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**Opportunities and Challenges in African Real Estate Markets: Perceptions  
of Institutional Investors**

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by

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The ultimate aim of this research is to serve as a beacon of inspiration for real estate investors who are contemplating investing in the African real estate market. The study offers a comprehensive starting point for investors to gain insights into the primary opportunities, barriers, and potential solutions that characterize the African real estate environment. By delving into the drivers and barriers of Africa's business environment, this research aims to provide a valuable resource that empowers investors to make informed investment decisions and navigate the challenges of operating in this market. With this research, I aspire to contribute to unlocking the potential of the African real estate market and inspire investors to seize the opportunities it offers.

## Abstract

The current body of literature regarding the African real estate environment is limited. While investing in emerging markets like Africa has demonstrated potential benefits, the actual inflow of investments into the African real estate sector remains low. One of the primary factors contributing to this is the inadequate availability of comprehensive information about the African real estate market. This study contributes to the body of knowledge by examining the primary opportunities and barriers perceived by institutional investors active in the African real estate market.

The research is a qualitative, exploratory study into the perceptions of institutional investors on the African real estate environment. The findings are based on eleven semi-structured interviews with institutional investors that are responsible for making investment decisions into the real estate environment across Africa.

The findings highlight that institutional investors consider a wide range of factors when making investment decisions into the African continent. The factors under consideration by institutional investors can give rise to challenges that render real estate investments potentially risky and unsafe. Nevertheless, institutional investors adeptly navigate these challenges through the implementation of specific strategies, which enable them to harness the existing opportunities. The study concludes that success in the African real estate environment hinges on possessing a comprehensive understanding of risk dynamics and a profound knowledge of the operating environment.

The research acts as an information source for practitioners and lays groundwork for future research. The study contributes to the body of literature about the African real estate market and enhances our understanding about the decision-making process of institutional investors.

**Keywords:** Real estate, Africa, institutional investors, diversification, risk

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## List of abbreviations

ETF: Exchange-traded funds

FDI: Foreign Direct Investment

FREI: Foreign Real Estate Investment

GDP: Gross Domestic Product

GNP: Gross National Product

IFC: International Finance Corporation

IRR: Internal Rate of Return

MENA: Middle East and Northern Africa

SADC: Southern African Development Community

# 1. Introduction

## 1.1. Research area and problem

The importance of real estate markets in driving the economic and social development of a country is evident when examining the breakdown of GDP in most nations. Various research studies have demonstrated a direct and positive correlation between the real estate market and economic growth, as real estate is considered a crucial component of a nation's fixed capital stock (Kong et al., 2016; Nguyen et al., 2019). Dupasquier and Osakwe (2006) have identified numerous benefits arising from the influx of foreign real estate investment (FREI) into developing countries. FREI encompass the acquisition and management of real estate situated beyond the borders of an investors' country of origin. Such investments encompass all property types, and can be executed via methods such as direct ownership, collaborative partnerships, or participation in real estate investment trusts. These advantages include the generation and expansion of employment opportunities, integration into the global economy, enhancement of the skills of the local workforce, and heightened productivity levels.

Besides benefiting the destination countries of investments, research has confirmed that global real estate markets offer investors involved in financial assets favourable opportunities for diversification. This allows them to enhance their returns while effectively managing risk. The process of globalization, deregulation, and economic expansion has fostered greater interconnectedness among global markets. Coupled with advancements in technology, the accessibility of investing in overseas real estate has witnessed remarkable improvements (Worzala, 1994). Consequently, this has led to a surge in FREI across the globe.

Despite the recognized advantages of FREI, existing data indicates that in emerging markets like Africa, real estate markets are relatively underdeveloped and less appealing to international investors as a form of investment (Ojah & Kodongo, 2014). In the case of Africa, various factors such as political instability, weak property rights, economic mismanagement, and inadequate capital have contributed to its lagging behind in real estate development (Asiedu, 2006; Baum & Murray, 2011; Drabek & Payne, 2002; Paul & Jadhav, 2019; Zekarias, 2006)

However, there have been recent positive changes in economic policies, legislative reforms, structural improvements, and increased political stability in several regions. These changes have resulted in an improved investment climate and a reduction in the impact of various

obstacles. In addition, population growth and high rates of GNP expansion would typically correspond to increased demand for real estate (Barry et al., 1996; Baum & Murray, 2011). Moreover, Akpan and Ogunba (2015) assert that the inadequate housing supply in the continent has driven up rental and property prices in numerous cities and towns, rendering it an appealing destination for real estate investment.

Despite the promising advancements and favourable outlook in numerous countries, Africa has experienced limited inflows of FREI (Akpan & Ogunba, 2015). This still persists in an era of remarkable urbanization, burgeoning industrialization, and expansion of the service sector. These factors point towards a growing demand for residential, commercial, and industrial real estate. This situation is concerning due to the insufficient domestic investment in the region (Anyanwu, 2006; Bodomu, 2017). Hence, FREI becomes crucial in supporting the growth of the African real estate sector. Given that investment in the real estate industry stimulates economic expansion, African nations stand to gain from increased FREI directed towards their real estate markets, thus propelling their overall development.

According to Barry et al. (1996), limited knowledge about African markets restricts the exposure of investors to these markets. Consequently, Africa fails to harness the economic growth potential associated with increased FREI flowing into the continent. To bolster FREI from international institutional investors into Africa, it is vital to comprehend their perception of the market. As interest in emerging markets and interconnectedness of financial capital markets expands, evaluating the potential advantages and additional risks associated with a global direct real estate investment strategy in these regions becomes imperative (Sirmans & Worzala, 2003). As Africa rises, it becomes essential to explore investors' perspectives on the continent. This study aims to provide valuable insights by examining their views on opportunities and challenges in the African real estate market. By doing so, it can identify areas that require strengthening and improvement, marking the initial steps towards enhancing FREI inflow in Africa.

## 1.2. Purpose of the research

The purpose of this research is to conduct an exploratory study into the perception of institutional investors on the African real estate market. Given the limited existing groundwork on this subject, the current study adopts a broad scope to lay the groundwork for future research

and serve as a valuable information source for practitioners. It should be noted that this approach may lead to general findings, as the study does not extensively explore specific geographical areas, barriers, or sectors.

### 1.3. Research question and sub-questions

The following research question has been developed in order to fulfil the research purpose: *What are the perceptions of institutional investors on the opportunities and challenges of the African real estate market?*

In order to answer this research question, the following sub-questions have been developed:

1. What are the main factors in the African real estate environment that affect the decision of institutional investors to invest or not to invest internationally?
2. How do the identified factors impact the decision-making process for institutional investors to invest or not to invest in African real estate?
3. What strategies can institutional investors employ to effectively operate and achieve maximum returns in the African real estate market?

### 1.4. Theoretical context and contribution

This research aims to address several gaps in the literature, leading to significant contributions in three key areas. Firstly, it contributes to the understanding of international diversification by exploring investors' perceptions regarding the primary reasons for foreign investment. Secondly, it adds to the growing body of literature on emerging markets, with a specific focus on the African real estate market. Through interviews with institutional investors engaged in this market, the study delves into the core investment opportunities and challenges they encounter. Lastly, this research enriches the literature on the decision-making process of institutional investors. By interviewing these investors, the study gains insights into their investment decision-making strategies and the critical factors influencing their choices.

## 2. Literature review

In recent years, there has been a growing trend of international real estate investment, which can offer several advantages for both investors and the countries where the investments are made. Africa is currently experiencing a dearth of FDI in its real estate sector, which is hindering the continent from benefiting from the advantages that come with such investments. The lack of inflowing capital has deprived Africa of the potential for economic growth, job creation, and revenue generation that foreign investment can bring. To provide a theoretical foundation for the investigation of the perceptions of institutional investors on the African real estate market and to determine why there is a lack of FDI in real estate in Africa, the purpose of this chapter is to review previous literature evolving around this topic and to provide an overview of the background information and methodological approaches for this research. This chapter is structured into three main sections. The first section discusses the diversification benefits of internationalizing an investment portfolio; the second section focuses on the investment opportunities offered by emerging markets and discusses the barriers that prevent investors from investing in these regions; the final section focuses specifically on the diversification opportunities offered by real estate and reviews the literature that investigates the most important market characteristics that investors consider when investing in international real estate markets.

### 2.1. Portfolio diversification as a motivation for internationalisation

Portfolio diversification is a widely studied and implemented strategy in finance and investment management. It involves investing in a variety of assets in order to reduce risk and maximize returns. Researchers have extensively examined the effects of diversification on portfolio performance, and have identified several key benefits. Markowitz (1952) was one of the early researchers in the topic of diversification. His study produced a strategy that allows investors to lower risk for a similar return rate or increase risk-return levels by mixing assets that are not correlated. Efficient diversification entails mixing investments to minimize risk without jeopardizing the portfolio's return. A study by Brinson et al. (1991) found that asset allocation, or the strategic combination of different asset classes, was the primary determinant of a portfolio's performance. This strategy led investors to build multi-asset portfolios consisting of varying weightings of stocks, bonds and real estate. As noted by Chouefaty et al. (2011), this can help to smooth out the volatility of returns in a portfolio, leading to more consistent and stable performance over time. Chiou (2008) builds on this by arguing that

diversification can help to capture potential gains from different markets and sectors that may perform well at different times. However, by simply adding different assets to their portfolio, investors are still not maximizing diversification opportunities. When constructing multi-asset portfolios to benefit from diversification, many investors exhibit home bias, which is the preference to invest primarily in domestic markets rather than diversify with foreign investments (Coeurdacier & Guibaud, 2011). If investors do choose to invest in foreign markets, they would favour nations whose returns are more correlated with those of their home market (Bergin & Pyun, 2016). Home bias can hinder investors from fully diversifying their portfolio, as this can lead to a concentration of risk in their domestic market, exposing investors to the risk of economic downturns or other factors that can negatively impact their portfolio (Karlsson & Nordén, 2007). When research on diversification started expanding, multiple researchers found benefits for investors to internationalize their portfolio. International investment refers to the act of investing in financial assets or securities from foreign countries (Lane & Milesi-Ferretti, 2008). Diversifying a portfolio through international investment is crucial as it enables investors to distribute their funds among various countries and regions. Research has shown that this strategy effectively mitigates risks associated with specific areas while still aiming to achieve consistent returns (Bouchev et al., 2012; Chambers & Zdanowicz, 2014). Driessen & Laeven (2007) further assert that the lower correlation between domestic and foreign markets is the key factor behind this risk mitigation, effectively dampening the impact of domestic market fluctuations. The effectiveness of international diversification strategies in reducing risk for a given level of returns relies on the condition that the correlation coefficient between the domestic and foreign markets must be less than one. James and Vaaler (2015) build on this and argue that by investing in stocks from different countries, investors can reduce their exposure to country-specific risks, such as political instability, economic fluctuations, and currency fluctuations. According to Solnik (1995), an internationally diversified portfolio with the same number of holdings as a well-diversified portfolio of U.S. stocks is significantly less risky, with only one-tenth the variability of return of a typical security and half the risk of the U.S. stock portfolio. Froot et al. (2001) found that international diversification can also lead to higher portfolio returns. By investing in stocks from multiple countries, investors can access a wider range of investment opportunities, which can help to enhance returns. According to Bai and Green (2010), this can be achieved through exposure to different industries that may not be available domestically. This can help to diversify a portfolio and reduce sector-specific risk. Rugman (1976) conducted empirical tests that revealed how firms with greater foreign operations can decrease the variance of their earnings, using variance

as an indicator of risk. Consequently, he suggests that risk-averse investors can indirectly capitalize on diversification opportunities by investing in multinational corporations. Additionally, Rugman (1976) argues that heightened economic integration is likely to strengthen the correlation between fluctuations in the domestic economy and those in foreign markets. This could potentially lead to a decrease in the benefits of international diversification.

According to Chiou (2008), international markets have become so integrated that the correlation between financial markets has increased, thereby diminishing the advantages of international diversification. This is confirmed by Morana and Beltratti (2008) who provide evidence that the correlation between European and American financial markets has grown as countries have become more economically integrated. Investors should be wary of these correlations between nations, and to maximize diversification, they should invest in markets that are not correlated with their home market or primary investment market (Driessen & Laeven, 2007). Miralles-Marcelo et al. (2015) conducted research to investigate the benefits of international diversification in the current market context of increasing correlations. They used a dynamic strategy based on time-varying returns and volatility forecasts from a multivariate VAR-DCC approach for the ETFs of the US, UK, and Japan, which are the most actively traded on the New York Stock Exchange. The results demonstrated that portfolios constructed with accurate predictions of expected returns and variances still outperformed the naïve diversification strategy. This allocation approach remained economically beneficial even when considering the costs associated with daily portfolio rebalancing and when rebalancing on a monthly or quarterly basis. Despite the proven benefits of investing overseas, many investors still refrain from doing so. Research indicates that mutual funds tend to invest in a limited number of countries, despite mean-variance analysis suggesting significant benefits from diversifying internationally (Didier et al., 2013). Interestingly, they argue that this lack of diversification is not due to the unavailability of investment instruments or transaction costs. Rather, it is driven by organizational factors such as competition among fund managers and established norms within companies. Statman (1999) asserts that investors may refrain from international diversification due to a lack of familiarity with foreign markets. The limited information available to investors regarding foreign markets relative to their domestic counterparts may result in a domestic bias, causing them to forego potential diversification benefits. Eichholtz et al. (2001) further contends that investors may face an information disadvantage when it comes to foreign investments, as they may lack access to the same level of information available for domestic investments. This asymmetry in information can lead to

a higher perceived risk and lower demand for foreign investments. International investments are also exposed to exchange rate risk which can be a source of volatility and uncertainty for investors, and may increase the risk of losses for investors (Froot, 1999). Legal and regulatory divergences in foreign markets can amplify transaction costs and impede contract enforceability, thereby diminishing the attractiveness of foreign investments, particularly to risk-averse investors (Glassman & Riddick, 1994). Prior empirical research has established the advantages of international investment, yet investors' decisions may not always align with rational investment strategies. There is a lack of research elucidating the key factors that influence investors' decisions to invest or refrain from investing in international markets. Furthermore, the growing interdependence among global markets has affected the benefits of diversification. Findings indicate that developed markets exhibit lower correlations with emerging markets, presenting potential opportunities for investors to maximize the benefits of diversification. The ensuing section will delve deeper into this topic.

## 2.2. Investment opportunities in emerging markets

### 2.2.1. Opportunities in emerging markets

Emerging markets are often defined as countries that have low to middle levels of economic development, but that are experiencing rapid growth and are undergoing significant political and social changes (Nielsen et al., 2018). In general, emerging markets are characterized by high levels of volatility and risk, but also offer opportunities for high returns. Emerging markets exhibit high growth potential which provides investors with opportunities to gain returns in a variety of sectors. Emerging markets are also in the process of reforming and improving their economies, leading to increased political stability, regulatory reform, and improved infrastructure. This can help attract foreign investment and improve the overall business environment. According to London and Hart (2004), emerging markets have made significant progress in improving their business environments, with many countries implementing structural reforms that have led to increased economic growth and foreign investment. Moreover, investing in emerging market assets offers the advantage of potentially acquiring undervalued opportunities with considerable growth potential. As stated by Bekaert & Harvey (2013), emerging market equities are often priced at a discount compared to their developed market counterparts, mainly due to factors like political risk, volatility, and liquidity concerns. This discounted valuation presents investors with the chance to acquire assets at a lower cost and capitalize on their potential for future growth.

### 2.2.2. Portfolio diversification from emerging markets

Earlier it was discussed that correlation among global markets increased due to growing economic integration between nations. Nevertheless, it is evident that the degree of interconnectedness among countries varies significantly, and emerging markets typically exhibit lower correlation with developed markets. Research by Didier et al. (2013) found that the traditional method of assessing the benefits of international investment by comparing returns in developing countries with those of developed economies, fails to fully integrate the advantages of investing in such countries. Contrary to this approach, research has shown that even low-yielding foreign investments in developing countries could potentially have a positive impact on the overall portfolio variance of investors. Bouslama and Ouda (2014) provide empirical evidence that despite growing market correlations, the economic benefits of international diversification in emerging markets are considerable. Investment in these markets improves economic gains and risk-adjusted returns on a consistent basis, making them an essential component of a well-diversified portfolio. Barry et al. (1996) studied the diversification potential from real estate companies in emerging capital markets and found that even though these markets have experienced high risk, the returns from real estate in emerging markets have low correlations with the returns of real estate in developed markets and with stock markets in both emerging as developed markets. Therefore, considering the stabilization effects of portfolio diversification, it is possible to argue more persuasively in favour of investing in countries whose economies are not closely correlated with that of the investing country. Lagoarde-Segot and Lucey (2007) investigated the potential portfolio diversification benefits in seven MENA stock markets from the perspective of a global investor. The results demonstrated significant diversification benefits in the MENA region, with the minimum variance portfolio performing the best. However, they argue that strong and transparent economic and financial institutions are crucial for sustaining long-term portfolio returns in emerging markets. Overall, the study emphasizes the potential for portfolio diversification in the MENA region but underscores the importance of careful consideration of institutional factors and market classification. Bhatnagar and Ghosh (2005) studied correlation among emerging markets in South East Asia and found that these emerging markets are segmented, enabling the possibility to diversify among different emerging economies as correlations are low. The current body of literature lacks research demonstrating correlation among financial markets in African countries. Camilleri and Galea (2009) analysed the co-movement of global

indices, and the correlation coefficients imply that emerging markets have provided diversification opportunities for investors. However, emerging economies tend to have a greater degree of individual variance and move more in line with each other. It is surprising to see these contradictory results since one would expect local emerging markets to exhibit more alignment compared to emerging markets from diverse geographical regions. Christoffersen et al. (2014) conducted additional research to analyse time-varying correlations between numerous countries, utilizing long samples of weekly returns. The findings show that correlations have been rising substantially for both developed and emerging markets. On average, developed markets exhibit greater correlation with other developed markets than with emerging markets, while emerging markets show slightly higher correlation with developed markets than with other emerging markets. These results have implications for institutional investors as it indicates that increasing correlations cannot be mitigated by adjusting portfolio weights over time in a long-only portfolio. Although diversification benefits have decreased for both developed and emerging markets, they remain more significant in emerging markets. In addition to examining correlation patterns, it appears that there are variations in the advantages of diversification between investors from developed and emerging markets. According to Chiou (2008), investors from emerging markets can experience greater advantages by diversifying into developed markets. On the other hand, investors from developed markets may not reap as significant benefits from diversifying into emerging markets. This trend is consistent for both global and regional portfolios, taking into account different investment constraints and various time periods. Such findings could shed light on why institutional investors from developed countries might hesitate to invest in emerging markets. Ghysels et al. (2016) emphasizes that the optimum investment portfolio is tilted towards emerging markets. Using a parametric portfolio approach to examine the influence of conditional return asymmetry, they conclude that conditional asymmetry causes the optimum portfolio to allocate a greater proportion to emerging markets.

### 2.2.3. Institutions as a barrier for foreign direct investment

Despite the notable progress that emerging markets have made in economic growth and institutional reforms mentioned earlier, there remain significant challenges that need to be overcome before investors can consider these countries as strong and secure investment opportunities. International capital flows may be seen via the lens of ‘push and pull variables’, a concept borrowed from economics. Capital inflows to the periphery are affected by a

widespread phenomenon known as the ‘push factor’, which is defined as existing in the global financial market or core nations. Domestic variables, such as institutional quality, economic development levels, and interest rates, are examples of pull factors that draw FDI from the international financial market to domestic financial markets (Kang & Kim, 2019). The absence of compelling pull factors in emerging markets restricts the inflow of investments from international capital markets. For example, Drabek and Payne (2002) argue that the legal and regulatory environment in emerging markets is often plagued by corruption, unclear property rights, and weak contract enforcement. Paul and Jadhav (2019) researched the barriers to investment in emerging markets by empirically identifying the most important institutional determinants for FDI flowing into emerging market economies. Using FDI as a dependent variable and a variety of independent factors as a test subject, they performed lag analysis. FDI in emerging market economies was found to be significantly influenced by infrastructure quality, trade cost as measured by tariff and non-tariff barriers, institutional quality as measured by effective rule of law, political stability, regulatory quality, and corruption control. Similarly, research by Levis (1979) found that political stability is an important determinant of FDI inflow in a country. Feng (2001) conducted a study to examine the potential impact of democracy and other key characteristics of political institutions on private investment. The findings revealed that low political freedom and policy uncertainty have adverse effects on the inflow of private investment. Brada et al. (2006) further argue that failures in reform and stabilization reduce FDI. However, unattractive political regimes do not necessarily prove to be a significant barrier to investment (Baum & Murray, 2011). Even though dictatorial regimes have the power to completely change the rules, they can be even more capitalist and investment-friendly than democracies. When investing in emerging markets, investors are even willing to accept a certain level of corruption if it does not affect their investments. Nonetheless, according to Teixeira and Guimarães (2015), corruption can lead to an unpredictable regulatory environment. Officials may demand bribes or engage in other corrupt practices to influence regulatory decisions. This can lead to an uncertain legal and regulatory environment that makes it difficult for investors to operate. Asiedu (2006) conducted research on the impact of government policies, institutions, and political instability on FDI inflows in Africa. The study revealed that a reduction in corruption in Nigeria and South Africa between 1984 and 2000 led to an increase in FDI. Additionally, the results indicate that regional economic cooperation can have a positive impact on FDI inflows. Other studies examining the effects of corruption and transparency on FDI found that high corruption and low transparency significantly hindered FDI inflows (Canare, 2017; Seyoum & Manyak, 2009). Transparency is shown to be a critical

element in investment decisions, and it has been shown to influence investor behaviour significantly. Drabek and Payne (2002) studied the impact of transparency on FDI inflow. Their findings indicate a one percent increase in transparency ranking results in a 40 percent FDI increase, emphasizing the significance of transparent policies and institutions. Andritzky et al. (2007) goes on by arguing that transparency is essential in emerging markets because of their higher volatility and uncertainty compared to developed markets. They argue that a lack of transparency can lead to information asymmetry. Transparency helps investors to make more informed decisions by providing them with the necessary information to evaluate the risks and returns of their investments. Klapper and Love (2004) found that a lack of transparency reduces the level of investor protection in emerging markets, which further exacerbates the risk of investing in these markets. They argue that without adequate transparency, investors are unable to assess the quality of their investments, which can lead to a reduction in investment. Cungu et al. (2008) researched the role of contract enforcement in the process of development by analysing survey data obtained from emerging markets. They find evidence that a higher likelihood of contractual breaches has a negative impact on inflowing investment. Similarly, Aboal et al. (2014) did a systematic review to find a causal link between contract enforcement and investment, they did not find a strong link between the two. However, Tao and Wang (1998) argues that weak contract enforcement does increase the risk of financial loss for investors, as they may not be able to recover their investments or contractual payments in the event of a dispute or breach of contract. This uncertainty can discourage investment altogether or result in investors demanding higher returns to compensate for the increased risk. They go on by arguing that weak contract enforcement can lead to lengthy and expensive legal disputes, which can delay or prevent the execution of investment projects. Foreign exchange risk is a significant obstacle to investment in emerging markets due to their vulnerability to political and economic instability, which can cause sharp fluctuations in currency values (Solnik & McLeave, 2009). In addition, these markets often depend on foreign capital flows that can further affect currency values. To address this issue, Worzala (1995) suggests hedging strategies that can help mitigate foreign exchange risk. However, Baum and Murray (2011) note that the less developed financial infrastructure in emerging markets can make it challenging to implement effective hedging strategies using available financial products. Some investors argue that cultural and geographical barriers constituted a substantial barrier to investment in emerging markets. Generally, the information asymmetry between the investor and the recipient country can create challenges for the investor. Investors may lack knowledge of the local business practices which can make it difficult for them to

effectively operate in the host country. This can lead to additional agency costs and challenges for investors (Choi et al., 2013)

Baum and Murray (2011) examined which pull factors pose the greatest barriers to FDI in real estate in specific by reviewing previous literature on this subject. Significant political and legal barriers, such as capital account restrictions and ownership restrictions are present in emerging markets. They argue that legal and regulatory frameworks in these markets are often weak and underdeveloped. It is believed that many investors will choose the more stable regime because it is more likely to have a trustworthy legal framework. In order to increase FREI, they conclude that developing nations should promote beneficial tax policies, such as a light tax on capital gains. Barry et al. (1996) further examined the largest impediments with investing in real estate in emerging markets. They argue that these real estate markets are distinguished by the concentration of economic wealth in the hands of large family-owned or controlled holding firms. Real estate markets are unable to expand as a result of these wealthy organizations' refusal to sell a portion of their properties on the undeveloped public market. Governmental ownership also contributes to the limited supply of real estate on the public market. In addition, emerging markets often impose legal restrictions on the ownership of real estate by foreign individuals. Dupasquier and Osakwe (2006) further build on this by arguing that African leaders do not welcome FREI out of worry that it might result in a loss of political or economic sovereignty, cause native enterprises to fail owing to greater competition, and accelerate the rate of environmental deterioration.

The existing literature on the influence of institutional factors on the inflow of FDI into emerging markets has already yielded intriguing insights. However, it is unclear which institutional barriers in Africa are the most significant for investors. Because this continent is so unique and has such a complex political landscape, it is likely that factors other than those typically found in emerging markets play a significant role.

### 2.3. Diversification with international real estate

#### 2.3.1. Portfolio diversification opportunities with international real estate

Since Markowitz's (1952) paper on modern portfolio theory and the emergence of multi-asset portfolios that include real estate as an asset class, researchers have attempted to further examine the benefits associated with the diversification of real estate. To capture the benefits

of diversification and maximize return for a given level of risk, institutional investors have been adding real estate assets to their portfolios in increasing numbers. Adding real estate to a portfolio may not be sufficient to maximize diversification opportunities as investors can further benefit from investing overseas. Prior research indicates that in real estate-only portfolios, diversification benefits can be maximized by investing in diverse geographic regions, property types, and economic regions (Sirmans & Worzala, 2003). Research by Heston and Rouwenhorst (1994) analysed the relationship between industrial structure and the volatility and correlation of country index returns across 12 European countries over 14 years. The study's findings suggest that industry diversification across countries is more effective in reducing risk than within a single country. Chua (1999) examined if a globally diversified portfolio including stocks, bonds, cash, and gold was enhanced by the addition of international real estate. Through the use of mean-variance portfolio optimization, the researcher finds that international real estate does improve risk-return profiles. Hoesli et al. (2004) further investigated the addition of real estate to a portfolio of mixed assets by analysing the inclusion of domestic and international real estate. According to the research, real estate should make up between 5 and 15 percent of a diversified portfolio, and doing so may reduce overall portfolio risk by as much as 10 percent. The research found that lowering risk by only 10 percent may lead to savings of 20 percent if FREI are included. Their conclusion suggests that including international property in an investment portfolio can serve as a hedging strategy, reducing the potential risk associated with domestic markets. Eichholtz et al. (2011) examined the success of globally operating real estate enterprises to that of domestically orientated real estate companies. Their results indicate that domestically focused property companies outperform internationally orientated property companies in the first few years. This underperformance is driven by the institutional environment, information transparency, and economic integration. Negative political contexts raise risk and reduce operational efficiency, resulting in a decline in performance. However, the performance of real estate enterprises improves in proportion to the degree of information transparency and economic integration. They hypothesize that this is partly due to the unfamiliarity of multinational institutional contexts; after a few years, corporations get used to the environment, and underperformance fades. They also found that bigger property firms with a global presence perform better, which is likely owing to their ability to take advantage of economies of scale and more geographic diversification. Candelon et al. (2021) investigated whether diversification advantages from real estate may be obtained most effectively by constructing a worldwide investment portfolio spanning geographic markets or by diversifying across the following property types: residential, office, industrial,

and retail. Their empirical findings imply that the international diversification strategy is superior than the sectoral diversification technique for achieving diversification. Marzuki (2018) examined the risk-adjusted and diversification benefits of South African commercial real estate in a mixed-asset portfolio. From 1996 to 2016, they empirically demonstrate that listed and direct real estate outperformed stocks and bonds. These investment vehicles also exhibited a lower risk level than stocks. They could provide some diversification benefits due to their low correlation with bonds and high correlation with stocks. Overall, this demonstrates that holding real estate is beneficial, particularly in terms of return and risk.

### 2.3.2. Investor rationale for foreign real estate investment

Fereidouni and Masron (2013) studied the impact of real estate market characteristics on FREI by using a panel data regression and utilizing observations from 31 countries while controlling for market size, infrastructure, and political stability. The findings for all countries show that strong infrastructure, lower financing costs, better levels of transparency, and higher property values attract larger amounts of FREI. When dividing the sample into developed countries and emerging market economies, the research reveals that for developed economies, infrastructure is the only significant factor in attracting FREI, whereas for emerging market economies, infrastructure, financing costs, market transparency, property pricing, and landlord and tenant practices are significant factors. A limitation of this study is that the sample consists of only 31 countries, none of which are from South America or Africa with the exception of Tunisia. Therefore, it is difficult to generalize these results; economic conditions, political stability, institutional quality and real estate markets in South America and Africa are significantly different. Falkenbach (2009) examined the market selection factors of global real estate investors by reporting the findings of a survey of European real estate investors who invest worldwide. Participants were asked to indicate whether each characteristic is a ‘threshold factor’ in market selection, whether it has an effect on market selection or not, and how much of an effect it has. According to the data, the two most important factors in determining a market’s desirability are the expected rate of return on real estate investments and the certainty of the property's legal status. The size of the market, the accessibility of market information and performance benchmarks, the availability of investment opportunities, the diversification opportunities afforded by low correlation of returns, the presence of other foreign players in the market, and the proximity of markets to other target markets are all additional considerations. Hines (1988) contributes to that last factor by providing evidence suggesting

the majority of investors who extend their real estate holdings into non-domestic markets tend to choose countries that are either geographically or culturally nearby. The need for more direct and active management of real estate, the need for in-depth understanding of local regulations, and the typically high cost of investments all contribute to the limited size of foreign portfolios. The research conducted by Falkenbach (2009) only includes European respondents, again limiting the applicability to investors from other parts of the world. This research gap is however filled by Worzala and Newell (1997). To better understand the motivations of these investors, Worzala (1994) conducted a survey of those who own foreign property or who are currently pursuing a plan that involves foreign property. The survey was set out to get insight into the perspectives of engaged, interested investors towards international property investments and to inquire into the criteria utilized by institutional investors in making such choices. The findings show that institutional investors are seriously thinking about purchasing property in a foreign country. The key advantage of real estate investment from outside is diversification. It was surprising that there was a lack of interest for the potential negative impact of currency fluctuations and transaction costs for European investors. The results of this survey were later used in research from Worzala and Newell (1997) who present information about the perspective of institutional investors on international real estate. Here they compare the findings of the survey in research from Worzala (1994) to a survey completed by Southeast Asian investors. Their findings imply that diversification and the pursuit of higher returns are the primary motivations for FREI, also for Southeast Asian investors. Whereas European respondents were primarily concerned with a lack of local experience and acquisition knowledge, Southeast Asian respondents were significantly more concerned with currency risk and the challenges of managing existing overseas investments. This implies that western perception of investing in international real estate can differ from the Asian perspective. McGreal et al. (2001) was the first researcher to examine institutional investors' perceptions of real estate investment in a specific geographic region. The researchers analysed the real estate investment decision-making processes of institutions and property companies in the United Kingdom and nations from the European Union on the Central European real estate market. According to their findings, the primary sources of risk are the perception of thin markets, the accuracy of data, the overall economic climate, market transparency, the return of profits, corruption, and bureaucracy. The findings of this study are based on the responses to a questionnaire. Because it is based on quantitative data, the researchers must make assumptions about why companies place certain risk factors at the top of their decision-making process. Similarly, Cheng Lim et al. (2002) compared two surveys of institutional investors from

Singapore and the United Kingdom regarding the most important factors for investing in Southeast Asian companies. This study also included a questionnaire that required scoring. Even though this allowed the researcher to evaluate the differences in investor perception in each region, a deeper analysis was not possible. As a result, current literature lacks in-depth perceptions on real estate markets. The current body of literature lacks insights into which factors are most significant for institutional investors in the African real estate market.

#### 2.4. Conclusive thoughts on Literature Review

The literature review for this study revealed a significant research gap in the area of international investment in African real estate, particularly in Sub-Saharan Africa. This may be due to the lack of foreign investor participation in African markets. The aim of this research is to address this gap by exploring the reasons why investors may or may not invest in African real estate. Due to the significant research gap in the field, this research intends to function as an exploratory study that will establish a foundation for future research. The literature review highlighted the importance of international investment in portfolio diversification, which reduces risk for the same level of return. It also discussed how emerging markets can enhance portfolio diversification by having low correlation with developed markets, and how institutional barriers can hinder international investment. Additionally, the literature emphasized the benefits of international real estate investment in portfolio diversification. The findings from the literature review are crucial for this study, as they provide insights into the reasons why investors should or should not invest in African real estate, and will inform the development of the research methodology.

## 3. Research Methodology

### 3.1. Research Strategy and Approach

As discussed in previous chapters, the aim of this research is to explore the perception of institutional investors on the African real estate market. By doing this, the main opportunities and challenges to investing in real estate in this market can be identified. Chapter 2 provided a comprehensive analysis of existing literature, exploring the factors that motivate or hinder international real estate investments, particularly in emerging markets. It also delves into a detailed examination of research pertaining to investing in the real estate market in Africa. To achieve the research objective, it is essential to develop a well-structured research methodology. This chapter's objective is to offer the reader with a comprehension of and reasoning for the selection of research methodologies, as well as an explanation of the specific research procedures.

Previous literature has identified two main types of research approaches: the inductive and deductive approach. The inductive approach is exploratory in nature and characterized by moving from specific observations to broader generalizations; the researcher begins by collecting data pertinent to the topic, then identifies patterns in the data and develops theories (Thomas, 2006). Researchers seek conclusions, new theories and frameworks to arise from diverse patterns present in raw data, without the constraints imposed by structured approaches. As the approach is not meant to test theories, the researcher is to remain open-minded and flexible, which is beneficial when the problem is multifaceted. Consequently, this method can be considered best for qualitative research. Qualitative focuses on generating descriptive data, and is expressed in words through observations, interviews, or focus groups, which is used to comprehend ideas, thoughts or experiences (Fossey et al., 2002). This can help generate a deeper understanding of incompletely understood issues. In the deductive method, researchers move from a more general to a more specific level. Researchers examine prior work, read existing theories, and test hypotheses derived from these theories (Hyde, 2000). This method is suitable for research initiatives that seek to confirm that observed events correspond to predictions derived from prior investigations (Wiles et al., 2011). In contrast to the flexible approach of inductive research, the deductive approach has well-defined research objectives. Due to the fact that this method examines hypotheses by studying the connection between variables, it is regarded as an effective method for quantitative research, which is expressed in numbers and graphs (Soiferman, 2010). This is often done through empirical analysis, which

can reduce bias associated with the researchers' interpretation of data in qualitative research. Researchers can also apply the mixed methods approach, in which they utilize both quantitative as qualitative data. This can provide a more comprehensive understanding of the research problem as qualitative data can provide deeper insights on patterns found in quantitative data (Halcomb & Hickman, 2015). In addition, researchers can cross-validate their findings, improving the validity and reliability of their results.

The decision for the research strategy should enable to researcher the easiest way to obtain the answer to the research question and goals of the study. Prior research on institutional investors' perceptions of specific real estate markets attempted to quantify their perceptions by assigning numerical values to factors influencing their decision-making process to invest in the studied real estate markets (Cheng et al., 2006; Cheng Lim et al., 2002; McGreal et al., 2001). However, the results of these studies lacked deeper analysis and insights of the reasoning behind choosing for the factors. Suggestions in further research provided by these studies included deeper insights and explanations regarding the reasons why certain barriers are considered to be most prominent. In order to obtain comprehensive and nuanced insights, this study adopted an inductive approach using qualitative data. By employing qualitative methods, this research aims to delve deeper into the subject matter, filling the gaps left by previous quantitative studies that lacked in-depth insights. However, it is worth noting that the researcher drew upon the results of the previously discussed quantitative research to inform the research design. The outcomes of the quantitative research helped shape the formulation of interview questions, enabling this study to delve further into the subject and obtain more profound and comprehensive answers. The data collection methods were constructed based on the results of such studies.

Given the study's objective of exploring new perspectives and gaining insights from participants' experiences with the phenomenon, the inductive approach was considered suitable due to its receptive nature towards novel ways of understanding previously unexplored phenomena. The primary focus of this research is not to produce generalizable results, as perceptions of institutional investors in a specific market or region may not be transferable to other contexts. The objective is to explore institutional investors' perceptions of the African real estate market and gain a deeper understanding by examining their perspectives in greater detail, aiming to identify patterns and uncover valuable insights.

## 3.2. Research Design, Data Collection Methods and Research Instruments

### 3.2.1. Research Design

Zikmund et al. (2013) describe the research design as “a master plan that specifies the methods and procedures for collecting and analysing the needed information” (p. 64). In exploring the perception of institutional investors on real estate markets in Africa, there is little groundwork to test specific hypotheses. The main objective of this research is to develop an inductively derived theory, rather than establishing correlations or testing specific hypotheses. The research gathered preliminary data, insights, and ideas to gain a better understanding of the research problem and formulate hypotheses or research questions. Essentially, the research moved from a general understanding to a specific one while ensuring that the unique qualities of the subject under study were not overlooked. Therefore, an exploratory research design was considered the most appropriate approach. This design enabled exploration of the intricate and multifaceted nature of the research topic, facilitating the identification of patterns and themes within the data that can inform future research in this domain. Additionally, the flexibility inherent in this design allowed the researcher to adapt their approach and methods as new data and insights were acquired, unconstrained by predetermined hypotheses or theoretical frameworks. This iterative process empowered the researcher to refine research- and interview questions and methods, and generate new hypotheses or research questions as the study unfolded.

### 3.2.2. Data Collection Methods and Research Instruments

The collection of high-quality data is essential for scientific research, and selecting the appropriate data collection method is crucial for acquiring the data necessary to answer the research question (Axinn & Pearce, 2006). The most used data collection methods for qualitative research are observations, focus groups, surveys and interviews (Barrett & Twycross, 2018). Harrell and Bradley (2009) compare the strengths of these data collection methods and conclude that interviews are superior in terms of information depth, resolving conflicting information, determining relative issue emphasis, and issue classification. The strengths of interviews are applicable to the objective of this research, which is to gain comprehensive insights in the insights, ideas and thoughts of institutional investors about the African real estate market. Therefore, interviews were deemed the most appropriate research instrument. Interviews are one-on-one discussions used to collect information from individuals about a specific set of topics using a series of predetermined questions or a set of interest areas

(Harrell & Bradley, 2009). Due to its personalized nature and respondents' in-depth responses, it is the most common approach for collecting data in qualitative research. Interviews can be structured by following a scripted set of questions similar to a survey, or they can be unstructured, allowing for more spontaneous responses from the interviewees (Paradis et al., 2016). Interviews can also be conducted in a semi-structured format, in which a guide with predetermined questions and overarching topics is used. The information is gathered in a conversational manner and can be quite detailed. During the course of the interview, there may be further inquiries made for the purpose of obtaining clarification. Qualitative researchers frequently use semi-structured interviews to gain comprehensive insight into intricate subjects, allowing them to explore a topic in detail and comprehend the responses provided by individuals (Harrell & Bradley, 2009). Horton et al. (2004) builds on this by arguing that semi-structured interviews are well-suited for exploring individual experiences and perspectives, as they allow participants to express their views in their own words and provide detailed insights into their decision-making processes. Because participants provide their own views and opinions, semi-structured interviews are a good way to discuss sensitive or personal topics. This is important for a study on the decision-making process of institutional investors, as the investment decisions and perceptions of institutional investors are often closely guarded and not publicly disclosed. Semi-structured interviews would allow the participants to share their experiences and perspectives in a more comfortable and private setting. By providing a flexible and open-ended approach, semi-structured interviews allow researchers to explore a wide range of issues related to the research topic (Harrell & Bradley, 2009). Semi-structured interviews offer flexibility and adaptability, making them an ideal approach for investigating unfamiliar topics where unforeseen issues may arise during the interview process (Horton et al., 2004). For qualitative research to be maximally beneficial, an extraordinary voice should be given to informants, and flexibility to adjust interview protocol based on interview responses should be preserved. This is relevant when examining the challenges and opportunities associated with investing in African real estate markets, which may be vulnerable to unexpected developments that challenge the researcher's existing knowledge. Therefore, a semi-structured interview script was developed and used during the interviews, which can be found in the appendix. By employing a semi-structured approach, the researcher was able to clarify and delve deeper in certain issues, adjust the interview questions as needed, and seek follow-up information. This allowed for greater richness in data collected from respondents as they were able to explain themselves further. The interviews were remotely conducted via the use of Microsoft Teams, primarily due to the geographical dispersion of the interviewees spanning across Africa and

Europe. The interview questions were formulated by drawing upon the knowledge and insights obtained from the literature review, particularly previous research that examined the perceptions of institutional investors regarding specific markets (Cheng et al., 2006; Cheng Lim et al., 2002; McGreal et al., 2001). A consistency matrix was used to ensure completeness with the literature review for interviews. The literature review has identified the diversification benefits of internationalization, the opportunities and barriers of investing in emerging markets and the diversification opportunities found in investing in international real estate. Based on the results of the studies discussed in the literature review, the interview questions were formulated in a manner that addressed the research question.

### 3.3. Sampling

This study conducted interviews with individuals employed at institutional investment firms that specialize in real estate investments in Africa, as well as consultants who offer advice to these institutional investors. The World Bank (2018) defines institutional investors as “entities that pool money from various sources to invest in different asset classes, with the intent of generating profitable returns on their investment” (p. 3). These investors possess considerable financial resources and specialized knowledge, enabling them to make sizable investments in various asset classes, including real estate (Clark & Monk, 2017). The research population is the collection of individuals, phenomena or objects that are the primary focus of a scientific study and meet the researcher’s investigation criteria, whereas the sample is the group of individuals the researcher actually collects data from (Taherdoost, 2016). The research population for this study consists of investors who work for large institutional investment firms and are responsible for making investment choices related to real estate in emerging markets, specifically Africa. Additionally, real estate consultants who provide advice to these institutional investors are also included in the study population.

There are two main sampling methods namely probability sampling and non-probability sampling (Acharya et al., 2013; Uprichard, 2013). Probability sampling involves random selection in which every member of the population has an equal chance of being selected, which enables robust statistical inferences about the research population. Non-probability sampling entails non-random selection based on convenience or other criteria, allowing for straightforward data collection. Acharya et al. (2013) discusses the three most commonly used non-probability sampling methods namely purposive sampling, quota sampling and snow-ball

sampling. Due to the limited number of institutional investors employing investment strategies in African markets, the use of probability sampling in this study was considered not feasible as the research population is too small. Instead, this research utilized a non-probability sampling approach in the form of purposive sampling and snowball sampling. Purposive sampling is commonly used in qualitative research to select individuals who possess knowledge or experience related to the specific phenomenon being studied (Etikan, 2016). This method was deemed most appropriate for this study as it enabled the selection of informed and experienced subjects, and would yield the most relevant data. Guarte and Barrios (2006) argue that the purposive sampling technique relies on the researcher's discretion when selecting participants; it is the researcher's job to choose a representative sample that meets their goals, or to explicitly pursue individuals with expertise about a certain topic. Following the selection of initial participants, the snowball technique was employed, whereby these participants were requested to refer potential candidates for the research.

Research illustrates that data saturation occurs with samples of 12 in the case of a relatively homogenous population (Boddy, 2016; Crouch & McKenzie, 2006). This study presumes that the sample is relatively homogeneous since the research population consists of investors who are deciding on the same financial product (real estate) within the same region (Africa). The research initially intended to conduct 12 interviews. The study sent 46 invitations to institutional investors specializing in real estate investment in Africa, as well as consultants who advise such investors. Nine respondents agreed to participate, resulting in a 19.5% response rate. Additionally, two participants referred prospects who were willing to participate, bringing the total number of participants to 11. Due to challenges in finding suitable research participants and reaching data saturation earlier than anticipated, the research proceeded with only 11 interviews. The research interviewed one individual per company, assuming that their responses would be similar, given that they invest based on the same strategy. Nonetheless, insights from a relatively large number of investors in this industry was gathered, given the limited absolute number of institutional investors that focus on this market. Due to the potential variation in factors influencing investment decisions among institutional investors and the varying importance of specific opportunities or barriers to different investors, it is important to note that the findings cannot be universally generalized or assumed.

The sampling process consisted of a dual approach with several steps. Initially, the researcher conducted a thorough due diligence process to identify institutional investment firms that have

expertise in investing, developing, and managing significant real estate projects in Africa and are financially supported by investors. Additionally, the research explored the real estate consultancy sector in Africa to identify the top consultants who provide services to these institutional investors. The second step involved creating a comprehensive document outlining the research's nature, objectives, methodology, and the company's involvement. Subsequently, the third step involved contacting employees from these companies to gauge their interest in participating in the research. Their roles and names were obtained from the company's website. The researcher initiated contact via both LinkedIn and email. Email addresses were sourced from the company's website, and if unavailable, RocketReach and Seamless.AI were used to obtain the email addresses of targeted employees. If these platforms were also unsuccessful in providing an email address, the researcher resorted to contacting the employees solely through LinkedIn. Due to the comprehensive outline provided in the information document, all participants were sufficiently informed, and as a result, no informational discussions were deemed necessary before the interviews. Consequently, all participants willingly agreed to proceed with the interviews without requiring additional information. Subsequent to each interview, the interviewer inquired if the interviewee was aware of any other relevant interview candidates in the industry. It was at the researcher's discretion to determine whether such individuals could provide valuable insights for the study.

### 3.4. Data Analysis Methods

The data analysis method of Gioia et al. (2013) applies an interpretative approach which is appropriate for this research as it is focused on learning about the perception of institutional investors on the African real estate market. Answers given in interviews can be subjective in the sense that each institutional investor can perceive certain opportunities or barriers as more significant than others. To analyse the data gathered from interviews, an eight-step thematic coding was used based on Creswell and Clark (2017). The steps of the approach are illustrated in Figure 1. Firstly, the interviews were transcribed. Since all interviews were in English, translation was not necessary. In the data preparation stage, the transcripts were color-coded to extract the most pertinent information and to arrange the data systematically. Secondly, as Green et al. (2007) highlights the need of data immersion prior to coding the interviews, the researcher reviewed the transcripts to confirm the material is correct, to flag places where follow-up questions to respondents were necessary, and to think about general ideas for codes. Prior to commencing the coding process, the researcher formulated a preliminary coding

scheme that encompassed the questions they sought to answer and the corresponding topics related to those questions. The data was coded through manual coding in two phases. During the first phase, the researcher developed thematic codes to summarize the content of the data. Thematic coding involved assigning labels or codes to segments of data that corresponded to specific themes or concepts. The codes were assigned based on recurring patterns or similarities in the data. In the second phase of coding, the researcher consolidated the initial thematic codes into a shorter list of meaningful themes. This step involved grouping related codes into broader categories and identifying overarching themes that emerged from the data. The purpose of this consolidation was to simplify the coding structure and to make it easier to analyse and interpret the data. Following this, the data was represented in the most suitable manner, which was determined after the coding phase. The visualization of data allowed for better comprehension and understanding of the patterns and relationships present in the data. In the interpretation phase, the data was analysed and interpreted to identify similarities and contrasts. This phase helped in the development of theories and hypotheses that could explain the patterns observed in the data. The findings obtained from the interpretation phase were then compared to the existing literature review. This comparison helped to validate the results and identify any inconsistencies that may require further investigation. To ensure the validity and reliability of the findings, several techniques were used, such as tests for reliability and external reviews. These techniques helped to verify the accuracy and consistency of the findings, which is essential for establishing the credibility of the research. The techniques used in this research will be discussed later in the next section.

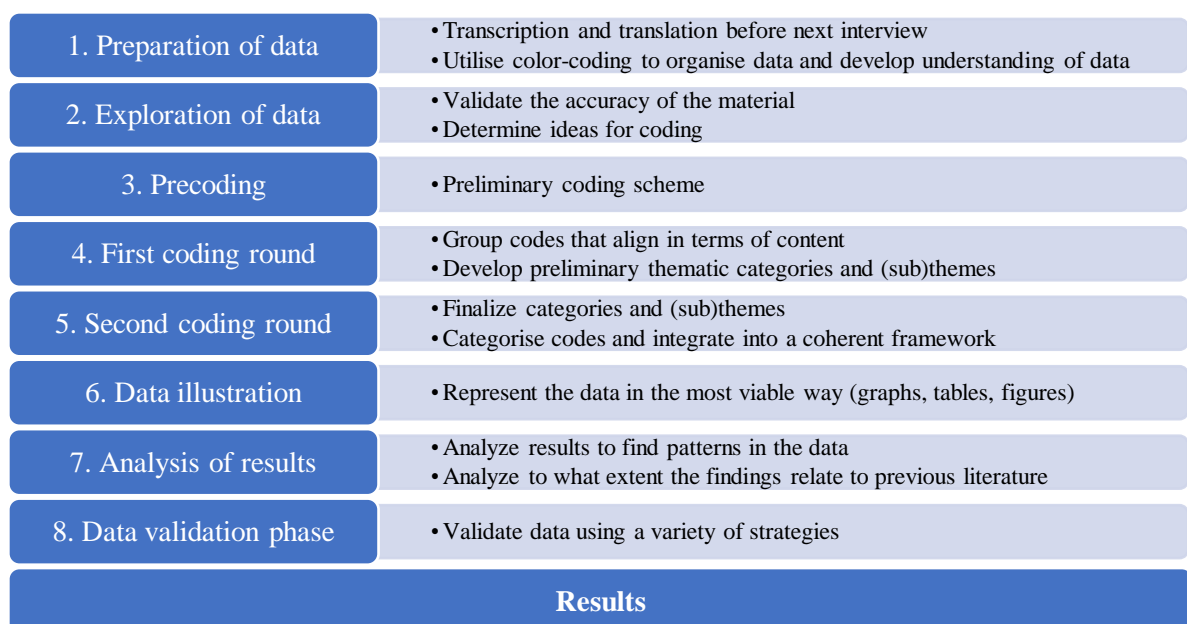


Figure 1: Data Analysis

### 3.5. Research criteria

In qualitative research, the researcher acknowledges that their own biases and assumptions are part of the research process, and actively works to uncover and question them throughout the analysis. The ‘trustworthiness’ of qualitative studies is determined by their credibility, transferability, dependability, confirmability and authenticity. In order to fulfil these requirements, relevant literature has been reviewed. On the basis of this literature, the appropriate instruments for comprehending with each criterion in this study was determined. This is summarized in the table below.

*Table 1 - Research criteria definition and tactics*

| Criterion       | Definition  | Tactics  |
|-----------------|---|--|
| Credibility     | The degree to which results are considered to be trustworthy and credible | <ul style="list-style-type: none"> <li>• Peer debriefing, proposed by Guba (1981), was utilized. This involved presenting insights to peers for rigorous questioning, testing and validating the researcher's ideas, and identifying biases or flaws in the design. Engaging with knowledgeable academic staff in peer debriefing sessions enhanced credibility through valuable input and feedback.</li> <li>• This research employed triangulation, utilizing multiple methods, sources, and theories to obtain corroborating evidence (Onwuegbuzie and Leech, 2015). It involved collecting data from various sources, such as interviews and literature review, and analysing them using different techniques. This approach enhanced credibility by providing a comprehensive understanding through convergence of evidence.</li> <li>• Careful consideration was given to sample selection, with suitable participants directly involved or knowledgeable about the research topic purposively selected. Appropriate sampling techniques, such as purposive or snowball sampling, ensured a representative sample.</li> <li>• Data from different participants were systematically analysed and compared to identify patterns, commonalities, and differences. This process ensured robust and reliable findings by identifying inconsistencies or discrepancies.</li> </ul> |
| Transferability | The degree of its applicability in other contexts,                        | <ul style="list-style-type: none"> <li>• Thick description, as proposed by Anney (2014), was utilized. Thick description involves providing detailed and comprehensive descriptions of all aspects of the research process, from data collection to report writing. This includes documenting the</li> </ul>   |

|                |  |  |
|----------------|--|--|
|                | situations or studies (Bitsch, 2005).  | <p>research design, methodology, data collection procedures, and data analysis techniques in a thorough and transparent manner. By detailing the research process, this study aims to enhance the transferability of findings to other contexts by enabling readers to understand and replicate it.</p> <ul style="list-style-type: none"> <li>• Purposive sampling, as advocated by Anney (2014), was employed. Purposive sampling involves selecting participants based on specific criteria, such as their expertise or knowledge on the research topic. This facilitated the purposeful selection of informed participants capable of providing meaningful insights into the research topic.</li> <li>• The research documented participant characteristics, the setting, and contextual factors that may have impacted the findings. This enables readers to assess the relevance and applicability of the findings to their own contexts or situations.</li> </ul>   |
| Dependability  | The extent to which discoveries are stable over time and reproducible, with comparable conclusions (Bitsch, 2005). | <ul style="list-style-type: none"> <li>• An audit trail approach, as proposed by Anney (2014), was utilized. This approach involved documenting and verifying the research process, including data acquisition, documentation, and analysis. The responsibility for all research choices and actions lies with the researcher, who maintains a detailed record that can be reviewed by others.</li> <li>• Multiple rounds of coding, as suggested by Gioia et al. (2013), have been conducted to enhance the dependability of the findings. This involved iteratively coding and analysing the data to identify patterns, themes, and categories, and refining the coding process through multiple rounds of review and analysis.</li> <li>• A clear case study protocol has been developed and followed rigorously throughout the research process. This included clearly outlining the research design, data collection procedures, data analysis techniques, and criteria for interpreting the findings. Adhering to a well-defined case study protocol ensured consistency and reliability in the research process.</li> </ul> |
| Confirmability | Concerned with the amount of trust that the conclusions of the research study are based on the                     | <ul style="list-style-type: none"> <li>• Protocols were implemented to document the data collection process. This involved recording interview details such as the date, time, and location, along with any relevant contextual factors that may have impacted the research. By following these protocols, transparency and accountability in the research process have been ensured, and potential researcher biases were minimized.</li> <li>• Efforts have been made to maintain neutrality and minimize biases during data collection and analysis.</li> </ul>   |

|              |   |   |
|--------------|---|---|
|              | narratives and words of the participants rather than any possible biases on the side of the researcher (Cutcliffe & McKenna, 2004). | The researcher acknowledges their own biases and has taken steps to avoid their impact on the research findings. This involved using open-ended questions during interviews to allow participants to freely express their perspectives, and employing transparent and systematic data analysis techniques. By prioritizing the participants' narratives over the researcher's preconceived notions, the findings will be more objective and reliable.   |
| Authenticity | The degree to which the method or the study prompted change among individuals.  | <ul style="list-style-type: none"> <li>• Maintaining credibility, transparency, and integrity with the participants was a priority. This involved establishing a trusting relationship with the participants throughout the research process, being transparent about the research purpose, methods, and potential outcomes, and ensuring that the participants are fully informed and comfortable with their involvement in the study.</li> <li>• Efforts have been made to ensure a balanced representation of perspectives among participants to prevent certain individuals having a more prominent voice. This involved mitigating biases in participant selection and data analysis, and actively seeking diverse viewpoints from a wide range of participants. In order to achieve this, interviews were conducted with a single employee from each company, as it was expected that perspectives within the same company would be relatively consistent. By including a diverse range of voices, the research findings better capture the complexity and richness of the topic.</li> <li>• The researcher has remained neutral, objective, and avoided imposing personal biases on the findings. Open-ended questions were used during interviews to encourage participants to freely express their perspectives. Systematic and transparent data analysis techniques were employed to minimize researcher biases. The presentation of findings are unbiased, reflecting the diversity of perspectives and experiences captured in the research.</li> </ul> |

### 3.6. Limitations and ethical considerations

Given the purpose of the investigation, it was determined that the best method to use was a qualitative one. However, certain problems can arise from qualitative studies. To begin, the results of the study are in some way contingent on how the researcher chooses to interpret the

information obtained from the interviews. The researcher's own biases, assumptions, and preconceptions can influence the analysis and conclusions drawn from the data. To minimize interpretation bias, it is important for the researcher to be transparent about their assumptions and to engage in a rigorous and systematic analysis of the data. Second, in this research, the focus is on exploring a specific phenomenon in-depth and gaining a deeper understanding of it. The aim is not necessarily to discover generally applicable findings, but rather to generate insights that can inform future research. As a result, the sample size in this research is relatively small, meaning that the findings cannot be extrapolated to the wider population of investors, as it may not be representative or diverse enough to draw broader conclusions about institutional investor perception in African real estate markets. Third, in research about the perception of institutional investors, it is possible that respondents may not provide completely honest or transparent responses, which could impact the quality and accuracy of the findings. One potential source of bias is social desirability bias, which occurs when participants respond in a way that they believe will be viewed favourably by the researcher or society at large. In the context of this dissertation, investors may be hesitant to reveal information about their investment strategies, financial performance, or risk management practices due to concerns about confidentiality or a desire to present themselves in a positive light. This could limit the depth and quality of the data collected and may not fully capture the realities of investing in African real estate markets.

The primary ethical concern in this study revolved around ensuring the confidentiality of participants' responses. Some participants emphasized the importance of maintaining anonymity in their answers. To address this, the researcher provided a clear explanation of how the responses would be utilized and safeguarded. Additionally, interview consent forms were sent to participants to confirm their voluntary and justified participation. Throughout the study, participants occasionally requested the exclusion of specific passages from the thesis, and the researcher respected their wishes accordingly. As a result, personal anecdotes are relatively limited in the thesis, with the researcher presenting such information in a generalized and theoretical manner.

## 4. Results and Discussion

### 4.1. Introduction

As set out in the previous chapter, the methodology has been designed to induce insights that answers the question: *What are the perceptions of institutional investors on the opportunities and challenges of the African real estate market?*

To answer the main research question, the results of this study address the three sub-questions that examine the main factors that institutional investors consider when investing in the African real estate environment, the impact of these factors on their decision to invest in real estate, and the approaches they can utilize to operate successfully and generate returns in the African real estate market.

This chapter focuses on the presentation, discussion, and interpretation of the main data findings. The results, themes and subthemes that were derived from the interviews are analysed, discussed, and linked to previous literature that was discussed in Chapter 2. The statements of the interviewees are included to illustrate the feelings and opinions of participants and evidence quotations. To ensure validity of responses, they are captured and quoted verbatim, notwithstanding any language or spelling errors.

### 4.2. Sample overview

Table 2 summarizes the profiles of the participants who were interviewed for this study, with job titles simplified to ensure their anonymity. For companies with a fund structure, the size of the fund is indicated, while assets under management are shown for those without a fund structure. The table indicates the specific African markets where the company invests, and also notes if they have real estate investments outside of Africa. This information is relevant as those participants may provide valuable insights on portfolio diversification opportunities.

Table 2: Participant table

| <b>Count</b> | <b>Participant Code</b> | <b>Type</b>            | <b>Job Role</b> | <b>Company Headquarters</b> | <b>Fund Size/AUM in USD</b> | <b>Target Market in Africa</b> | <b>REI outside Africa</b> |
|--------------|-------------------------|------------------------|-----------------|-----------------------------|-----------------------------|--------------------------------|---------------------------|
| 1            | A1                      | Institutional Investor | Director        | London, UK                  | FUND: 400M                  | Entire African continent       | No                        |
| 2            | B1                      | Consultant             | Manager         | Johannesburg, SA            | N/A                         | Entire African continent       | N/A                       |
| 3            | A2                      | Institutional Investor | Manager         | Cape Town, SA               | FUND: 188M                  | Southern Africa                | Yes                       |
| 4            | A3                      | Institutional Investor | Director        | London, UK                  | FUND: 506M                  | Entire African continent       | Yes                       |
| 5            | A4                      | Institutional Investor | CEO             | Grand Baie, MU              | AUM: 800M                   | Southern Africa                | No                        |
| 6            | A5                      | Institutional Investor | Director        | Cape Town, SA               | FUND: 1.3B                  | Southern Africa                | Yes                       |
| 7            | A6                      | Institutional Investor | Director        | London, UK                  | AUM: 600M                   | Entire African continent       | Yes                       |
| 8            | A7                      | Institutional Investor | CEO             | Johannesburg, SA            | AUM: 9.46B                  | Southern Africa                | No                        |
| 9            | A8                      | Institutional Investor | Director        | Johannesburg, SA            | FUND: 351M                  | Entire African continent       | No                        |
| 10           | A9                      | Institutional Investor | Director        | Johannesburg, SA            | FUND: 141.8M                | Southern Africa                | No                        |
| 11           | A10                     | Institutional Investor | CEO             | Harare, ZWE                 | AUM: 180M                   | Entire African continent       | No                        |

### 4.3. Findings

To ensure a comprehensive analysis of the response data collected, the researcher employed a structured approach by organizing and tabulating the responses to each question on an Excel spreadsheet. In order to fully comprehend the data, the researcher carefully and systematically reviewed the tabulated data several times. This detailed reading allowed the researcher to gain a deeper understanding of the data, thereby facilitating the identification of any emerging patterns or relationships.

As patterns began to emerge from the data, the researcher noted them and applied colour coding to highlight them. The process of pattern identification was repeated several times to enhance any similarities and ensure the accuracy of the findings. The prominent patterns that emerged from the data were then reviewed thoroughly and defined.

From the data, first order concepts were derived, which were transformed into second order themes. The second order themes turned into aggregate dimensions which are the building blocks to answering the sub-questions. Through answering each sub-questions, the researcher was able to answer the main research question.

To illustrate the data analysis process, Figure 2 was created to depict how raw data was transformed into aggregate dimensions. This graphical representation serves as a key component of the data analysis process, highlighting the rigor employed in qualitative research. Overall, this approach allowed the researcher to gain an in-depth understanding of the response data and ensure that the study's findings are grounded in the data collected.

Each of these three themes: risk versus return profile in the African business environment; manifestations of risks in the African real estate environment; thriving in Africa's complex real estate landscape, sheds light on the perceptions of institutional investors on the African real estate market. This findings section will be structured based on the above three themes. Within each theme, the research sub-questions will be addressed.

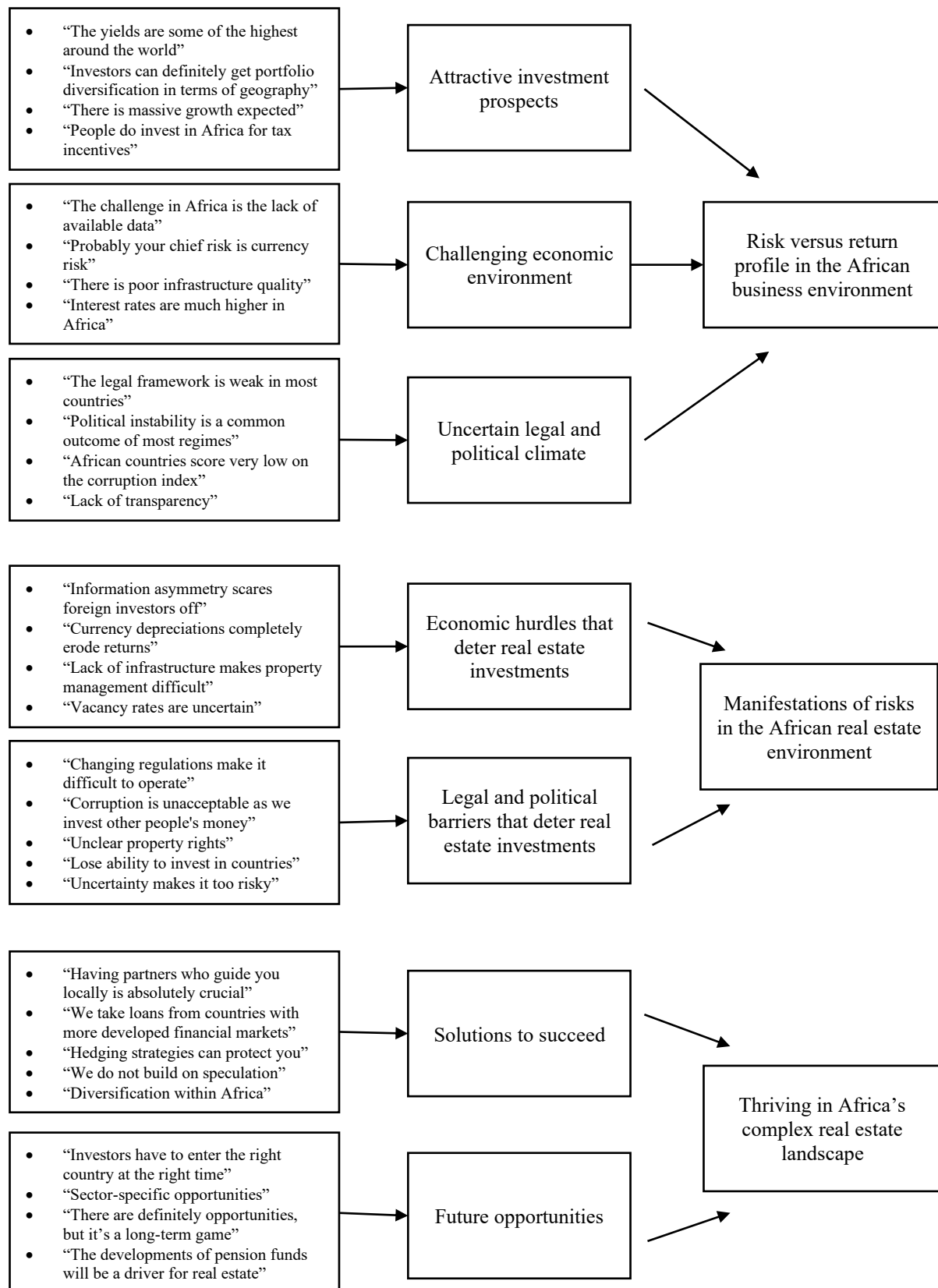


Figure 2: Data structure

#### 4.4. Risk versus return profile in the African business environment

The first theoretical dimension derived from the data is focused on risk and returns in the business environment in Africa. This dimension builds upon the literature review, which provided the foundation for the interview questions. By interviewing institutional investors, the study aimed to assess whether the key considerations identified in the literature regarding institutional investment in African real estate markets are consistent with the factors that investors actually take into account. As indicated in the literature review, emerging markets like Africa are often characterized by high levels of volatility and risk. Consequently, institutional investors, who are entrusted with investing funds on behalf of pension funds, governments, and other investors, face significant barriers to investment. A1 explains, “*We’re investing pension funds’ money, we’ve got the British Government as an investor*” which illustrates the responsibility and accountability that institutional investors face in managing risk. Therefore, institutional investors are limited in the amount of risk they can take on, and must adhere to agreements made with investors, as A5 noted, “*If you’re investing the money of other people, there are limits to the risk you can take, and you have to adhere to certain agreements made with investors.*” Despite these challenges, the African business environment offers significant opportunities for institutional investors, as high risk often correlates with high returns, as stated by A1, “*I think the yields are always going to be quite high because there is still a lot of inherent risk in the African market.*”

Understanding the key drivers and barriers of Africa’s business environment is critical to understanding the African real estate market. Specifically, it is important to identify the key factors that institutional investors consider when deciding to invest or not invest in the real estate environment. This is the focus of the first theme, which identifies the drivers and barriers of Africa’s business environment based on responses from the study participants. The first theoretical dimension of the study was formed by analysing three sub-themes: attractive investment prospects, challenging economic environment, and uncertain legal and political climate. Each sub-theme provides insight into the factors that affect institutional investors’ decision-making processes when considering investing in the African real estate market. Through an in-depth exploration on the reasons for investing in the African real estate sector, this part answers the first sub-question, “*What are the main factors in the African real estate environment that affect the decision of institutional investors to invest or not to invest internationally?*”

#### 4.4.1. Attractive investment prospects

The first second order concept explored in this study pertains to the attractive investment prospects in the African business environment, which is the primary reason institutional investors are drawn to invest in this region. Without these prospects, there would be no incentive for investors to allocate their funds. This concept delves into the main investment prospects that make Africa an appealing investment destination and examines why institutional investors choose to invest in Africa over other markets.

##### 4.4.1.1. High returns

The individuals involved in this research agree that Africa offers a chance to achieve remarkable profits through investments (A1, B1, A3, A4, A5, A6, A8). This aligns with Falkenbach's (2009) study, which highlighted that the expected return on real estate investments and the legal certainty of properties are the primary factors in assessing the attractiveness of a market. However, participants also acknowledge that good returns alone are not sufficient since these can also be earned in more developed and less risky markets. As such, the participants were asked to compare the returns in Africa with those of more developed or less risky markets. The majority of the participants (A1, B1, A3, A4, A5, A8) argued that, in general, returns in Africa are higher than those in more developed markets. This sentiment is echoed by A1, who states, *“The yields are some of the highest probably around the world.”* Likewise, A5 unequivocally asserts that the primary reason institutional investors are investing in Africa is that the returns are higher compared to developed markets, stating that *“100 percent the returns are higher compared to developed markets, if they weren't we wouldn't be investing cash here.”* According to the findings of Worzala and Newell (1997), investors from South East Asia engage in international investments with the aim of attaining higher returns. Findings demonstrate a similar pattern among institutional investors in Europe and Africa, as they also seek higher returns compared to more developed markets.

The level of returns achievable in Africa is, of course, dependent on a wide range of factors. B1 contends that *“Yes, you could earn higher yields compared to developed markets, depending on where you get your money from, when you entered the market and what you're building.”* To provide a sense of comparison with more developed markets, A1 states that *“Compared to first-world markets, where you might get a rental yield of sort of three or four percent, here you can get eight, nine or on a development, you could get ten percent.”* Similarly,

B1 argues that “*We believe a USD return between 10 and 14 percent in Africa is sustainable.*” These perspectives highlight that while investing in Africa comes with inherent risks, the potential returns can far outweigh those in more developed markets, making it an attractive investment destination.

#### 4.4.1.2. Portfolio diversification

The importance of portfolio diversification in investing has been widely acknowledged in the literature review. For foreign investors considering the African real estate market, this is particularly relevant, as Africa is considered less correlated with other worldwide markets. Study participants confirmed opportunities for portfolio diversification through African real estate investment (A1, B1, A2, A3, A4, A6, A7). This finding reinforces the extensive literature suggesting that including international real estate in a portfolio serves as a motivating factor for investors (Worzala, 1994). Furthermore, this result expands the existing literature and substantiates the significance of considering investment in the African real estate market as an important consideration for investors (Cheng et al, 2006). As A2 highlighted, “*Investors should gain portfolio diversification from investing internationally.*” While B1 emphasizes the lower correlation with developed markets: “*There’s a very different dynamic that plays out in the South African and African context compared to the developed markets, and I can see there being significant less correlation.*” However, other participants expressed scepticism regarding the extent to which portfolio diversification in the African business environment could effectively reduce risk, considering its inherent riskiness (B1, A2, A3, A5, A7, A8). B1, for example, stated that “*They could definitely get portfolio diversification in terms of geography, but in terms of de-risking it, I don’t necessarily think it would because Africa, it’s a lot of red tape.*” This viewpoint is similar to Barry et al. (1996) and effectively captures the perspective of participants who believe that while there are opportunities for diversification in Africa, the challenging and risky environment in the region does not necessarily reduce the overall risk of a portfolio. However, there are indeed prospects for investors who are willing to take on higher levels of risk.

The majority of participants express minimal concerns regarding a potential increase in correlation with developed markets in the near future. This finding contradicts research by Chiou (1998) suggesting that international markets are becoming more integrated, which could potentially reduce the diversification benefits. Based on the participants' perspectives, African

countries are perceived to have limited connections to global economies, which makes them an attractive market for international investors seeking diversification. This aligns with the research conducted by Driessen and Laeven (2007), who argued that investors should seek out markets that exhibit low correlation with their home market in order to diversify effectively. Furthermore, this finding is consistent with the research conducted by Bouslama and Ouda (2014), which asserts that investors can attain diversification advantages by investing in emerging economies.

The literature review also highlighted the issue of home bias in international investments, which can limit the benefits of portfolio diversification (Coerdacier & Guibaud, 2011; Bergin & Pyun, 2016). In the case of institutional investors in the African real estate market, however, they mainly search for the best markets and do not necessarily limit themselves to neighbouring countries. Nevertheless, there are cases where economic and political reasons make neighbouring investment more attractive. A5, for example, stated that *“So just across our SA border, so into Botswana and Namibia because SADC is quite similar across the board and so the familiarity and the ease of doing business and the similarities in policy does make it a lot easier to transact and so that sort of economic framework does promote greater investment for say, an SA investor into those sorts of regions.”* In this context, the absence of home bias is not the primary driver, but rather the presence of incentives that may influence investments in geographically proximate nations. Moreover, cultural disparities have been shown to play a significant role in shaping investment decisions. For instance, cultural and linguistic factors tend to increase the likelihood of French institutional investors allocating funds to Francophone countries. Conversely, this poses a greater complexity for institutional investors from English-speaking nations, as they face unique challenges in this regard.

Apart from international diversification, participants contend that real estate provides diversification benefits to investors who lack a well-diversified portfolio and do not currently hold any real estate investments (A2, A3, A5, A6). As A2 noted, *“Real estate in itself should obviously offer diversification benefits.”*

#### 4.4.1.3. Population growth

Another important theme that comes to a lot of people’s minds when they think about Africa is the expected population increase. Previous literature suggested that an increase in population

should naturally result in an increase in property demand (Barry et al., 1996; Baum & Murray, 2011). The perception and outcome of the population growth on the housing market differed among participants. Some participants argue that the population growth will positively impact the real estate market (A3, A4, A19), and build on what was argued in literature that population growth and economic growth will increase demand for real estate. Moreover, economic growth would “*attract global corporates to come to Africa*”, which would also increase demand for large developments.

However, most institutional investors are sceptical and argue that population growth would only translate into investment opportunities if employment increase (A1, B1, A2, A5, A6, A7). The reason for this is that the population growth is mostly in the bottom of the pyramid, and these people can't afford housing. B1 states “*The population growth will not benefit the housing market, and the reason is if you look at where the growth in population is within income bands, it's in the lower income bands. These are people that can't afford to buy property and their rental affordability is extremely low*”. A2 builds on this and explains the mistake that investors make when thinking that population growth would lead to investment opportunities: “*I think the fallacy most people make is that they attribute the population growth to the country's specific GDP and therefore enhance returns. But the disconnect in Africa has been that in a way, population growth has detracted from per capita GDP. And so, the actual wealth per consumer has decreased and that's not come with enhanced productivity or enhanced consumer demand for real estate.*” So, it will be dependent if the government will be able to get the new population to work. If economic growth and consumer demand for real estate can be stimulated, this will be beneficial for the real estate environment. If the lower segment of the socioeconomic pyramid remains unable to access employment opportunities and experience income growth, the real estate sector is unlikely to derive advantages from population growth. This is primarily due to the fact that without an accompanying rise in consumer demand resulting from increased income, the potential benefits for the real estate market are diminished.

It is worth mentioning that currently, participants contend that the benefits of population growth have not materialized. Economic growth has stagnated in the aftermath of the COVID-19 pandemic, posing challenges for many countries. Consequently, there is a low demand for real estate. However, there is potential for population growth to translate into future economic growth, which could improve demand.

#### 4.4.1.4. Tax Incentives

Another concept that emerged from the interviews is the importance of tax incentives in attracting real estate investors to Africa. Participants emphasized considering the tax structure of the countries where they do business (A1, B1, A2, A3, A4, A8), and some even specifically emphasized that being drawn to Africa because of certain tax incentives (B1, A2, A3, A4). B1 argues that *“There are some tax benefits in African countries, and this is also quite important to some of our clients.”*

It is worth emphasizing that tax incentives in Africa are not one-size-fits-all, and the types of tax incentives offered vary depending on the country and the industry. As B1 suggests they are *“highly dependent on the industry you’re in.”* The interviewees revealed that the real estate investment strategy of investors is influenced by the tax regulations that are in effect in a particular country. B1 provided examples of how the tax incentives offered in different African countries can benefit specific industries. *“If you take Mauritius as an example – they have very, very favourable tax incentives for corporate companies, right? So, they want a lot of companies to have their headquarters or back offices there”* and *“For mainland Africa, you have a lot of incentives towards import and export of materials because they’re trying to get a manufacturing-based economy where some countries have knowledge-based economy that they’re trying to drive.”* This implies that the availability and suitability of tax incentives for real estate investment depend on the type of industry and the specific real estate strategy being pursued. It is essential for investors to carefully evaluate the potential benefits of the tax incentives and how they align with their investment strategy.

Participants stress the importance of tax incentives for investors, urging governments to find ways to encourage investments in their countries. One approach to boost FDI in African real estate is by implementing favourable tax incentives. (B1, A3, A5). This echoes statements by Baum and Murray (2011) who argued that governments should promote beneficial tax policies, such as a light tax on capital gains. However, it is essential to note that they should not be the sole driving force behind investment decisions. A2 argues, *“I think people do invest in Africa for tax incentives. And I think it’s very short-sighted because ultimately when things do go pear-shaped in these countries, those tax incentives aren’t sufficient to offset the losses that you might incur.”* While tax breaks may provide initial benefits, they may not be sufficient to

offset potential losses if the political or economic situation deteriorates. As such, investors need to take a comprehensive and prudent approach that considers all relevant factors, including tax incentives, but also looks beyond them to assess the broader investment environment in Africa.

#### 4.4.2. Challenging economic environment

Another second order theme pertains to the economic considerations that institutional investors evaluate when making investment decisions related to African real estate. These economic factors may differ based on various factors, such as the investor's risk profile and the particular market under consideration. Nonetheless, learning what key considerations investors should take into account is crucial for investment decisions.

In general, institutional investors indicate that they take the overall economic health of the countries they invest in into account because investors *“want to future-proof their portfolio or investment”* according to B1. Institutional investors argue that this is important because they *“don't want to build or invest in something in a country that is going to be downgraded”* as this would negatively impact returns. Besides the overall economic risk, there are a number of specific factors that stood out which are discussed in this section.

##### 4.4.2.1. Low demand for real estate

According to the participants, one of the key factors that real estate investors consider before investing in an African market is the demand for real estate (A1, A3, A5, A7). A7 argues that *“You need demand because if you don't have demand then you know, it's not like you can build and they will come; it doesn't really work that way.”* In the African real estate space, there is a lack of demand, which is why there are not many foreign investors involved in this market. Without demand, there is little reason to invest. The lack of demand in African real estate is attributed to multiple factors. The following were mentioned by participants. Firstly, there is limited corporate activity, which means that there is not much demand for office real estate. Additionally, a large proportion of the population may not be able to afford housing, which makes residential real estate less attractive to investors.

#### 4.4.2.2. Currency and liquidity risk

Currency risk stood out as one of the most important factors that institutional investors consider if they invest in African real estate markets (A1, B1, A2, A3, A4, A5, A6, A7, A8, A9, A10). As A1 indicates “*Probably your chief risk is the currency risk.*”

Currency risk and liquidity risk are interrelated, but according to interviewees it is important to separate them. Based on responses from participants, currency risk is regarded as the “*risk that the value of a currency will change in relation to another currency*”, whereas liquidity risk refers to the risk where “*currency can be easily bought or sold within a country at a given time*”. Liquidity risk usually follows currency devaluations as there is less demand for a devaluating currency, which can make it more difficult to buy or sell that currency. Participants in the discussion noted that currency and liquidity risk is a consideration when investing in African real estate markets, primarily due to the region’s volatile economic and political environment (A1, A2, A4, A6, A7, A8, A10). The issue of currency risk can pose several challenges to real estate investment, and its associated problems will be elaborated on in the second aggregate dimension. Worzala (1994) suggested that local investors in emerging markets, particularly in South-East Asia, considered currency risk as their primary concern when investing internationally. However, European investors appeared to be less focused on this aspect. Results of this study contradict this finding, indicating that currency risk is a significant concern for both domestic as foreign investors. It is worth noting that the study conducted by Worzala (1994) was limited to South-East Asia, and it is possible that currency risk could be a more significant issue in African markets.

#### 4.4.2.3. Lack of data

A1 suggests “*You see, the problem with Africa as well is to get data there is no data.*” Another barrier to foreign investors is the lack of data in the African real estate market (A1, B1, A2, A3, A4, A6, A8, A10). The lack of data arises from the relatively underdeveloped state of many African real estate markets, making it challenging to gather and report data regularly. A1 follows “*You can’t go and buy research. There’s just nothing there.*” Another factor contributing to the scarcity of data is the limited government and industry requirement. Investors face a significant challenge due to the lack of sufficient knowledge, which hinders their ability to make informed investment decisions. This aligns with the findings of McGreal et al. (2001), who argued that the absence of accurate data poses a major barrier for investors.

Several interviewees have emphasized that the impact of this issue is significant in Africa's business environment due to its distinct legal, political, and economic landscape, which differs across countries. In fact, they claim that it is unlike any other market in the world. Moreover, the differences across country make it more complicated, as stated by A5: *"Imagine when you're dealing with different countries, different languages, different cultures, different – a whole world – it's a different world, you know."*

#### 4.4.2.4. Infrastructure quality

Institutional investors also consider the quality of infrastructure in a particular country as a key factor (A1, B1, A2, A3, A4, A6, A7, A8, A10). A6 argues *"We have to look at the infrastructure quality of the countries we invest in, as low quality infrastructure can have detrimental effects on real estate."* It has been argued that infrastructure quality is generally poor in Africa, which makes it different compared to other markets. Like A1 suggests, *"Here (London, UK), I've got electricity, you know, I've got Wi-Fi. I've got central heating; I'm very comfortable. In Africa, you don't have that. I mean in South Africa even you've got load shedding nine hours a day and in Ghana, Nigeria it's even worse. Then it's hot and humid at home. Your Wi-Fi keeps going on and off."* From the other side of the world, B1 argues *"You know load shedding, right? It's getting progressively worse and worse here (Cape Town, SA), so obviously that's a decision-making factor for an investor."* This has several implications for real estate, which is exactly the reason investors should look at it. This reinforces previous research which emphasizes the importance of infrastructure quality as a key factor in attracting FREI in emerging markets (Fereidouni & Masron, 2013; Paul & Jadhav, 2019).

A2 suggests it is just not simply a factor to consider, but argues it is part of the bigger picture. He argues that *"Infrastructure quality a proxy for the government's intentions, or private sector's intentions to grow the economy."* Therefore, it is believed that quality of infrastructure is a good sign for the prospects of that country and the ability to gain returns. On the other hand, A2 argues that infrastructure quality is an important factor to take into account because *"You can directly create the opportunity off that infrastructure."*

#### 4.4.2.5. High interest rates

As highlighted in the literature review by Kang and Kim (2019), the level of interest rates is a 'pull' factor in attracting investment inflows. Participants in this study also emphasized the

importance of interest rates, as the cost of funding affects their investment returns (A1, B1, A2, A4, A6, A7, A8). According to the participants, equity investments are always accompanied by debt, and the interest rate level can impact their returns. Higher interest rates require a higher return to achieve the same IRR. Therefore, investors consider the interest rate level before investing in a country.

#### 4.4.3. Uncertain legal and political climate

The final subtheme examined in this aggregate dimensions pertains to institutional investors' perceptions of the business environment in Africa, particularly with regards to the political and legal climate. As outlined in the literature review, institutional factors have been identified as significant obstacles to investment inflows into Africa, including issues such as political instability, lack of transparency, and weak legal frameworks. By analysing the responses of institutional investors, the study sought to determine whether these theoretical factors align with the practical considerations that investors take into account when evaluating the political and legal landscape in African real estate markets.

##### 4.4.3.1. Legal barriers

In a broad sense, the participants universally emphasized the significance of assessing the robustness of the legal framework and the rule of law. However, their discussions delved into a diverse range of legal obstacles that institutional investors perceive as crucial factors influencing their investment decisions in the real estate sector within African nations. The findings of this study align with the arguments put forth by Drabek and Payne (2002), who identified similar factors as significant barriers to real estate investment in emerging economies. They highlighted issues such as corruption, unclear property rights, and weak contract enforcement, which are commonly observed challenges in emerging economies.

Unclear property rights emerged as the most important legal barrier due to its significant implications for real estate investors (A1, B1, A2, A3, A4, A6, A7, A8, A9, A10). A7 emphasized the crucial role of property rights for real estate investment and listed them as one of the three determinants necessary for investing in real estate: *“The three things are, you need property rights, okay, to ensure ownership and title to property. You need capital available and, ja, you need a demand.”*

Participants place significant importance on land expropriation as a factor related to property rights (A1, B1, A2, A3, A5, A6, A9). Unclear land expropriation laws pose a significant consideration for institutional real estate investors as they can increase investment risk. When contemplating investment decisions, institutional investors carefully assess the legal framework surrounding land expropriation to gauge the level of protection and security they can expect for their investments. A2 has the following to say about expropriation policies: *“Definitely that’s probably one of the key policies we look at in terms of – not just whether the government is allowed to do it – but also whether they’ve acted on it in the past – is a big consideration.”*

Another important factor institutional investors take into account is contract enforcement (A1, A3, A4, A6, A8), which is described as *“the process of ensuring that the terms and conditions outlined in a legally binding agreement or contract can be relied on.”* According to several participants, one crucial factor for investing in African countries is the ability to have confidence in the legal system, highlighting the significance of contract enforceability. They emphasized that the degree to which contracts can be effectively enforced plays a pivotal role in attracting investment.

Furthermore, institutional investors look at the degree of transparency (A1, B1, A2, A3, A4, A6, A10). B1 argues *“Yes, the degree of transparency in the regulatory system plays a big role.”* Transparency in the legal framework plays a pivotal role to participants, as it was often mentioned as a factor they take into account. A transparent regulatory system offers clear guidelines and procedures, providing investors with the necessary information to make well-informed decisions.

The degree with which the government can pass new laws is also important according to participants (B1, A2, A3, A5, A6, A8, A10). A8 contends *“We also look at how easy it is for governments to implement new laws and regulations.”* The implementation of new laws can lead to significant disruptions when owning real estate.

#### 4.4.3.2. Political barriers

One of the important factors mentioned by participants are clear governmental policies, and that these policies are stable (A1, B1, A2, A4, A6, A7, A9, A10). B1 argues *“Clear*

*governmental policies are definitely very important. Very important. Because you want to know what you need to do and are you going to be safe, and what to be expected.*” In order to protect their investments, institutional investors must rely on policies to mitigate the risk of negative outcomes. This is considered a crucial aspect for them as they cannot afford to jeopardize the safety and success of their investments.

Participants in this research reinforced findings by Levis (1979) who argued that political stability is an important factor for FDI inflow (A1, B1, A2, A3, A4, A5, A6, A8, A10). A3 states *“Political stability is very important for real estate investors.”* Participants contend that they are unable to invest in countries with a low level of political stability, as there is a risk that their assets may not be adequately protected.

Political cycles also present problems to investors, and this acts as a barrier according to participants (A1, B1, A2, A5, A6, A10). *“So political cycles do have a lot of impact on investment decisions, and this is something we have to take into account.”* According to A1.

Participants also argue that they take it serious when governments try to improve the political situation (B1, A6, A8, A9, A10). B1 argues *“Yes, the effort of the government to try to improve plays a role in investment decisions.”* Institutional investors take into consideration the improvement of the political and economic landscape in countries as a significant factor influencing foreign investment inflow. Participants highlight that when countries enhance their political and economic conditions, it attracts greater attention and interest from institutional investors. This is similar to findings by Brada et al. (2006) who argued that failures in reform and stabilization reduce FDI.

Another factor considered by institutional investors is the degree of corruption (A1, B1, A2, A3, A4, A5, A6, A8). A1 argues *“Ja, we absolutely look at the degree of corruption when we’re evaluating countries for investment purposes, we do look at the corruption index.”* Institutional investors cannot tolerate corruption due to their responsibility of managing funds entrusted by others, such as pension funds. Therefore, they carefully assess the level of corruption and strictly refrain from engaging in any corrupt activities. Safeguarding against corruption is of paramount importance to institutional investors given their fiduciary duty to protect the assets of their clients.

#### 4.4.4. Sub-question 1: Conclusion

The results and findings from the first theoretical dimension demonstrate that institutional investors have compelling reasons to consider investing in African real estate. The returns are favourable, offering diversification opportunities, particularly for international investors from outside the continent. Additionally, the demographic factors indicate potential growth in the real estate market in the future. However, institutional investors carefully consider a wide range of economic, legal, and political factors before making investment decisions. In terms of economic factors, several aspects are taken into account, such as low demand, currency risk, limited availability of data, infrastructure quality, and high interest rates. Legal considerations encompass the assessment of the legal framework, property rights, contract enforcement, transparency, and the government's ability to enact new laws. Political factors involve the presence of clear governmental policies, political stability, the prevailing political landscape, cycles, and potential improvements.

Institutional investors require a certain level of security for their investments, and results have shown that they evaluate various factors during their decision-making process. Some of these factors, referred to as 'push' factors by Kang and Kim (2019), introduce excessive risk, which can deter investors. In the subsequent theme, the researcher will delve into the manifestations of these 'push' factors and explore why they discourage investor participation.

#### 4.5. Manifestations of risks in the African real estate environment

The second theoretical dimension that emerged from the research are the manifestations of the factors in the African real estate market. After indicating the factors, the participants elaborated on what the consequences are for the real estate sector, and how it impacted their decision-making process. If they did not, the researcher would ask them about it. Analysing the insights from participants on how the factors and characteristics manifested in the African real estate environment was key to fully understand the challenges that institutional investors face. Through the analysis of participant insights, two subthemes were identified: economic hurdles and legal and political barriers. These subthemes reflect the main challenges that institutional investors face in the African real estate environment. This section discusses the second sub-question *"How do the identified factors impact the decision-making process for institutional investors to invest or not to invest in African real estate?"*

The economic hurdles subtheme highlights challenges related to the economic landscape in Africa, such as information asymmetry as a result of the lack of data, illiquidity as a result of currency fluctuations. These factors may affect the profitability and overall viability of their investments.

The legal and political barriers subtheme, on the other hand, focuses on challenges related to the legal and political landscape in Africa. These challenges may include regulatory and legal uncertainties, corruption, and political instability. These factors can create significant barriers for institutional investors looking to invest in real estate in Africa, as they can make it difficult to navigate the legal and regulatory environment, and may also increase the risk of financial loss.

Overall, the identification of these subthemes provides insight into the specific challenges that institutional investors face in the African real estate environment. By understanding these challenges, policymakers and investors can work together to address these issues and create a more conducive environment for real estate investment in Africa.

#### 4.5.1. Economic hurdles that deter real estate investment

The findings of the study highlighted how the economic factors turn into problems for institutional investors in the real estate environment. In this section, the researcher will explain what the consequences of each factor mentioned in the first aggregate dimension are for the real estate environment.

##### 4.5.1.1. Low demand, high vacancy rates

Demand for real estate was one of the factors that investors consider when they plan on investing or developing real estate in Africa. There is generally low demand in Africa. According to the participants, the limited size and number of tenants in the market make it challenging to undertake large real estate developments (A1, A2, A4, A5, A6, A9). A1 states *“It’s the size, the quantity of tenants you know, just aren’t there in sufficient size to be able to anchor developments for you”* B1 goes on by stating that *“You don’t have these big tenants around who’re just going to take two or three floors.”* The limited demand for real estate in the African market can lead to challenges with large-scale development projects. Due to the low demand, there is a risk of high vacancy rates over time (A1, B1, A2, A4, A6). Even after

completing a real estate development, the demand for the property may not meet expectations. Moreover, if a tenant decides to terminate their lease, it may lead to future vacancy issues. According to interviewees, this can be exacerbated by worsening economic conditions in a country. The demand for rental properties in Africa may be negatively affected by the requirement of some investors that tenants pay rent in US dollars rather than local currency (A1, A2, A3, A5, A6, A7, A9). First of all, such a requirement can reduce the demand for rental properties because it adds extra costs for the tenant. B1 argues *“When the Naira devalued we saw excessive vacancies and almost no activity in the sector since then.”* Additionally, when the local currency experiences devaluation compared to the US dollar, tenants who are required to pay in US dollars may face difficulties in meeting their rental obligations. This is because their income is likely to be in local currency, which would not have the same purchasing power in dollars. As a result, this can lead to increased vacancies in the property and negatively affect the investor's returns. A1 experienced problems with this *“I mean you’ve got inflation running at 50% in Ghana. So it’s hard, I mean rental collection is hard for the businesses and we’ve had to do a lot of deals with businesses in Ghana, you know, trying to keep them in. But there are – there are some who just don’t want to pay. You have tenants who do want to pay but can’t, just because things are so tough at the moment.”*

#### 4.5.1.2. Currency risk: illiquid assets and lower returns

As mentioned earlier, currency risk is a major concern for institutional investors when it comes to investing in African real estate markets. Currency risk can create a range of problems, the first being the ability to repatriate funds out of the country (A1, B1, A2, A3, A4, A5, A6, A7, A9, A10). A1 highlights this, stating that *“If you can’t get your money back out again then there is no point in investing in the country.”* This is a barrier for foreign investors because there are a lot of African countries experiencing this, which takes away many investment markets.

Participants emphasize that the ability to repatriate funds from a country is contingent upon two crucial factors: regulatory and liquidity. They highlight the presence of currency exchange controls in numerous African nations, which govern the inflow and outflow of foreign currency (A1, B1, A2, A3, A6, A8). These controls can manifest in the form of restrictions on currency conversion and limitations on the amount of currency that can be exchanged. In countries where governments impose stringent regulations preventing foreign investors from

externalizing their funds, such nations are often immediately excluded from the investment prospects of institutional investors. The uncertainty surrounding the repatriation of funds serves as a significant deterrent for potential investors, compelling them to seek alternative destinations with more favourable regulatory environments. Participant A6 succinctly emphasizes this point by stating *“There’re a lot of countries where you don’t have that certainty. So those are immediately off the list.”* The presence of currency exchange controls significantly undermines the liquidity of the local currency and hampers the ease with which funds can be transferred out of the country. By implementing currency controls, governments may aim to protect their national currency, manage capital outflows, or maintain economic stability. However, these controls often restrict the liquidity and convertibility of the local currency, deterring institutional investors who prioritize the ability to swiftly and seamlessly repatriate their funds. In contrast, countries that offer a conducive regulatory environment, characterized by fewer restrictions on currency conversion and a higher degree of currency liquidity, attract the attention of institutional investors. These countries provide the necessary certainty and assurance for investors to allocate their funds with confidence, knowing that they can readily repatriate their investment returns when desired.

Solnik and McLeave (2009) put forth the argument that emerging markets exhibit greater political and economic instability, which can result in significant currency fluctuations. This viewpoint is supported by the perspectives of participants who emphasize the importance of liquidity for investors, especially those who invest with foreign currency and anticipate returns in that particular currency (A1, B1, A2, A3, A5, A6, A8, A9). According to them, almost all institutional investors have to pay returns in dollars, which can pose a significant challenge when the tenants pay rent in local currency or when investors want to sell their property in the local currency. To pay the investors, the local currency must be converted to dollars, which can be impossible if there is no demand for the local currency. Moreover, even if the money can be transferred, it may come at a high cost. Participant A1 explains that *“To convert that local currency into dollars, which is what our investors want, you might take a 10% hit, which is a lot. So, that’s 10% of your income.”* This problem is especially difficult for large real estate developments, which involve significant amounts of money and further complicate the process of transferring local currencies into dollars. As a result of these considerations, participants contend that institutional investors display a greater propensity to channel their investments into countries offering enhanced currency liquidity. This heightened focus on currency liquidity serves as a significant driving force behind the substantial influx of institutional

investments into the real estate sector of South Africa. The attractiveness of South Africa's real estate market to institutional investors can be attributed, in large part, to the relative strength and stability exhibited by the Rand, the local currency. This stability ensures a more favourable environment for investors, as it mitigates the challenges associated with converting local currencies into the widely preferred denomination of dollars.

Many institutional investors take this currency risk into account when they are making investment decisions. A3 argues *“When we’re looking at our projections, we just don’t look at it in the local currency we invest in, we look at it relative to expectations in USD as well. So, when you’re thinking on projecting on your investment outcome, you will factor in your expected movements in currency.”* Other participants argue this is difficult because the currency is reliant on a lot of macroeconomic factors that could suddenly impact the currency. Multiple examples are mentioned like Nigeria’s oil crisis, civil wars, and other sudden political movements. These macroeconomic factors do not only create liquidity issues, but also devalue currencies. Devaluation of currency is a large problem for investors if they do not do business in dollars. If you buy a building, and the currency halves, you lose half of your money. A1 gives an example *“Take Ghana, the currency halved in the last year. So, if you’ve gone and bought a bought or built a \$35m building, if it’s not dollar referenced, you’ve suddenly lost \$17m.”* Participants argue that this is why investors have a clear preference for receiving their payments in dollars instead of the local currency. The rationale behind this decision lies in the desire to safeguard their investments from the adverse effects of fluctuating exchange rates and potential devaluations of local currencies. By choosing to receive payments in dollars, investors aim to mitigate the risk of losing substantial value due to currency depreciation.

The issue of currency exchange is not only a problem for investors but also for tenants (A1, B1, A2, A6, A8, A9, A10). Many tenants are hesitant to pay rent in dollars as they could end up paying double the amount if their local currency depreciates in value against the dollar. Some participants argue that paying a lease in dollars could be detrimental to tenants as any depreciation in their currency could lead to an increase in rent. A1 argues *“I wouldn’t want to pay dollar lease if I was a tenant; you could absolutely kill yourself. Because you know, if the currency depreciates by 50% then guess what, suddenly your rental’s gone up by 50%.”* This currency mismatch poses a significant obstacle to real estate investments in Africa, with many projects failing to materialize due to disagreements between parties regarding the preferred currency for transactions. As a result of this currency mismatch, tenants frequently express

their disagreement with paying rent in dollars, which ultimately leads to higher vacancy rates in real estate properties. B1 argues *“So you can either do local currency rentals or dollar paid rentals, which obviously most people prefer dollar paid rentals but you tend to have vacancy issues with those because most, obviously the occupiers earn in local currency, paying dollar denominated rentals with the fluctuating currencies become difficult.”*

As seen above, currency risk could lead to a variety of problems, from liquidity issues to decreases in return on investments. And this is especially difficult in Africa because there is so much volatility in currencies on the continent. This acts as an additional layer of uncertainty to an already complex investment landscape.

#### 4.5.1.3. Information asymmetry

The absence of reliable data on African real estate was identified by institutional investors as a key factor that impacted their decision to invest or not invest in the region. The lack of data, according to the participants, creates information asymmetry, which can lead to challenges for foreign real estate investors (A1, A2, A3, A4, A5, A6, A8, A10). The primary reason cited for this is the unfamiliarity of investors with African countries and their unique business environments, which are often volatile and markedly different from more developed markets. A4 argues *“A lot of the foreign institutional investors are trying to do this on their own and they burn their fingers and then they blame Africa as a continent.”* This strengthens statements made by previous researchers who argued international investors may lack knowledge of local business practices which makes it difficult for them to effectively operate in the host country (Choi et al., 2016). Interviewees argue that investors should know what they are getting into by investing in the volatile environment that is Africa. According to participants, there are many nuances and factors to consider when investing in African real estate, and this can be challenging without access to accurate and reliable data. Therefore, the absence of reliable data on African real estate presents a significant barrier to institutional investors who are looking to invest in the region. *“Honestly, you’ll get your faced ripped off because you don’t know what is going on there. There’s a huge asymmetry.”* A1 argues. According to the interviewees, gaining a comprehensive understanding of the African market’s dynamics and volatility is crucial for attaining returns and avoiding significant losses. This necessitates maintaining a high level of involvement and diligence in staying abreast of all market developments. Interviewees support the findings of Statman (1999), who stated that investors may refrain

from international diversification due to a lack of familiarity with foreign markets. A6 argues *“There is basically nobody that’s directly invested in African real estate. To be honest with you it would be foolish for them to do that.”*

#### 4.5.1.4. Infrastructure issues

Institutional investors consider the poor quality of infrastructure across many African countries when investing in real estate. The low-quality infrastructure presents various challenges, according to the interviewees. One significant challenge is the difficulty it poses in property management (A1, A3, A5, A6, A8). A1 argues *“Getting around Africa is harder. Roads are not always as good and there are less flights. So, if you have got a portfolio of properties, you need to look after your properties and it’s more difficult. So, property management is not as easy as global standard.”* Institutional investors face difficulties in overseeing and maintaining their property portfolios in African countries. The lack of reliable roads and limited transportation options can impede the timely inspection of properties, responding to maintenance requests, and addressing tenant needs. Property managers may encounter logistical challenges in coordinating repairs, renovations, or regular upkeep of the properties due to inadequate transportation infrastructure. Moreover, the interviewees emphasize that the substandard infrastructure in African countries poses a stark contrast to the global standard expected by institutional investors. They highlight the importance of adhering to high standards of property management to ensure tenant satisfaction and preserve the value of the real estate assets. However, the limitations imposed by poor infrastructure hinder the ease and efficiency of property management activities, creating additional complexities for investors.

Bad infrastructure quality is also an additional cost that investors need to consider according to participants (A1, B1, A2, A5, A6, A7, A8, A9, A10) . Investors have to put in their own infrastructure, which is very costly. A6 argues about properties: *“It’s basically a mini city, because you’ve got to have your own water, have your own borehole, your own sewerage treatment plant, your own generators – you basically have to provide all your own services.”* The need to build and maintain these infrastructure components significantly escalates the overall costs associated with real estate investments in Africa. Investors must allocate substantial financial resources for the initial construction, as well as ongoing operational and maintenance expenses. These costs include not only the infrastructure development itself but also the necessary resources, expertise, and personnel to ensure the efficient operation and

upkeep of the infrastructure. The provision of self-built infrastructure introduces complexities and risks for investors. They must assume responsibility for the long-term management, operation, and maintenance of these infrastructure systems, which acts as a barrier to investors.

The participants further suggest that the effect of poor infrastructure on real estate investments varies across sectors, with some sectors being more affected than others (B1, A3, A5, A6, A9). Moreover, different types of infrastructure deficiencies impact different sectors in distinct ways. For example, B1 argues *“If you’re in logistics and industrial, roads are very important. You don’t have good road accessibility across most of Africa. Same with rail. If you’re doing anything that requires rail, that limits the places you can go. So yes, infrastructure limitations do impact investment decisions and also the returns on your investment.”* Furthermore, according to A6 *“Lack of infrastructure can be very detrimental to your assets, you know, particularly office and retail.”* As per the participants, infrastructure plays a crucial role in maximizing the potential of a property, especially in sectors like malls, where traffic and accessibility are key determinants of success. Poor infrastructure can severely hinder the number of people coming in and out of the property, leading to lower returns. Therefore, institutional investors take into consideration the quality of infrastructure while assessing the investment potential of a property.

The interviewees emphasize that the lack of quality infrastructure in many African countries poses a significant challenge for real estate investment. According to them, the issue is compounded by the fact that few African countries have invested adequately in the maintenance of existing and future infrastructure. The underinvestment in infrastructure maintenance is cited as a significant deterrent for institutional investors looking to invest in African real estate.

#### 4.5.1.5. High interest rates

According to the interviewees, the level of interest rates in Africa is a crucial factor that significantly impacts their decision-making process when investing in real estate on the continent (A1, B1, A2, A3, A4, A5, A6, A8, A9, A10). The interviewees highlight that high interest rates significantly increase investment risks by making it more challenging to generate favourable returns. A1 emphasizes *“Debt funding is a huge risk in Africa. That’s also a challenge is that your cost of debt funding at the moment is about the same or more than your*

rental yield. So if you're developing now you're probably only develop for about a 9% yield and it's going to cost you that amount for development funding." According to participants, most of the time, capitalization rates adjust to higher interest rates, in which case it does not necessarily impact returns. A6 argues *"I mean your cost of debt is – it is correlated to your cap rates. You know, so like while debt is more expensive, your cap rates are looser. So and it's always been the case"* However, in some extreme environments where interest rates increase significantly it happens that investors have to adjust their hurdle rates. B1 states *"I must say the developers are at least realistic in a sense that they know that it will impact their yields and they're adjusting their hurdle rates down"* This can result in a lower internal rate of return and consequently less attractive investment opportunities. Therefore, institutional investors carefully consider the prevailing interest rates and their potential impact on the financial feasibility of investing in real estate in Africa. Higher interest rates not only increase borrowing costs but also influence the required rate of return expected by investors. When interest rates rise significantly, institutional investors may face challenges in finding sufficiently attractive investment opportunities that meet their desired risk-return profiles. According to some participants, the high interest rates in Africa simply render investments or developments on the continent practically unfeasible due to the inability to generate sufficient returns. The high interest rates create a scenario where achieving profitable outcomes becomes nearly impossible, discouraging institutional investors from pursuing real estate investments and developments in the region. A4, in particular, emphasizes that high interest rates are a major concern, stating that *"The majority of African countries have double-digit rates, which is just non-feasible for our projects."* For instance, *"Ghana's interest rate can be as high as 30%."* making it difficult for investors to achieve returns on their investments.

The participants highlight that the risks associated with high interest rates are amplified when investors opt for loans with variable interest rates (B1, A6). They emphasize that the fluctuating nature of interest rates adds an additional layer of uncertainty and volatility to the investment landscape. The participants express concerns about the current scenario where interest rates in Africa are subject to frequent spikes and fluctuations. B1 argues *"High interest rates makes it more risky and especially now more so because we have a lot of fluctuating interest rates and interest rates that keep on spiking"*.

#### 4.5.2. Legal and political barriers that deter real estate investment in Africa

In this section, the researcher will discuss the implications of the main legal and political factors that were identified as key to investors. During the interviews, it became apparent that these factors are closely interconnected, as governments are responsible for implementing many laws and regulations. Therefore, a negative political climate often leads to unfavourable regulatory frameworks, which act as barriers to international real estate investment.

##### 4.5.2.1. Implications of legal barriers in Africa

Institutional investors in Africa face a major challenge in dealing with the vast number of legal frameworks that exist across the continent. This requires a significant amount of flexibility and effort to conduct thorough due diligence on the legal frameworks and ensure that there are no loopholes that could endanger their investments. And interviewees indicate that there are many legal loopholes that investors need to consider when investing on the African continent. According to Glassman & Riddick (1994), variances in legal and regulatory frameworks in foreign markets can increase the expenses associated with transactions and hinder the ability to enforce contracts. This might reduce the appeal of foreign investments, particularly for risk-averse investors. The legal and regulatory differences in Africa might pose significant barriers for institutional investors who prioritize risk aversion and bear a sense of responsibility.

The responses indicate that one of the primary concerns for institutional investors looking to invest in real estate in African countries is the issue of unclear property rights (B1, A2, A3, A5, A6, A7, A8, A9, A10) . In many African countries, there is a lack of clarity around land ownership and property rights, which can create significant challenges for investors. Unclear property rights can have a number of implications for investors, including legal disputes, title challenges, and even expropriation by the government. Participants argue that property rights provide investors with legal certainty and protection of their ownership interests. When property rights are well-defined and enforced, investors have confidence that their investments will be safeguarded and that they will have exclusive control and use of the property. This certainty encourages investment and allows investors to confidently allocate resources towards property development and improvement. Both local and international, are more inclined to allocate their capital to regions or countries where property rights are clearly defined and protected by law. However, on the African continent property rights are not self-evident.

Perhaps the most significant risk mentioned by participants in this context is the possibility of government nationalizing their land and taking it away from them without compensation. This risk is acute in countries where the government has a history of expropriating land without due process or compensation. For investors who have made significant investments in real estate, the prospect of losing their land is simply unacceptable. To avoid such situations, institutional investors not only assess whether the law permits the government to seize property but also investigate whether such seizures have occurred in the past, even if they were not legally permissible. You could have a property that is bringing in “*massive amounts of cash*” but if the government suddenly takes the land, there is no exit value and this impacts the returns of investors significantly. The researcher wants to highlight two examples shared by participants. B1 argued “*In Ghana there is no outright ownership of land. You can only lease land on a 99-year basis, renewable every 99 years if the government chooses to renew. So, if you’ve built something and after 99 years they decided well, they’re not going to renew your land lease – tough cookies – like that’s just what it is.*” In this case, it is at least known that the government can take your land after 99 years. But in other cases, the land is simply nationalised, and taken away. A6 argues “*In countries like Nigeria you had nationalisation of land. And as soon as there is a mall on a piece of land then, the chief pops out somewhere and says its mine, this is my ancestral land and off we go, and you run around the courts.*” This example highlights that the situation is beyond an investor's control, and it often leads to costly legal disputes that consume significant amounts of money, time, and energy.

Another issue with weak legal frameworks that emerged from the interviews is the uncertainty surrounding the effectiveness of the law, and the ability to enforce contracts (A1, B1, A3 A4, A6, A7, A8, A10). The findings of this study are consistent with the research conducted by Cungu et al. (2008), which indicates that a higher probability of contractual breaches has a detrimental effect on incoming investment in emerging markets. In situations where a legal dispute arises, investors must determine whether the law is actually functional. It is essential for investors to have a degree of certainty that the legal system operates correctly and fairly. This is critical for legal disputes that involve significant sums of money, which is often the case with real estate. As an investor, having a robust legal framework is crucial to resolving disputes in a just and impartial manner. It provides a level of security and reassurance to investors that their investments are protected by the law. According to the interviewees, this is a common issue in several African countries where the legal framework is still inadequate, and they have personally faced challenges with this aspect as well. Participant A1 and A8, echoing

the findings of Tao and Wang (1998), assert that inadequate contract enforcement heightens the risk of financial losses for investors and legal disputes take a long time. This is because investors may face difficulties in recovering their investments or contractual payments in case of disputes or breaches of contract. A1 states *“We’re trying to sue some tenants in Ghana for money, you have to see if you can actually get the money back, if the law actually works.”* Whereas A8 argues *“Ja, it’s property rights, it’s enforcement of contracts, you know, you can have a signed contract but it’s very unlikely that you will go to court, you know, on that because it will take you a very long time and very expensive, so you try and manage it differently.”* The concerns raised by the participants underscore the scepticism regarding the efficacy of the legal system in African countries. They expressed doubts about the functionality of the law, particularly in terms of contract enforcement, citing it as a major obstacle that deters potential investors.

This is more difficult due to corruption according to participants. Corruption can materialise in many ways, but in general it makes it harder to rely on legal agreements and it makes property rights more uncertain according to participants (B1, A4, A5, A8, A9). A8 argues *“So you know, you’ve got to realise that if you’ve got a legal contract and you’re going to go to court, you’re going to struggle, you know. The legal system doesn’t operate as efficiently as in the developed world, there is a lot more corruption, you know. So you can’t really rely that much on legal agreements, you know. The legal system is not as developed and you can’t rely as much on it.”* Corruption undermines trust in legal systems and institutions, making it harder for investors to rely on legal agreements and enforce property rights. The lack of transparency and accountability erodes the stability and predictability of real estate transactions, increasing the risk of disputes, fraud, and unethical practices. This uncertainty discourages potential investors and hampers the growth of the real estate sector. Furthermore, corruption weakens investor protection mechanisms and undermines the rule of law. Investors require a robust legal framework and effective governance structures to safeguard their rights and investments. However, pervasive corruption undermines these systems, compromising investor confidence and reducing the likelihood of fair dispute resolution.

In order to minimize issues with investment, participants look at the degree of transparency with the country as it allows them to hold the government accountable for any violations or breaches of the law, which ensures that their investments are protected (B1, A3, A4, A6, A7, A8, A9). By understanding the legal requirements and regulations governing real estate

transactions, investors can assess risks more effectively and evaluate the feasibility of their investments. In turn, this transparency builds trust and confidence among investors. When the legal framework is transparent, it reduces the likelihood of hidden agendas, corruption, and unethical practices. Investors feel more secure knowing that their rights and interests are protected by a fair and impartial legal system. These circumstances incentivize both domestic and foreign investors to engage in the real estate market, resulting in heightened investment inflows and facilitating economic growth. This aligns with the research conducted by Zekarias (2016), which supports the notion that FDI plays a vital role in driving development and improving welfare in Africa. The study also highlights the significance of transparent policies in this context. A lack of transparency creates an environment of uncertainty and risks according to interviewees, making it difficult for investors to determine whether their investments are safe. This is relevant for investors going into Africa as *“African countries are by far the most opaque looking at the global transparency index.”* according to B1. And participants argue that the information asymmetry again plays a role here for foreign investors. Foreign investors expect processes to work similar as in Europe and America, and they go into Africa and find out this is simply not the case and they end up with many problems with their real estate investment.

According to the interviewees, low degrees of transparency in a country can result in changing regulations, which can pose a problem for institutional investors (A1, B1, A2, A3, A4, A6, A7, A8). B1 emphasizes that *“The level of ease with which government can pass new laws is crucial. So how autonomous is government in terms of them changing laws.”* Institutional investors need a degree of certainty that laws cannot be changed arbitrarily, as this can negatively impact their investment. This risk arises from the potential implications and uncertainties surrounding the new legal framework, which may impact various aspects of real estate ownership, such as property rights, regulations, taxation, and land use policies. The unpredictability associated with the introduction of new laws can disrupt the stability and predictability of the real estate market, leading to potential financial and operational challenges for property owners. For instance, if property rights change, a country may suddenly take away investors' land, putting their investments in jeopardy. Participants in the study suggest that the likelihood of regulatory changes in Africa is significant, given the frequent changes in government in many countries that could result in sudden modifications to the regulatory framework. Additionally, changing regulations can lead to costly changes that take up time and money. A1 points out that *“Constantly changing regulations are difficult to work with. And I*

*mean if I give you an example at the moment in Kenya, they're currently changing all their title deeds from manual to digital, the whole country. So, you can imagine you know, there's lots of bottle necks and delays and we're caught up in that.*" This shows that changing regulations can result in operational difficulties for investors and cause delays in the process. It can also happen that costs are directly affected by changes in regulation, such as the imposition of tax regulations. This leads to *"an additional cost that you weren't factoring in"* according to A6, which impacts returns. Consequently, real estate owners must remain vigilant and adaptable to navigate and mitigate the risks stemming from evolving legislative landscapes.

Participants argue that the political situation plays a crucial role in the transparency and stability of regulatory regimes (B1, A2, A6, A9). They point out that this has been lacking in many parts of Africa due to the influence of dictatorships that have the power to change laws arbitrarily, without transparent legislative processes. This lack of transparency creates uncertainty for investors and undermines their confidence in the regulatory framework, making it difficult for them to make informed decisions. Moreover, the political instability in many African countries further exacerbates the problem. In such environments, governments tend to concentrate power in their hands and use it to further their own interests, rather than the common good. This can result in unfair regulatory regimes that are detrimental to investors. As A2 points out, *"I think that's kind of where it has lacked in most parts of Africa – is that you've had these issues with dictatorships that could change things on a whim and you didn't have that sort of transparency into the legislation behind it. And that's been the issue."*

#### 4.5.2.2. Implications of political barriers in Africa

According to the interviewees, the political environment in many African countries poses several implications for real estate investments. One of the primary concerns is political instability, which many countries suffer from due to a wide range of factors. To begin with, participants (B1, A2, A4, A5, A6, A8, A10) argue that countries with a lot of geopolitical risk that are subject to civil wars and coups are *"off the list."* In such cases, investors find it difficult to ensure certainty with regards to the legal and political framework, thereby making such countries unfavourable for investment. When a country experiences frequent political turbulence, characterized by civil wars or coups, the resulting uncertainty creates an atmosphere of risk and unpredictability. Investors are apprehensive about committing

substantial financial resources to real estate projects in such circumstances, as they face heightened risks associated with potential changes in government policies, regulations, and property rights. The lack of a stable political environment inhibits investors from accurately assessing the risks and rewards of investing in real estate, which consequently deters them from pursuing opportunities in these countries.

Participants argue that when geopolitical tensions and government transitions occur, many investors become hesitant to invest and prefer to wait on the side-lines until the situation stabilizes and a degree of certainty restores. This cautious approach can lead to a slowdown in investment, which may persist for a considerable period of time. A change in government can result in policy shifts that may have a significant impact on various sectors of the economy, and on real estate investments in general. A5 argues *“There’s real risk of political shifts that can stop you getting your money out and I think that is going to remain a significantly constraining factor to foreign investment.”* Investors may therefore delay their investment decisions until they have a clearer understanding of the new policies and their potential implications. The realization of projects also depends on the government in place. B1 clearly describes this and gives an example *“As election cycles change, obviously parties that are governing change and that has a massive risk for projects. To give an example, there is a big project in Accra that has been planned and stalled for I think close to 15 years because then you have a president and a government that endorses this project and they’re happy for foreign capital to come in and develop, and just as things start going the next election cycle comes around and it’s a new president who doesn’t like this, and then it stalls for five years. And then you have a new president and then - so yes, there is, that’s the thing. So, more stable countries do see a lot more foreign investment flowing in.”* According to the interviewees, the constantly changing governments and political instability are significant obstacles to the development of both the country and the real estate sector. They emphasize that having a stable government over a long period is essential to get on the right track. In many African countries, the presidential term is relatively short, which can pose a challenge for maintaining continuity in policies and initiatives. Interviewees suggest that if a leader sets the country on a positive trajectory, a change in government can have a negative impact if power is transferred to individuals who do not share the same vision. Unfortunately, this is a common occurrence in Africa. A6 argues *“You need a 10, 15, 20-year period where you’ve got a good stable government – guys that are doing the right thing, low levels of corruption, investment and infrastructure.”* From this quote and similar answers of participants it becomes clear that

political stability and continuity in government are crucial factors for the development of the real estate sector. The real estate industry relies heavily on long-term planning and policy consistency, making a stable government essential for its growth and success. Political instability erodes investor confidence. Investors, both domestic and foreign, seek stable environments that offer predictable returns on their investments.

Participants answered that clear governmental policies are important to institutional investors (B1, A2, A3, A4, A6, A8, A9). Participants argue that many African countries do not have clear policies, which acts as a barrier to foreign investors. Interestingly, some of the participants indicate they are often more concerned with the stability of policies rather than their content. A2 argues *“Policy certainty is obviously a very important barrier. I think the policy itself sometimes is not as important as towards the certainty thereof.”* This is because investors can take a policy into account in their strategy when investing in a country. Policy certainty serves as a crucial risk mitigation factor by providing a stable and predictable investment environment. With clear and consistent policies, investors can assess and manage risks more effectively, enabling them to make informed investment decisions. It also facilitates long-term planning and allows investors to make reliable projections. Participants argue that this enhances investor confidence, which is essential for attracting institutional capital. When investors have assurance that policies and regulations will remain stable and consistent, they are more likely to commit substantial resources to a market. Sudden policy changes can have a significant impact on real estate investments as unexpected circumstances arise, leading to higher costs and adjustments. Hence, policy certainty is vital for real estate investors as it allows them to make informed decisions, avoid uncertainties and minimize risks. A2 goes on by arguing that when policies are less certain, FDI decreases: *“We’ve seen that shift that once policy certainty stopped being as certain, then we’ve had a massive decline in FDI.”* The negative correlation between policy uncertainty and FDI underscores the significance of policy certainty as a key consideration for foreign investors. A significant challenge faced by many African countries is the presence of low policy certainty according to participants, which has the potential to result in swift declines in FDI inflows. Uncertainty in policies can create doubts and hesitations among investors, leading them to reconsider or postpone their investment plans. This is relevant in the context of the real estate sector, which requires substantial capital investments and long-term commitments.

Participants noted that corruption is a significant problem in Africa. In the previous section, the researcher already discussed how corruption manifests itself in the legal environment. Other problems corruption lead to include that it restricts investors from investing in many countries or regions due to their mandates, which prohibit investing in areas with high levels of corruption (A1, B1, A2, A3, A5, A6, A8, A10). Several participants highlighted that as institutional investors, they are responsible for investing funds on behalf of others, such as pension funds. Due to the nature of their business, institutional investors are held to high standards of accountability and transparency, and any indication of corruption can have consequences. Institutional investors have a fiduciary duty to act in the best interests of their clients. As such, they are expected to take a responsible and ethical approach to their investment decisions. Investing in areas or governments that engage in corrupt practices would be a breach of this duty, especially as there is an increasing trend of companies to engage in ethical behaviour. This partly explains that less corruption might lead to increased FDI inflow, which was observed by Asiedu (2006). B1 argues *“There is a lot of scrutiny on companies these days to be ethical. So if at any point it comes into the press that oh, this and this person has been involved in corruption. So as soon as it comes out it’s a massive reputational risk. I would assume that bribery would be a risk and would be a deterrent to investors.”* This is also the reason why participants indicate they would not tolerate a degree of corruption in exchange for higher returns. This stands in contrast to the findings of Baum and Murray (2011), who claimed that investors might be willing to accept a certain degree of corruption to achieve greater financial gains. However, this might be true for private investors, which were excluded from this study.

Interviewees also argue that corruption is a fundamental issue that underlies many other macroeconomic factors in Africa. Corruption can have a significant impact on the efficiency of economic activity, including the real estate sector. They argue that corruption is not just a problem in and of itself, but it can also exacerbate other economic issues in the region.

According to some interviewees, conducting business in Africa without resorting to corrupt practices is possible, but it requires *“more patience”* due to the generally less efficient and slower pace of processes in the region. A4 argues *“They’re only corrupt because they’re trying to make shortcuts. If you’re trying to do shortcuts and do things that are not legislated, then it is going to cost you money and it’s going to take you a long time. However, if you do things correctly and by the system, you can get through the corruption. I mean, as I mentioned, we*

*adhere to the UK Anti-bribery and Corruption Act and we have our partners in the country that we work with that don't tolerate corruption. So, as much as people do say, you know, Africa is corrupt – there are ways and means to do business in Africa that is very profitable, that doesn't get you into the dark side of that theft.”*

The interviewees emphasized that the endeavours undertaken by both the government and the people to enhance the economic and political landscape in Africa yield a positive impact on the perception of institutional investors (B1, A4, A6, A8). These efforts, in turn, increase the likelihood of attracting investment from institutional investors. B1 states that *“The effort of the government to try to improve plays a role in investment decisions.”* This effort is often associated with an increase in FDI inflows in the real estate sector according to participants. The government's commitment to implementing comprehensive economic reforms and fostering a business-friendly environment plays a pivotal role in shaping investor perception. When governments exhibit a strong dedication to implementing policies that promote economic growth, such as liberalization, deregulation, and the facilitation of foreign investments, it enhances the confidence of institutional investors. These investors, who often seek stable and predictable investment environments, are more inclined to allocate capital to regions where governments have demonstrated a commitment to improving the economic landscape.

#### 4.5.3. Sub-question 2: Conclusion

In the second theme, the researcher extensively explored a range of challenges associated with the factors discussed in the first theme. Examples of such challenges include volatile currency fluctuations that can erode returns, ambiguous property rights leading to land expropriation concerns, or high levels of corruption resulting in unethical practices. It has become evident that institutional investors active in the African real estate market carefully assess the significance of these challenges. If the problems are deemed too substantial, institutional investors may choose not to invest in a particular country. Some countries may experience a higher prevalence and greater severity of these problems. Investors tend to avoid countries where real estate investments are deemed unsafe and instead opt for markets with greater certainty to invest in real estate.

However, there are strategies available to mitigate these problems to some extent. These strategies will be further examined and discussed in the upcoming theme.

#### 4.6. Thriving in Africa's complex real estate environment

The final theoretical dimension that emerged from the data pertains to how institutional investors can prosper in the African real estate market. The previous theme highlighted the challenges and uncertainties associated with investing in this market, which could potentially lead to financial losses for investors. However, based on the interviews conducted, it became evident that there are strategies available to mitigate risks and overcome the barriers that exist in this landscape. In this section, the researcher will delve into the solutions that institutional real estate investors in Africa utilize to generate returns, as well as discuss the future opportunities that lie ahead in this market. This theme answers the last sub-question “*What strategies can institutional investors employ to effectively operate and achieve maximum returns in the African real estate market?*”

##### 4.6.1. Solutions to succeed

One of the subthemes within the last aggregate dimension that emerged from the data was the strategies employed by institutional investors to overcome the barriers identified in the previous subthemes and during the interviews.

###### 4.6.1.1. Pick jurisdictions carefully

Picking jurisdictions carefully is a crucial aspect repeatedly emphasized by participants due to its significance in ensuring successful real estate investments (B1, A3, A6, A7, A8).

Institutional investors are advised to exercise caution and steer clear of countries or jurisdictions that exhibit high levels of geopolitical risk, volatile regulatory environments, or unclear property rights. The findings of Lagoarde-Segot and Lucey (2007) are in line with the responses of interviewees, emphasizing the significance of thoroughly examining institutional factors and market classification within the MENA region. By meticulously evaluating potential investment destinations, investors can mitigate a range of issues discussed in previous subthemes. Geopolitical risks, such as political instability, civil unrest, or unpredictable policy changes, can significantly impact the viability and security of real estate investments. According to London and Hart (2004), numerous emerging economies have implemented structural reforms, which are expected to attract increased foreign investment. Participants state

they target such markets; jurisdictions with stable political systems, transparent governance, and a track record of respecting property rights is essential to safeguarding investments according to interviewees. A7 argues *“Well I think one is pick your jurisdictions where you’re going to operate carefully, okay, so in other words, as I said – there’re how many countries in Africa – 85 or something, I don’t know, I can’t remember exactly. But you know, pick your jurisdiction, okay? And then get local advice and make sure that you do your due diligence properly and you know, make sure that you understand the legal system very carefully and under what circumstances expropriation can occur.”*

Participants assert that real estate investment in democratic regimes may be more advantageous due to their association with favourable regulations. However, this viewpoint contradicts the research conducted by Baum and Murray (2011), who argue that dictatorial regimes can exhibit even greater capitalist tendencies and be more welcoming to investment compared to democracies.

#### 4.6.1.2. Local partners

The most important solution that emerged from the data is the importance of having local partners (A1, B1, A2, A3, A4, A5, A6, A7, A8, A9, A10). According to all participants, local partners are essential for institutional investors looking to invest in African real estate. Local partners can assist foreign institutional investors in identifying the optimal investment climate by considering all relevant factors. As noted in previous themes, Africa's economic, legal, and political environment is volatile. Local partners are equipped to identify the right markets at the right time, providing institutional investors with an opportunity to earn returns on their investments. A3 argues that *“You have to understand the different markets, the opportunities are there and you have to have either knowledge or investment professionals on ground, who can help you navigate which countries are investable, at least at any point in time.”* Collaborating with local partners enables international investors to overcome their information disadvantage resulting from limited access to the same level of information as domestic investors, as noted by Eichholtz et al. (2001).

Several participants highlighted that working with local partners can help overcome the information asymmetry that often exists in the African real estate market (A1, B1, A3, A6, A7, A8, A9). Local partners possess valuable knowledge and insights into the economic, legal, and political environment in the region, which can be challenging for foreign investors to acquire

and stay up-to-date with, especially if they are located on the other side of the world. By partnering with local experts, institutional investors can tap into their knowledge and experience, thereby reducing the risks associated with investing in unfamiliar territories and enhancing their chances of success. B1 argues *“It’s important for them to clearly understand what is going on, and are there competent in-country partners that they can work with to guide them through the process – because that’s often what you need to do. Like it’s impossible to conclude a deal in I don’t know, Uganda from London without having someone in Uganda guiding you.”* Local partners can be instrumental in helping navigate through the legal landscape and provide insights into the nuances of property rights in different regions. By working with local partners who have a better understanding of the legal framework and regulatory environment in Africa, institutional investors can gain a better grasp of the property rights landscape and mitigate risks associated with investing in this market. A7 explains this: *“Even for property rights – if you have local partners, generally those help in ensuring that you don’t end up, you know, having your property confiscated or you find out that the property is owned by somebody else because they’ve got, they also have title deed over the same property, you know.”* Participants also highlight the critical role played by local partners as the *“boots on the ground”* in managing day-to-day operations of real estate investments. The arguments made by the participants correspond to the findings of Hines (1988), highlighting the considerable challenges associated with managing real estate investments remotely, particularly when conducted from outside the continent. The physical distance, language barriers, and unfamiliarity with local conditions make it difficult for institutional investors to have direct control over operations. This is where local partners become indispensable. They serve as the eyes, ears, and hands of investors on the ground, ensuring efficient execution of tasks, overcoming logistical hurdles, and addressing any issues that may arise.

The participants emphasized the importance of carefully selecting local partners for real estate investments in Africa (A1, A2, A4, A5, A6, A7, A8). It is essential to ensure that potential partners are not involved in any corrupt or illegal activities, as such associations would be contrary to the ethical standards upheld by institutional investors who are entrusted with other people's money. Some local partners may use their connections to engage in corrupt practices and generate additional income, but such practices are not acceptable to institutional investors who operate with a strong commitment to ethical and responsible investment practices. A1 argues *“You want to make sure, number one, they’ve made their money honestly and number two, if they’ve made their money through different political cycles. So they didn’t suddenly just*

*get rich when one political party got into power. So, then have you have a good reputable long-standing operator. Those are the sort of people you want to partner with.*” Some institutional investors exhibit a cautious approach when it comes to relying on local partners and prefer to take direct control over matters to minimize potential issues. This also helps saving costs as hiring property managers are *“extremely expensive and they don’t look after your properties very well.”* According to A8 who goes on by arguing that *“The way we look at it is to have very strong, call it local advisors that are assisting us. Together with that, we don’t have local investment partners – we do 100% ourselves because I think a lot of the times you run into problems with partners and then it’s like a marriage ending up in a Divorce Court and you don’t want to end up there. So to avoid that, you know, we own 100% of all our assets. But then you need to have very strong advisors and people that you work with.”* This quote also highlights the points that there are consultants that help overcome information asymmetry in African real estate markets. These consultants offer advice to institutional investors on which markets to invest in and which ones to avoid. Their expertise can help investors navigate the complex African real estate landscape by providing them with insights into economic, legal, and political conditions. B1 states *“So you have the likes of JLL, CBRE, etcetera, providing advisory to these clients.”* Choi et al. (2013) argued that the involvement of consultants and local partners in investment ventures can result in additional agency costs. Participants acknowledge this but argue that it is practically impossible to navigate and succeed without their assistance.

#### 4.6.1.3. Building relationship with local institutions, communities and governments

Besides having local partners in countries where institutional investors are actively investing in real estate, it is important to build relationships with local institutions, communities and governments according to participants (A3, A5, A6, A7, A8, A9). A9 argues *“So you have to basically build relationships, you know? You have to build local relationships with all the stakeholders, all the future stakeholders in the project from the investors, the banks, the tenants, the public sector entities.”* Establishing strong connections with local communities fosters trust and goodwill. Real estate projects often impact the surrounding communities in various ways, such as job creation, infrastructure development, and economic growth. By engaging with the local community and understanding their needs, concerns, and aspirations, investors can ensure that their projects align with the community's interests. This not only enhances the reputation of the investor but also helps to create a positive social impact. A9

explains this well in the following passage *“Then you build your relationships with the surrounding community because often you’re going to build something, which is very different to what is around there. You employ local people as much as possible and on every step of the way. So you build cultural affinity and loyalty, and you actually have to make the project desirable to the people who are going to live in it, around it, you know, all the time.”*

According to some participants, local governments and institutions often exhibit a high level of cooperation in the context of real estate investments (A3, A7, A8, A9). This willingness to collaborate stems from their shared goal of promoting local economic growth. Recognizing the positive impact that investments, ventures, and endeavours can have on the local economy, these entities are inclined to support and facilitate such initiatives. In some cases, local governments demonstrate a proactive approach by being open to revising existing regulations or introducing flexibility to accommodate the needs of real estate investors. This responsiveness is driven by the understanding that a conducive investment environment attracts capital, generates employment opportunities, and stimulates economic development. By adapting regulations and offering flexibility, they strive to create an investor-friendly ecosystem that encourages both domestic and foreign investments. A7 argues *“Another strategy is to you know, to liaise and talk with the governments that you, in the areas that you’re trying to go into you know, and make sure that they provide the right regulations and the right legislation.”*

In addition to local institutions, participants argue that large intergovernmental institutions can play a significant role in facilitating the real estate investment process, particularly in terms of development projects (A3, A6, A7, A8). Notably, institutions such as the IFC are often supportive of capital inflows into developing countries in Africa. As a result, they are willing to assist investors and developers in navigating regulatory frameworks and overcoming hurdles. They recognize the potential of real estate investments as catalysts for job creation, infrastructure development, and overall economic advancement. Hence, they are inclined to collaborate with investors and developers, leveraging their expertise, networks, and resources to streamline processes and facilitate the implementation of projects. These institutions often possess extensive knowledge and experience in dealing with complex regulatory environments, making them valuable partners for investors seeking to navigate the intricacies of local regulations and compliance requirements. Moreover, intergovernmental institutions can serve as a bridge between investors and local authorities, fostering dialogue and mutual

understanding. Their credibility and neutral standing make them effective advocates for investors' interests, helping to create an enabling environment for real estate projects. A8 argues *“If you’re working with the likes of the IFC and so on, then sometimes you can get through the door. That is definitely one certain thing that you can do and I think in terms of materials and development, to make sure that you try and involve local communities as best as possible, so that you have buy-in and ownership in the assets that are being created there and you know, that certainly helps a lot and goes a long way to seeing a more successful, more sustainable development.”*

#### 4.6.1.4. Lending from strong markets

In the previous aggregate dimension it became clear that the interest rate in most African countries is significantly higher compared to interest rates in more developed countries. Due to higher cost of capital, institutional investors have to gain higher returns to achieve the same IRR. When examining the perspectives of the participants, three potential lending strategies emerge for institutional investors: borrowing from international markets, borrowing from within Africa but outside the country of investment, or borrowing from within the country where the investment is made. There are conflicting viewpoints among the participants, with some asserting that a majority of institutional investors procure their funding from within Africa, while others argue that these investors source their funding from outside the continent. A2 argues *“In most investments I have seen from an international going into Africa, the funding has never come from inside the country.”* Whereas B1 argues *“Ja, we take on loans in Africa.”* Participants who contend that they obtain their loans from international debt markets or prominent development finance institutions such as the IFC assert that they do so due to the relatively lower interest rates available. Borrowing from international markets can provide institutional investors with access to a broader pool of lenders and potentially lower interest rates, allowing them to reduce their overall borrowing costs. Additionally, international lenders may offer longer repayment periods and more flexible terms, which can be beneficial for real estate investors with longer-term investment horizons. According to the majority of participants, strong African lending markets, particularly South Africa, are a popular source of funding for international investors. *“The South African Banks really lead the market on Mainland Africa.”* According to A1. These markets are deemed more attractive due to their well-developed financial infrastructure and a wide range of financial institutions and products available which provide relatively low interest rates, especially when compared to less

developed African economies. Furthermore, the financial sector in these countries is considered relatively stable and well-regulated, providing investors with greater assurance in the borrowing process. Investors who take on debt from within the country typically do so only when operating in the more developed African markets. This is because in many African countries, interest rates are excessively high, rendering projects and investments infeasible. However, borrowing locally does provide a potential benefit of protection against currency fluctuations, which is not the case when borrowing internationally. *“Lending locally helps you on the currency.”* According to A7.

The issue of currency exchange arises when institutional investors borrow internationally, particularly when they acquire dollar-denominated debt. In such cases, investors are required to repay their loans in dollars, even if they receive rental income in the local currency of the investment property. This creates a challenge when there is limited demand or liquidity for the local currency in the foreign exchange market. A7 argues *“So you’ve got investments, you’ve got real estate, they’re performing well, the guys pay their rent, but you can’t get the Naira converted to dollars to pay your debt, right? That’s problematic.”* Consequently, many investors opt for complete dollarization, where all aspects of their investments, including rental income, loan repayments, and investor pay-outs, are conducted exclusively in U.S. dollars. This strategy effectively mitigates most currency-related challenges. A9 states *“We dollarized everything.”* However, it exacerbates the issue discussed earlier: potential tenants who earn income in local currency may be reluctant to rent properties due to the significant currency risk involved.

#### 4.6.1.5. Hedging strategies

Hedging strategies have been identified by participants as a valuable tool to mitigate currency fluctuations, which pose a significant risk to real estate investors in African countries (B1, A5, A7, A8). The findings of this study are in line with the arguments made by Worzala (1995), who emphasized the use of hedging strategies by real estate investors to manage and reduce foreign exchange risk. These strategies offer a means of protection by minimizing the impact of volatile exchange rates on investment returns. Hedging involves taking deliberate actions to offset or reduce potential losses resulting from adverse currency movements. Hedging options mentioned by participants include forward contracts and options. A7 agrees that it is possible to hedge against currency risk, but that it comes at a cost and dilutes returns: *“Yes, you can hedge liquid currency, so in other words a rand to dollar, you can hedge, but it comes at a*

*cost, right? So it dilutes your returns and I think that's the difficulty you have with you know, sort of that strategy.*" While hedging strategies can incur costs and potentially reduce returns, they offer a viable solution to mitigate the significant currency risk associated with real estate investments in Africa. Considering that currency fluctuations pose one of the most significant challenges to investment in African real estate, the potential benefits of implementing hedging strategies may outweigh the associated costs.

#### 4.6.1.6. Pre-signed lease agreements

According to the participants, real estate investors aim to maximize certainty on returns while minimizing the risk associated with low demand and high vacancy rates. To achieve this, they avoid building on speculation, which refers to developing a property without a secured buyer or tenant (A1, A4, A8, A10). Developing real estate on speculation can be risky as it involves significant upfront costs without any guarantee of return. Developing with a secured buyer or tenant minimizes the risk of high vacancy rates but also provides a certain degree of predictability in terms of future cash flows. A1 argues *"It is too risky in Africa to build on speculation, so without a tenant. So, we generally, if we're going to build in Africa we will pre-let 60% or 70% of the building; we have to and that's a rule we've agreed with our investors and now probably, I mean the last one we did was 100% let."*

Participants suggest that partnering with entities from more developed countries is another strategy employed by real estate investors to minimize vacancy and ensure certainty in returns (A4, A6, A8). Some participants who undertake large real estate investments and developments enter into lease agreements with entities or companies from developed countries. In doing so, they carefully select their tenants, which helps to provide more assurance of consistent lease payments. A4 states *"We sign our lease agreements with the United States of America."* This approach can be beneficial as tenants from more developed countries are often viewed as more reliable and less likely to default on their lease payments. This, in turn, helps to reduce the risk of high vacancy rates and provides a degree of predictability in terms of future cash flows.

#### 4.6.1.7. Diversification within Africa

Participants in the study have emphasized the strategy of diversifying investments within Africa as a way to capitalize on the significant growth potential of the African market, while simultaneously mitigating risks stemming from volatile economic, legal, and political factors.

This aligns with the findings of James and Vaaler (2015), who found that by investing in multiple countries, investors can effectively reduce country-specific risks such as political instability, economic fluctuations, and currency fluctuations. A7 maintains a viewpoint that is consistent with the findings of Bai and Green (2010) as well as Sirmans and Worzala (2003), suggesting that investors can pursue diverse diversification strategies to enhance their portfolio's diversification: *“Ja absolutely. So we look at a variety of diversification strategies. So, firstly, let’s say sector, okay? Secondly, is geographical, okay? Thirdly, is even client concentration.”* By diversifying on multiple fronts, they aim to minimize the different sources of risk.

Some participants raise concerns about the limitations of diversification within Africa due to the relatively fewer investment opportunities available. Consequently, investors are compelled to accept the opportunities that do exist and strive to achieve diversification within the available options. A5 argues *“Ja, so I mean portfolio diversification, I think within an African context is challenging. Or sorry, let me rephrase that. I think portfolio specialization is challenging within an African context just because there are constraints as to the size of the market. There just simply isn’t the scale to the market which lets you have a very focused strategy that is significantly scalable.”*

#### 4.6.2. Opportunities

The second subtheme that emerged from the data focuses on the opportunities highlighted by participants. They discussed the potential for investors to capitalize on real estate opportunities in Africa, which could lead to favorable returns on investment.

##### 4.6.2.1. Sector and countries

Participants mentioned that institutional investors try to benefit from opportunities that arise in Africa. Even when certain countries or sectors are in a slump there are always opportunities to make returns, and it is up to investors to anticipate on this. A6 argues *“Even if the tide is going out, there are always going to be spots where you can still do well and still provide the returns.”* As discussed earlier by the researcher, institutional investors exercise caution in selecting jurisdictions for their investments. They prioritize avoiding countries plagued by significant challenges and instead focus on regions that demonstrate positive trajectories and stability (A1, B1, A2, A3, A6, A7, A8). B1 argues *“We advise investors to stay out of countries*

*that have unfavorable regulatory and political regimes, or where there is a lot of tension. Instead they should look at countries with safety and stability.”* Participants express the belief that countries can experience trends that positively impact their economy and real estate market. Institutional investors must consider these factors. A3 explains *“It was Zambia on the back of their copper mines, it was Kenya on the back of their formalization of their broader economy, Nigeria obviously with a very sort of robust oil market and I don’t know where they are – the second or the first biggest economy in Africa. So it has been on the basis of that, and we have steered away from other countries where there is heightened economic uncertainty but mass levels of poverty and no path to recovery. So definitely, it plays a big role in that.”*

Similarly, participants frequently emphasized the significance of identifying specific sectors that hold promising future prospects within African countries (B1, A2, A3, A4, A5, A6, A7). They advised investors to anticipate emerging trends and position themselves strategically to benefit from these opportunities. Participant A7 explains this well with an example: *“One of the big drivers of economic growth in Africa is cell phones. Africa's cell phone penetration is remarkably high, exceeding 80% in many countries, and even surpassing 120% in some instances, indicating that individuals own more than one cell phone. This substantial presence of cell phones has a significant impact on economic activity. As a result, we anticipate substantial growth in telecommunications infrastructure, utilities infrastructure, and ultimately, in real estate investment on the continent. However, it is important to note that this growth may not be directly proportional to population growth due to affordability factors.”* This example highlights the importance of recognizing and capitalizing on specific sectors that are poised for significant growth. Investors are advised to closely examine these trends, such as the proliferation of cell phones, and align their investment strategies accordingly. By identifying sectors that are experiencing rapid expansion or undergoing transformative changes, investors can position themselves to generate favorable returns. Furthermore, participants stressed the importance of adaptability and flexibility in navigating the African real estate market. While certain sectors may show strong growth potential, it is crucial to recognize that market dynamics may not always follow a linear path. Affordability, infrastructure development, and other contextual factors may influence the pace and pattern of sectoral growth.

#### 4.6.2.2. Long-term: population growth, economic growth and pension funds

Another notable observation is that participants hold the belief that the African real estate sector has the potential to become a substantial market, but its development will require a time. As previously discussed, participants suggest that population growth is expected to drive economic growth, subsequently leading to the expansion of the real estate industry. However, this transformation will not occur overnight. Many participants emphasized the critical role of stable political regimes with effective long-term plans. Consequently, participant A6 asserts that the key lies in adopting a patient and forward-thinking approach as an investor, focusing on the long-term prospects of the market. Participants stressed that it is crucial to consider the necessary factors for sustainable growth, such as political stability, well-designed strategies, and the gradual evolution of the real estate landscape. By understanding the long-term potential of the African real estate sector and patiently navigating through its evolving dynamics, investors can position themselves to capitalize on future opportunities and achieve substantial returns on their investments. A6 argues *“At this stage the opportunity lies, I think, in taking a more longer term kind of outlook on it and you know, waiting, holding out through the storm. I think it’s become clear to everybody that it’s a long-term game. It’s a more patient game than, you know, than the exuberance of the early stages of the Africa rising story.”*

Participants also highlight the correlation between population growth, economic development, and the subsequent investment in pension funds and insurance companies. The anticipated outcome is that this influx of capital will fuel an upswing in real estate investments. A growing population and a flourishing economy create favourable conditions for individuals to accumulate wealth, increasing the pool of funds available for investment. As people strive to secure their financial future, they are more likely to seek out avenues such as pension funds and insurance companies to safeguard their assets. The expansion of pension funds and insurance companies can have a profound impact on the real estate sector. These institutions typically allocate a portion of their portfolios to real estate investments as a means of diversifying their holdings and generating stable, long-term returns. The influx of capital from these sources can drive increased demand for various real estate assets, including residential, commercial, and industrial properties. A9 explains *“So I think together with population growth and growth in the economies, is you will see people locally having more money and they will start investing into local pension funds – those pension funds will have to look at investment opportunities and those pension funds or insurance companies will invest in local real estate, you know. And typically, you know, as we know pension funds and insurance companies, they*

*invest for the long term and I think you know, the best for the local investors institutions is one of the best asset classes, is real estate you know, because it's a real asset. It gives inflation a hedge, you know, because of your link to rentals, to inflation, you know. So yes, I think, so for me, I think the growth and the opportunity for African real estate is going to be very much driven by the local institutional market and the local growth of pension funds and insurance companies looking for investment opportunities locally.”*

#### 4.6.3. Sub-question 3: Conclusion

The final theme discussed the strategies that institutional investors can employ, and opportunities they can benefit from to prosper in the African real estate market. Institutional investors can mitigate the problems discussed in the previous theme by picking their jurisdictions carefully, working with local partners, building relationships with local institutions, lending from strong markets, hedging strategies, pre-signed lease agreements and diversifying within the African continent. By implementing these strategies, institutional investors can seize the opportunities presented by the African real estate sector and capitalize on the promising investment prospects that were previously discussed.

## 5. Research Conclusions

### 5.1. Summary of findings

This study aimed to explore the perspectives of institutional investors regarding the potential advantages and obstacles presented by the African real estate market. By conducting interviews with professionals in the real estate industry, the research sought to shed light on the reasons why institutional investors are attracted to Africa as an investment destination, identify the various barriers that hinder investment in the region, including several manifestations in the environment, and examine the strategies employed by institutional investors to navigate in the African real estate landscape in order to achieve profitable returns.

To address the overarching research question of *“What are the perceptions of institutional investors on the opportunities and challenges of the African real estate market?”*, the research formulated three sub-questions. The first sub-question, *“What are the main factors in the African real estate environment that affect the decision of institutional investors to invest or not to invest internationally?”*, aimed to uncover the key reasons behind institutional investors' involvement in the African real estate market and the crucial factors they consider when

making investment choices in African countries. The research findings revealed that the business environment in Africa presents both opportunities and risks for institutional investors considering real estate investments. The African real estate market offers enticing prospects such as high returns, diversification opportunities, and potential tax benefits. African real estate markets often offer significantly higher returns, which can be influenced positively by population growth, provided that the government successfully addresses labour force participation. Additionally, investing in African markets can offer diversification benefits since they are generally less correlated with developed markets, thus enabling international investors to capitalize on this potential advantage. However, investing in African real estate is not without its risks, and institutional investors carefully consider various barriers before making investment decisions. The challenging economic climate in Africa poses significant considerations, including factors such as low demand for real estate, currency risk, limited availability of reliable data, infrastructure quality, and fluctuating interest rates. Moreover, the political and legal climate introduces further complexities. Institutional investors analyse aspects such as property rights, contract enforcement, transparency, the government's ability to pass new laws, clear governmental policies, political stability, efforts to improve the situation, and the prevalence of corruption. Stability and reliability of these factors are not always straightforward in African countries and can contribute to substantial risks associated with real estate investments, necessitating a thorough evaluation by institutional investors.

The factors examined in the first sub-question are characterized by uncertainty within the African continent, leading to potential challenges. The second sub-question, *“How do these identified factors influence the decision-making process of institutional investors regarding investing or abstaining from investing in African real estate?”* sought to explore the impact of these factors within the African real estate environment and understand how institutional investors assess them. The first subtheme highlights various factors that contribute to the uncertainty and risk associated with real estate investment in Africa. The research identified and categorized these factors into two main areas: economic problems and legal/political problems. Among the economic barriers, currency risk emerged as the most significant issue, posing a range of challenges such as restrictions on repatriating funds from the country. Institutional investors also face obstacles related to vacancy rates, information asymmetry, inadequate infrastructure, and high interest rates. Furthermore, the legal and political factors mentioned earlier give rise to a multitude of problems. Real estate investments in Africa can be uncertain due to various legal and political barriers. For instance, there are instances where

governments could suddenly seize land, and the legal frameworks in African countries may be weak, making it difficult to pursue legal remedies. Institutional investors, being risk-averse, tend to avoid operating in such countries to mitigate these risks.

The third sub-question “*What strategies can institutional investors employ to effectively operate and achieve maximum returns in the African real estate market?*” aimed to uncover the strategies that institutional investors employ in order to mitigate the problems discussed in the second sub-theme. Institutional investors would not engage in real estate investments in African countries if they deemed their investments to be entirely unsafe or if there were no opportunities available on the continent. To capitalize on these opportunities, participants in the study highlighted several strategies and opportunities that help mitigate problems and maximize benefits. These strategies include carefully selecting jurisdictions, partnering with knowledgeable local entities for guidance, establishing relationships with local institutions, obtaining loans from strong financial markets, implementing hedging strategies, securing pre-signed lease agreements, and diversifying investments within Africa to mitigate risk. In addition to these success-oriented solutions, the African continent offers opportunities within specific thriving sectors and countries. Furthermore, over the long term, the continent demonstrates excellent prospects for growth and development.

Figure 3 provides a visual representation of the key findings. This figure provides a clear depiction of the study's flow, illustrating how institutional investors assess and approach real estate investments in Africa. The figure distinguishes two crucial phases: the investment consideration phase and the problem mitigation phase. During the investment consideration phase, investors carefully evaluate the business environment and gauge whether the potential gains outweigh the associated risks inherent in the market. This assessment is vital for making well-informed real estate investment decisions. The problem mitigation phase entails employing various strategies to address the identified risks and challenges. The study emphasizes the importance for institutional investors to understand the nature of the risk, which requires a high degree of specific knowledge and experience. By comprehending the distinctive aspects of the risk landscape and the overall African real estate environment, institutional investors are able to assess potential gains and losses, enabling them to make confident investment decisions. In adherence to defined risk thresholds, often dictated by their responsibility to capital sources such as pension funds, institutional investors may refrain from investing when the challenges in the business environment are deemed excessively substantial.

Comprehending the nature of risk also plays a crucial role in formulating effective risk-mitigation strategies during the problem mitigation phase. Through the implementation of these strategies, institutional investors can harness the attractive investment prospects that the African real estate environment offers.

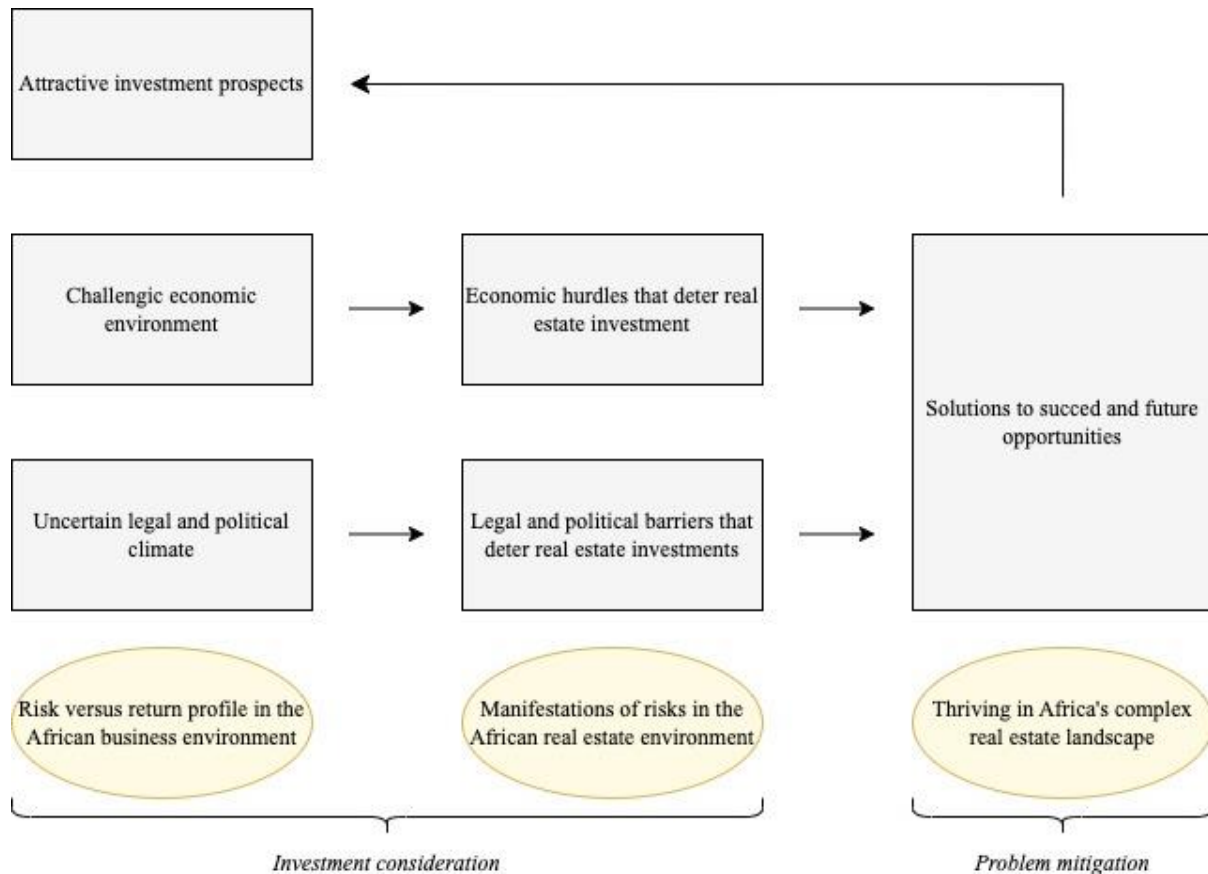


Figure 3 - Visual representation of the key findings

## 5.2. Implications for and contributions to literature

This research has made significant contributions to three established areas of literature. To begin with, it has provided valuable insights into the real estate industry in Africa, thereby enhancing the existing body of knowledge in this domain. The study has identified key factors driving real estate investments on the continent, examined challenges faced by investors when investing in African real estate, and explored effective strategies employed to optimize returns. Given the scarcity of research in this particular field, the present study has effectively addressed the demand for additional investigation into the real estate sector in Africa (Akpan & Ogunba, 2015; Anim-Odame, 2016).

Moreover, this study has made a significant contribution to the existing body of knowledge concerning FDI into Africa, particularly in relation to the potential benefits of diversification. The research investigated the appeal of the African continent to institutional investors seeking international diversification prospects. One of the key factors attracting institutional investors to invest in Africa is its lower correlation with other markets. This finding reinforces prior research that demonstrated a low correlation between emerging markets and developed markets (Barry et al., 1996; Bhatnagar & Ghosh, 2015; Bouslama & Ouda, 2014; Lagoarde-Segot & Lucy, 2007). However, the findings indicate that although these investors recognize diversification opportunities in Africa, the overall potential for risk reduction is constrained due to the elevated risk levels prevailing in the region. This research has thus enriched the existing body of knowledge on portfolio diversification by shedding light on the complexities and challenges associated with pursuing diversification strategies in the African context.

Lastly, this research has made valuable additions to the existing literature on the decision-making process of institutional investors. By conducting interviews with institutional investors, this study delved deeper into the intricacies of their investment decision-making processes. Through these interviews, valuable insights were gained regarding the factors, considerations, and strategies employed by institutional investors when making investment decisions, thereby shedding light on the decision-making dynamics of institutional investors.

### 5.3. Research limitations and future research directions

The research conducted on the perception of institutional investors regarding the African real estate market, while valuable in its current scope, does have inherent limitations due to its broad focus. The primary aim of the study was to explore general perceptions, factors, problems, and strategies relevant to institutional investors operating in Africa's real estate sector. However, a more comprehensive investigation could provide deeper insights by delving into specific factors and problems that have a more pronounced impact on investors. Future research endeavours could concentrate on identifying and prioritizing the factors and challenges that significantly influence institutional investors in their decision-making processes within the African real estate market. By doing so, researchers could pinpoint the key concerns that weigh heaviest on investors, enabling a better understanding of their perspectives and facilitating targeted solutions to address those specific issues. Moreover, the research acknowledges that the significance of certain factors and problems may vary across different countries in Africa.

Therefore, to gain a more nuanced understanding of the real estate market's complexities, future studies could adopt a more focused approach by examining specific countries or regions individually. This country-specific analysis would allow for a detailed examination of localized challenges, opportunities, and investor preferences, thus enriching the overall body of knowledge.

The research conducted through interviews has certain limitations, primarily stemming from the focus on individual participants' experiences and perspectives. The sampling techniques employed, namely purposeful and snowball sampling, further restrict the applicability of the findings to a broader population. As a result, the research does not lend itself to making generalizations or extrapolations to the wider institutional investor community in the African real estate market. Rather, it serves as a valuable unit of analysis, offering a detailed description of a specific context. This research plays a crucial role in contributing to analytical generalization. Researchers can use the findings as a foundation to develop hypotheses or theories that can be tested in larger, more representative studies in the future. Future quantitative studies could explore the perceptions of a more diverse and extensive pool of institutional investors operating in various African countries or regions. By incorporating a broader range of perspectives, a more comprehensive understanding of the market dynamics can be achieved, facilitating the development of targeted strategies and solutions that address the needs and challenges faced by investors across the continent.

Another limitation was the insufficient availability of data concerning the African real estate market. Due to the limited quantitative information, the research relied on qualitative perspectives provided by industry professionals. Future research could be intriguing to explore how the factors discussed in this study impact the volume of FREI flowing into Africa. Taking inspiration from Drabek and Payne's (2002) research on the influence of transparency on FDI inflows, a similar approach tailored specifically to Africa would be compelling.

Lastly, the research was constrained by the availability of foreign institutional investors actively engaged in the African real estate market who could participate in the interviews. Consequently, the research had to rely on a combination of interviews with institutional investors from outside the African continent and those based within it. While the African-based investors were highly knowledgeable and offered valuable insights, the lack of a more diverse

representation from investors outside Africa could be seen as a potential area for further exploration.

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## Appendix

### Appendix 1: Interview protocol

#### **1. Introduction**

Good morning/afternoon and thank you for making the time to meet with me today. As explained in my interview document and introductory email, I am a Master in International Management student at the University of Cape Town and I am conducting dissertation research on the perception of institutional investors on opportunities and barriers in African real estate markets. My research entails interviewing real estate professionals that are engaged in investing, managing or developing real estate in Africa.

Everything you say will be anonymous and nothing you mention is attributed back to your name. I will be recording the interview for transcription purposes. Could you confirm that you are ok if I record the meeting?

#### **2. Body of questions**

During the interview, there are three main themes I would like to discuss:

- General reasons for investing in real estate in African
- Economic factors influencing investment decision making behaviour in African real estate markets
- Political and legal factors influencing investment decision making behaviour in African real estate markets

#### **3. Closing remarks**

That concludes all the questions I wanted to discuss with you. Thank you so much for doing the interview. You provided me with great insights which will be very useful for my research. Considering the limited number of institutional investors who concentrate on the real estate market in Africa, could you suggest any individuals or companies that I could contact for an interview?

I would be happy to keep you informed about the progress of my research. Please do not hesitate to reach out if you have any follow-up questions.

Thank you once again for your time and valuable input.

## Appendix II: Interview schedules

### **Theme 1 – General reasons for investing in real estate in Africa**

- What do you consider to be the main opportunities for investing, holding and developing real estate in Africa?
- How does international portfolio diversification factor into the decision to invest in African real estate?
  - Does risk reduction play a role in this decision?
  - Does the correlation between African countries and other regions factor into this decision?
  - Are there concerns around increasing correlation due to globalization?
- Can investing in real estate in Africa result in higher returns compared to other continents?
  - If so, does this serve as a motivation for investment in African real estate markets?
  - Is there a lack of opportunities in domestic/developed markets?
- Is it possible for real estate investment in Africa to provide a steady and reliable income stream?
- How might population growth in Africa impact the real estate market?
  - Is population growth a factor that motivates investment in African real estate?
- Do tax incentives influence the decision to invest in African real estate markets?

### **Theme 2 - Economic factors influencing investment decision making behaviour in African real estate markets**

- How does the overall economic health of a country factor into investment decisions regarding real estate in Africa?
  - What specific economic factors are taken into consideration?
- Is the strength and stability of a country's currency a consideration in the decision to invest in African real estate?

- Does currency conversion play a role in investment decisions?
- Do currency exchange rates factor into investment decisions?
- Given that interest rates are high in African countries, how might this affect the decision to invest in real estate in Africa?
  - Can investment funding be sourced from other countries with lower interest rates?
- Does information asymmetry present challenges for foreign investors interested in African real estate investment?
- Is the quality of infrastructure a consideration when deciding to invest or not in African real estate markets?
- Is a country's creditworthiness a factor that is taken into account when deciding to invest in African real estate markets?

**Theme 3: Political and legal factors influencing investment decision making behaviour in African real estate markets**

- What are some of the key political and institutional barriers that are associated with investing in African real estate?
- Do the efforts of a government and its people to reform and improve the business environment factor into investment decision-making in African countries?
- How does political stability within a country factor into decisions to invest in African real estate?
- What impact does the degree of corruption have on investment decisions related to African real estate markets?
  - Would the expectation of higher returns outweigh concerns around corruption?

- Does the degree of transparency in the regulatory system influence investment decision-making in African real estate markets?
- How important is a country's legal framework when making decisions to invest in African real estate markets?
- Are clear and stable governmental policies a factor that is taken into consideration when making investment decisions in African real estate markets?

## Appendix III. Interview information document



### **Opportunities and Challenges in African Real Estate Markets: Perceptions of Institutional Investors**

**Contact details:**

Phone: +31657946851

E-mail: [DBRRUT002@myuct.ac.za](mailto:DBRRUT002@myuct.ac.za)

LinkedIn: <https://www.linkedin.com/in/rutger-de-bruin-085122149/>

Address: 100 Cornell Ave, Ithaca, NY

Dear Sir/Madam,

Thank you for considering participating in my research and helping me graduate! I really appreciate it, and cannot wait to talk to you!

My interest in real estate and Africa led me to wanting to learn more about the African real estate sector, and understand why or why not investors would consider investing in this market. When I started to dive into this topic, I noticed there was little previous literature on this topic. I saw an opportunity to write my thesis dissertation about this subject to fill this research gap. There are a number of benefits and opportunities with investing in real estate in this market. But of course, there are a lot of risks involved as well.

The goal of the research is to do an exploratory study on how professional institutional investors perceive the African real estate market. This goal will be achieved through interviewing institutional investors that are active in investing, developing or managing real estate in Africa.



There are three main themes I want to discuss

1. Reasons for investing in real estate in African markets
2. Economic factors influencing investment decision making behaviour in African real estate markets
3. Political and legal factors influencing investment decision making behaviour in African real estate markets

Interview and research information

- Online (Zoom or Microsoft Teams according to preference of the interviewee)
- 45 minutes to 60 minutes
- All responses of the interviewee will be completely anonymized
- The interviewee will have the option to decline answering any questions that you do not wish to answer
- Your participation in this research is voluntary. You can choose to withdraw from this research at any time
- You will not be requested to supply any identifiable information, ensuring anonymity of your responses

This research has been approved by the Commerce Faculty Ethics in Research Committee. Should you have any questions regarding the research feel free to contact the researcher.



Rutger de Bruin

## Appendix IV. Interview consent form



### (CEMS) MASTER'S IN INTERNATIONAL MANAGEMENT

#### INTERVIEW CONSENT FORM:

Participant name: .....

I volunteer to participate in a research project conducted by Rutger de Bruin as partial fulfilment of the requirements for the Master's in International Management Degree at the Graduate School of Business. I understand that the research is designed to gather information about the Perception of Institutional Investors on the Opportunities and Challenges in African Real Estate Markets and that I will be one of approximately 12 of people being interviewed for this research.

#### Background and purpose of the research

The goal of the research is to do an exploratory study on how professional institutional investors perceive the African real estate market. This goal will be achieved through interviewing institutional investors that are active in investing, developing or managing real estate in Africa.

#### Ethics approval

Ethical consent for the study has been approved by the *UCT Commerce Faculty Ethics in Research Committee*

#### Participation and confidentiality

I understand that my participation in this research is voluntary, that I will not be compensated and that I may withdraw at any time.

The interview will take approximately 45 - 60 minutes to complete and will be audio recorded

I understand that I will not be identified by name in any reports using information obtained from this interview and that my confidentiality as a participant in this study will remain secure.



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Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Should you have any questions or concerns please contact me.  
Student/Researcher: Rutger de Bruin, [DBRRUT002@myuct.ac.za](mailto:DBRRUT002@myuct.ac.za)  
Supervisor: John Luiz, [John.Luiz@uct.ac.za](mailto:John.Luiz@uct.ac.za)

### Consent

I consent to participate in this interview, based on the terms outlined above and subject to the following additional condition of my own (if any).

-----  
Signed by interviewee

-----  
Date



-----  
13/04/2023

-----  
Signed by Student

-----  
Date



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## Appendix V. Supporting analysis

### Theme 1: Business environment in Africa

| Second-order construct                 | First order code          | Participant quotes   |
|--|---------------------------|--|
| <b>Attractive investment prospects</b> | High returns              | <ul style="list-style-type: none"> <li>• <i>I think the yields are always going to be quite high because there is still a lot of inherent risk in the African market - A1</i></li> <li>• <i>A couple of years back or at least where yield or Prime Grade A building in New York or London will generate you two to three percent, the REITS that are paid for, data centre distributions, were like in the two to three percent as well. In Africa, you definitely earn yields more within the eight to nine percent. So, it offers you the risk premium which you typically have in most African markets which typically sits anything from maybe four percent for the most competitive markets to about six percent. So I think that risk reward you have that in there. And here, I'm looking at core operating assets where you are now looking more in terms of more upstream in the development side. You know, you are looking at returns or initial yields to around ten to eleven percent which potential which were well in the mid tens. So yes, Africa does offer you the returns and compensates you for the risk of Africa - A3</i></li> <li>• <i>Absolutely the returns are higher compared to developed markets - A4</i></li> <li>• <i>I would say the main reason when we started investing into it, it was for mainly the returns - A8</i></li> </ul> |
|  | Portfolio diversification | <ul style="list-style-type: none"> <li>• <i>I think Africa really does offer a solid diversification strategy if the fundamentals are right - A3</i></li> <li>• <i>From a global perspective, there is no doubt that the diversification benefits are there because, you know, what happens globally – whether that's the equity market or the debt market – I think the only sort of correlation that you might find is from a debt market perspective - A6</i></li> <li>• <i>I do think that ultimately it does, there is, you know, a bit more correlation to some of those international markets. Africa has less correlation with most international markets - A7</i></li> </ul>  |

|   |                   |  |
|---|-------------------|--|
|   | Population growth | <ul style="list-style-type: none"> <li>• Absolutely, if you just look at the opportunity. So, right now, you've got 1.4 billion people in Africa, in about 2030 you're going to have 2 billion people in Africa. Now with the global corporates pushing to come to Africa, the growth of those cities, if you just take your top five biggest GDP's in Africa, and you see the expansion that's happening within those cities - A4</li> <li>• Population growth in theory, should lead to growth in economy if it is productive population. But as I touched on earlier, population growth is great but if that population growth moves in line with unemployment it's not helpful - A5</li> <li>• The sort of burgeoning middle class that was expected when you see that sort of population pyramid or the, you know, the shape of the population from a spending perspective and you think that there is only a small segment that's going to slide into the higher spend bracket and suddenly there's going to be a massive amount of discretionary income opening up. That has not happened yet, population growth is mostly in the lower part of the pyramid - A6</li> </ul> |
|   | Tax incentives    | <ul style="list-style-type: none"> <li>• Obviously, investors also like tax incentives, so where they could invest their capital with minimal tax is always going to be attractive. I think there are some jurisdictions across Africa where they make it as attractive as possible to invest in real estate - A3</li> <li>• Every country we operate in, we have to look at the tax structure - A4</li> </ul>   |
| <b>Challenging economic environment</b> | Low demand        | <ul style="list-style-type: none"> <li>• Without demand, there is no reason to build. It is important to consider this in Africa because there is not a lot of buying power among the population that makes demand for real estate a certainty - A1</li> <li>• Real estate demand per sector differs across Africa, it is important to consider which real estate to build where - B1</li> <li>• Logically, it is important to look at demand for real estate within African countries - A7</li> </ul>   |
|   | Currency risk     | <ul style="list-style-type: none"> <li>• The strength and stability of a currency is important - B1</li> <li>• Then I think the next big one is going to be currency risk - A6</li> </ul>  |

|                        |  |
|------------------------|--|
| Lack of data           | <ul style="list-style-type: none"> <li>• <i>In Africa there is nothing like that. And so there might be some data accumulation over time but nothing of substance that's going to significantly give you insight into that market - A2</i></li> <li>• <i>So, to your point, if you want to do a research paper and you want to find out about one, companies in Africa, two, the actual on the ground tangible real estate information – it's almost impossible to find because there're maybe two or three transactions that happen a year per country over \$50 million. You know, you find that a day in New York, probably an hour in New York – this happens in a year in Africa as a continent. So that's the huge disparity that we have at the moment - B1</i></li> <li>• <i>It's just the fact that you know, very little is known about Africa and I think it's a small market relatively to the larger investment markets - A3</i></li> <li>• <i>So that's why people, again, will say well why must we invest in Africa? It's too expensive to actually find out the information - A4</i></li> </ul> |
| Infrastructure quality | <ul style="list-style-type: none"> <li>• <i>Infrastructure quality is an important consideration for us before we invest in a country - A3</i></li> <li>• <i>Infrastructure in Africa is a challenge overall, that is why it's an important consideration - A8</i></li> <li>• <i>And so that's an important point because as you know, in most African countries the infrastructure is not developed - A9</i></li> </ul>   |
| High interest rates    | <ul style="list-style-type: none"> <li>• <i>Interest rates are an important consideration because interest rates are quite high in Africa - B1</i></li> <li>• <i>Yes, we look at the interest rates of the countries we invest in - A6</i></li> </ul>  |

|  |                   |   |
|--|-------------------|---|
| <p><b>Uncertain<br/>legal an<br/>political<br/>climate</b></p> | <p>Legal risk</p> | <ul style="list-style-type: none"> <li>• <i>Definitely the degree of transparency is important and constantly changing regulations are difficult to work with - A1</i></li> <li>• <i>For me the most important barrier or rather the risk that I've seen investors flag is the risk of expropriation of their assets - B1</i></li> <li>• <i>Maybe to just give you an example why we would choose one country over the other has probably more to do with rule of law and how safe investments are rather than the growth - A3</i></li> <li>• <i>The court system, level of openness, transparency and the way we can enforce our contracts. I think those are fundamental things we ensure at the beginning of determining whether I want to invest in a country or not - A3</i></li> <li>• <i>I would say extremely important and it's not only just a clear policy also, the fact that the policy is consistent. So changing policies every two years, every administration can be very disruptive so we do look at that as well - A3</i></li> <li>• <i>Contract enforcements, land stability, making sure that the legality of the title deeds is bankable. So, ja. And then just with regards to legalities – that there is a Constitutional Court that does hold up and will protect the rights of external investors - A4</i></li> <li>• <i>Property rights are the stepping stones to building wealth in a country, and if your property rights are not protected, how are you going to going to invest any money, right? So property rights is a big one - A9</i></li> </ul> |
|--|-------------------|---|

|  |                |   |
|--|----------------|---|
|  | Political risk | <ul style="list-style-type: none"> <li>• <i>Policy certainty is obviously a very important barrier. I think the policy itself sometimes is not as important as towards the certainty thereof - A2</i></li> <li>• <i>So if you don't have the political stability you're not going to have the policy certainty. And if you're going through transition governments, coup's or anything like that, it's definitely one that you probably sit on the side lines and wait for it to settle before you get involved - A2</i></li> <li>• <i>Look, I think across the African context the biggest barrier is political instability and infrastructure - A5</i></li> <li>• <i>Ja, I think obviously a large part is corruption, you know. I think that is a big issue for institutional investors in Africa- A8</i></li> </ul> |
|--|----------------|---|

## Theme 2: Manifestations of factors in Africa's real estate environment

| Second-order construct  | First order code                  | Participant quotes  |
|---|-----------------------------------|---|
| <b>Economic hurdles that deter foreign real estate investment</b> | High vacancy rates                | <ul style="list-style-type: none"> <li>• <i>The reason that real estate has not taken off yet in Africa is because there is no demand because the largest share of the people can not afford housing - A1</i></li> <li>• <i>I think a lot of the private equity funds, certainly the property development funds, have all struggled – they're all battling to sell their assets. There're significant vacancies in a lot of the portfolios - A6</i></li> </ul>  |
|   | Illiquid assets and lower returns | <ul style="list-style-type: none"> <li>• <i>So, this is a major issue because if you look at depreciation of currency, it makes your rentals unobtainable - A4</i></li> <li>• <i>It's very difficult to generate a dollar return in an environment where the currency is slipping, where you can't externalise funds, where you can't repay your shareholders, there is no real interest in the companies or assets that you've developed or acquired - A6</i></li> <li>• <i>But if you do convert it to hard currency, to either Euros or Dollars, you know, the returns have been dreadful you know. And the main reason for that is because of the devaluation of the currencies you know. That is why investors want to get paid in dollars - A8</i></li> </ul> |

|                              |  |
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| <p>Information asymmetry</p> | <ul style="list-style-type: none"> <li>• <i>The lack of transparency in information is definitely a disadvantage - B1</i></li> <li>• <i>So I think ja, that's not just been the issue with getting the investment in the first place, but it's also been the issue why the investments probably failed – because of the asymmetry of information - A2</i></li> <li>• <i>There is not much known about African investment markets, so there is a lot of information asymmetry which scares off investors - A3</i></li> <li>• <i>Ja it's a challenge, you know, for any investment into Africa. So it's risky, you know, that doesn't matter what you invest in, and just getting information is a challenge, you know. So this is a massive barrier to investment in Africa - A8</i></li> </ul> |
| <p>Infrastructure issues</p> | <ul style="list-style-type: none"> <li>• <i>So you have a lot of extra work and costs and time that comes in with having to put in your own infrastructure - B1</i></li> <li>• <i>Infrastructure is, from an operational perspective, it's our biggest headache. I mean we are running generators in Nigeria almost 24/7 because there is very little to no grid power. That adds to the cost of the tenants, it adds to our costs as Capex - A6</i></li> <li>• <i>You're basically building your own municipality into the building in Nigeria, because there's no infrastructure for roads. There's no infrastructure for electricity and water - A8</i></li> </ul>  |
| <p>Interest Rates</p>        | <ul style="list-style-type: none"> <li>• <i>If debt is running and cap rates not moving and you're at a negative yield spread, then I think you're starting to have problems. But the cap rates move in line with these interest rate fluctuations - A5</i></li> <li>• <i>Cost of capital is so high in all these countries. so now how are you going to make a real estate investment work? Unless you're going to get those returns? So you need, because it's capital-intensive, you need a lot of capital. Like you're not going to make it work – that's why there is no developments - A9</i></li> </ul>   |

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| <p><b>Legal and political barriers that deter foreign real estate investment</b></p> | <p>Implications of legal barriers in Africa</p> | <ul style="list-style-type: none"> <li>• <i>It's a huge concern and so if there isn't a proper functioning Legal Office, no, we don't do business - A1</i></li> <li>• <i>Yes, the degree of transparency in the regulatory system plays a big role. And especially for investors that don't know Africa. It's obviously easier for them to work in countries where they understand, or at least it's easier to understand to the process environment, the laws and regulations pertaining to their investment and all of that So yes, it definitely does impact on their decision. And that's why a lot of our clients, because this is one of the services we offer – which is like market entry strategies where we very often take a long list of countries and then rank them based on various criteria - B1</i></li> <li>• <i>So for instance, again, going back into Ghana – a lot of the constitution of Ghana comes out of the UK. So that transparency is very, very similar – therefore, we are happy to transact in that country. You do have other countries, for instance, in Mauritius where we currently reside – the legislative system here is very difficult, in that there, it's very easy to prolong your court case. So you know, that is a, it is something that we spend a lot of time on, making sure that we are comfortable before we do the investments - A4</i></li> <li>• <i>But there was legislation suddenly introduced - A6</i></li> <li>• <i>So, you know, you wouldn't invest in Zimbabwe as an example, just because of the fact that you're not confident that you know, title to your land or your property is something that necessarily will be there and will be upheld - A6</i></li> <li>• <i>The title deeds are all over the shop you know, there is corruption everywhere. So you can't even acquire the land. So that's another, the third problem. There's a scarcity of developable land – or clean land title. There're tons of African countries, their title deed system isn't even digital yet – it's still manual – archives - A9</i></li> </ul> |
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|  | <p>Implications of political barriers in Africa</p> | <ul style="list-style-type: none"> <li>• <i>Being London-listed, you know, corruption is something that we just don't tolerate - A4</i></li> <li>• <i>Clear governmental policies are important, but that those policies are stable is even more crucial - A6</i></li> <li>• <i>You cannot invest in those counties – almost entirely because of the government that's in place there - A6</i></li> <li>• <i>Ja, no definitely – you can't touch that, you know. So ja, that leaves you with a handful of countries that you can really invest in. But ja, things, you know, things can change quickly and it does, you know. So it can go wrong quickly where you get a new government where policy changes and political, it becomes, you know, political becomes issues - A8</i></li> </ul> |
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Theme 3: Thriving in Africa's complex real estate environment

| Second-order construct             | First order code                    | Participant quotes  |
|------------------------------------|-------------------------------------|---|
| <p><b>Solutions to succeed</b></p> | <p>Pick jurisdictions carefully</p> | <p>• <i>Ja, I think, you know, obviously you get exposed to it quite often and that, and I think then you just have to walk away from those type of transactions or those type of deals. So, ja, that's the way that you deal with that. That's why you'll also try and operate, from our point of view, more in the bigger countries, in the bigger cities, you know. You tend to get more corruption in some of the smaller countries, some of the smaller towns, whereas in the big cities you know, it's less likely to having to deal with corrupt officials. Ja, so I think that way you sort of, you know, you navigate that part as well.</i></p> |

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| Local partners   | <ul style="list-style-type: none"> <li>• <i>100%. So as I've started, as a business we will not invest in a geography where we don't have boots on the ground. So not even just partners, we want our own people. Property is not something that can be done from behind a laptop. Property is on the ground and understanding it very intimately how things work, how people work - A5</i></li> <li>• <i>So typically, and even, you know, even when you've got partners I mean, you know, and that's kind of where we position ourselves, right? We sort of, we are trying to position ourselves as being that manager that you know, that removes those asymmetries, because the asymmetries are massive. And you know, we put ourselves forward as, and I mean, you know, if somebody is interested in African real estate, I would strongly suggest that they don't go direct – that they go through somebody like us who've got people on the ground - A6</i></li> <li>• <i>You know, so I think if one talks about specifically you know, real estate you know, I think it would be to invest alongside you know, people that have got experience in the market; people that have been around in the market for a long time, and people you know, that have got people on the ground, that have got big teams of people in-country, that have been there a long time that do a lot of the stuff themselves, you know, which are very hands-on. I think that is sort of how you mitigate that, you know, that risk - A8</i></li> </ul> |
| Building relationships with local institutions and governments | <ul style="list-style-type: none"> <li>• <i>So ja, we do that. We work with local, with the regulators to improve the structuring, set up REITS, improve the, you know, the tax treatment of real estate, the import duties, dealing with your different tenants. So yes, definitely, you know. You have to work with the regulators and the local people to improve certain aspects around it. Work with the investors, the pension funds, with the banks, you know. So ja, definitely you know, you have to do that - A8</i></li> <li>• <i>So it's all about building local relationships and building trust – and doing it properly and going through this, going through all the official steps that you have to go through and be prepared to, for those to take a long time, educate the people who are involved so they can do it a bit faster - A9</i></li> </ul>  |

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| Lending from strong markets   | <ul style="list-style-type: none"> <li>• So, we are multi-banked and we work with nine different banks. And the reason for that is cost of capital. So what they do is, they look at the strength of the counter party – so the strength of our tenants and that’s what they price their US\$ on. If we lend in US\$ we’re lending on average at a rate of about 8% all in, whereas if we went to local currency – for instance Ghana - it’s as high as 30%. Again, it makes the project unfeasible. So in all instances we are lending in US\$ unless we can get currency like in Mauritius where we can lend in Rupees at 8 or 9% - we would take that local currency on because we know if you track the currency it depreciates by 4 or 5% per annum – we would then, we’re happy to take on local currency. But the majority of African countries has double digit rates, which is just non-feasible for our projects - A4</li> <li>• Ja, it’s because the interest rate is slightly lower, Rutger. So you know, if you’re borrowing in US\$ you can pay say 10% p.a. interest, you know, on your US\$ debt. Whereas, depending on which country it is – in some countries your interest rate can be 25% in local currency you know, so your interest rate in local currency is just a lot higher. But then if you’ve got Dollar debt, you’re exposed to the devaluation of the currency, which is the other, you know, at another – so, ja sometimes it works for you, sometimes it works against you. But ja, so that’s why historically, you know people have done you know, more hard currency debt than local currency debt - A8</li> </ul> |
| Hedging strategies            | <ul style="list-style-type: none"> <li>• So and we’ve hedged out a lot of our currency so it doesn’t have – the currency doesn't have massive impacts on us - A5</li> <li>• There are different options to hedge against currency risk, and it is definitely a solution investors should consider - A8</li> </ul>   |
| Pre-signed lease agreements   | <ul style="list-style-type: none"> <li>• We try to minimize vacancies through pre-signed lease agreements for developments - A8</li> </ul>  |
| Diversification within Africa | <ul style="list-style-type: none"> <li>• That's why we diversified across multiple countries on the continent, to minimize risk - A8</li> </ul>   |

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|                             | <p>Sectors and countries</p>   | <ul style="list-style-type: none"> <li>• <i>So where there is huge commodity interest – the likes of Mozambique with the oil and gas, you know, they’ve 25,000 people that are working in the country – there needs to be accommodation for those people. So as long as you extract the macro of the country and you look past what is happening with regards to local currency, look past what is happening on local GDP, but actually look at the fundamentals of a country, that’s the opportunity to invest - A4</i></li> <li>• <i>Ja, definitely you know. So I think if you look at some of the countries that have been more successful, that have very positive policies, I think that made it a lot easier to invest in. You know, if you look at countries like Rwanda, Mauritius, Botswana, Namibia. So some countries do have very, you know, accommodating policies that makes it a lot easier to invest in. Ja, so it’s definitely – some countries are a lot easier to invest in - A8</i></li> </ul>   |
| <p><b>Opportunities</b></p> | <p>Long-term: population growth, economic growth and pension funds</p> | <ul style="list-style-type: none"> <li>• <i>You need a 10, 15, 20 year period where you’ve got a good stable government – guys that are doing the right thing, low levels of corruption, investment and infrastructure etcetera, etcetera. So, it will happen, but the timing of that I think, you know, its, I think it’s, that for me is in question - A6</i></li> <li>• <i>There is nothing that’s telling me that you know, the new government in Nigeria is going to change things dramatically or you know, that Kenya’s going to move out of its debt issues immediately. You know Ghana is too in the running. Ghana is doing the right thing, Zambia is doing the right thing – they’ve got the right president now, the right government now. But it takes time you know - A6</i></li> <li>• <i>So that would mean that if you think about South Africa which has a, quite a deep and developed pension fund and the asset management industry with billions under management, you know, there is capital available for investment. Whereas, if you go to, I don’t know, pick a country that’s Chad or something. You know, these countries don’t have those markets, and ultimately, you know, capital drives the development ultimately. But as countries in Africa grow, these pension funds will grow and lead to real estate investments - A7</i></li> </ul> |