

TRENDS AND FORECASTS FOR REAL ESTATE IN AFRICA

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Abstract: Making predictions and forecasts of trends that will shape our real estate industry require a leap of faith, but if we are willing to look, it may provide some meaningful insights that will help us navigate into the future. Whether you are thinking about building homes for sale or going into mortgage to grow your real estate empire, know that real estate is constantly changing due to dynamics such as changing tastes, advancement in technology and access to finance.

Real estate practitioners in Africa are faced with the overwhelming task of keeping up with trends. It is important that we are able to identify with some degree of confidence the changes taking place because they will guide our strategic decisions as investors, developers, financiers and agents. Developers who are able to get it right will be separated from the rest.

A number of things are certain in a few years from now.

- 1. Big demand for condominiums, apartments and similar shared properties.** Condominiums and similar shared properties will be in high demand as the strategy (by both government and industry players) to solve the housing demand/supply imbalance. This trend will be driven largely by growing middle income earners with smaller family sizes.
- 2. Shift from private development for mortgage.** Due to fluidity of global events, technological breakthroughs and financial market shifts we envisage a dramatic shift from private incremental development for mortgage. In fact, we will see a growing proportion of the industry controlled by mortgage.
- 3. Introduction of new legislations on the built environment, (building codes, Scaffolding, site safety measure)** and their strict enforcement. This will restrict private incremental building. It will increase costs of private residential development and have the great positive impact for estate developers and investors.
- 4. Mortgage rates will drop:** The good news for mortgage holders and aspiring homeowners from 2040 onwards is that, mortgage rates will be drastically lower than the current rates. The Governor of the Bank of Ghana for instance sees a strong case for adjustment in monetary policy favoring lower mortgage rates. The mortgage rates will begin falling rates once it becomes confident that economic growth will pick up, unemployment will decline and inflation starts to move back.
- 5. Solar will be in high demand:** Currently a growing proportion of property owners are financing the installation of rooftop solar power. This would even be greater in the coming years. I believe developers should be incentivized to install solar and alternative energy storage systems as part of their packages. The solar idea makes a lot of financial sense because despite the initial outlay for solar panels and installation, a typical household will save substantial amount of money a year which they could use to pay off mortgages more quickly.
- 6. Online brands will rule the market:** In the coming years, successful developers are those who will be able to build an online reputation of their portfolio and work. The reason why this

will happen is that, property buyers and sellers will be looking online first to find your contact information, and audit your credentials and footprint. Developers should take advantage of this. Buyers will be able to make informed decisions quicker about property. The easy access to information will hold real estate developers accountable. The availability of information will help distinguish between good and bad developers.

- 7. Mass marketing by developers, investors, agents:** With the gradual domination of social media as the main tool for broadcasting information and messages, developers and brokers will have to invest some resources in building their online presence to remain competitive: Whatsapp, Facebook, LinkedIn, Snapchat, Instagram, etc. Buyers and sellers will be relying on these channels for viewing property. These will take the form of accessing information about the property, which could be anything from a video tour, photos, etc. This will be one of the best ways to market a home in 20 years' time.
- 8. Specialization instead of generalization.** Currently, real estate developers and agents are generalists, able to “sell, buy, and build anything. But in the coming years, the best developers and agents will have to differentiate themselves by specializing in specific segments of the markets as a way of being different. In Ghana we will see more of the likes of Trasacco Estate Development Company who provide luxury home features for the up-market and the likes of Lakeside Estates for the low market.
- 9. Meeting the demands of Generation Z.** We will have the most sophisticated, refined, heterogeneous group of consumers - a new troop of Generation Z (I mean people born after 1995), who will quickly be taking over. Globally, this generation is now leaving University and is expected to hit 2.56 billion individuals globally by 2045. They will represent over half of the continent's population by that time. These are people with a vast diversity of needs, financial situations and lifestyle preferences. Developers will have to be able to construct and market to meet their tastes and special needs.
- 10. Rise in short-term rentals:** This will create an opportunity for large property owners or the single family owner. Priorities will range from renting a room occasionally for extra cash to renting entire vacation homes at three to five times the local price because they can access a global community of renters.
- 11. Demand for smaller living tiny apartments** and in a few cases mobile living will be a solution to increasing housing density in big cities. This will become more of a norm and will drive **up operating income** on existing apartment stock. This likely won't have a huge effect in 2025 but may be 10 years after. (We will see many individual tenants in a single condo)
- 12. Tax reform will likely reduce ownership benefits:** Under the new tax laws that would be in place, homeowners 25 years from now won't be enjoying the many tax benefits for ownership today. This has the potential for decreasing sales. Currently, property owners don't pay taxes such as rent tax, property rates, property gains tax, income and sales tax, etc. We envisage that, these tax holidays will be capped to a certain amount meaning that property owners will only be able to deduct a lesser amount than they currently do. The overall impact of the new tax code on the real estate market will become more clearer as time goes on.

- 13. The hottest properties will be in the south, along the coast:** The biggest increases in home sales are expected in the south and along the coasts. In Ghana, places like Sekondi-Takoradi, Cape-Coast, Accra, Tema and lesser known towns like Sogakope, Ada, Winneba, Salt-pond, Elmina and Elubo will be the hottest places for property sales. It is envisaged that there will be sales growth of around 30 % or more for properties along the coast as against 15-20% in Ghana for example.
- 14. Home price increases will slow:** Property prices won't rise as fast as they currently do. Currently properties appreciate as much as 5.5%. We expect the rise in property price appreciation to slow in many of African cities by 2043 to about 2% maximum. Among all homes however, first time homes or entry level homes will experience the highest price increases.
- 15. The oversupply fallacy:** An important topic that has entered the minds of investors, keeping them on the sidelines, is the fear of a possible oversupply in the near future due to investments into the sector. It is true that there will be production of new housing units. Colleague analysts estimate that the quantity to be delivered onto the market will not be enough to ensure the equilibrium of the housing deficit until sometime 2052. This implies that the fear of an oversupply is unfounded, especially given our population growth rate, immigration, and so on.
- 16. Office evolution:** Office accommodation developers and commercial property owners will need to focus on providing not just space and a great location, but an environment for success. As office design transform, firms will be looking for configured office spaces that boost productivity. Developers who focus on market design and efficiency, and tailor their products to ever-evolving workplace trends (flexibility, smart office space), will benefit greatly.
- 17. Capital cities like Accra, Lagos, Nairobi and Egypt will see mass exodus:** As capital cities get crowded and busy and house prices keep rising, more locals will move out to other, quieter parts of the country. This doesn't mean that the cities will necessarily shrink by population or reduce in size the pressure on house prices – NO! These cities will continue to grow due to births and foreign immigration. By then because of improvement in communications technology and internet connectivity more people will have the option of living and working away from the city.
- 18. Big game changer will be driverless cars.** This development will turn cars into mobile offices – allowing commuters to work on their phone and laptops while they are driven to work, and making it more practical to live longer distances from Accra.

RECOMMENDATIONS

Work with property investment advisors who know and understand the market, its trends and can properly advise on processes and likely changes. Developers should look out for advisors who focus on presentation and consistently communicates feedback.

Staging and virtual staging will be some of the tools that will be used (by developers and brokers) to prevent buyers from seeing the full potential of their properties. In fact anything that can differentiate a property from another will be exceedingly valuable.

CONCLUSION:

The higher-end market will be well-served - Margins will still be good for those types of projects. Building affordable housing at scale, in nearly all urban areas would be profitable from 2035. Making forecasts and predictions require a leap of faith, and if we are willing to look they certainly will provide some meaningful insights that will help us navigate our decisions into the future.

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