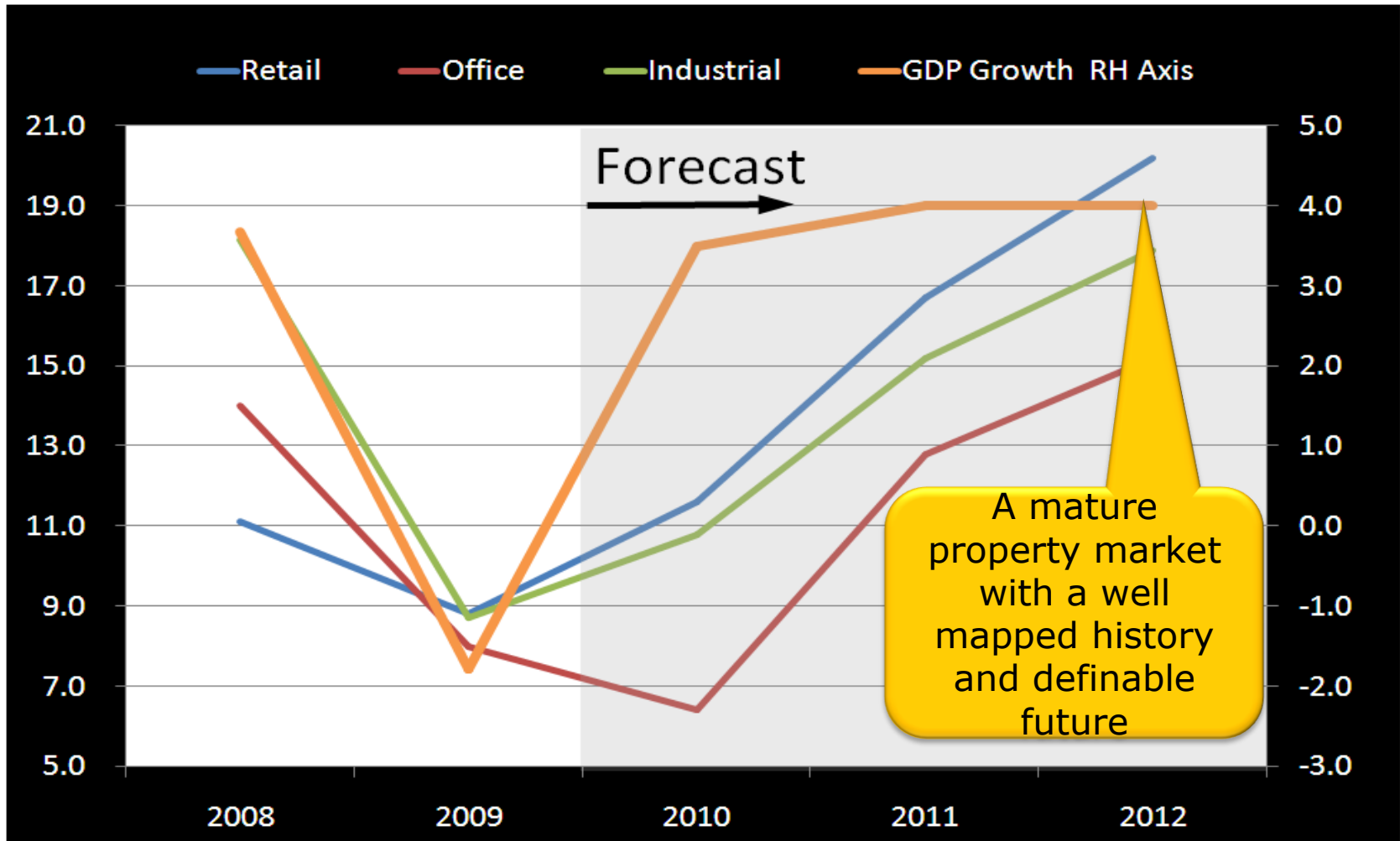
Source: Broll

# South Africa is a major player in the African Real Estate Story



Source: OMIGPI Research

# Diversifying risk and return across the region



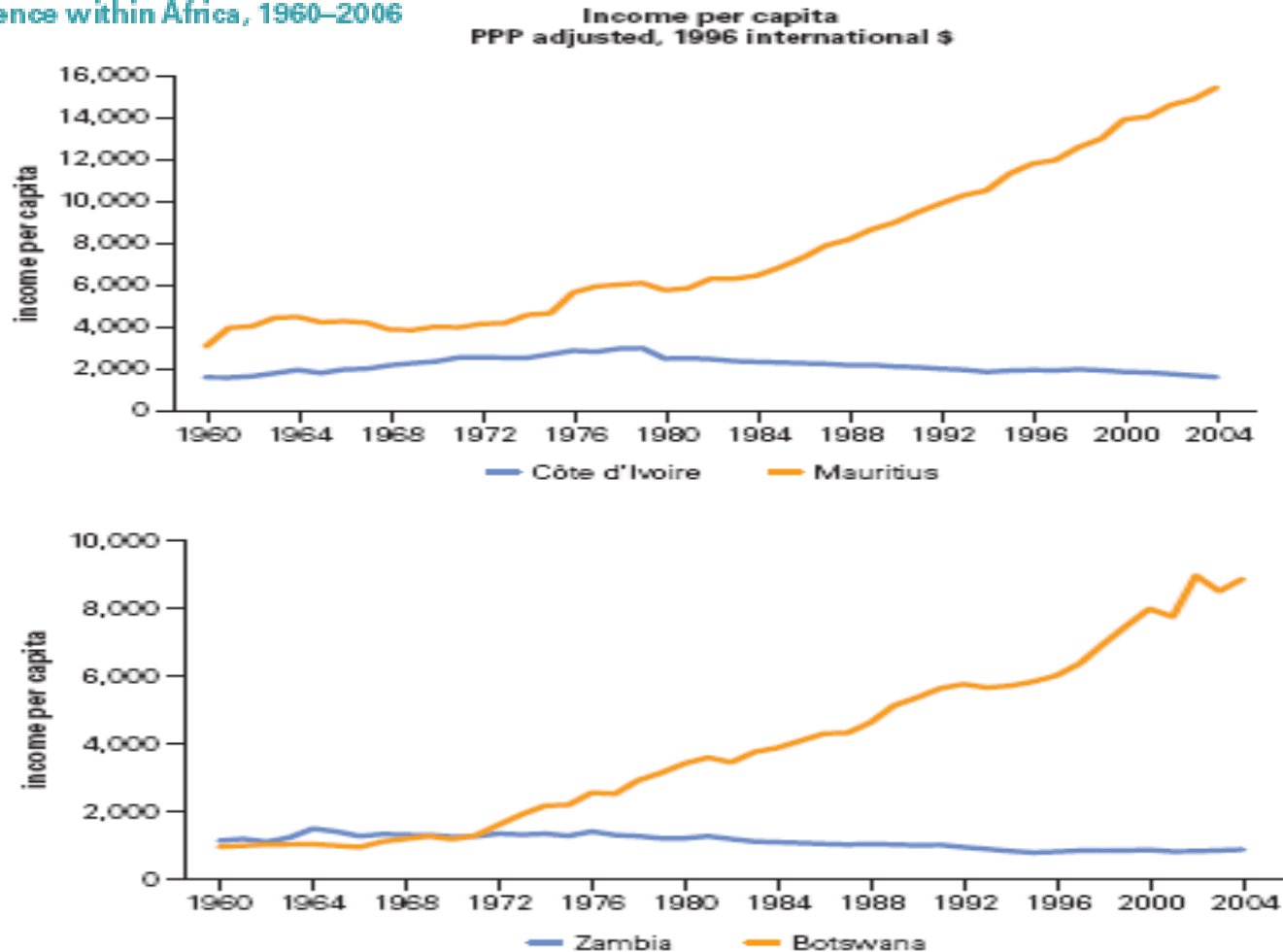
Converted to quarterly data points through quadratic average

Source: OMIGPI Research



# Regional Policies can either release or hinder City potential

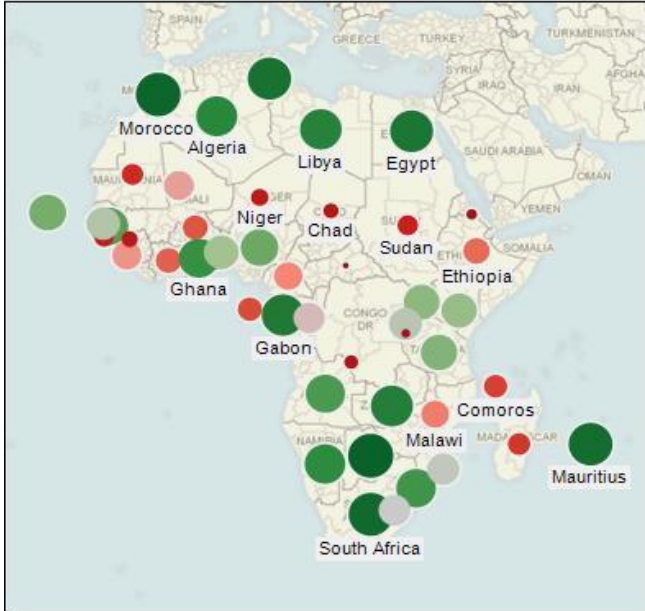
## 1.10 Divergence within Africa, 1960–2006



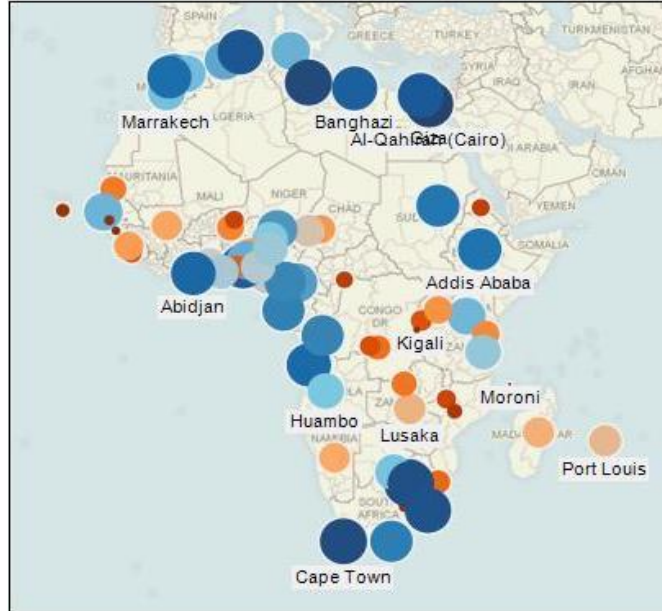
Source: Arbache, Delfin, and Page, 2008.

# Can Country Policy release the City Potential?

Africa - Country Map: Country Score



Africa - City Map: Economic Mass Index



Distance, Density & Division

0 to 1

Ease of Doing Business

0 to 1

Economic Growth Index

0 to 1

Growth Environment Score 2006

0.023 to 1

Infrastructure Index

0 to 1

Macro-economic environment

0 to 1

Macro-economic hedging against volatility

0 to 1

Sophistication of Financial System

0 to 1

Stability Index

0 to 1.2

Source: OMIGPI Research

# Known Unknowns

- ❑ A lack of historical data on the respective economy and the asset class limits accuracy of viabilities and forecasts – we therefore need to gather and build our own; e.g. Nigeria.
- ❑ “Ministers’ Discretion” .... can be the death blow for long-term asset investors . Land tenure risk and policy instability add to risks ..not necessarily the predictability of the income stream.
- ❑ Traditional Investors aren’t being exposed to African Real Estate .. Limited rental income transparency, a perceived lack of institutional capacity and prevailing Afro-pessimism are contributing to often unjustifiably high risk premiums
- ❑ We often deal in land .... Which has a deep rooted emotional link to the population , and rights and obligations may differ from region to region ... not just country to country.
- ❑ Foreign exchange and taxation laws are a minefield Limited and expensive expertise on the tax implications for offshore investors offers some certainty.
- ❑ Investment product often doesn’t exist – building costs are never certain and local partners may have differing expectations of risk and reward.
- ❑ There are limited skills to work the asset ... very few operators know how to maximise net income in African Property.



# Property-specific data in Africa is broad at best

## Comparative Rentals

These rates are normalised to US Dollars per month per m<sup>2</sup>

Location	Office		Industrial	Retail	
	Net rent	Op costs	Net rent	Net rent	Op costs
Ghana	15-22	2.7-3.6	2.7-4.6	9.5-28	5.28-5.75
Namibia	10-15	2-3	3-8	20-35	2-4
Nigeria	40-100	12-13	2-4	35-83	10
Tanzania	25	25	3-6	12-27	2-4

Source: Broll

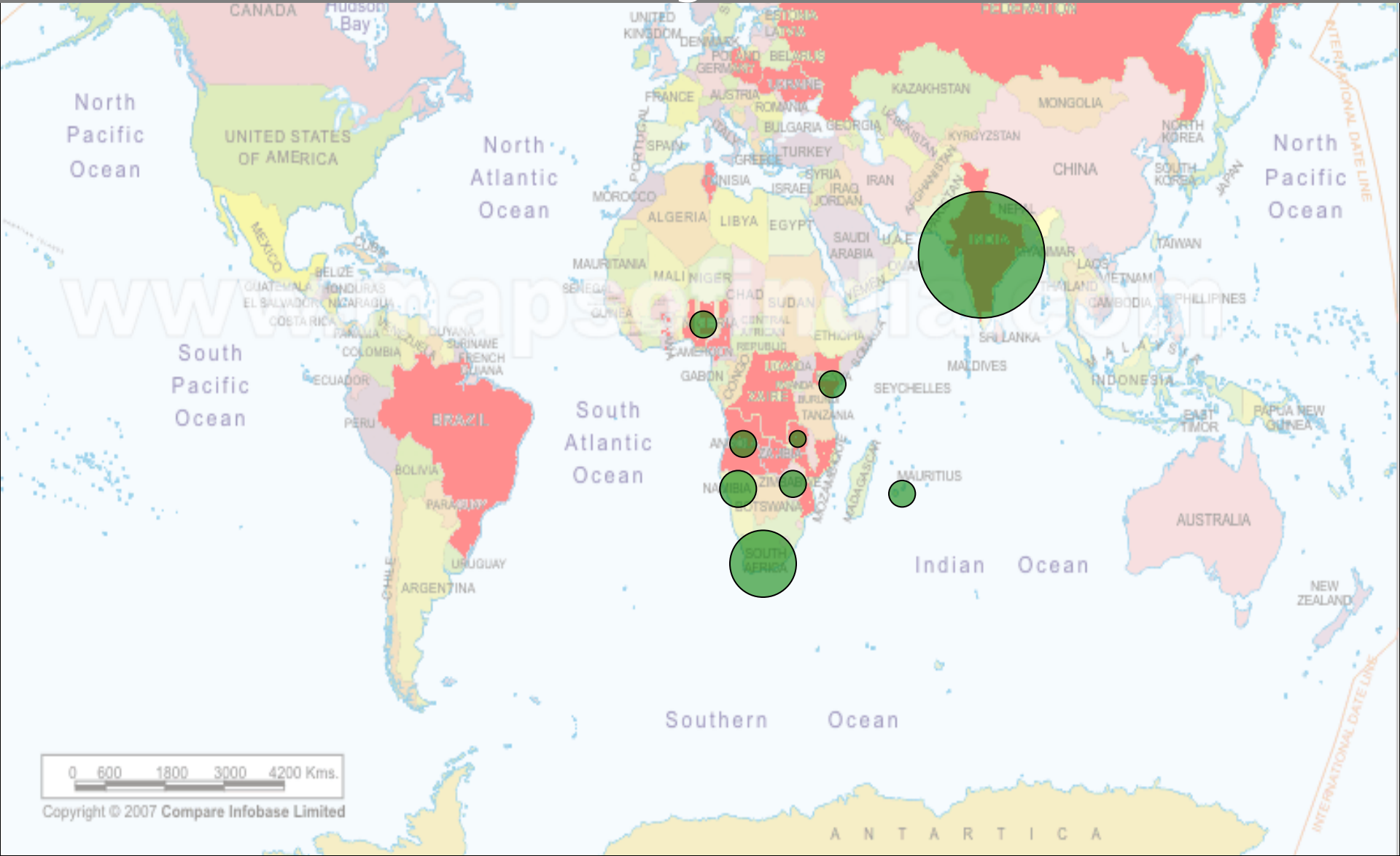
# Unknown Unknowns



Our experience must translate into fewer of these than most



# Old Mutual is already a world leader in Emerging Market Real Estate with over \$4bn under management



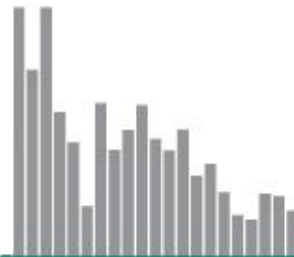
# Conclusion & Questions

- ❑ Targeted African cities are at the early stages of their growth and urbanization cycles, creating an opportunity to benefit from the imbalance created by a limited supply of world-class property and fast-growing demand for such.
- ❑ The African Real Estate investment market is inefficient and those with access to information and capacity will have a competitive advantage.
- ❑ Investor preference is for regional rather than country exposure in order to diversify sovereign and return risk, and SA is an important part of the story.
- ❑ High barriers to entry have, and will continue to, restrict the formation of regional real estate funds in Africa – but the window is closing.
- ❑ Old Mutual already manages in excess of US\$3.0bn of African Real Estate and can offer investors the institutional rigour they associate with a FTSE 100 company.





Thank you



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Performance through Focus

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