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Factors influencing access to finance for real estate transactions in Sub-Saharan Africa (a lender's perspective)

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ABSTRACT

The African Real Estate Society (AfRES) 2008 conference, through a panel discussion concluded that access to finance is a major challenge and an obstacle in developing real estate markets in Sub Saharan Africa. The purpose of this research was to establish the key factors that a lender takes into consideration when financing real estate transactions in Sub Saharan Africa, as well as the relative importance of each key factor. In addition to this, the study reviews and examines the risk considerations and challenges involved in doing business in Sub Saharan Africa, from a South African lender point of view.

As the research is exploratory in nature, the initial approach to gather significant information was through literature studies and preliminary discussions with relevant representatives of the lender. Thereafter, a self administrated questionnaire was sent to respondents in order to bring out further factors or dynamics to consider.

The main finding of the research was that the primary factors that influence a lender's decision to finance a real estate transaction are: projected cashflow of a specific transaction, pricing, lender's Return on Equity (ROE), client risk grading, property location, type of property, nature of business of borrower, security provided and client relationship. Respondents included track record of borrower and term of the loan facility as additional factors of influence.

Regarding risk concerns, important issues of consideration included cultural differences, unfamiliarity of business environment and legal frameworks, access to data and delivery risk. The economic environment is highly segmented, and is thus challenging to treat SSA markets as one bread basket.

The study reveals that although SSA is riskier than RSA in terms of doing business, each risk highlighted has a mitigating factor, which could be adopted to secure debt funding for transactions. The adaptation of these risk mitigants may facilitate access to funding for real estate clients in Sub Saharan Africa.

Key words: Real estate, Africa, lending, risks and challenges