



The Relationship between Foreign Direct Investment and the Maturity of the Real Estate Market:

**An Assessment of Investment Activities of South African Real
Estate Companies with Exposure on the African Continent**

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by
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ABSTRACT

Africa has begun to show tremendous socio-economic development and gradually improving market conditions. As a result, Africa's perceived attractiveness has improved as new investment frontiers are sought. It has become crucial that current and future economic and market growth needs can be met by infrastructure and real estate development. In order for the various real estate markets to develop further, they would need to attract a significant amount of capital expenditure, of which a portion may come from institutional investors. In order to achieve this, Africa needs to ensure that the desired investment environment is stimulated in the real estate market so as to redirect some of the capital flows into improving and increasing current and future real estate stock on the continent.

This dissertation focuses on real estate in Africa by assessing the nature of the relationship between the maturity of real estate markets and foreign direct investments. It does so by assessing the investment decisions of South African real estate investors with exposure in the rest of the continent. The research findings seek to provide insight into the nature of the relationship and further assess its level of importance for South African real estate investors.

Key findings were that maturity of real estate markets correlated poorly with investment activities and investors priorities when making investment decisions. However, maturity is a factor in real estate investment decisions. The aim was to assess the minimum level of maturity that was required for South African investors before entering a market; however, it became clear that mature markets or very immature markets are not necessarily what investors seek. An element of the risk/return profile is influenced by the maturity of markets: the less mature markets have the greater level of risk and the more mature markets have very little risk in comparison.

KEY WORDS:

Africa, Developing, Emerging, Exposure, Foreign Direct Investment, Frontier Markets, Investments, Maturity, Property, Real Estate, Risk/Return,

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CHAPTER 1: INTRODUCTION

1.1. Background

Having succumbed to centuries of harsh socio-economic factors that stifled growth, the African continent in recent years has begun to show tremendous socio-economic development and gradually improving market conditions. The growth has been induced by rising commodity prices, most notably the oil-producing nations of West Africa and mineral-rich countries such as Zambia. Although a price deterioration in some commodities in 2014/2015 led to some challenges in many of these mineral-rich economies. However, this only partly explains the growth, as improved political and macroeconomic stability and microfinance reform has also improved the perceived risk which comes with investing on the continent.

As a result, Africa's perceived attractiveness has improved substantially over the past few years. The composition of capital flows has also changed quite progressively with the recovery from the 2008 financial crisis and the surge in remittances from non-OECD countries supporting this positive movement (African Development Bank, 2015). 2013 saw a decline in the number of new Foreign Direct Investments (FDI) projects in Africa by 3.1% which was largely caused by the decline in North Africa while Sub-Saharan Africa increased by 4.7%. In addition, Africa's share of global Foreign Direct Investment projects also increased to a level of 5.7%. Although West Africa and East Africa realized the largest increase in FDI projects, Southern Africa still remains the largest region of the continent with FDI projects (Ernst & Young, 2014).

While the number of projects was down in 2013, the estimated value of total investments in Africa rose 12.9% because of several large deals. The number of FDI projects in the real estate and the construction industry has also experienced a substantial increase, with an increase of 63% for the financial year 2013, making it the fifth most attractive sector (Ernst & Young, 2014). The attractiveness of the Real Estate sector is directly influenced by a number of sectoral and non-sectoral factors that need to be considered prior to making an investment decision such as where to investment, the risk/return profile applicable, socio-

economic conditions, potential ESG factors, etc. Increase in investment activities is also influenced by confidence of investors who would perform an extensive due diligence in order to obtain an optimal balance between risk and return which is critical to limitations of investment mandates. Also critical to this notion is the concept of maturity of markets, which speaks to development of a market, how advanced it is and what the market forces that drive its economy are on a macro and micro level.

In order to ensure that investment in the Real Estate market is efficiently captured, either as a form of direct investment into the sector or as a by-product of the other growing industries in a developing economy, the property market also needs to develop and find an optimal level of maturity which increases investor confidence in the sector and attracts FDI into the Real Estate sector. This dissertation further unpacks existing views on the maturity of real estate markets, assessing what defines the level of maturity. Although Singapore and Hong Kong satisfy qualifying criteria of a mature real estate market, the economy as a whole is still considered to be emerging. Various factors that determine the level of maturity will be explored based on the existing literature, and with the use of modern-day methodologies, determine the applicable manner of assessing maturity, further drawing linkages to investment decisions made. Further to this, the paper will reveal if indeed market maturity is a well-applied concept among investors, or if little impetus may be ascribed to it amidst other influencing project factors.

This dissertation aims at providing an investigation into the current framework that has been established to measure maturity of the real estate market and attempts to draw links between investment activities of South African real estate companies and the maturity of African real estate markets. This will investigate where South African real estate companies have chosen to invest on the rest of the continent and the level of maturity these particular countries exhibit from the various host countries. It does so by assessing traditional investment methodologies and investigates if South African real estate companies do in fact follow traditional investment methodologies and how much impact the maturity of a market has on investment decisions.

1.2. Research Area and Purpose

As Africa's relative investment attractiveness increases and emerging markets become an option as the next investment frontier, African economies need to ensure that they advance their economies in order to be more investor-friendly. Investors who are active in the real estate market are also venturing into emerging economies in order to seek opportunities and high-yielding investments. The real estate sector, therefore, also needs to ensure that it advances as an investment-friendly asset class as the ease of doing business in the sector improves. Interest in Africa's developing economies has increased and urban centers and regional clusters are being created through increased urbanization and business interest across various industries which are critical to the different economies. Over time this will have an influence on the development of the market and the level of maturity of its real estate market.

The objective of this dissertation is to assess the relationship between maturity of the real estate markets and FDI. This will be achieved by assessing investment decisions of South African real estate companies that invest in the rest of the continent. It broadly looks at what South African real estate companies seek when they invest in the rest of Africa and the minimum level of market maturity that must be satisfied before considering investing. This will be done through an assessment of the investment decisions they make prior to any acquisition or development project. Further to this, the paper seeks to provide a road map for other investors that wish to invest in commercial property on the African continent but have a limited understanding of the mechanisms between perceived and actual risk, and expected returns in the various markets.

It is also reasonable to assume that some sort of relationship exists between return on investments and the maturity of markets. Conventional thinking indicates that with various investment prospects one of the critical elements sought is return on investment. The concept will be tackled over the course of this dissertation when seeking to understand what determines the maturity of a market, whether or not risk is a function of maturity and subsequently the influence maturity may have on returns. It must be noted that maturity is a level of development and the more developed a market is, the less intrinsic risk will be

observed. Traditional understanding of risk and return concepts allude to the fact that the higher the risk, the greater the return.

1.3. Research Problem

The market has observed a shift towards capital allocation into emerging markets where new opportunities are sought. This can be observed, over time, through capital flow movements across borders, and in recent years to Africa in particular. With this investment diversification into these new investment markets comes a lack of understanding of the host country market forces. Real estate is an important component of any economy and a much sought-after investment asset class. Foreign real estate investors typically have limited knowledge about the host countries' real estate market and it is believed that the real estate maturity of that market will have an influence on the investment decision or perhaps prompt the investors to adjust their expectations.

1.4. Research Question

Answers to the following research questions will be sought in this dissertation:

- i. What are the determining factors of maturity of the real estate market?
- ii. To what extent do the various African real estate markets exhibit maturity and further, does this correlate with the various asset classes?
- iii. What are the determinants of Foreign Direct Investments and does this have any influence on maturity of real estate markets?
- iv. Does maturity of the real estate market influence the investment decisions of South African real estate companies?
- v. Does a relationship exist between the maturity of the real estate market and investment activity?

1.5. Research Objectives

The objectives of this research are to:

- i. Determine characteristics of maturity of real estate markets.
- ii. Analyse the extent to which various African real estate markets and the real estate asset classes exhibit market maturity.
- iii. Assess determinants of Foreign Direct Investments and analyse if these have any influence on market maturity.
- iv. Investigate whether the maturity of the real estate market influences investment decisions of South African real estate companies.
- v. Assess whether a relationship exists between the maturity of a market and investment activity.

1.6. Hypothesis

- i. Null Hypothesis: A relationship exists between the maturity of a market and investment activity.
- ii. Alternative Hypothesis: A relationship does not exist between the maturity of markets and investment activity.

1.7. Justification of the study

This dissertation contributes to the body of knowledge by using previously developed concepts and expanding on them in order to assess the maturity of a market in today's context and further establishing a relationship between the maturity of the real estate market and the level of investment that is subsequently observed. Although the topic of real estate market maturity has been previously researched, this has not been largely pursued for markets on the African continent. Further to this, the concept of real estate market maturity is still heavily debated with various views proposed. There is limited literature on real estate market maturity that has incorporated macro-economic factors which are largely non-sectoral factors. In addition, and against the backdrop of increased

FDI on the continent, a relationship has not been established to determine empirically whether this would underpin the level of investment in the real estate market.

It can be concluded from observation that there is very limited real estate stock on the African continent that can match the economic growth trajectory that is currently being experienced on the continent. Isle French, the Real Estate Leader for PwC Africa states that Africa's real estate markets have traditionally lagged behind developed and many developed economies and that the levels of investment in real estate in Africa are low by global standards and this is occurring while significant challenges exist in exploiting potential opportunities (PricewaterhouseCoopers, 2015). In their Africa Report of 2015 titled Real Estate Markets in a Continent of Growth and Opportunity, Knight Frank provide a backdrop to Africa's growth story. "Africa's economic growth began to accelerate around the turn of the century, following several decades of economic stagnation. Since 2000, Africa has averaged growth of over 5% per annum with the Sub-Saharan region averaging growth of close to 6%" (Knight Frank, 2015). The report does mention that the recent turmoil's in the commodities sector has hampered growth for economies that were largely dependent on a certain commodity for growth as opposed to having a diversified economy. In addition to this, Africa's growth is also driven by demographic trends and urbanization which are key drivers to a population rising rapidly. The UN projects that the population of Africa will be quadruple to more than four billion by 2100, with nearly one billion of these in Nigeria alone. This growth has led to a higher demand for increased volumes of good quality commercial and residential real estate. Retail property development has been encouraged by the growing middle class as well as expansion of South African retailers into other rest of the continent and the increase in global corporations seeking offices in African Cities, generating demand for high quality space particularly in Nairobi and Lagos (Knight Frank, 2015).

Although markets such as South Africa are seemingly more advanced, there appears to be a large number of institutional investors from South Africa that are branching out into the other major African economies such as Kenya and Nigeria for investment opportunities in this space. Other Sub Saharan markets are now attracting increased interest from

international investors, but the most significant flow of capital in recent years has been from South African investors/developers into the rest of the Sub-Saharan region, as a growing number of funds have been established (Knight Frank, 2015). Despite the economic outlook, many are discouraged by the lack of thorough regulation and transparency in the real estate market on the continent, and the notion of perceived risk versus actual risk is still a topic that is heavily debated in practice.

This dissertation serves to unpack the level of real estate market maturity on the continent and whether this does in fact influence the level of foreign investment for real estate investments on the rest of the continent. It serves as a framework that would define, from use of existing literature and current market practice, the identification and assessment of risk, specifically to the extent that it impacts investment in commercial real estate.

1.8. Methodology

In order to successfully meet the objectives that have been set out in this dissertation, a number of methods were used in order to collect data and subsequently dissect it and present it in a usable manner. The initial assessment of outline talking points has been done through review of the literature and the evaluation of the methodologies available. Qualitative methods were used to address different aspects of the research. The study is largely distinguished between two broad concepts and the relationship between them, this being the maturity of the real estate market and the level of real estate FDI on the continent by South African real estate companies. Further to this there are underlying issues such as investment methodologies and the risk/return study of investing in emerging markets. As a result, different avenues were pursued in order to attain required information and data sets to efficiently answer the research.

1.9. Outline of Dissertation

Chapter 1: Introduction: Provides background to the research and introduces the research objectives and importance of the research.

Chapter 2: Literature Review: Provides a comprehensive discussion of all relevant literature surrounding the topic.

Chapter 3: Research Methodologies: Details of the research methods are discussed and the means of accumulating the information.

Chapter 4: Results and Findings: An analysis of the results and comprehensive interpretation and presentation of the findings.

Chapter 5: Conclusions and Recommendations: Discussions around the literature and key findings and conclusions drawn from the study; recommendations are then based on the conclusions.

1.10. Delimitation and Limitations of Research

The study focuses on fifteen real estate companies that are active on the rest of the African (Sub-Saharan Africa (SSA) and North Africa) continent. In order not to limit any sort of bias, all companies known to the writer to be active on the continent were approached, of which only fifteen responded positively. The limitation that is then set in this regard is to assess a number of countries which they identify where they are active, and seek to understand their perception of maturity and what their level of exposure is in those countries.

As the study intends to show the relationship between investments made and the maturity of property markets, the study has not selected specific countries to investigate. The countries discussed in this dissertation are those where investment activities have taken place as per the exposure of each entity.

1.11. Chapter Summary

This chapter introduced the dissertation by providing a background to the study, and justified why this topic is necessary and how it will contribute to the body of work. It addressed some key methods used for the dissertation through the research objectives and outlined some theory of the study through the hypothesis.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

Foreign Investment into Africa has primarily been driven by commodities; however, as a result of increased interest on the continent and the various collective efforts across industries to stimulate growth, the African economic landscape is among the world's next emerging markets. "Though starting from a low base, Africa is urbanizing at an unprecedented rate. Data from Oxford Economics reveals that the urban population in Africa is projected to grow at least twice as fast as that of any other continent up until 2030. The rapid pace of urbanization, combined with strong economic growth, is expected to create consumer cities" (Ernst & Young, 2014). As a result of urbanization and strong economic growth, new consumer cities are being created. The Ernst & Young (EY) attractiveness survey has predicted that by 2030 these consumer cities will be home to an additional 300 million people, with this trend being observed in larger cities such as Johannesburg, Lagos, Nairobi, Cairo, Kinshasa, Dar es Salaam, and Kampala (Ernst & Young, 2014).

These sentiments have been shared by Isle French, the Real Estate Leader for PwC Africa (2015) in her statement that "As real estate investors around the world are faced with the challenge of finding value and returns at a time when the core property is becoming overpriced in almost all markets, Africa is now of increasing interest" (PricewaterhouseCoopers, 2015). At the 2016 conference of SAPOA, a South African Property association representative in the commercial and industrial property space, many investors discussed African property investing; their view was that the continent offers exciting returns for investors if they do their homework and study each market. There are risks in Africa which are putting some investors off; nonetheless, South African real estate investment trusts (REITS) are looking for strong returns offshore and some opportunities lie outside SA (SA Commercial Property News, 2016). This further highlights the need for South African investors to start assessing new markets where investment opportunities may lie. The market has recognized multiple investors who have gone to the Western economies, and equally so some who have found investment opportunities in Eastern Europe. The African story can, however, not be ignored as some of the countries moving

to the fore as frontier markets and the less developed markets are beginning to emerge.

As African cities are now emerging as the new hotspots of economic and investment activity it is crucial that current and future growth needs are met by the real estate sector along with the demand from other sectors, and that they are also recognized through institutional real estate investment. In order to achieve this, Africa needs to ensure that the desired investment environment is stimulated in the real estate market so as to redirect some of the capital flows into improving and increasing current and future real estate stock on the continent.

This dissertation is based on an assessment of African real estate markets. South Africa is used as a benchmark as it is perceived as a mature real estate market which is analysed through the research findings. South Africa is considered a developing economy which is more advanced than other African countries. Key factors supporting the country's position as the most developed in sub-Saharan Africa and a member of the BRICS countries¹⁶¹ are its well-developed financial, legal, communications and transport sectors, as well as an open trade policy and a comparatively strong domestic market. However, South Africa still faces the triple challenge of poverty, unemployment and income inequality (PricewaterhouseCoopers, 2015).

World Economic Forum classifies South Africa as a safe investment platform for expansion into Africa with its number one ranking in auditing and reporting standards in the world. South Africa has a well-established and reputable business environment and a government that has relatively well-established institutions. The ease of doing business in South Africa is considered good, although there are other countries in Africa that are considered stronger such as Rwanda. The country is also acknowledged for its stable banking system and judiciary. The tax and financial regulatory climate is robust, and the tax regime is progressive. South Africa also introduced a REIT framework in 2013 of which at the time 33716 were REITs were listed(PricewaterhouseCoopers, 2015).

There are various measures that are used by different organisations to measure a country's performance such as Jones Lang Assalle Real Estate Transparency Index, the World Bank's Ease of Doing Business Report, The Ibrahim Report of African Governance and The World Economic Forum Competitiveness Index etc. All these use various indicators/measurements to assess the climate of each country. This would be a similar exercise to assessing the maturity of a country by assessing select criteria. In general the view is the perception is that South Africa is more advanced on various measurements to the other African countries and the research will seek to define this further.

2.2. Maturity of the Real Estate Market and the Real Estate Paradigm

There is a large contribution to the literature regarding the maturity of the property market with respect to both developed and developing economies. Only recently this has been done in an African context, where only a few pieces have been observed for South Africa and more in the last few years on Nigeria and Tanzania. Africa's future growth path includes rising urbanization and a growing consumer class. In line with these trends, FDI data reveals strong inflows into real estate, hospitality and construction (RHC) in 2014 (Ernst & Young, 2014). With the increase in real estate FDI in emerging markets it has become quite clear that the true understanding of real estate market maturity or its influence is insufficiently understood. From an industry perspective this has become ever more important where it can be seen that a number of institutions have become increasingly active in conducting research across the industry in order to provide more information to the market.

“Market Maturity is a term used both frequently and loosely by participants in the property market to describe a stage of development or evolution achieved by a market. The identification and understanding of staged evolution may assist interpretation of current market behavior for property use or investment decisions and assist with the prediction of future likely patterns of activity” (Armitage, 1996).

This section unpacks and highlights the main determinants of maturity of markets, and will aim at assessing this in an African context from the existing literature, which is quite

limited. The literature will further discuss the different and opposing schools of thought that exist as their currently is not a unified understanding of the true definition of maturity of the real estate market with some academics stating that it is more complex than previously presented.

Keogh and D’Arcy (1994) more famously advanced the literature in their cross-country analysis of London, Milan and Barcelona. They studied the conventional notion of property market maturity, assessed its usefulness and worked towards a new paradigm of property market performance, which evolves on the consideration of market maturity over and above conventional economic conditions. They stated, "The property market maturity is contingent upon the state of development of the economy in question. In this context, the property market maturity should be viewed as a subset of the wider evolution of national, regional and urban economies" (Keogh & Darcy, 1994).

Keogh and D’Arcy (1994) also stated that economic determinants of value and yield in use or exchange are determined through a property market forces. How one determines these capital values and yields, in part, is through decision rules of institutional investors or the social value of property as an asset class. Certain aspects of the property market actors and environment may influence these opportunities. Further, as they explain, it is crucial to important to consider the evolution and nature of the property market.

“Keogh and D’Arcy proposed a new paradigm of property market performance, which rests not only on an explicit consideration of market maturity. Market maturity is defined for these purposes as an intrinsically desirable set of market features” (Chin, Dent, & Roberts, 2006). These are stated in Table 1 below:

Table 1: Characteristics of maturity (Source: Keogh & D’Arcy, 1993)

Initial Principle Characteristics	Reviewed Characteristics
<ul style="list-style-type: none"> - Accommodation of a full range of use and investment objectives 	<ul style="list-style-type: none"> - The wider business and financial environment - Investment culture

- Flexible market adjustment in both long and short runs	- Overshooting - Market decision rules
- Existence of a sophisticated property profession with its associated institutions and networks	- Problems of overspecialization - Knowledge base
- Extensive information flows and research activity	- False/limited consensus
- Market openness in spatial, functional and sectoral terms	- Market distortions - Destabilization
- Standardization of property rights and market practices	- Role for local real estate culture

Maturity is usually linked to orthodox concepts; however, Keogh and Darcy (1994) made no judgment about maturity being a desirable outcome, nor did they draw strong links between maturity and efficiency. They also stated that maturity is not simply a matter of the passage of time and the achievement of an end market state, recognizing that some mature faster than others; in addition they determined that conventional understanding of maturity of markets has complexities that limit understanding of maturity and its relationship to property market activity. They suggest that there are elements of a mature market that may carry disadvantages as well as advantages (Keogh & D'Arcy, 1994).

Walker and Flanagan (2001) raised the framework that speaks to market maturity in property, recognizing a number of factors in the Hong Kong market that showed signs of increased maturity. They consequently defined these on a much broader scale as:

- A sophisticated financial structure;
- A high level of institutional investors;
- Regulation of the financial markets; and

- The size of the property market (Walker & Flanagan, 1991).

Chin and Dent's (2005) research involved an analysis of the level of maturity in South-East Asian property markets. They used existing literature to gain an understanding of the criteria for maturity of markets in real estate. They aimed at understanding the nature of the markets, its evolution as well as economic conditions. Using existing literature, they initially noted that there are opportunities and risks of different levels of market maturity, but also stated that there is still no clear definition of maturity nor is there an indication of ways to assess that maturity. They further go on to say that "it is evident from the research, however, that investors still focus their principal analysis of investment opportunities on general economic indicators" (Chin & Dent, 2005).

Chin and Dent (2005) identified two cities, Hong Kong and Singapore, stating that these were considered to be mature in alignment to their initial hunch, and similarly categorized the other three cities investigated. Table below examines variables they used to examine this and their main indicators for determining market maturity:

Table 2: Characteristics of maturity Source: (Chin & Dent, 2005)

Initial Principle Characteristics	Reviewed Characteristics
Economic Fundamentals	Economic Growth
Characteristics of local property markets	User and Investor Opportunities
	Flexibility in investment objects and in capital movements
	Market Openness
The culture of local property market	Role of property market culture
	Quality of property products
Market information	Information availability
	Information standardisation
Professional services	The presence of property intermediaries
	The level of property professional level such as professional institutions
Market stability	The development stability and standardization

Chin, Dent and Roberts (2006) explored the perceptions of market maturity and issues of importance for investment in the South-East Asian property markets. They highlighted that maturity is a key concept in investors' decision making as it takes into account the nature and evolution of the markets, as well as their economic, social and institutional condition. Chin et al. (2006) had observed increased economic growth in Asian cities and despite that, inward investment into property had been slow to take off. The region experienced low international inflows of investment into property caused by a lack of investor confidence, which is primarily due low levels of research activity and poor information flow. The levels of incoming investment had not triggered a high level of demand for research activity and due to the lack of data the markets continued to be perceived as high risk for most investors.

Their study was a qualitative, comparative analysis and investigated attitudes to, and perceptions of, local investors in South-East Asia's property markets across the region. The key determinants used in the study were based on the previous work done by Keogh and D'Arcy (1994), which was also used by Lee (2001) in mature markets. These determinants were:

- market openness
- professionalism
- the presence of property intermediaries
- information availability and standardization
- development stability, market flexibility,
- quality of property products
- user and investor opportunities.

Each market factor was then ranked to determine its level of maturity in the various markets, ranking them in a range from 1 to 5, where 1 represents “very well developed” or “very mature” and 5 represents “very limited development” or “very immature”. Figure 1 displays the summary of their findings in the South-East Asian market and a good reflection of indicators and measurement tool used.

In order to understand the property markets processes and behavior, the market allows for an institutional examination of these and further links the economic analysis of the greater environment as shown in Figure 1 below.

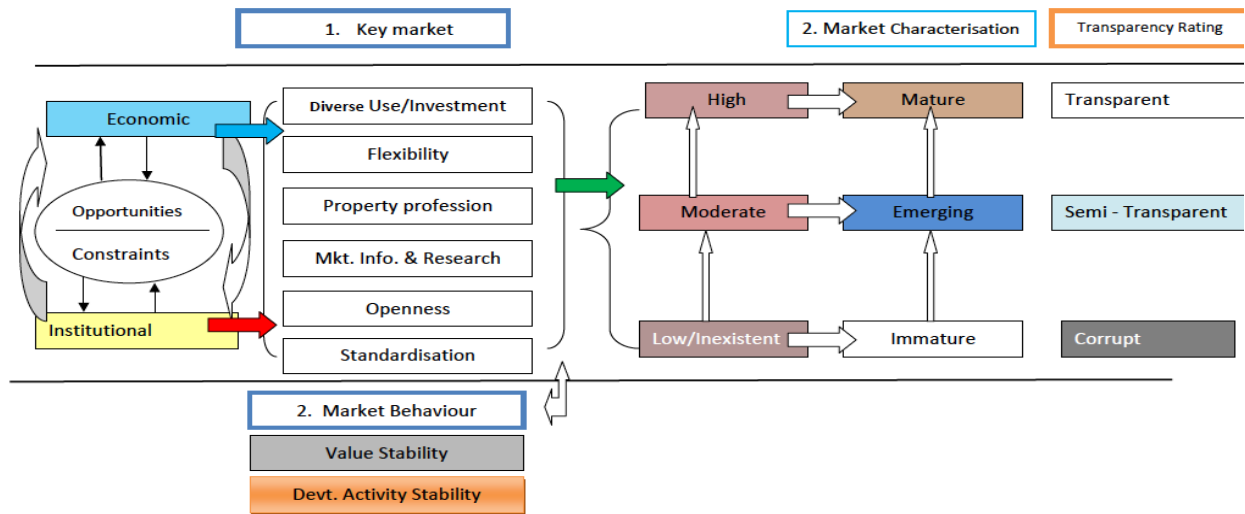


Figure 1: Market maturity and Characterization: Source: Keogh & D’Arcy, 1999

2.3. Maturity and Property Market Efficiency

"Real estate markets may be classified as strong-form efficient, semi-strong-form efficient or weak-form efficient. Efficiency measures the level of development or goal attainment in a complex social and economic system, such as the real estate market. The efficiency of the real estate market is the individual participant's ability to achieve the set goals" (Renigier-Bilzor & Wisbsiewski, 2012, pg 95). In this dissertation they aimed at proving that the effectiveness of the real estate market is based on its effectiveness of its participants.

Keogh and D'Arcy (1999) stated that maturity and efficiency have an impact on market behavior – that due to some unchallengeable characteristics of property and property market process the efficiency tests are inapplicable. To address this, they introduced the concept of bounded efficiency which would be a form representing the best potential market outcome amidst transaction costs, information deficiencies and the other defining characteristics of property. The test for market efficiency therefore relates to the gap between observed outcomes and the bounded efficiency as per Figure 2 below. This approach does, however, place attention on the factors which determine relative efficiency and the ways in which market evolution affects them.

The increase in maturity will affect the limits of bounded efficiency by either increasing or reducing market potential, although most developments in the market should work to make improvements. Keogh and Armitage (1996) (stated that many of the maturity characteristics identified should act to expand the scope of market opportunity and allow it to satisfy a greater range of motives and aspirations. They do state that some aspects of a maturing market may impede efficiency and this may particularly be expected to affect realized market outcomes that might either be restricted in absolute terms or expand more slowly than market potential. They concluded by saying that a maturing market does not necessarily have to be assumed to deliver greater efficiency or allow participants to realize the apparent benefits of increase opportunity (Armitage and Keogh, 1996, as cited in Chin et al., 2006).

Market Maturity and Bounded Efficiency

Source: Armitage and Keogh, 1996

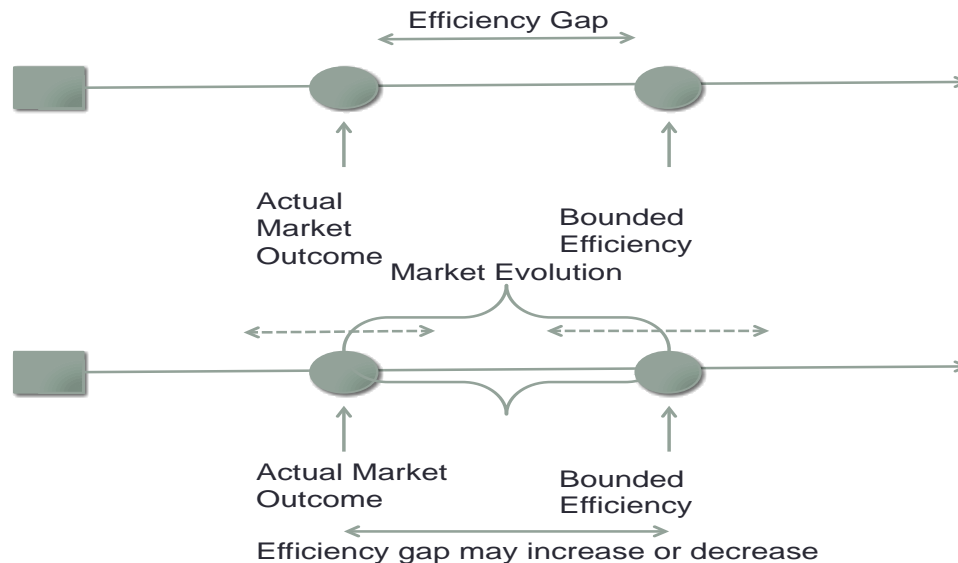


Figure 2: Market maturity and bounded efficiency. (Source: Chin & Dent, 2006, as cited in Armitage & Keogh, 1996)

In the later work of Keogh and D'Arcy (1999), they still maintain that the body of work around property market efficiencies remains poorly developed despite the large amount of literature around it. The institutional perspective was then added as an additional dimension which further goes to state that in terms of the precise characteristics of property itself and processes used and traded, this is changed in by institutions and leads more to an observed level of efficiency. In Although most work focuses on information-processing efficiency, most studies, however, fail to make the link between informational efficiency and the related problems of operational efficiency and allocative efficiency. Where operational efficiency is related to efficiency of market processes, allocative efficiency refers to efficient allocation of resources. When assessed in conjunction with informational efficiency, this assessment speaks to the overall efficiency of the market.

In the literature on property market efficiency the notion of allocative efficiency embodies some elements of both informational and operational efficiency of the market processes as they contribute to the disposition of land and property resources. The literature also states

that property markets are subject to imperfections, implying allocative inefficiency, where Keogh and D'Arcy (1999) stated that this judgment follows from the legal and physical characteristics of property, and the operational features of the market activity. The Pareto efficiency is achieved when allocation of resources are set in the most efficient manner, where one individual's position cannot be improved without the detriment of another. As a result the application of Pareto efficiency focuses on aspects of market failure and the notion of which is that the cost involved in shifting the market towards a more efficient outcome is frequently ignored or downplayed. (Keogh & D'Arcy, 1999).

2.4. Maturity and the Institutional Environment

Eggertsson (1990) suggests that institutions emerge to reduce frictions and uncertainties, collectively viewed as transaction costs. An institutional perspective also offers a deeper understanding of what real property represents and the ways in which it is held, used and traded. This lengthy approach of the real estate market brings with it inferences for the analysis of efficiencies in the property market and provides an opportunity to address some of the deficiencies of traditional approaches. Figure 3 below illustrates a three-level hierarchy for the institutional analysis of property markets. The first level from the top represents the property markets institutional framework defined by political, social, economic and legal rules in a specified society. The next level illustrates the property market as an institution in which a range of characteristics determine its structure, scope and function. The last level is the main organisation, which operates in the property market and the way it has been structured.

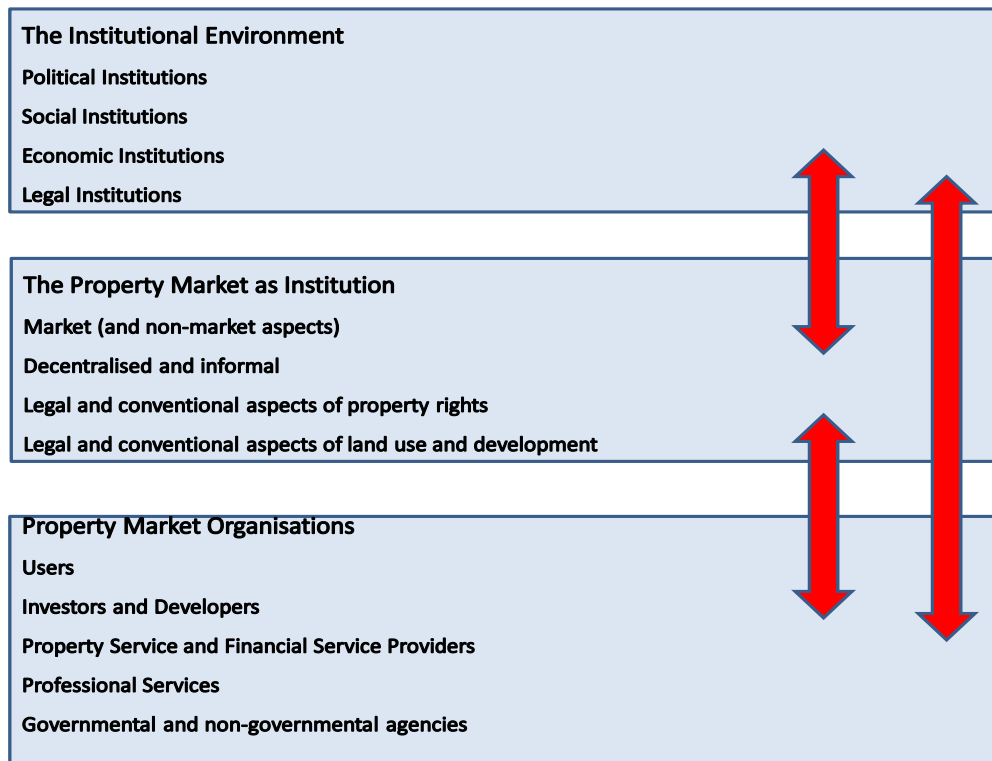


Figure : The Institutional hierarchy of property markets

Figure 3: The institutional hierarchy of property markets. (Source: Keogh & D’Arcy, 1999)

The interaction between the three levels is interdependent through action and development. The broader institutional environment will set the sentiments and expectations of actors in the property market. In turn, the experience of the property market agents may place reliance on, and effect change, in the institutional environment. Keogh et al. write: “Institutions are rules, norms and regulations by which a society can function. They impart certainty and stability to social interaction, but they also change and develop over time as circumstances and experience dictates” (Keogh & D’Arcy, 1999).

2.5. Maturity and Property Market Evolution

Ceteris paribus, a real estate market goes through many imperceptible stages of development. In its most basic form one has people building for own occupation and at the other end of the spectrum there are sophisticated investment and differentiated products. The type and stage of development influences each stage as well as urbanization. Cities typically grow from semirural, through rapid urbanization, to congestion, and then to sub-

urbanization, with people and economic activities dispersing. Depending on each city's defining characteristics, each will evolve in different ways. Two things can be drawn from the picture. First, property markets are at different stages of development where they offer a broad perspective of opportunities at various risk levels. Second, increasing wealth, overwhelming population bases, and shifting lifestyles create markets for goods and services, which include all real estate asset classes.

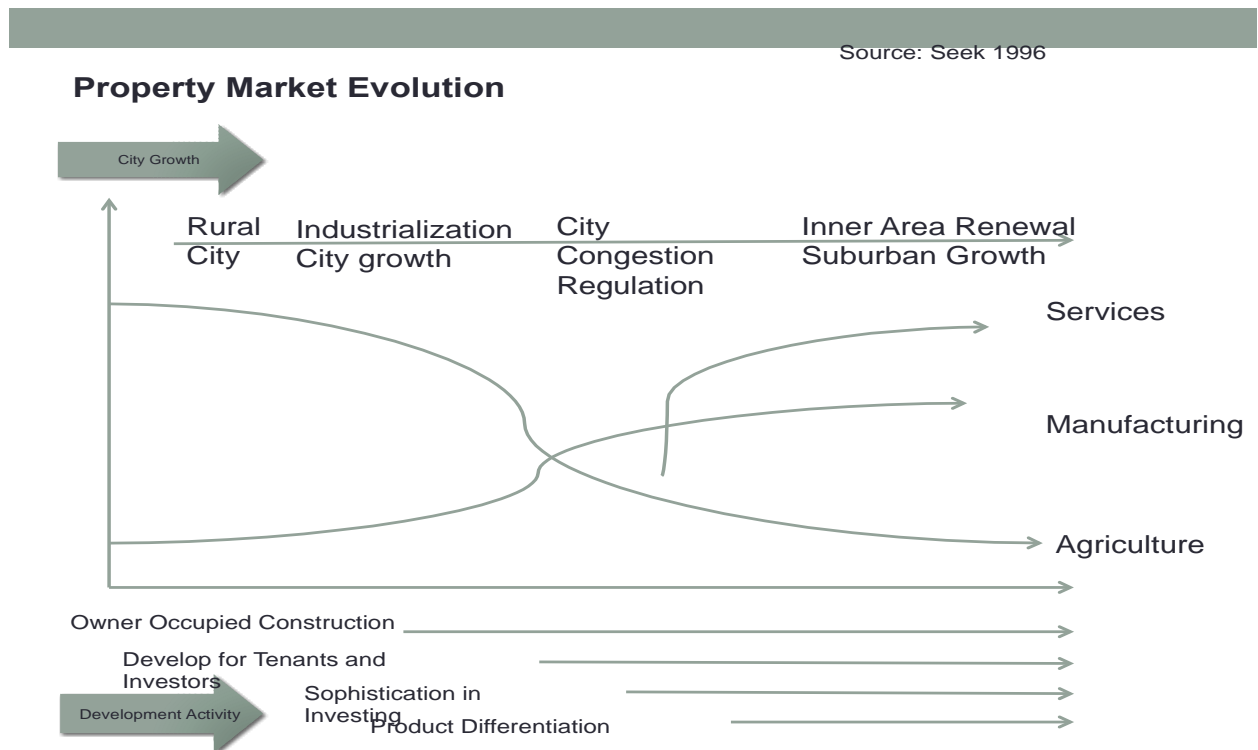


Figure 4: Property market evolution. (Source: Seek, 1996)

Property market evolution can be conceptualized into five different phases:

- Initial phase: just opened up or just discovered by foreign business.
- Overbuilding Phase
- Maturing phase:- characterized by foreign investment controls being liberalized; development of institutional investment firms; rapid transition from manufacturing to service oriented economy; commitment to urban infrastructure; greater market transparency with growth of intermediaries

- Mature phase: slowdown in service-sector growth; dated infrastructure; decentralised suburban office markets; emphasis on planning and environmental controls.
- Post-mature phase:–



Market Development Phases

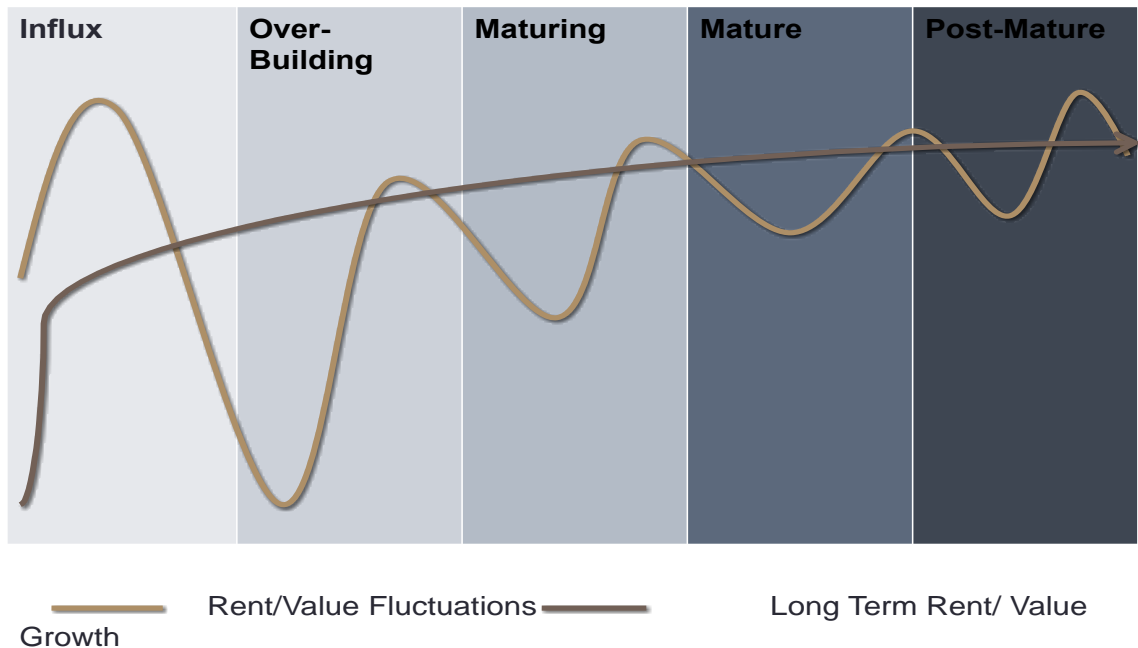


Figure 5: Market development. (Source: Seek, 1996)

The second stage of the research aimed at assessing the influence of institutional frameworks on maturity. Keogh and D’Arcy (1999) suggest that through a comparative analysis of the property market at various points in its maturity, an image can be formed highlighting the impact of their evolving social, political, legal and institutional characteristics. They further determine crucial considerations of the nature and evolution of the market, as well as economic conditions (Chin et al., 2006, pg 52). With this concept further extended through the literature of other writers (Dunning, 1980; Keogh & D’Arcy, 1999; Lee, 2001b), the full parameters extended to include the following and exhibit reflects measurement tool and elements assessed:

- Offers a sophisticated and sound financial structure
- Accommodates a full range of use and investment objectives
- Provides the extensive property information and property intermediaries with high level of property professionals
- Offers a wide range of investment opportunities
- Provides a liberalized financial environment
- Updated and well-developed public infrastructure
- Provides high-quality property products
- Standardization of property rights and market practice
- Flexible market in both the short and the long run
- Stable economic environment
- Stable development environment
- Large pool of skilled workers.

However, they measured only nine characteristics, as some were actually extensions of other listed characteristics. This can be contrast to the initial assessment made of the characteristics of maturity and the different factors influencing them. Over time the definition has begun to expand to look at maturity from a different perspective.

2.6. Maturity and Transparency

In order to give further insight into the influence of transparency on maturity the work of Werner et al. (2006), Transparency in the German Real Estate Market, was reviewed. In this they noted that the term ‘transparency’, although often used, is not an expression that is clearly defined in real estate literature. In the economic sciences, transparency refers to information equivalency. In this study the writers applied a working definition in order to

distinguish between a transparent and an opaque real estate market: the writers state that once participants have a clearer understanding of how mechanisms and variables behind these mechanisms work then there is a certain level of transparency achieved in that market.

Emerging markets are still considered new to a majority of international investors and with that comes a higher level of risk due to limited information with a distinction between the informed and the uninformed investors. Typically the international investor would be less informed about market conditions and processes. This implies that foreign investors who may wish to enter the market will be at a disadvantage. Lee (2001) states that until a particular market achieve some acceptable level of efficiency, foreign investors will invest elsewhere. Consequently Gordon (1999) has argued that foreign investors will require the market to display the following attributes before considering investing:

1. Financial transparency of investment vehicles
2. Independence Governance of shareholder interest
3. Management compensation tied to the performance of the vehicle
4. Transparent market risk

Due to globalization of real estate research companies and the growing demand for real estate data, transparency is, however, on the increase. Despite the emergence of these global firms within the real estate market, research is still fairly difficult to acquire and even where this information knowledge is less severe, special knowledge, interpretation skills, and local contacts are still necessary.

Lee (1999), in an assessment of the Asian South Pacific, compared these countries' market maturity with their transparency levels. Through this he found the perception of institutional investors considering investment into the Asian market is that institutional risk of such markets is such that they are too high, even given the higher expected return and portfolio diversification.

2.7. Maturity and Risk/ Return

Every stage of the evolution of markets illustrates the progression of markets. Understanding the unique characteristics of each development phase, and each market, better equips investors to identify risks and evaluate opportunities. The risk factors can be property-specific, or general business/economic, and are related to:

- The strength and stability of the economy
- Economic growth and prospects
- The stage of economic development
- Political stability and credit worthiness of the country
- Market transparency
- The depth and breadth of the property market, represented by the range and quality of real estate products and degree of institutional participation
- Foreign investment regulations and restrictions
- Laws governing property rights and tenure
- The level of sophistication of financial markets
- Urban form, transportation and definition of CBD.

Lee (2001) highlighted the fact that the market maturity studies can help in figuring out the emergence and maturity of markets. This research also argues that the issue of maturity has important implications for the type of real estate products that might be appropriately offered to a particular market. Market maturity can therefore give a useful indication for performance of property markets. The aim of this dissertation was to assess the risk of investing in the Asian region, which at the time was considered an emerging market (and still is to this date). He noted that potential risk borne through the lack of understanding of emerging markets by foreign investors allowed for them achieving higher returns at the cost of potentially higher market risks. These economies in comparison to North America and some parts of Western Europe are considered to be less mature (Lee, 2001b).

The lack of maturity in some markets may instill some level of risk in the market or some perceived risk borne from foreign investors. Lee (2001) discussed some of the risk that he

found to be crucial to investors. Consequently the risk facing foreign investors can be broken into four categories:

2.7.1. Investment Risk

Investment risk is concerned with the volatility of returns and what is most notable is that the risk and return advantages of international diversification are quite substantial for international investors. This is supported by D'Arcy and Lee (1997, as cited in Lee, 2001b), who show that the risk and return advantages of international diversification is large for investors. Diversification benefits can accrue across regions. International investments do occur into new markets (emerging or developing) and the lack of investment must be related to the addition of risk investors perceive in cross-border investments.

2.7.2. Currency Risk

Although investors may get the benefits of increased returns at lower portfolio risk when they venture into foreign markets, such investors suddenly find them exposed to a relatively new type of risk – currency risk. Movements in foreign exchange rates occur as to achieve an equilibrium position between countries in terms of inflation and interest rate differentials, and as a result create a neutral effect on investment in the long term. Real estate managers, however, focus on returns in local currencies to make country allocation decisions and then let a currency manager decide whether investment should be hedged, what proportion to hedge and how to hedge the currency risk. Consequently, the impact of currency risk on investment decisions should not discourage international investors – although it cannot be ignored as it does impact the overall returns.

2.7.3. Political Risk

Political risk is the unexpected event that raises uncertainty and consequently investment risk and therefore detracts from investment returns, and thus concerns investors. This occurs when host governments make changes in policy that will impact international investors, such as: barriers to capital flows, taxes, exchange controls and outright expropriation. These events are typically followed by shocks to the economy which has an effect on the risk for international investment. Investors typically avoid politically unstable

regions in order to avoid political risk. Solnik (1974, as cited in Lee, 2001b) argues that political risk of foreign investment might dampen the enthusiasm for international diversification, as although the risk is extremely small, the associated potential loss is substantial. However, other writers suggest that political risk analysis is overstated and that political risk need not be a significant deterrent to international investors into emerging real estate markets

2.7.4. Institutional Risk

Lee (2001) found that from surveys with investors the most important factor discouraging overseas investment is unfamiliarity with foreign market structures and conventions and other formal regulatory barriers. Worzala (2003) found that 81% of the European institutional investors saw lack of local market expertise as the major problem affecting international investing. Other factors sighted include: different cultural and legal structures and difficulties in identifying and managing real estate in foreign markets, all of which are closely linked to perceived limited local market knowledge. Consequently, the most substantial barrier to international investment in real estate sector is institutional complexity and the variation in market conduct.

Guerts and Jaffe (1996 as cited in Lee, 2001b) suggest that this "institutional risk" should be an area of concern when considering investing into international markets. There is also evidence supporting the notional that local players would perform better and that lower returns would reflect higher information cost faced by foreign investors causing them to overpay or be unable to identify underpriced assets. Thus, if investors can become more informed of the institutional structures and business practices for overseas markets they are more likely to invest in those markets. Factors most crucial to institutional risk being: market maturity, size and liquidity, regulation and information.

2.8. Foreign Direct Investment

Capital Flows are a significant driver for growth in emerging markets and are typically broken down into two principal categories: Foreign Portfolio Investment (FPI) and Foreign Direct Investments (FDI).

The emergence of new markets in Europe, the Middle East and Africa (EMEA), Latin America and Asia has provided a new opportunity for investments. These markets have shown high volatility and simultaneously high returns. This trend of an inflow of FDI into emerging economies and in particular Africa has increased rapidly from the early 90s and has become the largest component of their net capital flows. In the 90s this increase was mainly centered on large mergers and acquisition transaction, in reaction to the large privatization of state-owned assets in a number of Latin American and European countries.

As this dissertation focuses on the relationship between FDI and the maturity of real estate markets, it is important to understand that the aspect of FDI flows on which the study focuses, is Real Estate FDI flows. Although it would be interesting to further investigate the impact that the maturity of real estate market has on FDI flows in general, this study merely assesses the impact that maturity has on Real Estate FDI flows. This does, however, present an opportunity for further studies to assess whether the level of maturity of the real estate market does have an effect on FDI flows in general, i.e. attracts foreign capital flows across a spectrum of industries, has an impact on economic growth in the country, or may require regulation from policy makers so as to protect local investors from hot flows.

Denisia (1998) attempted to identify the main trends of FDI theory and highlight how these theories were developed. The study revealed, through assessment of existing literature, that there is no unified theoretical explanation and seems quite unlikely that a unified theory will emerge. Certain theories examined, although dealing with FDI in general, are quite relevant to this dissertation particularly were the determinants of FDI are highlighted. Denisia highlights that when multinational corporations enter different foreign markets it is market failures that attract FDI and give them the advantage in those markets. Foreign investors consider their superior technology and knowledge will give them the opportunity to obtain greater market share(Denisia, 1998).

The literature is certainly not consistent with any single theory relating to the determinants of FDI, and multiple ones having been proposed. The one theory that can be agreed upon is, however, that of Kindlebergers (1969, as cited in Denisia, 1998, pg 55), that in a world characterized by perfect competition FDI would no longer exist. His theory goes further to state that there must be a distortion that determines the realization of FDI, and Hymer (Hymer (1960), 1985, as cited in Dunning & Rugman, 1985). was the first who noticed this. He believed that local firms will always be better informed about local economic environments, and for FDI to take place, two conditions are must be satisfied:

- foreign firms must possess certain advantages that allow them that such an investment is viable; and
- the market of these benefits has to be imperfect (as cited in Denisia, 1998, pg 55).

Many of the earlier theories surrounding determinants of FDI have been criticized in the subsequent literature as fundamental requirements were disregarded. According to the theory for key drivers of FDI, as long as there are no risk or barriers in the way of capital movements, the capital will go from countries with low interest rates to countries with high interest rates (Denisia, 1998). “Today it is widely recognized that the theory of FDI (i.e., international production) is primarily about the transfer of nonfinancial and ownership specific intangible assets by the multi-national corporation (MNC), which needs to appropriate and control the rate of its internalized advantages” (Dunning & Rugman, 1985). In their paper Dunning and Rugman (1985) acknowledge Hymer’s (Hymer (1960), 1985, as cited in Dunning & Rugman, 1985). contribution to the theory of FDI and then move on to reinterpret his dissertation in light of the modern theory of MNC.

The internalization theory explains the growth of transnational companies and their motivations for achieving FDI. In Denisia’s literature review (1998) it was noted that Hymer identified two major determinants of FDI: one was the removal of competition and the other was the advantages , in a particular activity which some firms possess. Denisia is the author of the concept of firm-specific advantages and demonstrating that FDI takes

place only if benefits of exploiting firm specific advantages outweigh the relative cost of the operations abroad with the Multinational Enterprise appearing due to the market imperfections that led to a divergence from perfect competition in the final product market (Denisia, 1998).

Unlike previous theories assuming a frictionless economy, Hymer's (Hymer (1960), 1985, as cited in Dunning & Rugman, 1985). theory acknowledged that that the MNC is a creature of market imperfections. It has the ability to exploit an advantage by using its international operations to separate markets and remove competition. Crucial to this is the control of its assets transferred abroad, which is required by the MNC in order to minimize and to achieve monopolistic power. Although making reference to structural imperfections the theory does lack the distinction between structural and transaction cost market imperfections made by Dunning (1980), where Hymer's (analysis is to enhance the asset power of the MNE to include scale economies, distribution networks, product diversification, and credit advantages and ignores costs which are assumed to be exogenous to the MNC. The MNC then responds to the transactions costs by creating an internal market and once internalization occurs, the MNC experiences an ownership advantage which appears to be similar in its main asset power advantages (e.g. scale economies, credit advantage, etc.). Hymer (Hymer (1960), 1985, as cited in Dunning & Rugman, 1985). also suggested other ways, which incorporate internalization such as efficiency and strategic management. Hymer's (Hymer (1960), 1985, as cited in Dunning & Rugman, 1985). treatment of vertical integration and the advantages is available to an MNE with the greater degree of freedom across nations. Yet as an offset, the MNE faces environmental uncertainty as foreign governments can change the political, cultural, and social factors which determine economic efficiency (Hymer (1960), 1985, as cited in Dunning & Rugman, 1985).

The theory of exchange rates on imperfect capital markets is yet another theory that tried to explain FDI as it was initially analyzed from the perspective of international trade. In the only empirical analysis made at the time Cushman, as cited from Denisia (1998) analyzed the influence of uncertainty as a factor of FDI showing that real exchange rate

increase stimulated FDI made by USD, while a foreign currency appreciation has reduced American FDI (Denisia, 1998).

2.9. Determinants of FDI in Emerging and Transition Economies

The literature on FDI in general has placed impetus on the determinants of FDI and although the largest contribution to FDI can be found in this category, there are conflicting theories on the subject. The relevance of this subject to this dissertation is to provide linkages between the underlying factors of FDI flows in emerging and transition economies, with a specific outlook on Africa, and the varying degrees of market maturity, specifically real estate market maturity. This is quite significant, as it will provide the basis of investigating investment decisions made by South African real estate companies on the rest of the continent and the maturity of the real estate market.

The list of the determinants of FDI is long and vague and tends to change over time, but the literature suggests that these factors are divided into three categories:

- The cost related factors such as availability of the labour and or the low wage rate
- Investment environment improving factors such as foreign debt or balance of payments
- Market factors such as the size and growth of the GDP of the host country (Rehman, Arshad, Rehman, & Ilyas, n.d.)

Rehman et al. (n.d.) study focused on FDI determinants that are responsible for the meager FDI inflow to Pakistan by testing how important political stability and energy availability is in attracting FDI. As a result, their study focused on limited factors having disregarded the rest. It was found that the stability rather than the democracy was found more important in the choice of the investment decisions so the investor was less than concerned about the nature of government and more about stability (Rehman et al., n.d.).

Having used 71 developing countries, Asiedu (as cited in Onyeiwu & Shrestha, 2004, pg 94) explored whether the factors that influence FDI in developing countries also influence

FDI flows to SSA countries. In this she concluded that some variables, such as rate of return and infrastructure that are significant for FDI flows to developing countries do not seem to be important to FDI flows in SSA. This was, however, written in early 2002 were many of the countries in Africa could be classified as largely undeveloped. Today many of these have evolved to varying degrees from frontier economies to transition economies. As a result, we take into account determining factors of FDI in emerging economies to apply to African countries in general (Onyeiwu & Shrestha, 2004).

Onyeiwu and Shrestha (2004) having observed disappointing and uneven, made use of fixed and random effects models to explore whether the stylized determinants of FDI affect FDI flows into Africa. With data from 29 African countries over the period 1975 to 1999, they identified the following significant factors for FDI flows to Africa: economic growth, inflation, openness of the economy, international reserves, and natural resources availability, and with less importance placed on political rights and infrastructure. In this literature they pointed out that the significance of a variable for FDI flows to Africa was found to be dependent on whether country- and time-specific effects are fixed or stochastic (Onyeiwu & Shrestha, 2004).

Onyeiwu and Shrestha presented a theoretical discussion on FDI with the following macroeconomic variables as explanatory variables in their empirical model:

- **GDP Growth Rate:** A positive relationship exists between growth rate and FDI. Both a large domestic market and high economic are needed to attract foreign investment (Ramirez, 2000, as cited by Onyeiwu & Shrestha, 2004, pg 95).
- **Inflation Rate:** Inflation increases the rate of user cost of capital thus eroding of FDI profitability. High rates of inflation resonates with irresponsible fiscal and monetary policy and may reflect poor host country economic condition which typically discourages FDI inflow (Obsfeld, 1986, as cited by Onyeiwu & Shrestha, 2004, pg 95).
- **Real Interest Rate:** High interest rates may proxy for some type of risk in an economy, and has the effect of increasing flow of FDI in the region. A low interest rate, particularly in the context of political risk and instability, has the effect of reducing the flow of FDI (Obsfeld, 1986, as cited by Onyeiwu & Shrestha, 2004, pg 95).

- **Openness of the Economy:** Countries with capital controls and restrictive trade policies discourage the inflow of FDI and with the ease of moving capital in and out of an economy important, a positive relationship between FDI flows and openness observed (Morriset, 2000 as cited by Onyeiwu & Shrestha, 2004).
- **International Reserves:** Confidence by investors is shown in economies with large international reserves with a positive relationship existing between FDI and international reserves(Onyeiwu & Shrestha, 2004).
- **External Debt:** Debt may be as a result of inappropriate macroeconomic policies which discourage foreign investment. An increase in a countries debt/GDP ratio will reduce the flow of FDI to the country, and vice versa (Chakrabarti, 2001 as cited by Onyeiwu & Shrestha, 2004).
- **Taxes:** A country's tax laws affects its ability to attract FDI flow, with inconsistent and poorly implemented tax laws portraying an unfriendly business environment (Onyeiwu & Shrestha, 2004).
- **Political Rights:** Political factors do have an influence on the level of FDI attracted. Ischneider and Frev (as cited by Onyeiwu & Shrestha, 2004) discuss that democratic and politically stable economies are known to attract more FDI than despotic and unstable countries. Where Ngowi (as cited by Onyeiwu & Shrestha, 2004) argues that most African countries receive little FDI as they are regarded as high risk and characterized by a lack of political and institutional stability and predictability. Of course, there are other research authors such Rehman et al., who found that it is political stability and not the type of political framework which is important.
- **Infrastructure:** Countries with good infrastructure are anticipated to attract more FDI. Foreign investors prefer economies with well-developed network of roads, airports, water supply, uninterrupted power supply etc. (Morisset, 2000 as cited in Onyeiwu & Shrestha, 2004).
- **Natural Resource Availability:** Investors will locate foreign operations abroad to secure a more stable or cheaper supply of inputs. Morrisset shows that most FDI in Africa are concentrated in countries that have abundant natural resources, particularly oil (Onyeiwu & Shrestha, 2004).

“In exploring the determinants of FDI in Africa, stylized macro- economic variables such as economic growth, inflation, openness of the economy, international reserves, and natural

resource availability were found to be significant for FDI flows to Africa. This is regardless of whether the impact of country- and time-specific effects on FDI is fixed or stochastic” (Onyeiwu & Shrestha, 2004).

2.10. Real Estate FDI

The paper aims at understanding the relationship between real estate FDI flows and real estate market maturity. As a result, it is crucial to understand the determinants of real estate FDI and find linkages to factors impacting the maturity of markets. This section revisited the fundamental determinants of real estate FDI by first understanding the earlier work done on FDI in general such as the work surrounding international investment theory and the eclectic theory as a means of measuring the most significant determinants of FDI.

There is a substantial amount of literature surrounding Foreign Direct Investment as a subject matter where studies on FDI in general have been conducted and have delved into the different sectors, regions, determinants and effects of FDI, etc. The literature on Real Estate FDI on the other hand was quite limited in the mid-80s and the last two decades has seen a lot more work being done on it. It must, however, be noted that the body of work on real estate FDI is linked on the findings of FDI in general and then further extended to include real estate.

Anop (2008) highlighted theoretical and empirical findings about determinants about FDI in real estate in developed European countries. Her paper analyses existing literature on the subject however attempts to apply attention to real estate investments, and then focuses on the relevant significance of the factors that may attract FDI in real estate via a panel of regression analysis for a representative. Similar to previous literature, she identified market size of the host country to be quite significant. Host countries with a with larger market size, faster economic growth and higher degree of economic development will provide more and better opportunities for these industries to exploit ownership advantages. Other factors also identified included. The level of human capital is an important determinant of the marginal productivity of capital. Lastly, she identified the role of infrastructure on the level of FDI with a specific focus on road development (Anop, 2008).

Although the paper does state it attempts to forge the link between FDI and real estate FDI, it skirts the general terms of FDI with truly identifying significant points which may make real estate more distinct.

As with many other papers on real estate FDI, the fundamental forces underpinning FDI are applicable to real estate FDIs. The writer that attempts to distinguish between the two would have first to recognize the macroeconomic factors that all investments are subject to, and further go to the granular details of the asset being invested into and apply fundamentals applicable to that asset. These factors could be broadly categorized as operational factors, such as in the case of real estate transactions one would assess the property fundamentals and market forces specific to the area and to the type/quality of asset.

2.11. Conclusion

Chapter 2 of this dissertation assessed the various elements crucial to understanding the subject matter of maturity of real estate markets and foreign direct investments. It began by outlining the importance of the subject, assessing shifts in the market that brings justification to why South African real estate investors would look to the rest of the continent for investment opportunities.

Characteristics of maturity were better outlined and assessed various items of literature over the last three decades that focused on the subject matter. Further to this maturity of real estate market and the real estate paradigm can be viewed in a multiplicity of concepts including the property market evolution, the role played by institutions in the property market and relationship between risk and maturity. The section subsequently assessed the determinants of FDI in general and attempted to understand the real estate FDI.

CHAPTER 3: RESEARCH METHODOLOGIES

3.1. Introduction

.This chapter outlines the research approach, research procedure, data requirements and collection, and method of data analysis. This dissertation seeks further to expand on the existing literature by assessing the relationship between the maturity of real estate markets and FDI. Although the research seeks to expand this body of work, the research approach is influenced by the existing literature.

The data collected constitutes a small sample as there are a limited number of South African real estate practitioners active on the rest of the Sub-Saharan continent, and further having access to all participants proved difficult. The research methodology is a qualitative approach with a detailed literature review and the data was gathered primarily by interviews of (1) South African real estate investors with exposure on the continent, and (2) relevant real estate practitioners practicing on the rest of the continent. The primary research method through questionnaires is further supplemented by research done by various institutes such as Knight Frank, and Broll. Information regarding FDI from other sources such as African Economic Outlook report was obtained. It measures FDI flows in Africa to give a broader understanding of which countries typically attract FDI and to what extent. Although the dissertation seeks to assess the relationship between the maturity of real estate markets and FDI, it fundamentally looks at real estate FDI from the perspective of South African real estate investors with current exposure on the African continent and the investment decisions they make.

3.2. Restatement of the Research Questions

In order to set out an appropriate research plan it is important to restate and set out the research questions:

- i. What are the determining factors of maturity of the real estate market?
- ii. To what extent do the various African real estate markets exhibit maturity and further does this correlate to the various asset classes?

- iii. Do South African real estate investors follow traditional investment methodologies when investing in real estate on the African continent?
- iv. Does maturity of the real estate market influence the investment decisions of South African real estate companies?
- v. Does a relationship exist between the maturity of a market and investment activity?

The research questions provide guidance to the research methodology by invoking key questions as outlined from Question one to five through the research collection process. Key principles relating to the first research question mostly researched through the literature review in order to better understand determining factors of maturity of real estate markets. Subsequently it was used in line with existing literature to define the maturity of real estate markets and to test with participants their perception of the maturity of various real estate markets, and used these key parameters outlined in the determining factors which speak to the first two questions. Key fundamental principles relating to question three were researched through the literature review in which the research seeks to outline key indicators to the determinants of FDI, this question was used to understand primarily understand FDI and its determining factors, and to further assess investment activities of South African real estate investors through this framework which gave guidance to the questions asked in the research questionnaire. Questions 4 and 5 seek to find a relationship to the various findings through the literature review and data analysis, draw conclusions on the nature of the relationship between FDI and maturity of real estate markets.

3.3. Research Approach

The nature of this research dissertation is based on the results of interviews, as each investor or practitioner has different mandates and or strategies which could be driven by risk appetite and their experiences with the different markets. The relationship between the maturity of real estate markets and investment activities is influenced by a number of factors. As a result, the research is qualitative in nature and should the opportunity arise to

further expand on this dissertation, a quantitative approach may be required by subsequent literature.

The methodology that one chooses is dependent on the data to be collected and presented as well as questions that need to be posed. Leedy and Ormod (2005) explain that qualitative research is often used to answer questions about the complex nature of occurrences, from the participant's point of view. This work is often exploratory in nature, and observations may be used to build theory from the ground up. Napoles (2011) states that by using qualitative method the researcher may get more in depth answers to their questions and it is possible that certain data will be available to them (as cited in Katabua, 2014).

Further to this, the reviewed literature on property market (such as the work of Keogh and D'Arcy (1994)) recommends an institutional-driven shift towards an increasingly qualitative approach. Methods such as grounded theory, field surveys, and interviews are mostly used by authors studying property markets in consonance with increasing impetus for an increasing institutional focus to understand the forces that underlie any given markets' form and structure hence behavior (Kievani, et al., 2000 cited in Dugeri, 2011).

On the specific subject of property market maturity the initial work of Keogh and D'Arcy (1994) related extensively on qualitative approaches through interviews of market participants. A checklist of maturity characteristics was established and used as a framework for assessing the maturity of three case study office markets. Similarly, for this research we provided a checklist for maturity and this was used through the interviews with investors and practitioners who benchmarked their own perceptions of maturity against South Africa. The maturity of real estate markets in Africa has received little attention in research literature. The existing literature in Tanzania focuses on the foundation stage in the development of real estate markets, with discussion skirting land titles and registration systems outlined. Tezrungwe Dugeri (2011) conducted a study which was set to measure the perception of market participants on the level of maturity in the property market and the constraints that may exist within it. The writer adopted both a qualitative and quantitative approach and used a field survey with structured

questionnaires.

Rothacher (2013) expanded on the body of work with literature that focused on a comparison between the maturity real estate markets of South Africa and Tanzania. The methodological emphasis of Rothacher's work is placed on research of contemporary literature and an empirical survey. Existing literature in Tanzania focuses on the foundation stage of the property markets where the individual markets are assessed on the basis of market maturity features such as transparency, connectivity with international capital markets, commercial building offer, domestic and international corporate base.

The second stage of the process, largely neglected at the time, focused on the development of investment markets that are in competition to attract capital on the continent. To some extent elements of Rothacher's (2013) research can contextualize the ability for different markets to attract research which is a concept researched in this research paper however looking at FDI specifically. This work used available indicators in Tanzania and South Africa to compare and contrast their performance within Sub-Saharan Africa. Rothacher outlined that existing empirical real estate research gives no indications about the maturity levels of Tanzanian and South African real estate markets and that an objective evaluation of theoretical information received from available publications from various real estate institutions could only be cross referenced with empirical information thus the writer used a self-conducted survey as the primary research tool.

3.4. Research Procedure

This section describes the procedures used to perform the research. It is compiled in phases that are stipulated below.

3.4.1. Phase 1 – Literature Review

A literature review was compiled of all the literature with specific emphasis on the maturity of real estate markets and assessment of the second part to this dissertation regarding

determinants of foreign direct investment. Second to this the research seeks to understand the concept of maturity and its relationship with current industry practices and research methods. Further, the understanding of FDI was also then researched in the context of emerging markets and real estate FDI fundamentals.

3.4.2 Phase 2 - Research Instrument

The primary research instrument is a questionnaire, which was followed by general discussions with the participants. Given the various geographic locations people operate in and time constraints, the questionnaire was either self-administered or sent via email, and in both instances would be followed up with a general discussion in which relevant thoughts would be noted on the questionnaire, where necessary to note those comments in this dissertation it will be done and motivated.

3.4.2.1 The Maturity of the Property Market

Qualitative Data: It will be essential to primarily understand the various concepts that go into understanding the measurement of maturity in this regard. Research is done in which existing literature is established through the literature review to outline the characteristics of maturity which would be used as the measurement factors of maturity on a country by country analysis. Consequent to this the first major data analysis function will be to conduct interviews with those industry experts that are active on the continent in this capacity. Industry experts who participated in this study were open to sharing their information regarding the countries which they are active in and the level of exposure they have on the continent. These companies will be assessed further in the following chapter.

3.4.2.2 Foreign Direct Investment

In order to gain a more refined understanding of the subject, preliminary research is conducted prior to further establishing interviews with industry experts on the field. For the purpose of this dissertation as it includes a component of FDI in Africa, the research first took a high level assessment of FDI flows on the continent which in analysing can draw distinctions to the level of FDI attracted over a set period. The research then aims to

understand the level of FDI exposure that the South African real estate investors have on the continent. The findings of this, of which data was collected from a questionnaire, will be further assessed in the following chapter.

3.4.3 Phase 3– Research Design

There are multiplicities of factors that need to be understood when trying to determine key elements of the questionnaire to be employed to acquire relevant information. There are a number of considerations including sample size, length and complexity of the survey (Aaker, Kumar, & Day, 2001).

This study was set to measure (1) the perceptions of market participants on the level of maturity in the various real estate markets they have exposure and experience to; (2) the investment criteria used by South African Investors who have exposure in African real estate; (3) assess relationship between maturity of real estate investment made. Subsequently this writer will establish some of the key issues raised from these interviews to establish a reliable framework for what is considered to define maturity in the market.

The questionnaire was structured in order to warrant that all the required information needed in order to answer the research question is drawn out, as the majority of the information will be acquired from the responses to the questionnaire. The survey was collected through interviews and where this could not be done in person the questionnaire was sent through via email.

The questionnaire is broken down into three sections: Section 1 represents general questions asked and is meant for all participants in order to establish which segment of the market they form part of; section 2 is for all participants and aims to establish investor perceptions on the level of maturity of some of the countries they have exposure to; section 3 is only for investors/developers who have direct exposure into African real estate through committed investments made and establishes if there is some influence maturity has on Investments decisions made. Additional long questions may be asked in order to provide

more contexts to some of the critical issues, which will be outlined further in the data findings.

As maturity or real estate markets forms the core of this dissertation it is important to further elaborate on the method used in order to ascertain participants' perception of maturity of the various real estate markets in which they participate...

For the core of the questionnaire respondents were first given a list of countries believed to have significant market activity and requested that they rank each country's overall level of maturity. Further to this participant were asked to evaluate different element of the markets they indicated they have exposure to. These questions were developed out of Keogh and D'Arcy (1994), which examined the maturity level of London, Milan and Barcelona. Following the work done by Lee (2001) and Chin and Dent (2005) also included was: the quality of the property product, market information standardization and availability, and the presence of property intermediaries.

As to provide a more concise understanding of the similarities and differences between countries, each characteristic was assessed on a scale of 1 to 5, where 5 meant, "Mature" and 1 meant "very immature". The characteristics are stated below and follow the definitions provided for in Chin and Dents (2005) as follows:

- *Market Openness* is measured on different factors: spatial, functional and sectoral, but essentially an open market should become as open as a local market for national and international participants (Keogh et al., 1994)
- *Property professional level* relates to perceptions of the level and quality of market information, transaction data and development activity (Armitage, 1996). This is in terms of property professionalism being at a high level. This relates to, the quality of service and analysis will be sound and balanced. In such circumstances, client would expect more detail and depth of analysis of industry (Chin & Dent, 2005)
- *The presence of property intermediaries* indicates and is related to the level of a sophisticated market. The indicator is related to the level of maturity with regards

- to the brokering of property through intermediaries from financial accounting and or specialized property sector functions (Chin & Dent, 2005)
- *User and investor opportunities* is with regard to the level of market openness in general and refers to the ability of both local and international players to participate in the market (Armitag, 1996)
 - *Realistic market values and market stability* assesses if the market value should replicate conditions of demand/supply at stage. Investors and developers should therefore be able to predict undersupply or oversupply situations (Chin & Dent, 2005)
 - *Property Investment flexibility* is one of the principal characteristics of the mature market is being able to adjust itself in both the short term and long term (Keogh et al., 1994). In other words, a mature market exhibits a fluid relationship between different actors and sectors. In addition, a mature market should also offer a high level of capital liquidity.
 - *Market information* aspects relates to a market offering extensive information flows (including information standardization, availability and quality) which will enable high level of research activities (Keogh, 1994; Armitage, 1996).
 - *Development stability* relates to how development projects rely on finance; therefore, the level of development stability will depend on the level of stability in a country's financial systems. A mature market should offer a sound environment in order to maintain the stability of the development process (Keogh et al., 1995; Armitage, 1996). This will include factors such as the legal framework of the country, the level of infrastructure available to allow one to complete such projects and the level of labor skills.

Each market factor was defined and presented in the interview to the interviewee and were required to provide their perception on the level of maturity on each of these factors to the countries they are active in. Each factor was then marked on a level of 1 to 5, with 1 being very immature and 5 being mature. This is what will be used as the measurement indicators for ranking countries on the level of their maturity.

3.5. Data Requirement and Collection

To achieve the dissertations objectives, it was necessary to obtain two forms of data. The primary data for the researcher was sourced through a questionnaire based survey through personal interviews, email requests, or telephonic interviews.

The questionnaire was completed by the following:

Table 3: Research questionnaire participant details

Organisation	Sector	Listed	Geographical Foot Print	Direct Investment Exposure
RMB Westport	Real Estate Development	No	Nigeria	Yes
			Ghana	
	Real Estate Fund		Angola	
	Ivory Coast			
	Zambia			
Attacq Limited	Real Estate Development	Yes	Ghana	Yes
	Real Estate Fund		Zambia	
			Nigeria	
International Housing Solutions	Real Estate Development	No	Botswana	Yes
	Real Estate Fund		Namibia	
			Zambia	
Jones Lang Lasselie	General (Real Estate Advisory Services)	No	Nigeria	No
			Kenya	
Buna Group	Real Estate Development	No	Zambia	Yes
	Real Estate Fund			
	Development Services			

	General (Real Estate Advisory Services)		Swaziland	
Stanlib Africa Direct Property Development Fund	Real Estate Fund	No	Nigeria	Yes
			Ghana	
			Uganda	
			Kenya	
			Tanzania	
Barclays Africa	Financial Services	Yes	Kenya	No
			Zambia	
			Tanzania	
			Botswana	
			Mauritius	
JHI Properties	Real Estate Development	No	Zambia	No
	Real Estate Fund		Zimbabwe	
	Property Management Services		Ghana	
			Kenya	
Africa Property Limited (Herriot Properties)	Real Estate Development	No	Zambia	Yes
			Democratic Republic of Congo	
Resilient Africa	Real Estate Development	No	Nigeria	Yes
	Real Estate Fund			
Broll	Property Management Services	No	Nigeria	No
			Ghana	
			Kenya	
			Mauritius	
			Namibia	

Terrace Africa	Real Estate Development	No	Mozambique	Yes
	Real Estate Fund Development Services		Zambia	
	Property Management Services		Zimbabwe	
Barclays Africa	Financial Services	Yes	Kenya	No
			Mauritius	
			Botswana	
			Ghana	
			Tanzania	
GWI Project Managers	Development Services	No	Nigeria	No
			Kenya	
			Botswana	
Independent (Graham Kusano)	Financial Services	No	Botswana	No
			Zambia	
			Ghana	

The research questionnaire interview was conducted with 15 participants from different organisations. These included employees of entities and practitioners participating independently who are active in real estate on the rest of the continent. Prior to the questionnaire being finalized, and for the purpose of assessing to what extent various African real estate markets exhibit different levels of maturity, ten countries were identified to provide insight into this general view, prior to introducing the key measurement indicators of maturity of real estate markets. Further to this, and as illustrated in the table above, eight additional countries where participants have experience or exposure were incorporated into the research.

The second form of data comprised published statistical data and relevant literature. The basic data which was obtained from the sample skirted issues around (1) maturity of

markets (2) factors influencing foreign investment and (3) influence of maturity on investment.

3.6. Description of Population and Sample

The research population was real estate practitioners and the assessment of the population was divided in two:

1. In order to assess the perceptions concerning maturity of the various African real estate market markets, practitioners with experience in these markets across all specialisations will be interviewed based on availability.
2. In order to assess the investment activities and the key drivers behind investment decisions made in the various African real estate markets only those with exposure on the continent will be interviewed based on availability.

Leedy and Ormod (2005) highlight that qualitative research typically selects a few practitioners who can best articulate the subject, as opposed to sampling a large population at the risk of generalizing. Qualitative research is intentionally non-random in the selection of data sources. Individuals or objects that will yield the most information about the topic under investigation are selected (Leedy & Ormod, 2005 as cited in Katabua, 2014).

Respondents were key individuals within each organization who headed up specific projects, published market research or were key to strategic investment decisions made within the organization. There were 14 responses to the survey of which 1 was pilot interviews. The pilot interviews were from Broll and have been incorporated although some questions were further refined to capture further information between the different asset classes with the real estate market i.e. Residential; Industrial, Retail, and Office.

The sample size can be considered small; however, context has to be given to the level of participants that are active in the African Real estate market outside of South Africa. It can be noted that there are key players in the industry who are easily identifiable and whom access to can be obtained. There are three entities who are noted as key players who were not included in the sample and that is primarily based on access to these entities, and that

is Rock Castle and Actis. The other limitation to the sample size was the framework of the study.

3.7. Ethical Concerns

The research proposal was presented to the Faculty of Commerce at the University of Cape Town for ethics clearance and has adhered to the requirements of the approval granted. The integrity of this dissertation has been preserved and the methodology used falls within the body of literature that has already been published and key fundamentals adopted unless otherwise stipulated and justified. The data collection was primarily done as a pilot with two main interviews being conducted in order to have a better understanding of the subject matter and find areas which are deemed as material and should be incorporated from Industry participants. Thereafter after the research questionnaire was approved by the supervisor for this dissertation and the Faculty of Commerce, the interview process was rolled out with consent granted by all the subsequent participants. The participants are all active in various regions across the African continent and regarded as key investors and practitioners on the continent therefore preserving the integrity of the data collected.

3.8. Limitations

The research focuses primarily on the maturity of real estate markets and aims to assess the relationship of this factor to the investment decisions made by investors. The aim was to understand the maturity of real estate markets and interviews were conducted with both real estate practitioners and investors. The limitation is that this primarily focuses on South African practitioners and with limited data on maturity of real estate markets as it relates to Africa, the information provided was mainly perception-driven by each participant; this is based on their knowledge and experience with each country they have had dealings with. Given the limited sample and the broad nature of the research, participants were active across various geographic locations and consequently not a lot of data was collected on specific countries. This does not impinge on the intention of this research as it aims to understand the relationship of maturity of the real estate market in general and not as an exercise in collecting data on specific countries.

3.9. Chapter Summary

This chapter restated the research questions in order to give guidance to the research methodology that is to be adopted. It further outlined the research approach, providing context to the qualitative approach that has been used. The research procedure was categorized into three phases: Literature Review, which gave guidance to the methodology used; Research Tool, which described the need for an in-person interview with participants; and Research Design, which draws on both the literature review and the research questions to fully outline a step-by-step process in the data collection process.

CHAPTER 4: RESEARCH FINDINGS

4.1. Introduction

This chapter presents, analyses and broadly discusses the findings from the research. Chapters 2 and 3 previously outlined the characteristics of maturity as required in the analysis of maturity below.

This chapter looks at maturity of property markets in general and further proceeds to assess the maturity of various real estate markets identified and the maturity levels perceived per asset class. In order to assess the investment activities of South African investors, the study looks at whether they follow traditional investment methods by assessing the determinants of foreign direct investments. The chapter concludes by looking at countries' maturity levels and where the most activity from South African real estate companies on the continent lies.

4.2. Overview of the African Markets: FDI Flows

Capital flows represent the movement of funds for the combined purpose of investment, trade or business production. Capital flows cover foreign direct investments, portfolio investments, remittances and official development assistance (ODA). These external capital flows comprise a very important component in Africa's development and economic growth potential. In 2013 total external flows to Africa were estimated at \$186 billion, about the same size recorded in 2012 and representing 8.9% of the continent's gross domestic product (GDP) (African Development Bank, 2015), and which is further expected to reach over \$200 billion in 2014.

These capital flows into Africa have undergone substantial changes over the past decade. Although Official Development Assistance (ODA) has historically been the primary source of international capital onto the continent however as illustrated below, over time FDI has surpassed it and now is the key driver to stimulating local economies, creating jobs and building infrastructure. Currently the relative impact that each one has because of these

changes is not easily measurable, but assessments based on the correlation of this in relation to certain economic indicators can be drawn.

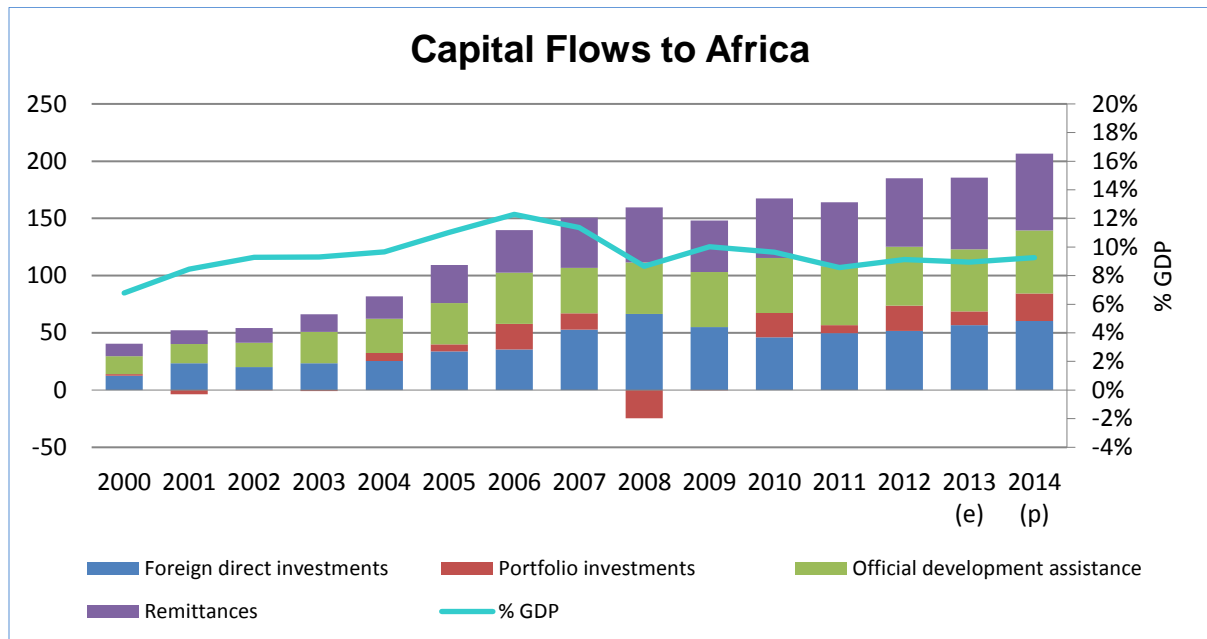


Figure 6: Capital flows to Africa. (Source: African Economic Outlook, 2014)

FDI into North Africa declined by 7% to a level of \$15.5bn, and despite that the regional FDI flows still maintained high levels. Although FDI flows in Egypt had a material 19% y.o.y. decrease it remained the highest receiver of FDI in the region at \$5.3bn, with other countries such as Morocco and Sudan attracting \$3bn each. There was an increase of 15% y.o.y. in the East African region to a level of \$6.2bn, led by increased flows to Ethiopia and Kenya. The two countries have attracted large inflows as a result of key sectors showing strong growth, with Kenya’s developing business hub, oil and gas exploration, industrial production, and transport services. While Ethiopia experienced strong performance out of the manufacturing space which attracted Asian capita, Central and West Africa both saw decreases of 18% to \$8.2bn and 14% to \$14.2bn respectively. Contrary to the West and Central African stories, FDI almost doubled to \$13bn in Southern Africa, with South African and Mozambique attracting large infrastructure and oil exploration projects respectively (Unctad, 2014)

Equally important to note is the increase in Intra-African investments which is led by South Africa, Kenya and Nigeria. In the five-year period from 2009-2013 Intra-African investments increased by 18% from the previous five-year period, 2002–2008. These interregional Greenfields projects are crucial for development, primarily for those landlocked countries that do not necessarily attract large oil and gas investors. Other growing sectors such as services, agriculture and manufacturing could lend to the increase of regional value chains and influence more favorable regional trade policies. This is observed primarily in the SADC and EAC region where significant intra-regional investments occur.

It was critical to have an overview of FDI flows in Africa and understand the different regions and industries that attract FDI in general across the continent. The subsequent sections in this chapter will be an analysis of the findings of the research questionnaire. It will seek to outline the different levels of maturity observed in the countries assessed and further assess key determinants of foreign direct investments of South African real estate investors in the rest of the continent. The research questionnaire also drew out what was the level of investment and level of activity (in terms of number of participants in a market) in each country. This will provide the basis on which the nature of the relationship between foreign direct investment and maturity of real estate markets can be understood. This is important as it will give insight into investment decisions made by investors and further provide the basis on which the relationship between maturity of real estate markets and FDI can be examined.

4.3. Overview of Participants

Due to the nature of this research paper, the majority of participants were Real Estate Developers (30%) and Real Estate Funds (30%), as these are the individuals who would seek out opportunities in this space within the real estate market. The other professional fields are key to a broader understanding of the developmental stages of the various African markets; however, they do not have direct investment exposure into real estate as an investment asset class. These other fields were crucial to incorporate as the key measures of maturity of real estate markets covers a multitude of factors. Various real estate

companies active on the African continent were approached, from financial institutions to property management services, etc. The breakdown was as follows, as illustrated in Figure 7.

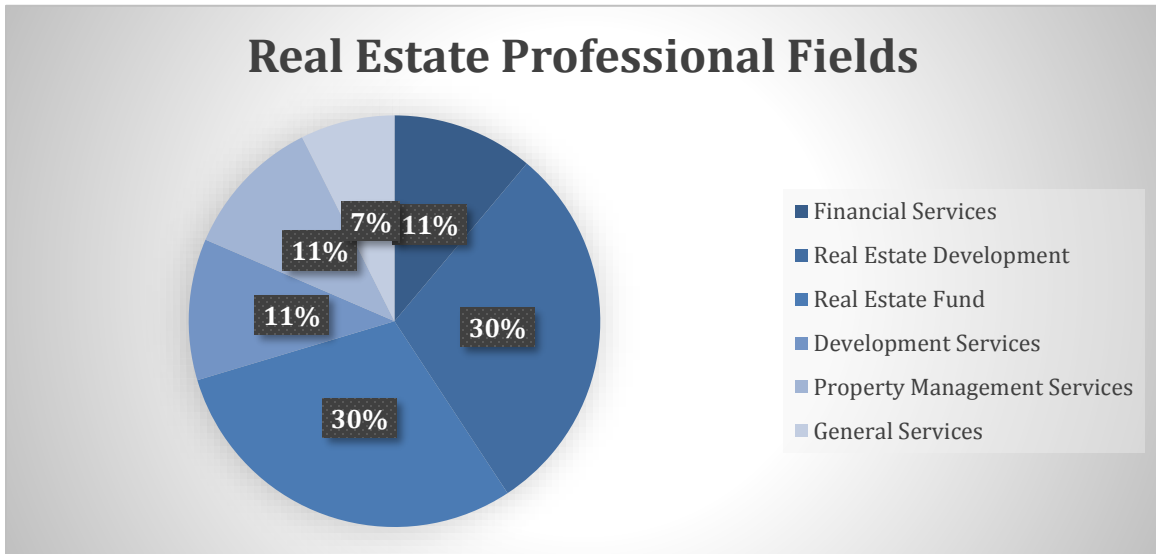


Figure 7: Real Estate Professional Field

As illustrated in Figure 7, an additional eight countries were incorporated and are key to a significant understanding of maturity and interpretation of the data. The research questionnaire required that participants provide countries in which they had experience and or exposure. As a result only those countries where participants have experience and/or exposure were included. Zambia had the largest number (60%) active in that market. This was followed by Ghana and Kenya with 47%, and Nigeria with 40% active in that market. Egypt and Morocco had no representation, while only a few participants had experience in the other markets.

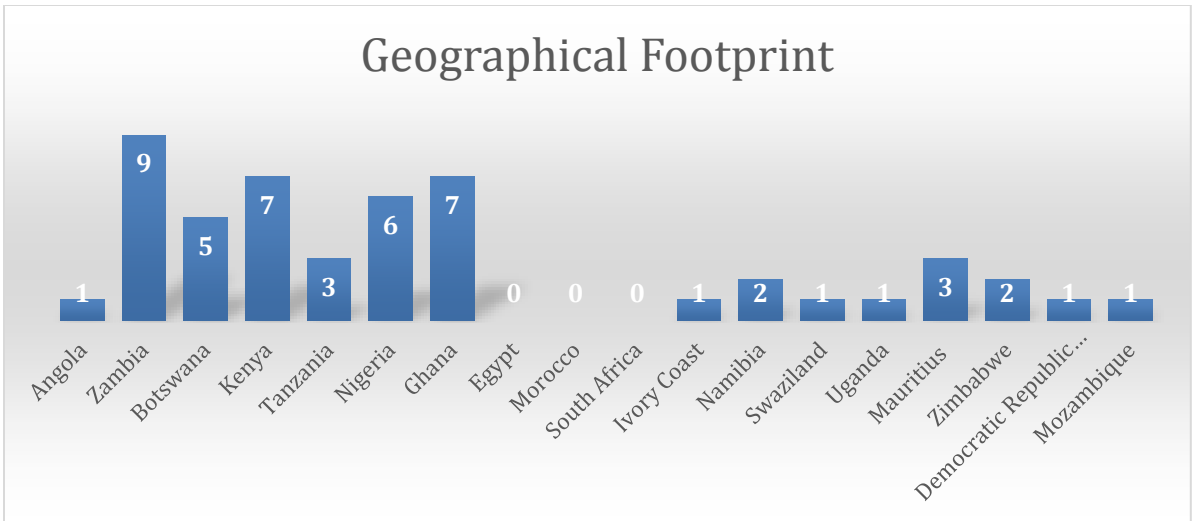


Figure 8: Geographical Footprint

Only two entities represented were listed entities, being Absa and Attacq, while eight participants have direct exposure on the continent, or intend having exposure over the next 12 months.

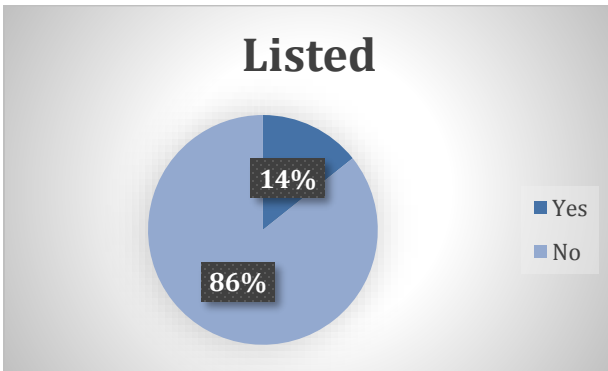


Figure 9: Listing Status

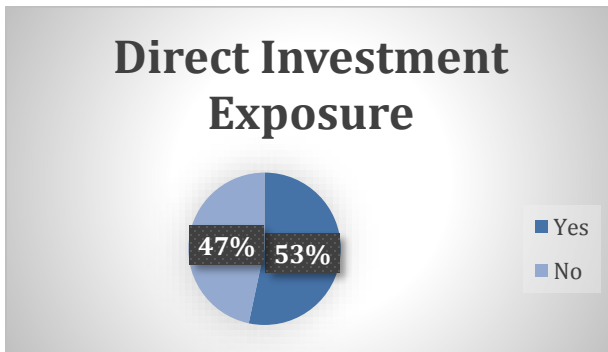


Figure 10: Exposure type

4.4. Maturity Levels of Previously Identified African Markets

In the initial assessment of this dissertation, ten countries were identified based on the researchers perceived levels of market activities, markets where most South African banks are active and countries which are more regularly discussed by South African investors and property professionals. Based on a perceived outlook of these markets, the objective of this line of enquiry question was to gauge the view of South African real estate investors and property professionals on their view of the various African markets even if they had no prior working experience in these markets. Based on this perception, which provided the basis in which we can measure how perceptions may change when the characteristics of a mature market are introduced, these countries are ranked from the most to the least mature. As indicated, the scoring was done on a level of 1 to 5, with 5 being the highest score achievable indicating a mature real estate market.

In Table 4 below South Africa is still included and excluded in subsequent assessments., The respondents were asked to score each country on their perception of maturity and benchmark it against South Africa, 14 of the 15 respondents scored South Africa as a mature real estate market with only one stating it's still emerging. The following countries were considered as Emerging: Botswana had the highest ranking of perceived maturity from participants, followed by Egypt, Kenya and Morocco, in that order. Angola had the lowest ranking, realizing very little development, while the remaining countries were viewed as developing.

Nigeria and Ghana were largely viewed in the same light by participants with an on average score of 3.1. Most participants viewed both countries as developing and the scoring for both these countries were for the most part identical, which could have been brought on by the fact that they are largely similar markets in the same region. The overall perception was that these nine markets were either developing or emerging, with few who viewed the countries as mature or very immature.

Table 4: Identified countries' maturity

Perceptions of the Market Maturity of 10 Identified Active African Markets							
Ranking	Country	Very Immature	Very Little Development	Developing	Emerging	Mature	Overall Score
1	South Africa				1	14	4,9
2	Botswana			2	10	2	4,0
3	Egypt		1	3	8	1	3,7
4	Kenya		1	5	8		3,5
5	Morocco		2	3	6	1	3,5
6	Zambia		2	9	4		3,1
7	Nigeria		2	9	4		3,1
8	Ghana		1	11	3		3,1
9	Tanzania		3	6	3		3,0
10	Angola	4	6	4			2,0

As stated above, and illustrated in Figure 10, the general view is that the ten identified African real estate markets are either developing or emerging. These are the ten countries that are perceived to have the most activity in this segment of the market. At first glance the view that activity would be in mature or immature countries seems unlikely.

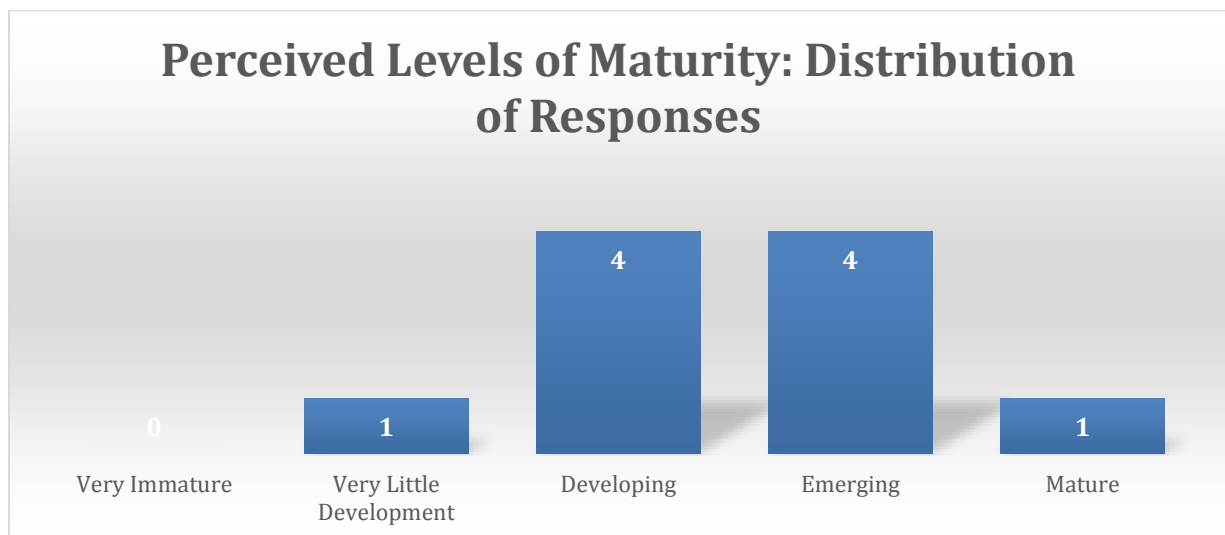


Figure 11: Distribution of responses: maturity levels

Further to this, participants were requested to identify countries they have prior or current experience in, and in using the key characteristics of maturity of real estate markets, to measure countries based on these factors. The first research question was related into identifying the characteristics that define maturity. These characteristics were identified through the existing literature and discussed in Chapters 2 and 3. These characteristics are the key to assessing the maturity of real estate markets and this has been applied on a country-by-country analysis.

Table 5 and Figure 12 below provide a summary of the result. The results will be further unpacked and a brief assessment of the various property sectors also highlighted. The countries with the greatest number of participants, in descending order were; Zambia with nine participants, Kenya and Ghana both with seven participants each, Nigeria with six and Botswana with five. All these countries were identified in the initial assessment and a cross-analysis can be briefly done to compare if perceptions had changed once characteristics of maturity were introduced.

Countries which were not identified in the initial assessment but identified here included: Mauritius (3 respondents); Namibia and Zimbabwe (2 respondents each); and Mozambique, Swaziland, Uganda, Ivory Coast and Democratic Republic of Congo (1 respondent each).

The three countries with the highest number of participants were all considered as developing. Nigeria, which was considered as developing in the initial assessment, was now considered as with Very Little Development, and Kenya which was initially considered as Emerging was now considered as developing when the characteristics of maturity were introduced.

Table 5: Select countries' maturity level

Country	Number of Participants	Score	Level of Maturity
Mauritius	3	4,2	Emerging
Botswana	5	3,7	Emerging
Mozambique	1	3,4	Developing
Namibia	2	3,3	Developing
Kenya	7	3,2	Developing
Zambia	9	2,9	Developing
Ghana	7	2,8	Developing
Swaziland	1	2,5	Developing
Uganda	1	2,5	Developing
Nigeria	6	2,4	Very Little Development
Zimbabwe	2	2,1	Very Little Development
Angola	1	1,8	Very Little Development
Ivory Coast	1	1,4	Very Immature
Democratic Republic of Congo	1	1,0	Very Immature

The distribution of responses indicated that seven countries were viewed as developing, three were viewed with very little development and an equal number of remaining countries considered as either emerging or very immature. A far less proportion of countries under this assessment are viewed as emerging, despite these being the countries that investors are active in.

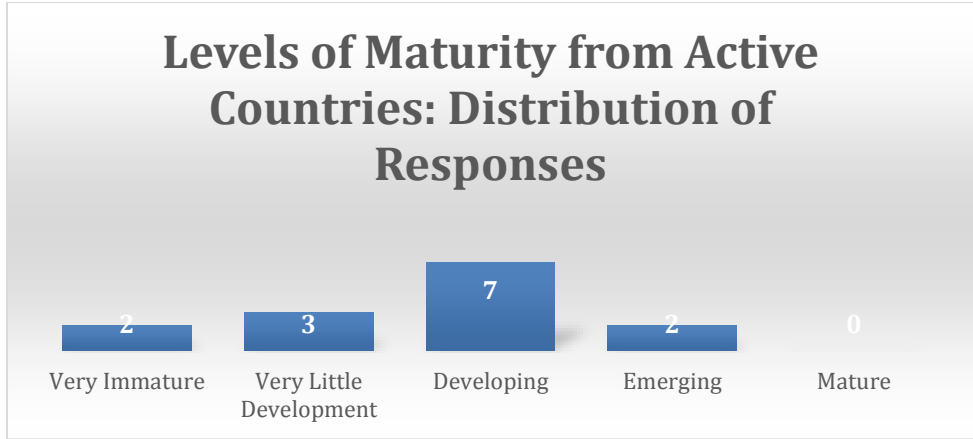


Figure 12: Distribution levels: maturity of select countries

4.5. Maturity: Country by Country Analysis

This section presents an analysis of the questionnaire in terms of the characteristics of maturity. The objective of the assessment was in assessing to what extent the various real estate markets identified exhibit maturity and if this has the same result when assessing maturity per asset class. Table 6 is a detailed analysis of the various countries as per the scoring per characteristic. The analysis categorizes each country based on their score and further highlights certain characteristics.

Table 6 below represents a more detailed breakdown of the scores summarized in the previous section; impetus will be on the characteristics of maturity in the analysis that follows.

Table 6: Summary of maturity level findings

	Angola	Zambia	Botswana	Kenya	Tanzania	Nigeria	Ghana	Ivory Coast	Namibia	Swaziland	Uganda	Mauritius	Zimbabwe	DRC	Mozambique
Market Openness	1,0	3,2	3,6	3,2	3,0	2,0	2,9	2,0	3,0	2,0	2,0	4,00	2,5	1,0	4,0
Property Services	1,0	2,9	3,8	3,7	3,0	2,3	2,9	1,0	3,5	2,0	2,0	4,00	2,5	1,0	4,0
Presence of Property Intermediaries	2,0	2,8	3,800	3,5	3,0	2,7	2,9	1,0	4,0	3,0	3,0	4,33	2,0	1,0	3,0
User and Investor Opportunities	3,0	2,7	3,400	3,7	3,5	3,3	3,1	2,0	3,0	3,0	3,0	4,33	2,5	1,0	3,0
Realistic Market Values and Market Stability	1,0	2,9	4,000	3,0	3,5	2,1	2,6	1,0	3,5	2,0	3,0	4,67	1,5	1,0	4,0
Market Information	1,0	2,8	3,400	3,2	3,0	1,9	2,6	1,0	3,0	3,0	2,0	3,67	1,5	1,0	4,0
Development Stability	1,0	2,9	4,000	3,3	3,3	2,4	2,9	1,0	3,5	3,0	3,0	4,00	2,0	1,0	3,0
Quality of Property Products	4,0	2,9	3,800	3,5	3,0	2,4	3,0	2,0	3,0	2,0	2,0	4,33	2,5	1,0	2,0
Overall Score	1,8	2,9	3,7	3,4	3,2	2,4	2,8	1,4	3,3	2,5	2,5	4,17	2,1	1,0	3,4
Level of Maturity	Very Little Development	Developing	Emerging	Developing	Developing	Very Little Development	Developing	Very Little Development	Developing	Developing	Developing	Emerging	Very Little Development	Very Immature	Developing

The analysis below also incorporates results from the scoring of different segments of the property market per country. It measures the perception that different investors have on the various segments of the property market. It can be noted that different sectors of the property market tend to develop over time at different stages. Royal Institute of Chartered Surveyors (RICS) is a professional body that accredits professionals within land, property and construction sectors globally. RICS is well placed to influence policy and embed standards at national level. RICS defined a property cycle as “a logical sequence of recurrent events reflected in factors such as fluctuating prices, vacancies, rentals and demand in the property market”. These are influenced by economic cycles which have their own inherent characteristics which impact demand and supply in the property industry and impact the financial cycle where capital flows affect prices (RICS, 2015).

As previously stated by Lee (2001), the issue of maturity has important implications for the type of real estate products that might be appropriately offered to the market, city by city. In terms of assessing the maturity levels of each asset class the same characteristics of maturity of real estate markets can be achieved. As an example, Broll (2015) indicated that the South African office market in 2014/2015 would be the poorest performing asset class in South Africa due to economic conditions and oversupply in the office space. Based on the characteristics of maturity, the office space may score well in this regard, i.e. one can consider the quality of the product to be mature and one could anticipate that property services and property intermediaries could be relatively strong as well. It can, however, be assumed that some factors may change, although the level of information in South African property market can be considered strong. Given all the sources of information available, there could be risk factors that have not been fully absorbed into the market and as a result very poor realistic market values and stability, scoring these two factors as developing.

Table 7: Summary of industry segment maturity levels

	<i>Angola</i>	<i>Zambia</i>	<i>Botswana</i>	<i>Kenya</i>	<i>Tanzania</i>	<i>Nigeria</i>	<i>Ghana</i>	<i>Ivory Coast</i>	<i>Namibia</i>	<i>Swaziland</i>	<i>Uganda</i>	<i>Mauritius</i>	<i>Zimbabwe</i>	<i>DRC</i>	<i>Mozambique</i>
Office	4.0	2.8	4.2	3.7	3.8	3.1	3.4	2.0	3.5	3.0	2.0	4.3	2.0	1.0	4.0
Retail	2.0	3.4	4.2	3.5	3.5	2.6	3.4	4.0	4.0	4.0	2.0	4.0	2.5	1.0	3.0
Industrial	3.0	2.3	3.6	3.0	3.3	2.3	2.6	3.0	3.0	2.0	3.0	4.0	2.5	1.0	2.0
Residential	4.0	3.0	3.6	3.0	3.3	2.9	3.0	2.0	3.5	4.0	2.0	4.3	3.0	1.0	3.0
Overall Score	3.3	2.9	3.9	3.3	3.4	2.7	3.1	2.8	3.5	3.3	2.3	4.2	2.5	1.0	3.0
Level of Maturity	Developing	Developing	Emerging	Developing	Developing	Developing	Developing	Developing	Emerging	Developing	Very Little Development	Emerging	Very Little Development	Very Immature	Developing

4.5.1. Emerging Markets

Botswana and Mauritius were identified as emerging markets, with the two having most characteristics measured as emerging. Mauritius, does however have a mature score regarding realistic market values and market stabilities. It also does outperform Botswana quite considerably on the following: (1) property intermediaries; (2) user and investor opportunities; (3) quality of products. Botswana does not outperform the emerging score on any of the characteristics; however, it does underperform on some, such as (1) user and investor opportunities, and (2) market information.

The property market contribution to the Mauritian GDP has grown gradually since 2009 and is anticipated to grow further. Similarly, to the maturity rating each segment of the property market was considered to be mature, with the office market and the residential market noted as the best performers. Broll (2015) indicated that rental values in the office space would remain stable until excess supply was absorbed and that there were pockets across the country that were still performing well, i.e. Port Louis, Ebene City and Bagatelle Town. Bargatelle Town project is now complete, with good quality assets and a strong secondary market for some of this office space. Similar to the office space, the residential space is considered to be performing well. The demand for residential had declined slightly due to the flooding of new high-rise sectional title apartments, though the segment remains strong.

The office and retail spaces were noted as the top performing property asset classes in Botswana; while industrial and residential were still noted as emerging, they were not as strong as the former.

4.5.2. Developing Markets

As noted, seven of the 14 countries – Zambia, Kenya, Ghana, Uganda, Swaziland, Mozambique, Namibia and Tanzania – were identified as developing. Mozambique did lean slightly towards emerging on some elements such as market openness, property services, realistic market values and market stability, and market information. This, however, is less reliable as it was based off the perception of one respondent active in that market.

Kenya also achieved a score of 3.4 with the following characteristics listed as emerging: (1) property services, (2) presence of property intermediaries and (3) user and investor opportunities. Broll (2015) outlined the fact that Kenya continues to be a commercial and infrastructural hub in East Africa. All segments of the property market are active with increased construction levels signaling confidence in the property market. From the results of the questionnaire, the general perception is, however, that the Office and Retail markets are slightly stronger performers and scored as emerging, while the industrial and residential are measured as developing. Broll notes that the residential market with increased supply is stable with high shortage levels. The industrial segment is noted as having excess demand, with increase in rental and sales amounts anticipated as a result. The office and the retail market are also considered as quite strong with pockets where A Grade office space is offered and with retail having low vacancy rates.

Ghana scored 3.1 in the initial assessment and 2.8 when all characteristics are considered. Ghana scores as developing on all characteristics with none outperforming or underperforming. Similarly, investors do think that all segments of Ghana's property market can be considered as developing. In its analysis, Broll gives a similar outlook to the property market with two exceptions where it states that the retail market is beginning to mature, formal retail is still in its infancy stages outside of Accra, which was stimulated,

in part, by growing interest from South African retailers to expand or enter that market. This momentum was picked up after the development of Accra Mall in 2007. Further Broll (2015) indicates that in terms of residential, over the past decade, Ghana's residential sector registered an estimated 85 000 sale transaction per annum. Currently there is an estimated housing deficit of 1.7 million units with private developers delivering 25 000 housing units per annum. In addressing this shortfall, Government has initiated projects such as Saglemi Housing project set to deliver 5000 units over a five-year period reflecting that the residential market is moving from very little development to developing.

Zambia scored 3.1 in the initial assessment and reduced to 2.9 when considering all characteristics in isolation. Similarly, to Ghana, Zambia is viewed as developing on all characteristics. It can be noted that Zambia, did score the highest level of participants from the questionnaire reflecting that this is a market that South African property professionals are quite active in. Zambian retail, office and residential segments are considered as developing, with retail seen as better performing in terms of maturity levels. Industrial is seen to have very little development with a slightly lower score. Knight Frank (2015) highlights that new industrial areas are starting to emerge and the need for high quality industrial assets is starting to increase. It does however seem as if the major constraint has been infrastructure, as with the improvement of the road network one is also starting to see a direct increase in the need for more industrial facilities. Knight Frank also state that the residential market has slowed as a result of higher interest rates and doubling of property transfer tax to 10% on land and property sales. The retail space is still viewed as quite strong as there is a substantial demand from South African and regional retailers across the country.

Tanzania scored 3.0 in the initial assessment and scored 3.2 when characteristics of maturity were included, higher than both Ghana and Zambia. The market is seen to perform relatively well when it comes to (1) user and investor opportunities, and (2) realistic market values and market stability. Further to this the office and retail market were considered to be quite strong and categorized as emerging asset classes. Knight Frank (2015) states that there are a number of significant developments in Tanzania, primarily in Dar Se Salaam.

This despite foreign companies and individuals still not permitted to own property via a unit title, with their only option being to lease, develop or purchase an entire building.

On average, most countries categorized as developing did not have any factors which could be considered outside of the developing spectrum. A notable characteristic which, however, scored lower than others of these seven countries was for “quality of products”. This score indicates that of these developing nations, a large portion of them do not develop quality stock to the market.

4.5.3. Very Little Development Markets

Angola, Nigeria, Ivory Coast and Zimbabwe were scored as having very little development. Characteristics were these countries generally performed above very little development were (1) user and investor opportunities, and (2) quality of products. An area where there was clear significant underperformance was regarding market information.

Nigeria which was considered as developing in the initial assessment was now categorized as having very little development when the scoring was done as per each characteristic. Areas where Nigeria is shown as underperforming is with market information, realistic market values and market openness. This can be contrasted with emerging markets, which tend to outperform on those same characteristics. It can be noted that these areas where investors rated Nigeria as underperforming are the same areas that they rated the stronger economies as outperforming.

The Nigerian real estate sector is growing faster than average GDP at a rate of 8.7% (GDP growth at 7.4%) and is now the sixth largest sector in the economy. This is driven by a growing middle-class driving demand for residential property development and, indirectly, retail, industrial and commercial real estate development (PricewaterhouseCoopers, 2015). The Nigerian property market has shown good growth having contributed 8% to GDP in 2013. Domestic and international institutional investors such as insurance companies, private equity firms and sovereign wealth funds have expressed an interest in developments

and acquisitions in Nigeria. However, there are risks that may affect the property market (Knight Frank, 2015):

- Terrorism: Boko Haram, a terrorist group, is a major threat and has caused widespread attacks
- Oil Price and devalued Naira: The fall of oil price has significant implications on that economy. The devaluation of the Naira and poor sentiment will result in low consumer spending in the short to medium term, which would cause pressure on the retail market.

When assessing each segment of the property market, the overall view improves from very little development to developing. The residential and office space viewed as outperforming, with the retail space also viewed as developing. The only sector which is seen as having very little development is the industrial space. In terms of housing, according to the world bank there is a deficit of 17 million housing units at the lower end of the market with available affordable housing not quite as affordable. There is also shortage of these unit types in growing middle- class Lekki, Ikoyi and Victoria Islands. There have also been multiple P Grade office transactions driven by organizations in the oil and gas as well as financial services and technology sectors. Retail in this space has been seen to be largely impressive following the opening of the first modern shopping mall in 2005 (Knight Frank, 2015).

Both Angola and Zimbabwe had one investor with exposure in those markets and notably so, they were rated quite poorly across most of the characteristics. Regarding the quality of products, Angola and Zimbabwe did, however, score as emerging and developing respectively. The two countries also scored a rating of developing when it came to user and investor opportunities. When assessing the different segments of the property space, investors did, however, have a more positive outlook on the level of maturity. Quite notable was the office and residential space in Angola; and the retail space which were viewed as quite mature.

Knight Frank (2015) highlights that a substantial portion of development in the office space in Côte D'Ivoire is for owner-occupation by banking occupiers, notably Ecobanks' new

headquarters and the African Development Bank's two towers in Abidjan. There is an excess demand for office space and a need for new developments to replace old stock. Both these factors do indicate that the market is still in the early stages of development, as the market has not been significant enough to move past the owner occupier space and even more so, with little to no new stock available, realistic market values and stability as well as good market information may take time to be fully absorbed and understood by the various property investors and property intermediaries. Knight Frank also assessed the Angolan property market drawing certain key pointers to the residential market. Luanda has the some of the best quality villas and homes, pricing as some of the highest in the world. There is, however, virtually no existing mortgage bond market and a substantial amount of new supply which puts downward pressure on prices which is expected to continue as a result of falling oil prices. Low-cost housing opportunities do, however, exist in central Luanda or to the south in Talatona. These factors noted do signify a market with very little development.

4.6. Foreign Direct Investment

The section below presents findings to the third research question as this is a subsequent step to understanding the relationship between maturity and investment. It looks to analyze these activities and aims to highlight investment strategies in order to assess if particular trends and expectations that exist across the various countries identified. This section begins with an overview of FDI flows in Africa, assessing various trends observed in recent years and which countries and sectors tend to attract these inflows.

4.7. FDI Investment Activities

South African real estate investors not only consider which markets to focus on but which segment of the real estate segment to invest in. Real Estate developers typically have a key focus area in which they have institutional knowledge and strong management team experience on a particular asset class. Real Estate Funds, which in recent years, have been dominated by private equity firms and sovereign wealth funds, typically have investment

mandates into specific asset classes. 58% of investors focus on the retail space, 17% on office and residential each, and 7% focused on industrial property.

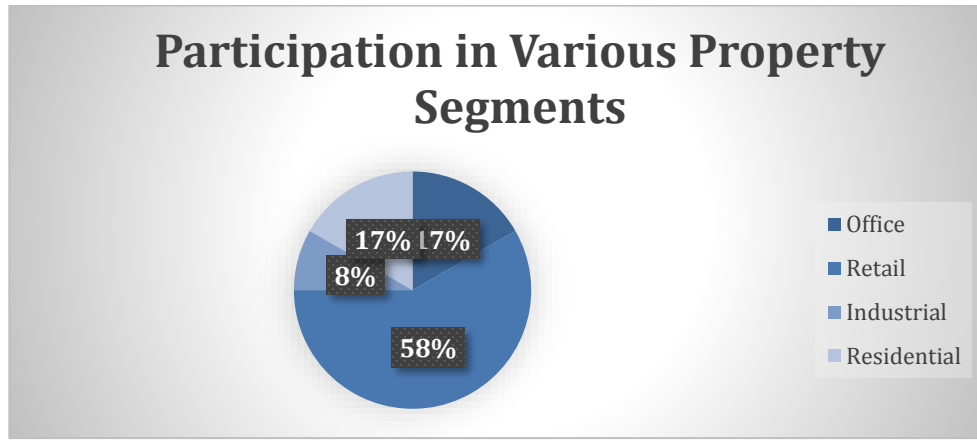


Figure 13: Property segments participation levels

A holding period is a period in which an investment is attributable to an investor and reflects the term in which they would initially invest and disinvest. This is quite crucial as it has an impact on investment returns, with an impact on both the yield and IRR of a particular project.

The term during which an investor holds on to an asset is typically determinant on the company's investment strategy, mandate and/or the economic environment it invests in. Property is typically viewed as a long-term asset, as it attracts both rental and capital growth, which needs to be stabilized through long-term trading cycles to yield higher returns.

There was only one investor that stated they had a holding period of less than five years (Zimbabwe: 87% of investors stated they focused on five- to ten-year holding periods, and with just two stating they focused on 11 to 15 years (in Zambia) and with just one stating greater than 20 years (in Nigeria).

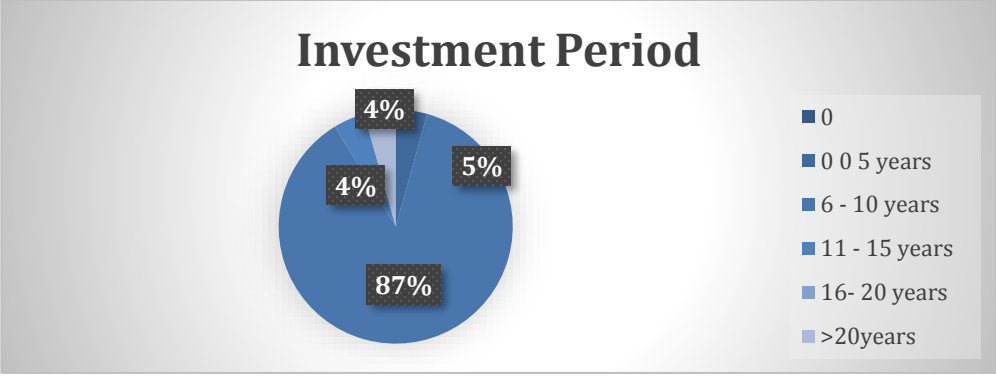


Figure 14: Investment Period

Investment exposure was quite dispersed, with a few outlying investments noted. This is not necessarily surprising as different companies have different mandates, risk appetite and balance sheet. In total there were 20 investments in the countries identified. Nigeria and Zambia have the highest number of investments made, four each, followed by Ghana with three investments. Angola, Botswana, Kenya, Ivory Coast, Namibia, Swaziland, Uganda, Zimbabwe and Mozambique all have a single investment noted from the participants.

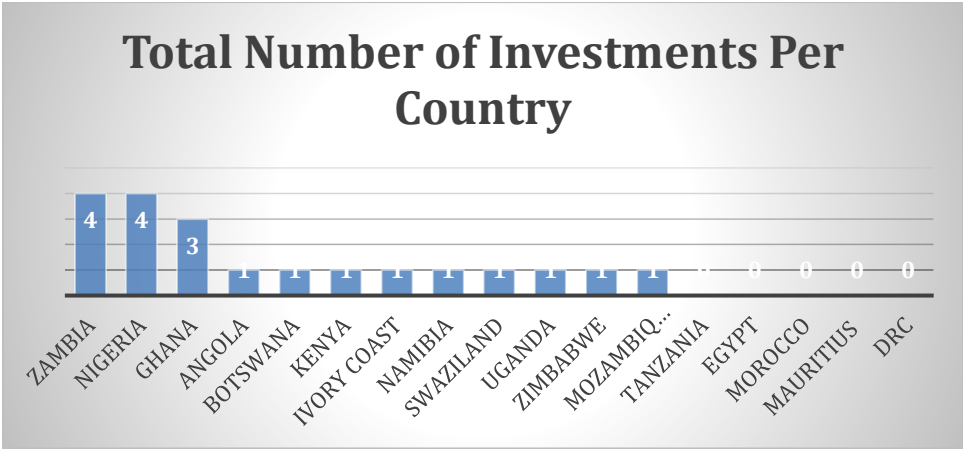


Figure 15: Investments per country

The total investment exposure in all countries is approximately \$951,400,000. Swaziland and Zimbabwe recorded single investments amounting to \$5,000,000 and \$7,500,000 respectively. Nigeria attracted the highest single investment in a country of approximately \$300,000,000 and in total the country attracted \$392,000,000. This was followed by Zambia which attracted the second largest single investment of approximately \$200,000,000 and in total investments amount to \$251,000,000. The country with the third

largest investment in real estate is Ghana with \$142,000,000. Tanzania, Egypt, Morocco, Mauritius and DRC did not attract any direct investment exposure with the investors participating, although there are other South African real estate firms with direct exposure in those countries.

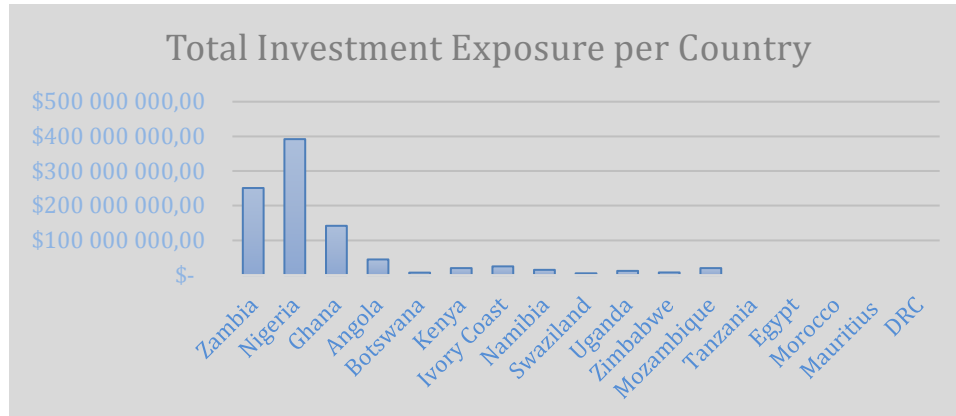


Figure 16: Investment exposure

Table 8: Investment exposure per country

Country	0 < Exposure < \$10m	>\$10m	>\$20	>\$30m	>\$40m	>\$50m	>\$100m	Number of Investc	
Nigeria		\$ -	\$ 42 000 000,00			\$ 50 000 000,00	\$ 300 000 000,00	\$ 392 000 000,00	4
Zambia	\$ 1,00	\$ 31 000 000,00	\$ 20 000 000,00				\$ 200 000 000,00	\$ 251 000 001,00	5
Ghana			\$ -		\$ 92 000 000,00	\$ 50 000 000,00		\$ 142 000 000,00	3
Angola			\$ -		\$ 45 000 000,00	\$ -		\$ 45 000 000,00	1
Ivory Coast			\$ 25 000 000,00					\$ 25 000 000,00	1
Mozambique	\$ 1,00		\$ 20 000 000,00					\$ 20 000 001,00	2
Kenya			\$ 20 000 000,00					\$ 20 000 000,00	1
Namibia			\$ 15 000 000,00					\$ 15 000 000,00	1
Uganda		\$ 12 000 000,00						\$ 12 000 000,00	1
Zimbabwe	\$ 7 500 000,00							\$ 7 500 000,00	1
Botswana		\$ 7 000 000,00						\$ 7 000 000,00	1
Swaziland	\$ 5 000 000,00							\$ 5 000 000,00	1
Tanzania									0
Egypt									0
Morocco									0
Mauritius									0
DRC									0
Total	\$ 12 500 002,00	\$ 50 000 000,00	\$ 142 000 000,00	\$ -	\$ 137 000 000,00	\$ 100 000 000,00	\$ 500 000 000,00	\$ 941 500 002,00	22,00

4.8. Determinants of FDI and Risk Factors

The table below lists the determining factors of foreign direct investments with an additional factor included, maturity of real estate markets. Participants were asked to rank each factor on a level of 1 (very little importance) to 5 (nonnegotiable). The scores were then factored and categorized in these 5 core outcomes. An overall score of 5 would imply the factor is highly important and investor’s view it as critical to their investment-making criteria, and an overall score of 1 would entail they regard the factor as very little influence on their decision-making criteria. The table below is a summary of the results from this question.

Out of all the factors listed, South African real estate investors ranked the maturity of real estate as having the least importance to their investment criteria. However, with a score of 2.9 out of 5, this can still be noted as a factor which is considered although not significant to the overall outcome. This was followed by real interest rates in a country which also scored quite low on the level of importance, however with a score of 3.5 out 5 can still be regarded as having some significance. GDP Growth, openness to the economy, external debt and infrastructure all scored 3.8 out of 5 which implies they are quite relevant although not the most critical factors. The most critical factors which was reiterated by participants was the tax regime of a country and political rights. These two factors as noted below were considered as non-negotiable when assessing .

Table 9: Determinants of FDI

Determining Factors	1	2	3	4	5	Scoring
Maturity of Real Estate Market		3	4		1	2,9
GDP Growth Rate			3	4	1	3,8
Inflation Rate			3	3	2	3,9
Real Interest Rate	1		3	2	2	3,5
Openness of the Economy			4	2	2	3,8

International Reserves	1	1	2	2	2	3,4
External Debt		1	2	3	2	3,8
Tax Regime				3	5	4,6
Political Rights				3	5	4,6

The determining factors of FDI was then followed by risk factors Participants were asked to rank each risk factor also on a level of 1 to 5, with 5 being the highest level of risk in their opinion. The table below is summary of the results of these factors. All the factors were noted as highly critical, however emphasis was placed on currency risk and investment risk. It is quite clear that the most critical factors of any investment would be to protect your investment and to ensure that profits are not lost through currency exchange. The factors are all, however, interlinked, as without a stable political environment and liquidity in the market, this may have negative effects on one's investment and on your ability to maintain profits made through currency exchange.

Table 10: Risk scoring

Risk Factors	1	2	3	4	5	Scoring
Investment Risk			1	4	3	4,3
Political Risk	1		1	3	3	3,9
Currency Risk			1	2	5	4,5
Operational Risk		1	2	5		3,5
Liquidity Risk			3	3	2	3,9

4.9. Summary: Relationship Between Maturity and FDI

Mauritius and Botswana were identified as the most mature markets from countries investors are active in, being defined as emerging. On the level of investment attracted in each of these countries out of the 15 countries, these two countries ranked quite low, with Botswana attracting \$7,000,000 and ranking 12th and Mauritius attracting nil investments. In these markets key performing characteristics are: realistic market values and market stability, presence of property intermediaries; and quality of property products.

Mauritius scored well on all characteristics and outperformed on one factor, realistic market value and market stability. It scored as mature on this factor which one would assume to boost investor confidence when it comes to demand and supply conditions reflecting market values at any point in time. So, the risk that there could be an undersupply or oversupply at any given point is limited. As this key indicator is rated as good, this mitigates an extensive portion of market risk, i.e. demand and supply factors. This can also translate to limited opportunities to outperform a market therefore generate high returns. Certain factors do lead to certain influences that investors may have, and across all countries this factor scored 2.65.

The countries that attracted the highest level of investment exposure, were Nigeria (\$392,000,000), Zambia (\$251,000,000) and Ghana (\$142,000,000). Nigeria was viewed as a market with very little development, while Zambia and Ghana were viewed as developing. Nigeria's least performing characteristics were: (1) market information and (2) realistic market values and market stability. Market information suggests that there is not enough reliable data or data sources in the country to confidently have an extensive understanding of a market. This could be factors such as the national operating costs across a certain industry or assessing vacancy rates across various markets. However, it did outperform (scoring as developing) when it came to (1) user and investor opportunities, and (2) presence of property intermediaries. User and investor opportunities indicate an openness of the economy, allowing new participants into the market. Presence of property intermediaries does suggest there is a certain level of sophistication in the market such as having different property practitioners facilitating different functions and that there are opportunities along the property value chain for different service providers. Across these countries which attracted the highest level of investment, user and investor opportunities presented the highest performing indicator at 3.03.

On the contrary, very immature and very little developed markets such as DRC, Ivory Coast and Angola, had no or minimal exposure and few participants. The level of exposure of participants and investment exposure was nil for participants and investment exposure in DRC and Ivory Coast, while one investor had \$45,000,000 exposure in Angola. The

level of exposure in Angola is higher than the level of exposure in the most mature countries; the perception of the investor active in Angola was that the Office and Residential market were emerging, while all the other segments of the real estate market had very little or very immature development.

4.10. Conclusion

This chapter focused on key findings to the research. It began by giving context to current industry practices and went on to unpack factors surrounding maturity and foreign direct investment.

The next chapter will provide concluding remarks to the research and seek to contextualize findings and answer the key research questions.

CHAPTER 5: RESEARCH CONCLUSIONS

5.1. Introduction

This chapter outlines the objectives of the research and highlights key findings arising from the analysis developed in the preceding chapter. The chapter further makes inferences from these findings in accepting or rejecting the proposed hypothesis.

The purpose of this research dissertation is to assess the relationship between maturity of real estate markets and foreign direct investments. This dissertation did so by analyzing the investment activities of South African real estate companies with direct exposure on the rest of the continent.

Although there has been limited research on the maturity of real estate markets in the context of Africa, the topic has received a fair amount of attention internationally. This research went a step further and assessed its relevance to investors in Africa, and looked at a number of factors which are deemed critical to investors, *inter alia*, risk return; timing; transparency, etc. The objective was to reveal if indeed market maturity, and its importance in decision making is a well-applied concept by investors, or if limited consideration is applied to it when investigating markets in which to invest.

5.2. Determining Factors of Maturity and FDI

The first objective of the research was to understand the characteristics of maturity in property markets and understand to which extent maturity is exhibited in each of the countries assessed. Characteristics of maturity were outlined and these formed the basis on which participants scored each country, in a country-by-country analysis.

The key characteristics of maturity of real estate markets, although well defined in the literature, tend to be unfamiliar to industry practitioners. Seven of the fifteen participants to the research questionnaire revealed that they have various ways of assessing new markets and make use of industry tools such as the JLL Transparency index and World

Bank Ease of Doing Business Index. These tools, the JLL Transparency Index and World Bank Ease of Doing Business, have key characteristics that are examined and through data collection, rank countries based on these measurements. Fundamentally the objective of the tools is similar in nature to the process of determining characteristics of maturity of real estate markets from a theoretical perspective. An opportunity does present itself for these industry tools to be compared to the characteristics of maturity for future research.

In the initial assessment of maturity, ten African markets were first evaluated. South Africa was used as a benchmark for maturity and assumed as the country with the highest level of maturity. None of the countries (excluding South Africa) were ultimately defined as mature, with only Botswana, Egypt, Kenya and Morocco being defined as emerging markets. Angola was defined as a market with very limited development, and all other countries were defined as developing. The general view from property professionals and investors was that the majority of countries identified were developing or emerging. This perception did, however, deviate slightly when the key characteristics of maturity were introduced in the assessment that followed with a country-by-country analysis.

A critical point as outlined in the research question was that of understanding investment decisions made by South African real estate investors on the rest of the continent. This was done by assessing the determinants of FDI and risk factors impacting risk. Investors were asked to rank these factors which provided a clearer indication of the importance of these factors and some insight into the importance of maturity as a determining factor.

Although maturity of real estate markets ranked as the least important determining factor of investing in foreign markets, it still scored 2.9 out of 5, which entails there being some relevance to it as it leans towards a critical characteristic as opposed to one which has no impact. There are other factors, i.e. political rights and tax regimes which ranked as the two most important factors: when assessing risk factors, currency risk and investment risk were ranked as the two most critical risk factors. The score of 2.9 out of 5 for maturity does suggest that it does have some impact and it does influence the decision-making

activities of investors. Further to this, all investors acknowledged that this does have an impact when investing into new markets.

5.3. Relationship Between Maturity and FDI

In order to fully assess and conclude the research findings, the proposed hypotheses are outlined below as a reference:

- i. Null Hypothesis: A relationship exists between the maturity of a market and investment activity.
- ii. Alternative Hypothesis: A relationship does not exist between the maturity of markets and investment activity.

Investors took into considering the importance of real estate markets, and in closing discussions of the questionnaire were asked two questions: (1) Does maturity have an impact on investment activities of investors in general; and more specifically, (2) Does maturity have an impact on their own companies' investment activities? All investors were given a binary choice to make, in which all investors answered 'yes' to both questions, stating the importance of maturity on investment decisions made. Although, as already stated, maturity is considered as the least important determinant of where to invest, investors do take it into consideration.

It can also be noted that when speaking of market maturity in general, it has less of an impact on investors and professionals until they have to consider each characteristic of market maturity, at which point they start to see its importance. There were some slight deviations in some countries when characteristics were considered. Both Kenya and Nigeria dropped into a lower category, with Nigeria now being considered as having very little development and Kenya as developing.

The research findings suggest that a direct relationship cannot be said to exist between market maturity and investment attracted, i.e. the higher the level of maturity, the higher

the level of investments attracted or the lower the level of maturity, the lower the level of investment. This is based on the findings in the research which stated that the most mature countries did not get the highest level of investor participation in the market and did not attract the highest level of investment from South African real estate investors. In addition, the countries exhibiting the lowest level of market maturity also did not attract the highest number of participants or investments. Instead what is observed is a quadratic relationship existing between the two. The highest level of investment and participation from investors is centered on very little development to emerging markets. As the level of maturity begins to increase from very immature to very little development, the level of participants and the level of investments start to increase until it reaches what is observed to be a peak at still developing. The level of investment then starts to decrease as we move from developing to emerging. As none of the countries were ranked as mature, it cannot be stated whether or not these countries would attract a higher level of investment.

As revealed in the findings in the previous chapter, maturity is embedded into the level of perceived risk into any market, and this risk factor does influence the level of participation into a market and the level of returns investors can expect. All investors have a specific investment mandate and/or strategy in which the level of risk in a market influences the investment decision that is made. During the interviews, many of the developers and investors expressed their investment ethos regarding the level of risk in a market and the extent to which this risk can be controlled. Through lack of information in the market this brings about risks, the level of confidence that some investors have could be linked to how best they can mitigate such a factor. When demand and supply are an uncertainty, securing a guaranteed take-up to a project could be viewed as project mitigation. In a country with poor development stability an investor that is willing to pursue a project despite the risk may mitigate this through a partnering with a reputable investor or developer with good experience and rapport. The level of risk in the market does translate to potential higher returns and some investors are willing to pursue this, in countries with very little risk.

The largest activity (participation) and exposure seems to be with countries that are viewed as developing, and the least activity is observed to be with mature and very immature

markets. Very little to no activity is viewed with very immature markets and with increased development to the various characteristics of maturity, activity starts to be seen as observed with Angola. Similarly, there is less investment activity observed with the more mature countries, with little activity seen in Mauritius. As various characteristics of maturity start to decrease, higher investment activity is observed, as is the case with Botswana.

The proposed hypothesis as outlined above cannot be rejected. The research findings suggest that a relationship does exist and that maturity does influence the investment-making decisions of South African real estate investors active on the rest of the African continent. Although maturity was ranked as the least important determining factor of FDI, it is still considered as relevant as it scored 2.9 out of 5. Further to this, all investors stated that this was taken into consideration when making investment decisions. What is also quite clear is that this is a concept which is unfamiliar with practitioners and when the characteristics of maturity are outlined, maturity becomes more critical as its better understood.

5.4. Conclusion

From the research based on the perceptions of those interviewed, a relationship exists between the maturity of real estate markets and foreign direct investment. Although it was ranked as the least important determinant of FDI, investors do take into consideration the maturity of real estate markets when making investment decisions. The nature of the relationship has been outlined in this dissertation; however, the strength of the relationship between market maturity and FDI has still not been determined.

This research paper achieved this conclusion through the assessment of investment activities made by South African real estate companies on the rest of the African continent. The aim was to assess the minimum level of maturity that was required for South African investors before entering a market; however, it became clear that mature markets or very immature markets are not necessarily what investors seek. An element of the risk/return profile is influenced by the maturity of markets: the less mature markets have the greater level of risk and the more mature markets have very little risk in comparison. The decision

made by South African investors is that some are willing to enter high-risk environments should the level of returns compensate for this level of risk.

This presents an opportunity for subsequent researchers to look at the following elements:

- Perform the same study, but perform a quantitative research with a significant amount of data/participants to measure the level of maturity of a select number of African countries and measure this against direct real estate flows.
- Assess the level of maturity of various African countries and introduce an element of risk and return, to measure if there is an efficient level of risk/return achieved with a certain level of maturity.
- Compare criteria used in current industry tools to characteristics of maturity of markets in order to ascertain if there is an overlap or if improvements can be made to either.

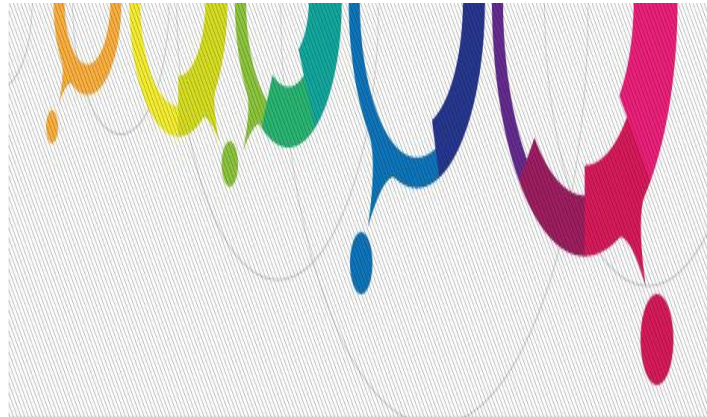
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APPENDIX: QUESTIONNAIRE SURVEY



PROGRAMME	MCOM Development Finance 2014/2015
STUDENT NAME AND SURNAME	Tahane Mahlaole
Supervisor	Professor Francois Viruly

**The Relationship between Foreign
Direct Investment and the Maturity of
the Real Estate Market:**

**An Assessment of Investment Activities of South African
Real Estate Companies with Exposure on the African
Continent**

Property Research Survey

I am currently completing my Masters dissertation at the University of Cape Town's Graduate School of Business. The aim of this questionnaire is to get information for analyzing the relationship between foreign direct investment and the maturity of the various real estate markets in Africa (excl. South Africa). It does so by interviewing some South African property investors and practitioners with exposure on the African continent in order to ascertain their perception of the level of maturity of each of the countries they invested in and the key driving factors of their investment decisions.

The exploratory research study is entitled "*The relationship between Foreign Direct Investment and the maturity of the real estate market: An assessment of investment activities of South African real estate investors with exposure on the rest of the continent.*" The investigation into the central research problem is guided and set to measure:

1. The perceptions of market participants on the level of maturity in the various real estate markets they have exposure and experience in;
2. The investment criteria and decision making process of South African investors with the real estate investment exposure on the rest of the continent;
3. The nature of the relationship that exists between foreign direct investments and how developed a market is.

The questionnaire is estimated to take about 30 minutes of your time to answer. Section 1 and 2 requires all participants to please answer, while section 3 is intended for South African based real estate investors.

This research has been approved by the Commerce Faculty Ethics in Research Committee. Your participation in this research is voluntary. You can choose to withdraw from the research at any time. Due to the nature of this study you will need to provide the researchers with some form of identifiable information however all responses will be confidential a used for the purpose of this research only. In providing signature below you therefore consent to being interviewed and for the results to be used in this thesis and the publication of this thesis.

Your assistance in this survey is greatly appreciated, thanks in advance for your cooperation. We offer to send you a summary of results if you wish to receive it.

Yours sincerely,

	Full Name and Signature	Date
Principal Researcher	Tahane Mahlaole	
Participant		

Definitions:

Investment Risk: This is concerned with the volatility of returns and what is most notable is that the risk and return advantages of international diversification are quite substantial for international investors.

Currency Risk: This represents risk stemming from a decline in a country's currency. This decline in value negatively affects an economy by creating instabilities in the exchange rates, meaning that one unit of the currency no longer buys as much as it used to.

Liquidity Risk: This represents the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

Operational Risk: A form of risk that summarizes the risks a company or firm undertakes when it attempts to operate within a given field or industry. Operational risk is the risk that is not inherent in financial, systematic or market-wide risk.

Market Openness can be measured by various dimensions: spatial, functional and sectoral, but essentially a very open market should become as open as a local market for national and international participants.

- Spatially, markets become more open as local markets admit national and international participants.
- Functionally, users and investors may all examine opportunities across a broader geographical area, but they may also become more flexible in purpose.
- Sector ally, mature markets in property open up to participants in other asset markets as opportunities for substitution between property and non-property interests become recognized.

Property professional level relates to perceptions of the level and quality of market information, transaction data and development activity (Armitage 1996). Where the property professional level is high, the quality of service and analysis will be sound and balanced. In such circumstances, client would expect more detail and depth of analysis of industry.

The presence of property intermediaries indicates a level of sophistication in a market. The brokering of property through intermediaries from financial, accounting or specialized property sectors is an indicator of the level of maturity.

User and investor opportunities relates back to the level of market openness in general and refers to the ability of both local and international players to participate in the market.

Realistic market values and market stability assesses if the market value should reflect the conditions of demand and supply at any point in time. Investors and developers should therefore be able to predict undersupply or oversupply situations.

Property Investment flexibility is one of the principal characteristics of the mature market is being able to adjust itself in both the short term and long term. In other words, a mature market should be able to exhibit fluidity between different actors and sectors. In addition, a mature market should also offer a high level of capital liquidity.

Market information aspects relates to a market offering extensive information flows (including information standardisation, availability and quality which will enable high level of research activities.

Development stability relates to how development projects rely on finance; therefore, the level of development stability will depend on the level of stability in a country's financial systems. A mature market should offer a sound environment in order to maintain the stability of the development process. This will include factors such as the legal framework of the country, the level of infrastructure available to allow one to complete such projects and the level of labor skills.

Section 1: General Questions

1. What is the name of your company?

2. Which segment of the business are you in at your company?

3. Which category best describes your company?

- Financial services
- Real Estate Development
- Real Estate Fund
- Development Services
- Property Management Services
- General Services
- Other

4. Is your company listed or non listed?

- Yes
- No

5. Which countries in Africa does your company have a footprint? Please specify no more than 5 countries.

Country A	<input type="text"/>
Country B	<input type="text"/>
Country C	<input type="text"/>
Country D	<input type="text"/>
Country E	<input type="text"/>

6. Does your company have direct/ indirect investment exposure into real estate on the continent (excl South Africa)?

- Yes
- No

7. Does your company have any future investment projects in the next 12 months on the rest of the continent (excl South Africa)?

Yes

No

Section 2: Maturity of Real Estate Markets

8. Please rate, on a scale of 1 to 5, the maturity levels of the following African Countries as you perceive it.

	Very Immature	Very Little Development	Developing	Emerging	Mature
Angola	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Zambia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Botswana	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kenya	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tanzania	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Nigeria	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ghana	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Egypt	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Morocco	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
South Africa	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

9. Please rate the following maturity measures for Country A (per section 1) on a level of 1 to 5. With 1 being "very immature" and 5 being "mature".

	Very Immature	Very Little Development	Developing	Emerging	Mature
Market openness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Property services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Presence of property intermediaries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
User and investor opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Realistic market values and market stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Market information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Development stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality of property products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

10. Please rank the level of maturity of the following sectors in Country A on a level of 1 to 5.

	Very Immature	Very Little Development	Developing	Emerging	Mature
Office	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retail	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Industrial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Residential	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. Please rate the following maturity measures for Country B (per section 1) on a level of 1 to 5. With 1 being "very immature" and 5 being "mature".

	Very Immature	Very Little Development	Developing	Emerging	Mature
Market openness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Property services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Presence of property intermediaries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
User and investor opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Realistic market values and market stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Market information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Development stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality of property products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. Please rank the level of maturity of the following sectors in Country B on a level of 1 to 5.

	Very Immature	Very Little Development	Developing	Emerging	Mature
Office	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retail	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Industrial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Residential	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

13. Please rate the following maturity measures for Country C (per section 1) on a level of 1 to 5. With 1 being "very immature" and 5 being "mature".

	Very Immature	Very Little Development	Developing	Emerging	Mature
Market openness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Property services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Presence of property intermediaries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
User and investor opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Realistic market values and market stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Market information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Development stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality of property products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

14. Please rank the level of maturity of the following sectors in Country C on a level of 1 to 5.

	Very Immature	Very Little Development	Developing	Emerging	Mature
Office	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retail	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Industrial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Residential	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

15. Please rate the following maturity measures for Country D (per section 1) on a level of 1 to 5. With 1 being "very immature" and 5 being "mature".

	Very Immature	Very Little Development	Developing	Emerging	Mature
Market openness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Property services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Presence of property intermediaries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
User and investor opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Realistic market values and market stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Market information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Development stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality of property products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

16. Please rank the level of maturity of the following sectors in Country D on a level of 1 to 5.

	Very Immature	Very Little Development	Developing	Emerging	Mature
Office	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retail	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Industrial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Residential	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

17. Please rate the following maturity measures for Country E (per section 1) on a level of 1 to 5. With 1 being "very immature" and 5 being "mature".

	Very Immature	Very Little Development	Developing	Emerging	Mature
Market openness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Property services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Presence of property intermediaries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
User and investor opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Realistic market values and market stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Market information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Development stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality of property products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

18. Please rank the level of maturity of the following sectors in Country E on a level of 1 to 5.

	Very Immature	Very Little Development	Developing	Emerging	Mature
Office	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retail	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Industrial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Residential	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section 3: Foreign Direct Investments

19. What segment of the real estate industry have you invested in on the continent (excl South Africa)?

- Office
- Retail
- Industrial
- Residential

20. What is the current level of exposure for countries (as per section 1) below?

Country A	<input type="text"/>
Country B	<input type="text"/>
Country C	<input type="text"/>
Country D	<input type="text"/>
Country E	<input type="text"/>

21. With regards to the exposure above, what is the average commitment period of capital invested?

Country A	<input type="text"/>
Country B	<input type="text"/>
Country C	<input type="text"/>
Country D	<input type="text"/>
Country E	<input type="text"/>

22. What is your average yield on investments in the commercial property on the continent (Excl South Africa)?

- 0 - 5%
- 6 - 10%
- 11 - 15%
- + 15%
- N/A

23. What is your average IRR required on investments in the commercial property on the continent (excl South Africa)?

- 5 - 10%
- 11 - 15%
- 16 - 20%
- 21 - 25%
- + 25%
- N/A

24. How Important are the following factors when considering investing on the continent (excl South Africa)? Please rank each individually on a scale of 1 to 5, 1 being very little importance to 5 being non negotiable.

	1	2	3	4	5
Maturity of real estate market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
GDP growth rate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inflation rate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Real Interest rate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Openness of the economy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
International reserves	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
External debt	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tax regime	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Political rights	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Infrastructure	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

25. What are the other main considerations that attract you to real estate investment opportunities on the Continent (Excl South Africa)?

Factor 1

Factor 2

Factor 3

Factor 4

26. In your experience please rank your greatest risks of property in investing on the continent.
(Please rank each individually on a scale of 1 to 5, with 5 the highest level of risk)

	1	2	3	4	5
Investment Risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Political Risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Currency Risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operational Risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Liquidity Risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other (please specify)

27. In your opinion, does the maturity of a real estate market influence investment decisions by real estate investors?

- Yes
 No

28. Does maturity of a real estate market influence your companies investment decisions?

- Yes
 No