Residential REITs in Africa by Olu Olanrewaju

Director Altair

Altair

Centre for Affordable Housing Finance in Africa

Residential REITs in Africa

Presentation Date
27-10-2021

Authors
Derek Joseph
Olu Olanrewaju
Judith Wayne
Wagane Diouf
Patrick Goldie

Our expertise

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Presentation Outline

1. Purpose
2. Context
3. Brief History of REITs
4. Case studies
5. Lessons learned

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1. Purpose

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Purpose

I. Review the existing residential REITs market in Africa

II. Identify market enablers and barriers to the growth of affordable housing REITs in Africa

III. Answer the question: Are REITs a suitable vehicle for the delivery of affordable housing in Africa?

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2. Context

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Since 2017...

high GDP growth in many African countries

financial institutions seeking new investment opportunities

continued urbanisation and population growth

worsening housing crisis, esp. amongst young

housing issues an increasing political priority

renewed interest in the use of REITs (or alternative financial instruments) to increase the supply of affordable housing

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3. History

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Historical Background

Real Estate Investment Trusts (REITs) were established in **the USA**, by the **“Cigar Tax Extension Act”** of **1960.**

Designed to allow “ordinary” citizens to invest in real estate, an activity previously reserved for wealthy individuals or large financial institutions.

REITs were not created fully formed!

- initially they acted more as **mortgage refinancing companies**
- they only started to focus on **property development and investment** in **the early 1970s**
- legal reform in **1976** allowed REITs to be set up as corporations
- a **1986** law was required to close loopholes

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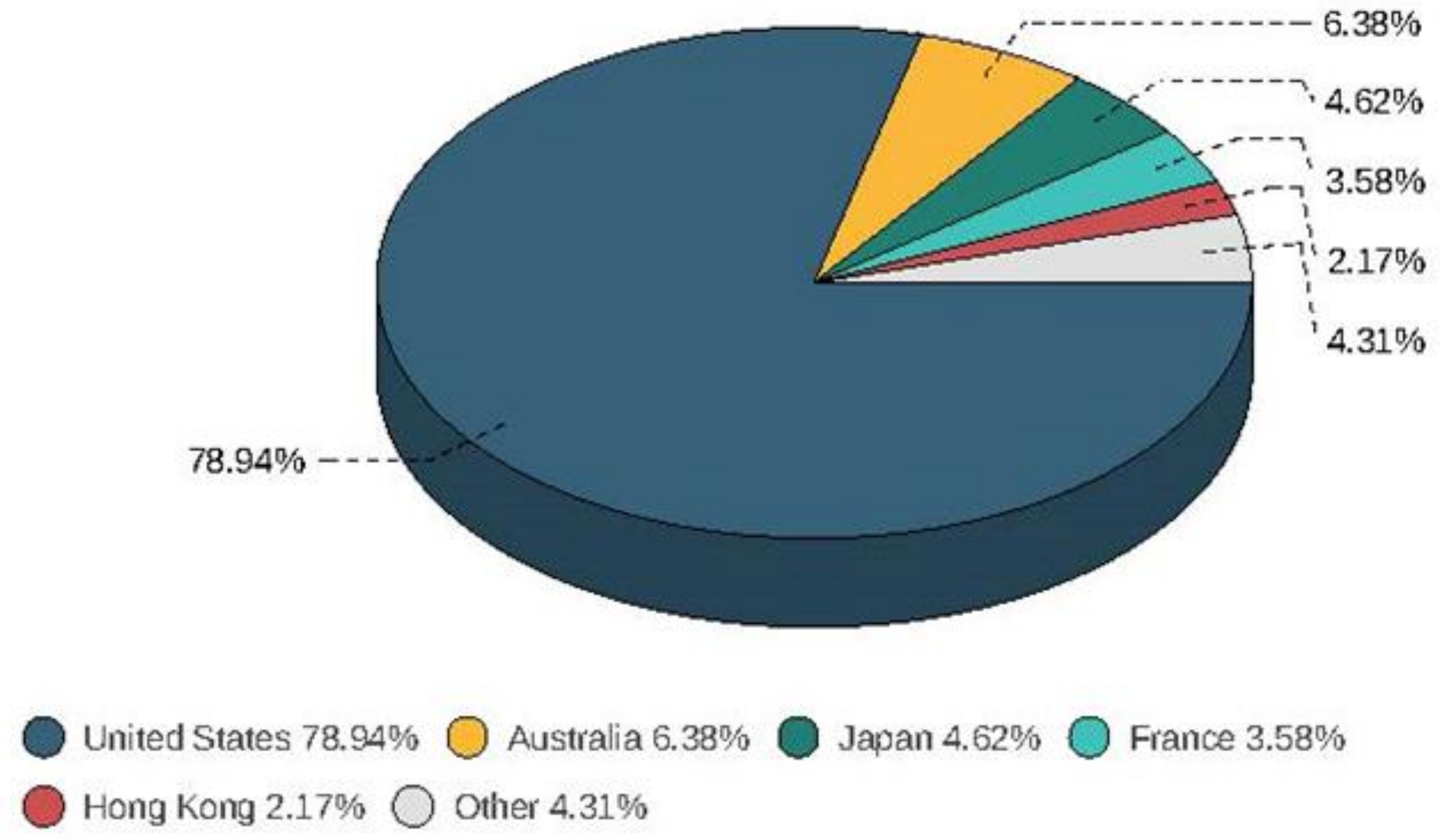
Total Value of REITs market (Worldwide):

USD $4 trillion

No. of countries with REITs legislation:

44

International Distribution
(by asset value, 2019)



1. **USA – 78.9%**
2. **Australia – 6.4%**
3. **Japan – 4.6%**
4. **France – 3.6%**
5. **Hong Kong, PRC – 2.2%**

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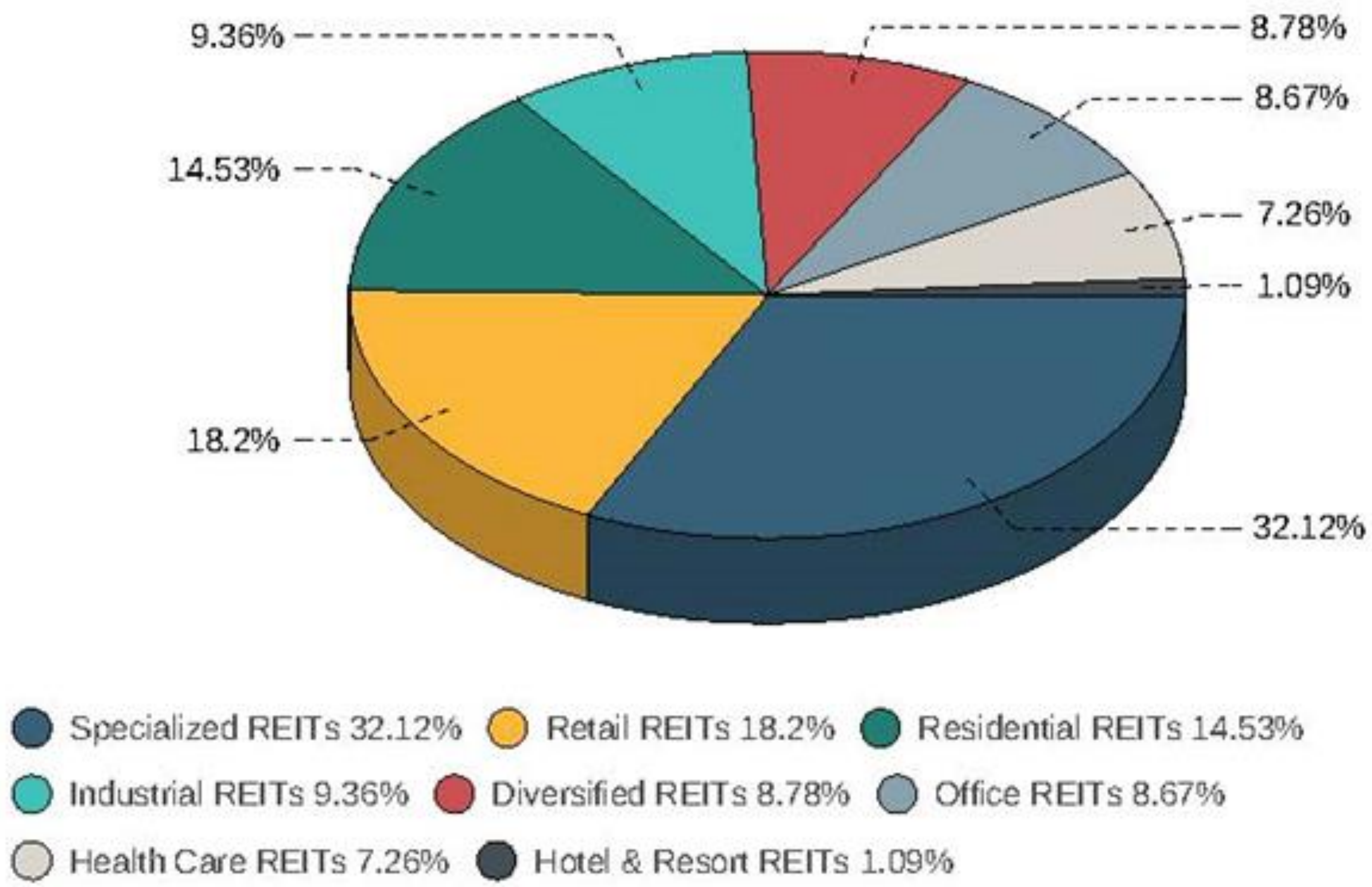
Sub-industry Breakdown
(by asset value, 2019)



Though **14.5%** of REITs are residential…

…**more than half** of these focus on **student accommodation** or **retirement homes**.

Most assets held by REITs are **offices** and other types of **commercial** and **industrial** property.

- ***"specialized" and "diversified" REITs mainly cover variations of industrial, office, or commercial real estate***
- **Affordable housing represents only a small chunk of REIT activity in the USA…**

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4. Case Studies

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Altair – new study

Despite its large REITs market, South Africa was excluded due to economic turmoil across its property sector

Countries*:

-Ghana (1)
-Nigeria (4)
-Tanzania (1)
-Kenya (2)
-Rwanda (0)
-Uganda (0)
-Morocco (5)
-Zambia (1)

Scope:

Of the **14** organisations studied:

-**6** were listed REITs

-**2** were private REITs

-**6** were development companies with the characteristics of a REIT

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CAHF study (February 2017)

Examined REITs market in these African countries:

*Of these 51 REITs, only **11** had any **residential** element.*

*All of these were in **South Africa**, and half focussed on **student accommodation**.*

-South Africa (44 REITs)
-Kenya (1)
-Ghana (1)
-Tanzania (1)
-Nigeria (4)
-Rwanda (0)
-Morocco (0)

Key findings:

Why so little interest in affordable housing REITs?

1. fixed operating costs, so slimmer profit margin for affordable rental properties
2. higher risk of default for lower-income households
3. Making a commercial yield from affordable housing usually depends on receiving governmental subsidies: either tax credits or grants.
4. Gaining either of these is difficult for REITs.

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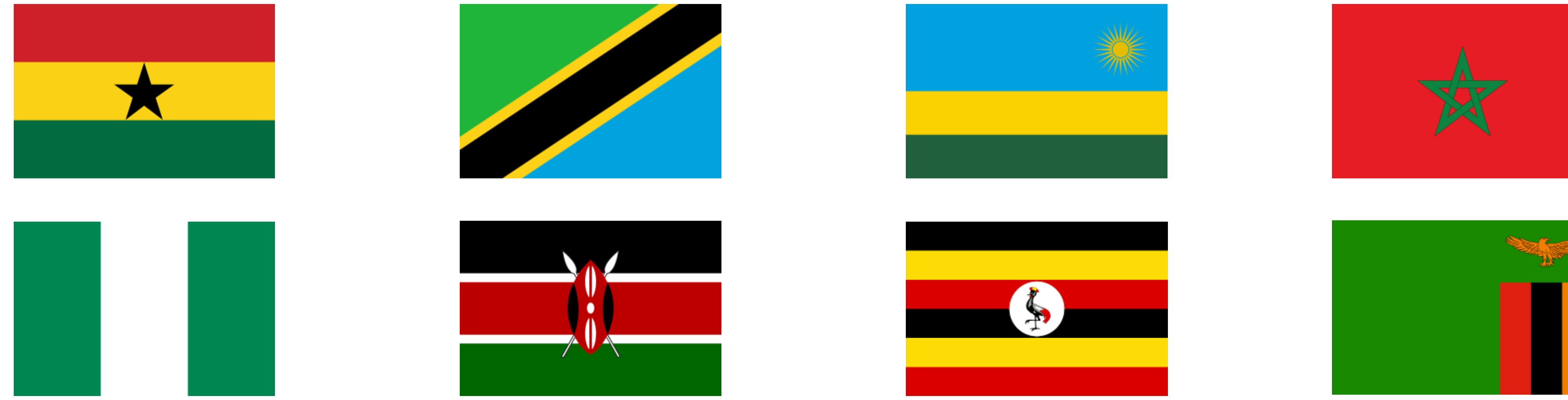
Summary

REITs Regime



	Ghana	Nigeria	Tanzania	Kenya	Rwanda	Uganda	Morocco	Zambia
Specific REIT Regulation?	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year REITs introduced	2001	2007	2011	2013	2013	2015	2016	2013
Amendments planned?	Yes	Yes	No	Yes	No	No	No	No
Management	Internal	Internal	External	External	External	External	External	External
Income REITs (I-REITs)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A
Development REITs (D-REITs)	No	Yes	No	Yes	Yes	Yes	Yes	N/A
Minimum Real Estate Investments	N/A	75%	50%	I – 75% D – 35%	100%	N/A	70%	80%
Gearing Limit	None	25%	None	I – 35% D – 60%	20%	No	No	N/A
Minimum Dividend Distribution	None	90%	90%	I – 80%	90%	80%	?	No
Tax Exemptions	TBC	Corporate	Corporate	Corporate	No	Corporate	Corporate	No

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5. Key issues from our study

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Operational Success Criteria for Residential REITs

Yield
Annual income distribution needs to be higher than that from government publicly traded debt

Liquidity
Investor confidence helped if it is possible to realise value of assets later via sale

Housing Market
Need for pool of reliable tenants and suitable properties to rent

Property Managers
Need for certain level of technical expertise & professional competence

Political Environment
Concerns re. rent collection and eviction powers are politically sensitive & thus vulnerable to political interference. Government subsidies to attract investors

Tax Regime
Poorly enforced tax regime undermines predictability and investor confidence.

Effective regulatory regime.

Valuation
Need for proven second-hand market to establish property values

Gearing
Demonstrable ability of gearing to enhance returns

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Which pose the question- Are REITs a suitable vehicle for the delivery of affordable housing?

Remember that REITs were not originally designed for this purpose!

(original idea: to widen access to real estate investment)

Whether REITs can be adapted to deliver affordable housing in African economies in a significant manner remains a doubt, due to:

- need for government bonds to be less attractive to investors
- personal nature of landlord-tenant relationship in many countries can offer cheaper operating costs than REITs
- restrictions on gearing, distribution requirements, and other rules can drive up REITs’ operating costs
- in most countries, providers of affordable housing want direct control of property portfolio; REITs rules usually forbid this
- high distribution requirements of REITs (e.g., 90% of annual revenue) means that growth must come via equity or debt, requiring mature & stable investment markets
- Making a commercial yield from affordable housing usually depends on receiving **governmental subsidies:** either **tax credits** or **grants**.
- Absence of professional landlords with significant rental portfolios

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