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FACTORS INFLUENCING ACCESS TO FINANCE FOR REAL ESTATE TRANSACTIONS IN SUB SAHARAN AFRICA (A LENDER'S PERSPECTIVE)

Patrick T. Katabua
Student No: 0000544P
Supervisor: Prof. Samuel Azasu

A research report submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Science in Building (Project Management in Construction).



School of Construction Economics and Management
University of the Witwatersrand, Johannesburg
2014

DECLARATION

I, Patrick Tubakonke Katabua, declare that this research report is my own unaided work. It is being submitted in partial fulfilment of the requirements for the Degree of Master of Science in Building to the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination to any other University.

Patrick Tubakonke Katabua

30 October 2014

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.

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LIST OF ACRONYMS

SSA:	Sub Saharan Africa
PFD:	Property Finance Division
DSCR:	Debt Service Cover Ration
ICR:	Interest Cover Ratio
AfRES:	African Real Estate Society
CPF:	Commercial property finance
IMF:	International Monetary Fund
In-Country client:	Client domiciled within a specific jurisdiction (indigenous)
R.O.E.:	Return on Equity
RMB:	Rand Merchant Bank
SAPOA:	South African Property Owners Association
WTIA Report:	Where to invest in Africa Report

The term *Real Estate finance* will be interchanged with *Commercial Property Finance* (South African terminology).

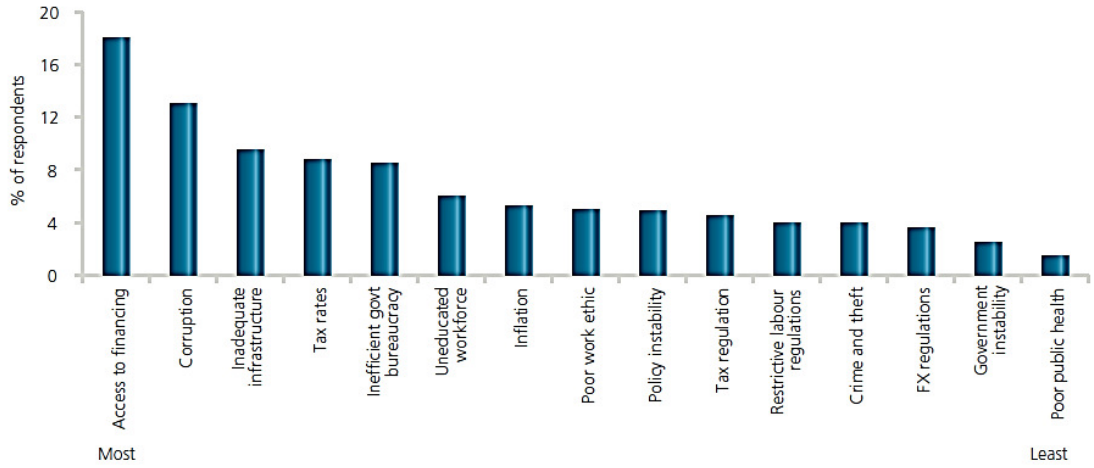
CHAPTER 1 INTRODUCTION

1.1 Background

The African Real Estate Society (AfRES) 2008 conference highlighted that difficult access to capital and funding prolongs project process, and as a result projects are executed in slow incremental manner, which is not always profitable or beneficial to the project promoters. Access to funding is a major challenge in making African real estate markets attractive, and is an obstacle towards the development of the real estate industry.

In 2011, three years after the AfRES 2008 conference, the Rand Merchant Bank (RMB) Where To Invest in Africa (WTIA) Report 2011 supported the above argument. Furthermore, the RMB WTIA Report 2013/14 edition additionally supports this argument, highlighted access to financing as the most problematic factor of doing business in Sub Saharan Africa, as clarified in Figure 1.1 below. The KPMG Survey of Current Economic and Business Conditions in Africa (2012) also pointed out "access to finance and lack of adequate financing as a challenge to capitalise on the diverse opportunities that exist in Africa".

Figure 1.1 Most problematic factors of doing business in SSA

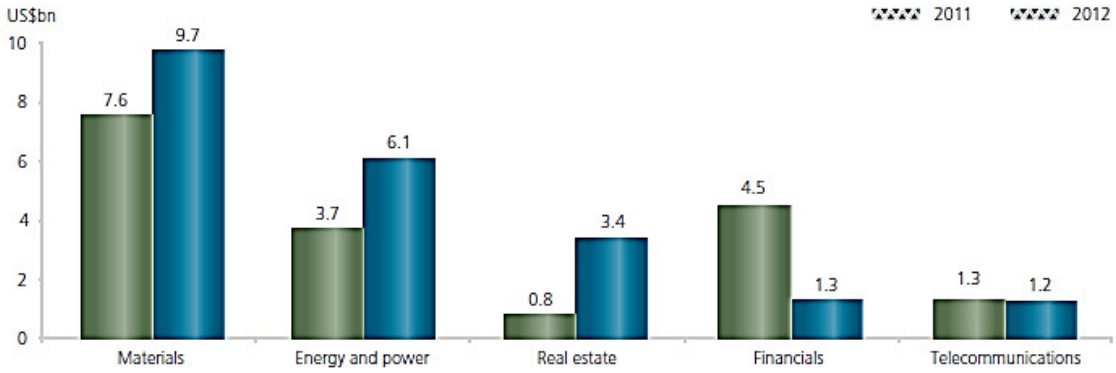


Source: RMB WTIA, 2013/14 Edition

The International Monetary Fund (IMF) reported in 2010 that 6 out of 10 fastest growing economies were in Sub Saharan Africa, and that the number would move to 7 in the 2011 – 2015 forecasts. Political stability has also been reported to be more favourable in general, with poverty being on the decline.

Following from this improved business environment, investing in Africa is rapidly becoming of greater interest to property traders, investors and practitioners in pursuit of higher yields, as concluded at the AfRES 2012 conference. Nonetheless, the issue of access to financing, as well as associated emerging market risks remain as obstacles in providing sustainable funding in the real estate sector, as discussed in the previous paragraphs.

Figure 1.2 Top SSA target industries for Mergers and Acquisitions activities



Source: RMB WTIA, 2013/2014 Edition

As illustrated in figure 1.2 above, real estate has been the fastest growing industry from a "target" perspective from 2011 to 2012, and this trend is likely to increase as investors chase this scarce / underdeveloped commodity.

1.2 Problem statement

Sacerdoti (2005) points out that a key characteristic of Sub-Saharan Africa is that bank credit to the private sector remains very low in comparison to other developing countries, with notable exceptions being South Africa and Mauritius. Sacerdoti (2005) further

elaborates supporting the argument that faster economic growth will not be possible without deepening of the financial system, and in particular support from the banking system.

Cloete (2005) notes that scarcity of finance creates a challenging environment for real estate owners and investors, as they resolve to executing transactions using higher levels of equity, which is not always readily available. This situation affects project timelines, as well as the client's overall returns.

Wilkinson and Reed (2009) found that when lending money, the lender's main task is to assess their exposure to risk in case of default. When presenting a funding proposal to the lender, real estate clients are generally concerned to demonstrate project profitability, and neglect to elaborate on adequate risk mitigations for such projects.

South African lenders are fervent to participate in real estate markets in Sub Saharan Africa, as established in Jenvey 2008, and yet the market states that access to this funding is scarce and seem to be rather complex, as concluded at the AfRES 2008 conference. Hence, the scarcity of access to funding has given the need in this research, to understand the reasons and dynamics involved in providing real estate funding in Sub Saharan Africa.

1.3 Research aim and objectives

The purpose of this research is to present from a lender's perspective, an exploration in the dynamics involved in providing finance for real estate transactions in Sub Saharan Africa, in order to facilitate access to funding. This objective is achieved by:

i) Identifying the factors that can influence funding for real estate projects
ii) Establishing and examining challenges and associated risks of doing business in SSA
iii) Establishing mitigants to the challenges and risks, in order to facilitate access to finance

1.4 Research questions

The primary question to answer from the research is:

What are the factors that can facilitate access to finance for property transactions in Sub Saharan Africa?

Sub-question 1: What are the primary factors that influence decisions to finance a real estate transaction?

Sub-question 2: What are the challenges and dynamics associated with lending in Sub Saharan Africa

1.5 Significance of the study

Jenvey (2008) points out that there is great interest from South African as well as foreign investors, to invest in SSA for growth and diversification. However, there is limited literature on financing of real estate in SSA and no known prior research reports in financing of real estate in SSA by South African financiers. This research is an attempt to contribute towards the scarcely documented topic, which could be used in the structuring and appraisal of real estate proposals.

The research highlights characteristics that are unique to Sub Saharan Africa, and factors that are unique for cross border transactions. Risk considerations for real estate finance in general, as well as risks involved in doing business in Sub Saharan Africa are also presented in the research.

This study provides insight regarding critical factors that a lender considers when providing real estate finance for a transaction. The findings benefit the borrower or debt originator by structuring more enhanced proposals focusing on the above, which could facilitate access to finance for real estate transactions. Furthermore, the lender would be in a position to receive improved funding proposals which could facilitate sanctioning, hence increasing the potential to generate greater returns.

The research comprises of a literature review, which was followed by brief preliminary discussion with key decision makers within the financial institution, and thereafter a self administered questionnaire was distributed to respondents.

1.6 Delimitation and limitations

The research focuses on a bank (lender) as the primary financier of real estate transactions, and the clients (borrowers) as the recipient of a debt facility (the loan), for properties being mortgaged to raise funds. For the purposes of this research, the definition of real estate finance provided by the lender is "the difference between the total project cost and the equity contribution provided by a borrower" (Wight, 2001).

The study was restricted to the Property Finance and Advisory Services division of a leading emerging market financial institution, head quartered in South Africa, with noticeable presence in Sub Saharan Africa. The financial institution only transacted in countries where they had physical presence on the ground, and property activity levels varied according to the lender's business appetite in each country. Sub Saharan Africa in the context of this research represents the respondent countries.

The lender was well capitalised, and had a mandate to finance property transactions (i.e. acquisitions, refurbishments, extensions and green field projects) in Sub Saharan Africa. The lender was the largest South African lender in Africa, in terms of asset size. Commercial properties have been characterised as "income-producing, whereby the debt is serviced either by lease income or by sale proceeds; or a property where a business conducts its trading operations" (Collins and Ghyoot, 2012).

1.7 Outline of the report

Chapter 1 describes the background to the research, and introduces the research objectives and importance of the research. Chapter 2 provides a comprehensive discussion of issues of relevance surrounding real estate financing, with an elaboration of the key factors that influence a lender's decision to finance a transaction. This is followed by a foundation of knowledge concerning challenges and dynamics of doing business in Sub Saharan Africa. In chapter 3, details of the research methods are discussed, together with the research instrument (self administered questionnaires). The presentation and interpretation of the results and findings are then compiled in chapter 4, relating it to the initial research problem. Lastly, chapter 5 contains discussions around key findings of the research and draws conclusions from the study. The chapter also highlights further areas of research.

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

This Chapter intends to discuss and survey applicable literature, and theory surrounding real estate financing and general practices, and elaborates on the key factors that influence the lender's decision when sanctioning a real estate transaction. The chapter also highlights the risks and considerations involving funding in emerging markets.

2.2 Brief Overview of Real Estate Finance

Wight (2001) defines real estate finance as "the lending of money against the security of fixed property, which should hold a value greater than that of the loan". Studies by Collins and Ghyoot (2012) explain that real estate finance may be regarded as project-based finance that involves tailor-made structuring. They further clarify that this finance is granted against the net income flow (rental return) of the property or trading return (sales return), with the physical property and lease or sale proceeds being the underlying security. They further explain that in the case of owner occupied properties, the client has ability to repay finance granted, from other income producing activities generated by the client or the client's business.

Wilkinson and Reed (2009) deliberate that bank lending may also take the form of "corporate" lending to a company by means of overdraft facilities or short term loans. Property finance is loosely put as lending where the funds are provided against the cashflow of the actual property, and the property is the principal security for the finance.

In the study of Clauretie and Sirmans (2014), real estate finance is defined as a very broad category that includes the study of institutions, markets, and instruments used to transfer money and credit for the purpose of developing or acquiring real property. The study highlights that there are numerous sources of capital raisings for property transactions, and the quality of cashflow generated from a subject property would determine the lending comfort.

2.2.1 Types of finance facilities

In the SAPOA PDP Handbook (2011), it is noted that property clients finance their transactions through debt, equity or a combination of both. Debt funding is defined as money that is being borrowed, and needs to be repaid at some point, and interest has to be paid on it until the debt is fully repaid. In the case of equity funding, the return for the funder is determined by the success of the project. The funder will typically share in the profit and loss of the operations.

Berger (1998) observes that debt funding is often categorised as lower risk for the lender, in comparison to equity funding, although there is higher returns offered through profit sharing in equity funding. Berger further notes that equity funding is generally offered on a shorter term, in comparison to debt funding.

2.2.2 Nature of property clients

Following from discussion by Wight and Ghyoot (2005), clients could be categorised under groupings as per below: ***Property traders,*** usually purchase properties and resell rapidly on improved value, upon renovations or restructure of tenancy profile, with the intention of making a capital profit. ***Property investors*** are individuals, syndicates or institutions who purchase or build properties for a return on the investment through rental income. Other types of clients include ***owner-occupiers***, whereby the borrower occupies and operates a business activity from the property being mortgaged by the lender.

2.2.3 Type of lenders

There are numerous and diverse types of lenders in the real estate market. They have transformed and adapted to the market over time. Literature by Clauretie and Sirmans (2014) point out that commercial banks are an important source of funding for the acquisition, development and construction of real estate. They further state that traditionally the largest property lenders were institutions such as pension funds and insurance companies. Building societies were also major players, but currently the commercial banks are becoming preferred property financiers. Private equity funds are

also playing a greater role in the SSA real estate markets, according to africancapitalmarketnews.com (05 October 2012).

2.2.4 Stakeholders involved from the lending team

Property finance decision making involves various stakeholders, and they all provide specific contribution in the decision making process of sanctioning a transaction. Although final sanctioning is a credit mandate, numerous personnel are involved in the deal motivation, providing financial, operational and technical expertise.

Segmentation of the variety of roles could be categorised as below, based on Wight and Ghyoot (2005):

Frontline sales team: Originators, Deal Makers, Relationship Managers, Account Executives and Sales consultants. This team is mainly responsible for the sourcing and maintenance of client business and relationships.

Credit, Risk, Legal: Credit consultants, Credit manager, Legal consultants, Risk consultants, Valuation consultants. These consultants perform the task of protecting the lender's interest.

Management/Advisory services: responsible for policy making and strategic direction of the business. They set the credit framework, and business strategy to grow the portfolio. The group often includes non executive directors, who do not form part of the specific division.

According to Northcott (1991), *middle management* is the people who get most involved in the implementation of investment decisions, whilst *higher management* tend to see a given project against a number of other projects, and *junior staff* will tend to be experts offering advice but without direct responsibility for the decision. These differences become important when negotiating and closing a transaction.

2.2.5 Loan process

Clauretie and Sirmans (2014) highlight that the loan process involves several steps, including property appraisal, analysis of application (borrower information collected and verified), submission for credit approval, and closing of the loan.

According to Wight (2001), the loan application process, as represented in the Figure 2.1, is the start of a relationship between the client and the lender. The effectiveness of this process is dependent on the quality of information supplied with the application.

The function is as follows:

Client contact: establishing the requirement parameters for the loan.

Property valuation: establishing the market value of the property proposed. If there is insufficient value derived on the property, the process would revert back to the client.

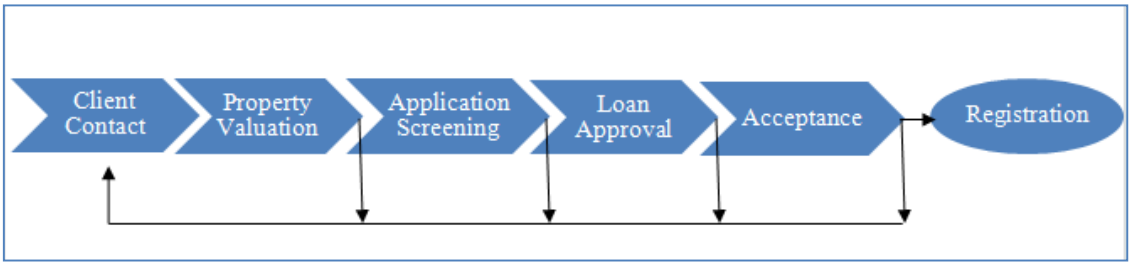
Application screening: initial determination of associated risks and the likelihood of approval. If the client has a bad risk profile, the loan process could be terminated at this stage.

Loan approval: the formal approval of the loan conditions. The bank either accepts or rejects the proposal at this stage.

Acceptance: the formal letter of acceptance of the loan. The client has an option to either accept or reject the lender's offer at this stage.

Registration: the registration of the mortgage bond and disbursement of the loan.

Figure 2.1 Loan application process



Source: Wight (2001)

Depending on lending appetite / lending comfort, other steps could be brought in to further assess the feasibility and viability of a proposal.

Collins and Ghyoot (2012) illustrate the lender's property finance steps as indicated in Table 2.1

Table 2.1 Property finance process

1. Initial client meeting
2. Discuss CPF requirements with client
3. Conduct valuation and feasibility of proposal
4. Structure proposal for credit submission
5. Submit application for credit sanctioning
6. Once approved, loan agreement drafted
7. Legal documents for registration sent to attorneys
8. Perfection of security
9. Disbursement of funds

Source: Adapted from Collins and Ghyoot (2012)

2.3 Sanctioning

Byrne (1996) states that the lender decides to finance a transaction based on available information pertaining to the transaction. The study argues that a decision is nearly always the result of a compromise, as the decision maker needs to decide whether enough information is at hand to make an adequate decision.

Although the outcome of the decision is unknown initially, the lender attempts to investigate the factors which will affect the feasibility of the transaction, and makes a decision thereupon. Isaac (2003) argues that "lenders are not in the business of taking risks, and that they are rather in the business of making money". Isaac (2003) further highlights that for riskier projects, the lender expects to be compensated with a greater return. Hence, the lender analyses various factors (which could lead to the imposition of certain terms and conditions) to mitigate their lending risk.

2.4 Factors that influence lending criteria

According to Clauretie and Sirmans (2014), practical considerations in the use of debt to finance real estate properties include: form of ownership, access to equity capital markets, risk of the property, cost of bankruptcy, special tax regulations and interest rates.

It is pointed out by Isaac (2003) that lenders consider four 'Cs' in a lending proposal, as follows: *Character*: illustrating the trading experience or history of the borrower, including their credit history. *Cash stake*: the source and amount of equity to be injected into the transaction by the borrower; *Capability*: the borrower's ability to service the loan. *Collateral*: the security offered for the loan. Each of these elements is thoroughly evaluated during the loan appraisal process, and they often have sub titles that also need evaluation.

The lending criteria of a bank, according to Cloete (2005), will vary depending on many unique factors including the size and nature of the company, nature and size of the project, length of the loan and strength of the security being offered. Wilkinson and Reed (2009) contribute that in assessing risk of corporate loans, the bank will include financial strength, property assets, track record, profits and cashflow of the project. The bank will seek to assure that the property is well located, and that the scheme is viable. Fluctuations in interest rates, loan repayment and security are also highlighted as issues to consider when making a loan.

Following from the findings above, several factors that influence the lending decision are discussed below.

2.4.1 Type of property asset

Geltner et al. (2014) indicate that different types of properties have different amounts of investment risk, and the appropriate discount rate should differ accordingly across property types. In Wight (2001) he observed that there are certain characteristics that all

properties have in common (such as zoning, usage) and these provide the mechanism to classify each property into a property type.

Following from literature by Cloete (2005), properties could be classified as vacant land, agricultural, commercial (retail, offices), residential (single dwelling, multi unit), industrial (warehouses, factories), specialised (schools, churches, hotels), and mix use (combination of different types). The lending appetite may differ based on the type of property being presented in the funding proposal.

2.4.2 Client relationship

In the financial services industry where human contact is high, relationships and personal communications are of particular importance and can mean the difference between success and failure (Luiz and Charalambous, 2009). They further mention that culture and value-system of a country and its people dictate how a company would operate.

Wilkinson and Reed (2009) cites that a trust-based relationship creates advantages in conducting business such as lowering costs, shortening turn-around times and improving performance of service delivery. According to Dwyer, Schurr and Oh (1987), property-financing transactions usually result in a long-term contract, necessitating the development of relationships between lender and borrower. Kennedy (1989) remark that the relationship is created, maintained, and terminated. The value and quality of service received by a client will affect the client's loyalty.

2.4.3 Pricing (Interest rate and fees)

Pricing in Collins and Ghyoot (2012) is explained as a reflection of the potential risk and attractiveness of a transaction, and has competitive considerations. The interest is claimed as compensation for risk taken by the lender in providing money, whilst fees are charged for costs incurred and services provided.

Wilkinson and Reed (2009) explain that lenders seek at all times to decrease their exposure to risk. In return for accepting a perceived higher exposure to risk, the lender will charge a higher interest rate commensurate to the level of risk.

The above statement is also supported by Hooke (2001), who reports that transactions in the emerging market are priced at a higher bracket, in comparison to the more developed markets, primarily to compensate the lender for the higher risk intake. Research by Sacerdoti (2005) agrees with the above statements. The research however, notes that there is a wide concern that interest rates (bank spreads) are too high in Africa.

2.4.4 Property location

Each neighbourhood has its own intrinsic characteristics that make it different from other neighbourhoods. Collins and Ghyoot (2012) explain that each area in South Africa has different risks which the banks will take in consideration when approving or rejecting loans. They further argue that "these area specific risks will determine levels to which the banks can lend, as well as equity contribution from borrowers". This type of classification is not unique to South Africa, and could be generalised for other Sub Saharan Africa jurisdictions as well. Investigating the location includes evaluating the convenience network of the property (linkages) as well as the good and the bad exposure the property obtains from its location, as presented in Collins and Ghyoot (2012).

2.4.5 Lender's Return on Equity

The discussions from the SAPOA PDP handbook (2011) generally described ROE as the desired return on the financing of a specific transaction. Such return would be based on the loan amount, the duration of the loan, the fees charged and the pricing involved. The R.O.E. measures the profitability and efficiency of the lender, and can be used to compare performance against other lenders.

Wilkinson and Reed (2009) explain that banks are in the business to make a direct financial gain from lending money. Each loan provided to a borrower, needs to provide prerequisite returns for the bank.

2.4.6 Client Risk Grading

Treacy and Carey (2000) describe that a banks internal rating summarizes the risk of loss due to failure by a given borrower to pay as promised. They further mention that credit risk on a loan or other exposure over a given period involves both the probability of default (PD) and the fraction of the loans value that is likely to be lost in the event of default (LIED). The product of PD and LIED is the expected loss rate (EL) on the exposure.

In the study of Wight (2001) it is explained that the main purpose of allocating risk grades is to categorise the risk associated with the bank's loan portfolio, with each loan being risk rated. The risk grade is based on the borrower's profile, sustainability of income, LTV, type of property, location and quality of property. Each of these factors would then be risk rated (typically from 1 to 5, with the former being high risk and the latter being low risk) and weighed, and the weighted score is then used to allocate a risk category for the transaction. Studies conducted by Treacy and Carey (2000) mention that banks rating systems differ from those of the agencies, partly because internal ratings are assigned by bank personnel and are usually not revealed to outsiders.

Overall, the objective of risk grading is to establish the client's likelihood of repayment ability and credit worthiness.

2.4.7 Security / Collateral provided

Van der Walt and Pienaar (2004) define security as the comfort provided by the borrower to the lender, in exchange for funds.

Some typical securities called for in real estate transactions are:

Mortgage over subject property: The lender can register a bond / mortgage over the land and improvements on the land. Wilkinson and Reed (2009) highlight that the security is linked to restrictions placed on the property title, since the property owner is unable to transfer or sell the land without first clearing the mortgage on the title.

Suretyship or guarantee: Van der Walt and Pienaar (2004) describe that "in terms of a contract of surety between the lender and the third party, the latter undertakes to perform the borrower's obligation under the principal loan in case of default by the borrower". Havenga (2003) further contributes that suretyship is an agreement whereby a debtor (the surety) renders himself or herself liable towards a creditor for the proper compliance of the obligations of a debtor. This surety can be a reducing amount, as the loan obligation reduces over time.

Cession of income proceeds: This concept has been explained by Havenga et al. (2003) as "the transfer of a right by agreement, between the holder of a right (i.e. a creditor) and a third party, to the effect that the third party becomes the holder of the right". Common cessions required by the lender include: cession of rental income, profits, leases, rights and interests, insurance policies, debtors book. The borrower can pledge his creditor's rights to the lender, or transfer the rights to the lender.

Undertakings: The SAPOA PDP Handbook (2011) explained that sureties or shareholders of the borrower can undertake to contribute towards cash shortfalls with relation to the loan repayment, and can undertake to inject equity towards any cost over-runs in the case of development projects.

2.4.8 Projected cashflow

Hooke (2001) mentions that term lenders with a long term credit exposure are interested in the cash flow ability of the borrower to service debt over the long run. This view differs from trade creditors (short term lenders), who are rather primarily interested in the liquidity of the borrower. "The term lender evaluates the repayment ability of a borrower

by analysing the borrower's capital structure, the major sources and use of funds, its profitability over time, and its projections of future profitability" (Nevitt, 1989).

It is depicted in Clauretie and Sirmans (2014) that the cashflow of a property project will depend on a number of elements, all subject to risk. These include the actual revenues and a multitude of expenses. The revenues in turn will depend on other risk factors such as state of the economy, competition, property management expertise, etc.

Wilkinson and Reed (2009) point out that loan to value (LTV) ratio depends on the risk perceived by the bank and can vary substantially depending on the risk profile of the borrower, the perceived risk in the project and prevailing market at the time.

Financial ratios and covenants

Collins and Ghyoot (2003) explain that financial ratios define parameters of cash flow projections during the term of the loan. These ratios can be utilized to "stress-test" a transaction, and determine parameters within which the lender has lending comfort. Some of the common factors are listed below:

Loan to value (LTV): The ratio of a loan, to the property's valuation amount, traditionally pegged at 80 %; *Loan to cost (LTC):* The ratio of a loan, to the property's purchase price or development cost, traditionally pegged at 75 %; *Debt service cover ratio (DSCR*): The amount of money needed to meet the periodic payments of principal and interest on a loan that is being amortized, traditionally pegged at 1.2 times minimum; *Interest cover ratio (ICR):* The amount of money needed to meet the periodic payments of interest on a loan that is being amortized, traditionally pegged at 1.0 times minimum.

Other ratios specific to development projects

Pre- sales: This is a prior-to-construction sales program by the developer/borrower, whereby the lender requires a portion of a property (stands/sections) to be "pre-sold" by the borrower prior to any disbursement of funds (Reilly, 2006).

According to Wight (2001), pre-sales are a financing tool which tests acceptability of a product (saleability), and can be an indication of the stage of the business cycle. The uptake of the product is an indication of the level of demand of the subject product.

Pre-lets: the pre-lets is a financial tool which comprises an agreement or letter of intent from a tenant, to rent a certain space from the landlord (Wight, 2001). Similarly to presales, it is an indication of the level of demand of the subject product.

Clauretie and Sirmans (2014) explain that the sooner the cashflow is received, the greater the present value (holding all other things equal). They further argue that timing of this cashflow is important as it can be employed to increase interest earning assets, or reduce interest-costing liabilities, both of which will increase the client's wealth.

2.4.9 Nature of the business (industry) of the borrower

As described by Hooke (2001), nature of business is in the context of its industry, to understand the comparative market position of the client, the pressure of competition, the risk and reward structure of the industry, the barriers to entry, the degree of technology change, to name a few.

This factor is primarily relevant for owner-serviced / owner-occupied transactions, as the loan repayment ability is subject to the operator's performance. In Collins and Ghyoot (2012), it is recorded that owner occupiers constitute a risk in terms of how well their business generates income.

The nature of business could further be differentiated as property specialised clients (client with portfolios, and property track record) versus non property specialised clients (general investors, property not main part of their business).

2.5 Associated Risks in Providing Finance in Emerging Markets

Byrne (1996) defines risk as measurement of a loss, identified as a possible outcome of the decision, or volatility of return from an investment. Risk is ever-present when

providing finance. Byrne adds that uncertainty is anything that is not known about the outcome of a venture at a time when the decision is made, i.e. lack of predictability or unsystematic behaviour of variable factors. In Clauretie and Sirman (2014), risk has been defined as "the possibility (and probability) that the actual return on an investment will be different from the expected return".

The process followed to encumber risk in an evaluation exercise can either be:
i) Stochastic process: includes random elements, with unpredictable outcomes even if basic features remain unchanged
ii) Deterministic process: same solution always obtained if the basic conditions remain unchanged
Potential investors need to be cognisant of the various risks involved in doing business in Africa (including political, regulatory and operational) and benchmark these appropriately against the attractive GDP growth profiles to formulate a more balanced assessment of potential investment opportunities in Africa (RMB WTIA Report, 2013/14).

Wadiwalla (2003) reports that there are selected risks and opportunities that exist when globalising into Southern Africa. Amongst them, the research mentions competition, foreign exchange, lack of political stability, conflicting cultures, lack of quality assurance, completion risk due to logistics, to name a few. In the findings of Games (2004), it was reported that problems and trends encountered by South African firms in Africa include: high business cost, high cost of finance, insufficient air and road links, the rule of law, lack of strengthening of regionalism and acute shortage of information. Wilkinson and Reed (2009) explain that globalisation has a wide range and number of impacts, which are summarised as: industrial, financial, economic, political, informational, cultural, ecological, social, technical and legal.

Following from the findings above, several risks which directly or indirectly affect the lending decisions are discussed below.

2.5.1 Delivery risk

Byrne (1996) mentions that at the start of the project, the developer has maximum uncertainty and manoeuvrability. As the construction and development process unfolds, the developer's knowledge of the likely outcome increases. Simultaneously, the delivery risk decreases, and so does the room for manoeuvres.

The study of Wight (2001) elaborate that the track record of a developer / investor determines the experience and the capability to successfully execute a project on time, within budget and according to regulatory specification.

2.5.2 Political risk

WTIA 2013 report elucidates that political risks are broad-based and include the breach of contracts, regulatory changes, currency convertibility transfer restrictions, sovereign non-payment, confiscation, expropriation and nationalisation, political interference, bureaucracy, etc.

Hooke (2001) explains that depending on the severity of the government action (or inaction), a borrower's earning power and debt service capability is vulnerable. He further notes that capricious or discriminatory government actions can lessen an investment's value.

Luiz and Charalambous (2009) cite Dunning and Landon (2008) stating that the aspects which impact on perceived political stability are the frequency of changes in government, the method of electing government, political tolerance, good general country governance, corruption levels and the presence of high quality, transparent regulatory frameworks and public institutions

2.5.3 Country risk

Baum and Murray (2013) mention that some countries attract less capital than others as a result of barriers, both real and perceived. Following from the studies of Borio and Packer (2004), country risk could be defined as the extent to which country specific

factors may affect the business operations and returns. These factors include elements of political risk, economic risk, exchange risk, sovereign risk and transfer risk.

There is a salient difference between country risk and sovereign risk. Nevitt (1989) adds that sovereign risk refers to the risk of default on a loan being granted to a sovereign state (a nation), whilst country risk refers to factors affecting business environment when a loan is being granted to a private company.

2.5.4 Expropriation

The notion of expropriation may be defined as the taking of private land for public purpose under the government's right, with compensation paid to the owner (Reilly, 2006). This risk is augmented in developing countries, in comparison to developed countries, due to historical poor management of land affairs.

2.5.5 Economical & financial risk

Luiz and Charalambous (2009) cite Ahmed (1978) stating that economic conditions such as inflation, interest rates, growth in GDP, as well as monetary and fiscal policies are important and influence risk and potential profitability of local industry. These could be classified as external factors, as the lender would not have direct control over them.

Substantial devaluation of the local currency and the inability to change the currency into US dollars is a possible risk (Hooke, 2001). Large fluctuations in these factors could render a specific property in a specific market less desirable.

2.5.6 Currency risk

The RMB WTIA report (2013/14) illustrates that African currencies are characterised by risks which may stem from frequent changes in domestic liquidity conditions, inflation differentials with primary trading partners, or perhaps foreign exchange controls.

The problem of currency risk arise where revenues, expenses, capital expenditures and loans are in more than one currency, and therefore subject the project to potential losses

from currency fluctuations (Nevitt, 1989). Such losses could have detrimental effect on the borrower's cash flow, and could in turn lead to risks of default by the borrower.

2.5.7 Information risk

From the studies conducted by Kusiluka (2012), it is evident that property market transparency enhances investment activities. Imperfect information gives rise to economic and legal conflicts or problems, and this situation is often the cause of market and corporate governance infancy. Nevitt (1989) reports that different style of information reporting, could complicate feasibility studies. Thus, emerging market investors have to be prepared to make decisions on less economic information than is available in the developed nations. To minimise this risk, extra levels of due diligence is required. Investors are advised to utilize multidisciplinary teams to gather information and assess risk / feasibility of projects. This would reduce the unpredictable nature of investing in an emerging market project

In the study of Akinyemi (2014), it is evident that the essence of data management is to have data stored in an organised manner for easy retrieval to aid decision-making. Thus, the absence of such data could negatively affect decision making process of the lender.

2.5.8 Market risk

Factors such as rental rate, vacancy rate, capitalization rate and expected returns are all driven by the market (Geltner and Miller, 2014). Depending on the demand / supply levels, these variables will change, hence affecting the overall value and viability of a project.

2.6 Development world issues when investing in emerging markets

Short-term financing and every day cash management are handled well, but the concept of project finance or cash flow financing is still very premature (Hooke, 2001). Some of the hidden barriers that organisations face when entering the emerging market includes:

- Capricious and discriminatory government actions that lessens an investment's value
- Large, downward fluctuations in a country's economic performance that is difficult to

anticipate
- Substantial devaluation of the local currency and the inability to change the currency into US dollars
- The lack of accurate and timely information

It is further mentioned in Hooke (2001), that developing countries are extremely diverse in language, politics, and culture, and yet patterns of business behaviour and circumstances are recognisable. However, investment and imports from wealthy countries are subject to special restrictions, taxes, and red tape that preserve local oligopolies and limit foreigners' profits. This situation however creates an opportunity for joint venture initiatives with local partners, as suggested by Ukpabi (1990).

2.7 Conclusions

From the literature review, it is depicted that there are numerous factors and dynamics that the financier would consider when sanctioning a real estate transaction. However, there is little research available regarding real estate finance in Sub Saharan Africa. The literature review is largely focused on emerging markets and the developing world. From a South African perspective, the rest of Sub Saharan Africa is perceived as high risk, although the business environment in Sub Saharan Africa is becoming more familiar and circumstances are more recognisable.

Despite the improved ease of business landscape on the continent, access to funding still remains a severe obstacle in unlocking and developing real estate markets in Sub Saharan Africa.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design, research instrument, method of data collection and method of data analysis. The data requirement of the research was translated into questions, in order to extract the required information from the selected population. Lastly, limitations to the research conclude this chapter.

3.2 Research approach

In Coolican (2004), it is explained that the purpose of research design is to avoid inferences and to reduce ambiguity of research evidence. Leedy and Ormod (2005) explain that "qualitative research is often used to answer questions about the complex nature of phenomena, from the participant's point of view". It seeks a better understanding of complex situations. The work is often exploratory in nature, and observations may be used to build theory from the ground up. The qualitative approach is referred to as interpretative, constructivist, or postpositivist approach

"Quantitative research seek explanations and predictions that will generalise to other persons and places" (Leedy and Ormod, 2005). They further elaborate that with quantitative research, the intent is to establish, confirm or validate relationships and to develop generalisations to contribute to theory. This approach is sometimes called traditional, experimental, or positivist approach.

The purpose of this research is to present from a lender's perspective, an exploration in the dynamics involved in providing finance for real estate transactions in Sub Saharan Africa, in order to facilitate access to funding. The research is primarily exploratory in nature, although some qualitative evidence has been expressed in a quantitative manner.

3.3 Description of the population and sample

"The research population, is that section of the general population from which the sample will be selected" (De Villiers, 1991). The population was South African banks that were mandated to providing real estate finance in Sub Saharan Africa.

Qualitative research data is purposeful, and individuals or objects that will yield the most information about the topic under investigation are selected (Leedy and Ormod, 2005). The selected financial institution was the largest South African bank in the African market, in terms of asset size in comparison to its peers, and also in terms of real estate activity in Sub Saharan Africa (outside RSA). The selected institution had a live mandate to provide finance for real estate projects in Sub Saharan Africa in presence countries, in comparison to other South African banks who provided real estate finance on an ad-hoc basis in Sub Saharan Africa.

Leedy and Ormod (2005) explain that qualitative research tend to select a few participant who can best shed light on the phenomenon under investigation, rather than sampling a large number of people. In order to limit the scope of the research, a decision was made to contact respondents from the property finance divisions only in countries where the bank had an active mandate for financing real estate transactions, of which the transaction values had to be in excess of USD 2,000,000, and hence brought to the South African head quarters for pre-screening, assessment and sanctioning.

The sampling method above allowed for the selection of key individuals whom influence the decision making process for financing real estate, and these individuals were participants in deal conclusion forums for large commercial transactions (in excess of USD 2,000,000). Members of the deal conclusion forum / business assessment committee include sales team, credit, risk, legal, and advisory services, all of which are represented in this sample.

Due to real estate being classified as highly risky (Collins and Ghyoot, 2012) the lender had selected specific experts (one or two individuals) as “property champions” in their respective Sub Saharan Africa jurisdictions, with a mandate to grow the lender’s exposure to real estate.

3.4 Research instrument

The primary research instrument was self administered questionnaire, which was preceded by preliminary discussions with frontline, credit and legal representatives of the lender. These discussions assisted in depicting specific constructs, in order to have a focused approach with the questionnaires, and prove to be of value in the absence of adequate literature in African real estate funding.

3.4.1 Questionnaire design

The questionnaire was segmented in four parts, as follows:

Section A sought to find out the demographic composition of the respondents, comprising: geographical locality, experience level and the role played in the organisation.

A rating scale simplifies and more easily quantifies people's behaviours or attitudes (Leedy and Ormod, 2005). This approach was adopted in Section B of the questionnaire, which sought to determine the rating of importance of the most influential factors. The rate was on a scale of 1 to 10, with a score of "1" being least important and a score of "10" being most important. Respondents were also be given the opportunity to include other uncovered influencing factors, which would add substance to the research. This exercise assisted in meeting the primary objective of this research.

Section C comprised of a series of statements on each of the primary factors of influence. Respondents were asked to indicate their level of agreement or disagreement on a 5-Point Scale, with "1" representing 'strongly disagree', and "5" representing 'strongly agree'. The statements were arranged in order to mix positive and negative responses, in order to utilise the full scale provided. The rationale of these statements was to have a greater understanding on practical elements pertaining to each factor identified.

Lastly, respondents were asked specific questions relating to the business operation of property financing in Section D. These questions were open ended, and thus allowed the

respondent to bring out any other factor or dynamic which should be considered in this research.

3.5 Validity and reliability

In Leedy and Ormod (2005), it is observed that the validity of a measurement instrument is the extent to which the instrument measures what it is suppose to measure. It refers to the accuracy, meaningfulness and credibility o the research. The authors further describe reliability as the consistency with which a measuring instrument yields a certain result when the entity being measured hasn't changed. In Foddy (1994) it is highlighted that in order to yield a reliable and valid research, the question must be understood by the respondent in the way intended by the researcher and the answer given by the respondent must be understood by the researcher in the way intended by the respondent. In order to achieve this, the questionnaire was structured and piloted through preliminary discussions with key decision makers to check the adequacy and applicability of the questionnaires.

3.6 Method of data collection

The questionnaires were emailed to the respondents, together with an introductory letter. Email communication was preferred to the conventional posting system, (Norman et al. (2004) as it is a convenient and efficient way to communicate. In order to obtain higher rate of response, respondents were contacted telephonically prior to sending the emailed questionnaire. The completed questionnaires were returned to the author by email, and the results were then compiled for assessment. Based on Norman et al. (2004) the advantage of questionnaires is that it allows for large samples, in a short period of time, and can be inexpensive if self administered.

From the perspective of survey participants, participants can respond to questions with assurance that their response will be anonymous, and so they may be more truthful than they would be in a personal interview. The drawback with questionnaire is that typically the majority of people who receive them don't return them, thus resulting to a low return rate (Leedy and Ormod, 2005). A total of 40 questionnaires were sent out, of which 18 were completed and returned satisfactorily, thus yielding a return rate of 45%.

3.7 Method of data analysis and interpretation

According to Creswell (2003), cluster analysis can be used to discover whether there are differences in responses according to certain groupings or categories. The research assessed whether there are differences in terms of importance of factors between South African, cross border, and rest of Africa respondents. Norman et al. (2004) describe that the mean, median and mode analysis can be used to describe tendencies of factors. This analysis was utilised to establish the ranking of each factor identified.

The factor rating in Section B of the questionnaire was analysed using mean score on importance of identified factors, and each factor was then ranked in order of importance. Section C was analysed using Likert type scale method. The data from the statements were too large, so only extreme responses have been discussed in this research, as it sought to bring some practical observations into the results. Common themes and patterns for open ended questions in Section D were summarised, highlighting striking remarks and new findings

3.8 Ethical consideration

The research proposal was presented before the panel of the School of Construction Economics and Management, prior to conducting the research. Thereafter, the research proposal was discussed with the subject financial services provider for their consent to proceed with the research within their organisation. Once vetted and approved, preliminary discussions took place and the questionnaire was distributed by email, accompanied by a cover letter from the University of the Witwatersrand detailing the purpose of the research. Participants were advised that they were not forced to partake in the research, could discontinue participation at anytime without reason, and that their identities would not be disclosed. Participants were asked to indicate whether they would require a summary of the outcome of this study.

3.9 Limitations

The main limitation is that this study is limited to one lending institution due to reasons of confidentiality. The findings could differ if a study is undertaken with other lending institutions.

The research analyses factors that influence real estate financing in Sub Saharan Africa, and it is recognised that there is diversity amongst the countries, with certain factors being more important in some countries than in others. The population of SSA is much larger than the presence countries of the subject lender. Furthermore, the lender was not active from a real estate perspective in all its presence countries. This research is general to all property investments, and could differ if it were narrowed down specifically to commercial or residential property.

CHAPTER 4 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents and discusses the questionnaires responses. The objective of this exercise was to answer the research question and sub questions. From the results below, the questions have been adequately answered, and elaborated upon.

Leedy and Ormode (2005) argue that there isn't necessarily a single ultimate truth to be discovered. Instead, there may be multiple perspectives held by different individuals, with each of these perspectives having equal validity, or truth. One goal of qualitative study would be to reveal the multiple perspectives.

4.2 Response rate

The respondents were individuals who are key constituents of the lender's real estate business in SSA. A total of 40 questionnaires were distributed to the sample using email, of which 18 were completed and returned (i.e. 45% response rate). For the purposes of this research, the sample of 18 respondents was expected to be a valid representation of the population, as the sample represents individuals from each region within which the lender was frequently active in large real estate transactions. Furthermore, the sample also represents individuals in different segments within the organization.

4.3 Respondent characteristics and demographics

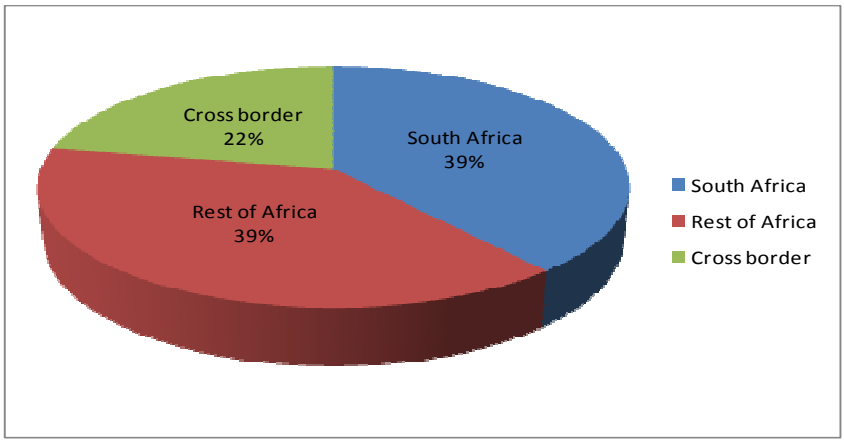
This section highlights the characteristics of the respondents that participated in this research

Table 4.1 Respondent geographic segmentation

South Africa	7	Ghana	1	Tanzania	-	Zambia	2
Botswana	-	Nigeria	-	Kenya	1	Malawi	1
Swaziland	1	Other	-	Uganda	1	Cross Border	4

Source: Survey data

Figure 4.1: Geographical distributions of respondents



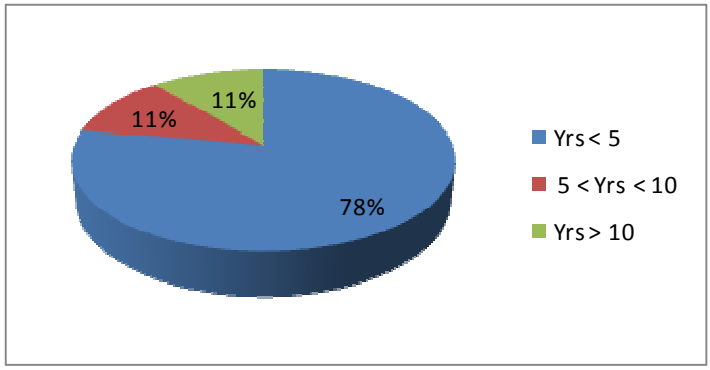
Source: Survey data

Respondents from rest of Africa were the in-Country property representatives, whom were mandated to grow the bank's exposure within their respective jurisdictions. Botswana and Tanzania were not able to participate, as they were at early stage of rolling out their property strategy. Nigeria was unable to participate, and a time constraint was cited as the reason for non participation.

Respondents experience in the property financing industry

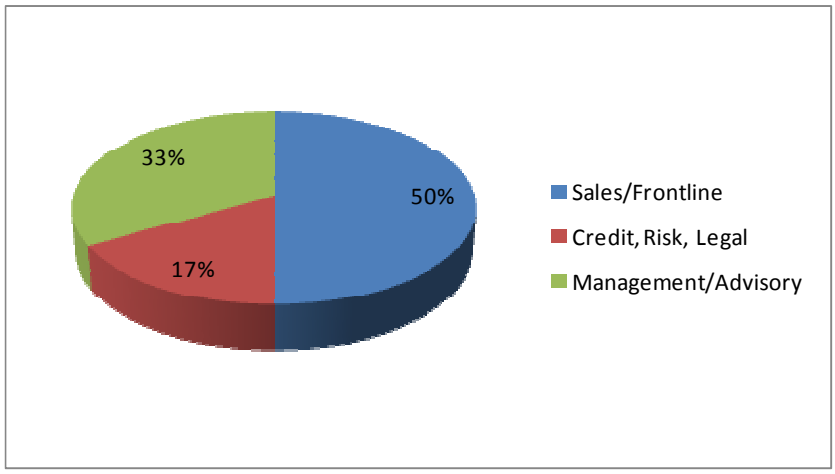
The Africa Property Finance Division of the bank was fairly new, hence the majority of respondents had not occupied their roles for longer than 5 years.

Figure 4.2 Years experience



Source: Survey data

Figure 4.3 Function / Role of the respondent



Source: Survey data

The majority of the respondents (50%) formed part of the front line / deal making side of the lender's business, and this was followed by Management/advisory team (33%), with the balance being Credit/Risk/Legal (17%).

A total of nine primary factors were identified from literature reviews and preliminary discussions with key decision makers of the lender. These factors were further tested through the questionnaires.

4.4 Rank score of factor influence when assessing a real estate transaction

Table 4.2 Rank order of factors of influence (all respondents)

Factors	Ranking	Mean	Median	Mode
Cashflow	1	8.56	10	10
Pricing	2	8.17	8	8
Lender's ROE	3	8	8.5	10
Client Risk Grading	4	7.89	8.5	10
Property Location	5	7.89	9	9
Type of asset class	6	7.39	8	8
Nature of the business of the borrower	7	6.89	7.5	10
Securities / Collateral provided	8	6.72	8	8
Client relationship with the bank	9	6.28	8	6

n=18

Source: Survey data

Factor 1: Cashflow

The majority of respondents selected ***cashflow*** as the most influential factor when assessing a property transaction; scoring a rate of ***8.6*** out of 10 points. Cashflow in this instance was defined in chapter 2 as the ability of the borrower to service long term debt. This provides an indication that first and foremost, the lender would like to establish that the forecasted project cashflow is realistic, achievable and sustainable prior to financing a transaction.

As discussed by Collins and Ghyoot (2012), the importance of cashflow could vary depending on the market cycles. They further mention that during market downturns, there is more emphasis on cashflow. This emphasis acts as a mitigant for any unforeseen cash shortfalls, which may hinder repayment-ability of a borrower. During booming times, there is less reliance placed on cashflow, as “market demand” would comfortably provide assurance that the borrower’s asset should be able to perform satisfactorily.

Factor 2: Pricing

The second most influential factor selected was pricing, scoring a rate of ***8.2*** points. Pricing was defined as a reflection of the potential risk and desirability of a transaction. This indicates that the respondents are price conscious, and aware of pricing transactions to reflect the risks involved.

Research from Sacerdoti (2005), highlights the concern that interest rates in Africa are too high. The fact that pricing is the second most influential factor for the lender, could bring clarity to the reason why interest rates in Africa are too high.

Factor 3: Lender's ROE

The third most influential factor selected was lender's ROE, scoring a rate of ***8.0***. Ultimately, a transaction needs to generate returns above the benchmark (or minimum required return) in order to be viable. This indicates that the respondents were conscious that the lender needs to make sufficient return on loans provided for the transactions.

Factor 4: Location

The factor of location scored ***7.9***. There is generally a perception that a key determinant of a successful property transaction is location, location, location. However, based on the feedback received from the respondents, there are other factors which carry more weight than location.

Factor 5: Client risk grade

Client risk grade scored a rate of ***7.9***. Risk grading was defined as a means to categorise credit worthiness and perceived credit risk of a specific client. In Wight and Vhyoot (2005) it is revealed that risk categorisation is a blend of both qualitative and quantitative information, and is open to considerable subjective reasoning. This factor could be of great importance in stalemate situations, as the subjective nature of it could easily swing a transaction either favourably or negatively.

Factor 6: Type of property asset

Depending on lender's exposure, certain property types could be more favourable than others. Type of property scored a rate of ***7.4***, which is below the overall average factor rate of 7.53. This means that its importance is lower in comparison to the factors mentioned above. It could also mean that the factors which scored higher than the 7.53 average could be used as waivers, against property type, should a transaction involve a type of property that is less desirable by the lender.

Factor 7: Nature of Business

Nature of business of borrowing entity scored ***6.9***. This factor was expected to score below average (7.53), as the nature of business does not directly impact repayment-ability. Whether a client is a general investor, or a specialised property investor, ultimately repayment-ability needs to be demonstrated.

Factor 8: Security/collateral provided

Surprisingly, security/collateral scored ***6.7*** despite being referred to as a critical component of transaction structure. This provides us with an indication that its importance is more valid during a default stage, in comparison to deal assessment and sanctioning stage.

Factor 9: Client relationship

Client relationship was rated a ***6.3***, which is the lowest score in comparison to the other factors. Although relationship is the first and foremost factor that the bank establishes and assesses, on its own it does not carry much weight; however, it could strongly influence sanctioning of a transaction when a stalemate is achieved

Other factors of influence to consider when assessing transactions

The following were added as additional factors that could influence the decision of financing a real estate transaction:

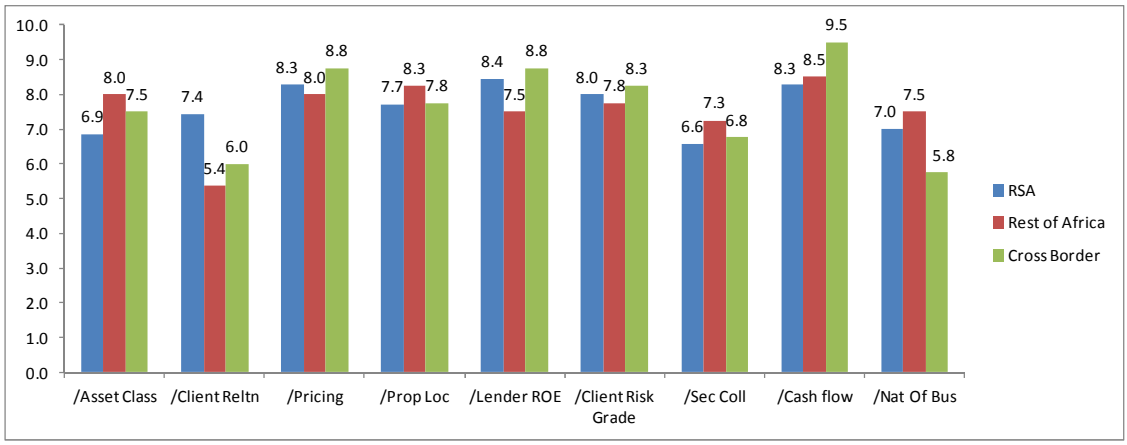
i) ***Character and experience / track record of the borrower's management team:*** Respondents mentioned that there is enhanced lending appetite, if the borrower can demonstrate that they have experience in the type of projects being requested to be financed. In the research of Wight (2001), experience speaks directly to probability of default with regards to delivering or executing a project. The experience factor was sighted as being more rigorous in development loan requests. Development loans in their own right are classified as riskier than ordinary term loans. Respondents mentioned that in this instance it is not only the borrowing entity that needs to be well experienced, but also the professional team being appointed to execute the project. When the borrower has sufficient experience in their respective fields of trade, they would be better placed to plan ahead and foresee matters which may hinder their operations, thus hindering their ability to repay borrowed funds.

ii) ***Term of the loan:*** Respondents made mention that the term of funds requested also played a pivotal role in the overall decision making and sanctioning process. In situations where the lender holds long term deposits, they would be in a better situation to provide longer term lending. In situations where the lender is holding short term deposits, there would be a constraint in long term funding. Berger (1998) reports that lenders such as pension funds, generally have greater appetite for long term lending as their deposits have a longer maturity, in comparison to deposit maturity of commercial banks.

4.5 Geographic comparison

This section of the results discusses the factor ratings from a geographic grouping perspective.

Figure 4.4 Geographic illustrations on factor importance



Source: Survey data

Table 4.3 RSA Respondents

	/Asset Class	/Client Reltn	/Pricing	/Prop Loc	/Lender ROE	/Client Risk Grade	/Sec Coll	/Cash flow	/Nat Of Bus
Mean	6.9	7.4	8.3	7.7	8.4	8.0	6.6	8.3	7.0
Median	7	8	8	9	9	9	8	10	6
Mode	8	9	9	9	10	10	8	10	6
n=	7								

Source: Survey data

The top 3 factors selected by RSA respondents were ROE (8.4), Pricing (8.3) and Cashflow (8.3). This is the only group of respondents who selected ROE as the most influential factor. This is an indication that in comparison to the other respondents, the RSA respondents were more conscious of the required returns to be generated by a transaction.

The lowest scoring was Security/collateral (6.6.). Although the collateral issue is one which is often debated and scrutinised in lengths during credit presentations (Cloete, 2005), it did not feature as a dominant factor of influence.

Table 4.4 Sub Saharan Africa respondents (Excl Cross border and South Africa)

	/Asset Class	/Client Reltn	/Pricing	/Prop Loc	/Lender ROE	/Client Risk Grade	/Sec Coll	/Cash flow	/Nat Of Bus
Mean	7.9	5.3	7.7	8.1	7.1	7.6	6.9	8.3	7.4
Median	9	6	8	9	8	8	8	10	9
Mode	9	6	6	10	5	7	8	10	10
n=	7								

Source: Survey data

Rest of Africa respondents selected cashflow (8.3), property location (8.1), and property asset type (7.9). This is the only group where location features in the top 3 most influential factors. The scarcity of infrastructure and amenities could be a reason why this group places a high rating on property location. The presence or absence of such amenities could drastically affect saleability and lettability of a property, thus affecting lending appetite as well.

Least influential factor was selected as client relationship (5.3). This could be attributed to lack of repeat business from existing clients, due to early stage development of real estate markets in SSA markets.

Table 4.5 Cross border respondents

	/Asset Class	/Client Reltn	/Pricing	/Prop Loc	/Lender ROE	/Client Risk Grade	/Sec Coll	/Cash flow	/Nat Of Bus
Mean	7.5	6.0	8.8	7.8	8.8	8.3	6.8	9.5	5.8
Median	9	6	9.5	9	10	9	8	10	6.5
Mode	9	6	10	9	10	9	10	10	8
n=	4								

Source: Survey data

Cross border respondents selected cashflow (9.5) followed by pricing (8.8) and ROE (8.8). The cashflow score of 9.5 is the highest score of all factors recorded. The emphasis on this factor is that cashflow is the most dominating factor when assessing cross border

transactions. Cross border transactions are deemed to be riskier, hence there is greater reliance placed on certainty of cashflow to validate repayment ability.

Lowest score was nature of business at 5.8. Little reliance is placed on nature of borrower's business, as long as repayment-ability is demonstrated.

4.6 Analysis of lender's attitude towards primary factors that influence lending appetite

A series of statements relating to the primary factors of influence were constructed from the literature reviews and preliminary discussions. The salient points under each factor identified were summarised as per below, and each respondent was then provided the opportunity to agree or disagree using a five point Likert type scale, i.e. 1 for "strongly disagree", 2 for "disagree", 3 for "neutral", 4 for "agree" and 5 for "strongly agree". Respondents also had the opportunity to add further comments pertaining to the statements.

The purpose of this exercise was to provide further insight on the dynamics of the factors that influence lending and to fulfil the broader study for better understanding. The questions were shuffled to produce both positive and negative statements. Statements that cumulatively yielded a response higher than 50% on either side of the scale are discussed below.

Table 4.6 Statements pertaining to the influence of client relationship

	SD	D	N	A	SA
Existing relationship with lender is critical	11%	39%	28%	17%	6%
Existing relationship does not facilitates sanctioning	6%	22%	39%	28%	6%
Clients use relationship to fast-track project funding	0%	6%	24%	59%	12%

Source: Survey data

A to total of 50% of respondents felt that the existence of a relationship was not critical for funding to be made available to a borrower. However, 71% highlighted that clients whom have existing relationships with the lender, use this as an advantage to fast-track their funding requirements. An additional comment revealed that clients push for cheaper financing (rates and fees) if there is an existing relationship with the lender.

Although existing client relationship is not a prerequisite to have access to funding, such relationship is beneficial from a funding turn-around time point of view.

Table 4.7 Statements pertaining to the influence of the nature of the client's business

	SD	D	N	A	SA
Lending appetite is greater towards property specialised clients, vs. general clients	0%	0%	28%	44%	28%
Property specialised clients seek more credit modifications, vs general clients	0%	33%	28%	33%	6%
Property specialised clients always meet bank's conditions punctually	6%	41%	47%	6%	0%

Source: Survey data

A total of 72% of respondents agreed that there is greater lending appetite for clients who are property specialists or property investors, in comparison to clients whom are general investors diversifying into property. Further comment was added, stating that clients who have owner-occupied properties usually seek to negotiate more lenient terms, as it is deemed less risky than tenanted properties.

Lending appetite is greater for property specialist clients, although they do not always meet the bank's conditions timeously.

Table 4.8 Statements relating to the influence of collateral provided by the borrower

	SD	D	N	A	SA
If adequate security is provided, low return yielding transaction may be financed	12%	47%	24%	12%	0%
If suitable security provided, property may be funded in any location	28%	39%	22%	6%	0%
Security requested is based on probability of default	11%	33%	17%	28%	6%
Security provided by client is most important factor when assessing transaction	11%	44%	28%	6%	6%
Collateral requested may be amended, if transaction demonstrates strong cashflow	6%	39%	17%	28%	6%
Clients with proven track record may amend/reduce normal securities called for	6%	33%	11%	44%	0%

Source: Survey data

Respondents (59%) generally disagreed regarding the statement that adequate security can be a motivator to compensate for funding of a low return yielding transaction. It was also revealed (67% agreement) that security provided for a transaction, would not compensate for location of a property. Regarding the statement that security provided by the client is the most important factor when assessing a transaction, 55% of respondents disagreed.

Suitable collateral provided in a transaction by a borrower, would not necessarily compensate for a low return yielding transaction, or a poorly located property.

Table 4.9 Statements regarding the influence of property location

	SD	D	N	A	SA
Some proposals may not be evaluated due to their location	11%	22%	11%	33%	22%
Blue chip tenanted properties would not be financed if situated in poor locations	0%	41%	53%	0%	6%
Concentration risk not an issue as long as great returns are produced	12%	35%	41%	0%	12%

Source: Survey data

With regards to proposals not being evaluated due to their location, 55% of respondents agreed to this statement. Surprisingly, 53% of respondents were neutral, regarding the influence of quality of tenancy for funding a transaction in a poor location

A poorly located property could demerit access to funding, and it is uncertain whether tenancy profile could facilitate access to funding in this situation.

Table 4.10 Statements pertaining to the influence of type of property asset

	SD	D	N	A	SA
Funding appetite for different asset classes (type of properties) is the same	39%	39%	11%	11%	0%
Asset Class does influence the pricing charged	6%	22%	17%	56%	0%
Specialsed properties may not be financed, regardless of leases and tenancy profile	6%	61%	28%	6%	0%

Source: Survey data

Respondents (78%) indicated that there are various appetite levels depending on the type of property being funded, and 56% agreed that type of property would influence pricing. It was revealed (67% agreement) that tenancy profile could allow for specialised properties to be financed.

Although funding appetite differs depending on type of property, specialised properties may still be financed based on their tenancy profile.

Table 4.11 Statements pertaining to the influence of projected cashflow

	SD	D	N	A	SA
It is not possible to provide 100% LTV/LTC facilities	0%	61%	0%	17%	22%
DSCR & ICR may be below the norm, provided the client has other income sources	0%	6%	28%	67%	0%
LTV/LTC level can be amended if lender's expected ROE is met	0%	33%	28%	39%	0%
Pre-sal & Pre-let conditions do not test the market's acceptability of a product	28%	67%	0%	0%	6%

Source: Survey data

A total of 61% of respondents disagreed that 100% LTV/LTC loans cannot be provided, contrary to general practice which require about 25% equity injection form the borrower. With regards to DSCR and ICR, 67% of respondents agreed that these covenants could be below the norm, provided that client demonstrates serviceability from other sources. This gives us an indication that external collateral could be beneficial and could positively influence the outcome of a transaction, in situations where the bank's benchmarks are not met.

An overwhelming 95% of respondents confirmed that pre-sales and pre-lets conditions are indeed indicators of the market's acceptability of a product when launched.

Transactions may be funded at 100% LTV/LTC; and in situations whereby the DSC/ICR is below the norm, alternate source of income could provide comfort for financing a transaction. Desirable pre-let and pre-sale levels could be utilised by the borrower as indicators to motivate repayment-ability, which in turn provides greater lending comfort.

Table 4.12 Statements regarding the influence of the lender's expected R.O.E.

	SD	D	N	A	SA
Lender's minimum ROE is the same, regardless of the type of property financed	19%	63%	6%	13%	0%
Minimum expected ROE varies depending on geographical location of property	6%	50%	17%	22%	6%
Proposal may still be financed even if expected ROE is not met	6%	33%	22%	33%	6%

Source: Survey data

A total of 82% of respondents indicated that minimum ROE would differ, depending on the type of property being funded; and 56% indicated the minimum ROE would not differ based on geographical location of the property. An additional comment was stated, highlighting that reducing the required ROE level could positively influence the market share of the lender. By reducing the required ROE levels, the lender's products could become more attractive to the market.

Table 4.13 Statements regarding to the influence of pricing

	SD	D	N	A	SA
Client relationship plays a role in determining transaction pricing	6%	59%	6%	24%	6%
Quality (style, age, tenancy) of asset plays a role in pricing charged	0%	24%	24%	47%	6%
Pricing may be reduced for clients with proven track record	11%	6%	11%	67%	6%

Source: Survey data

An overall of 65% respondents revealed that client relationship does not play a role in determining transaction pricing. However, 73% of respondents highlighted that proven track record could be a factor for reducing pricing on a transaction. An additional comment was raised, making mention that pricing of a transaction is fairly flexible depending on the ROE which the lender would like to attain.

Clients with proven track record are in a better position to reduce transaction pricing, and an existing relationship on its own has little impact in influencing transaction pricing.

Table 4.14 Statements pertaining to the influence of client risk grade

	SD	D	N	A	SA
Proposal may not be declined purely based on risk grading	7%	27%	7%	60%	0%
High transaction pricing may compensate for high risk grading	6%	6%	18%	65%	6%
Risk grading is fair representation of client's probability of default	0%	18%	18%	59%	6%
If adequate security is obtained, high risk grade projects may be financed	6%	29%	12%	53%	0%

Source: Survey data

A total of 60% of respondents indicated that the risk grading of a client would not be a reason to decline a transaction, with 65% indicating that risk grade is a fair representation of probability of default. 71% indicated that higher transaction pricing could compensate

for high risk grade, with 53% indicating that adequate collateral could mitigate a high risk grade transaction.

Although proposals may be declined based on risk grading of a transaction, higher transaction pricing and adequate security could be used as mitigants for high risk grade transaction.

4.7 Business operating environment results and interpretation

The below is a summary of the challenges associated with providing finance for real estate transactions in SSA.

4.7.1 Major challenges when financing real estate transactions

Respondents were requested to comment on challenges they face regarding financing real estate transactions. The below is a summary of their responses, which have been grouped into six categories:

i) Meeting the required ROE benchmark

In an environment where competition is thrive or where markets are established, some of the lenders reduce their pricing or fees in order to gain market share. In return, this adjustment leads to a lower ROE achieved by the lender, which in return could result in minimum ROE levels not being met, hence causing sanctioning challenges.

ii) Availability for property visits

A site visit reveals or highlights specific property characteristics, and the dynamics of the surrounding environment. The advantage of conducting site visits is that it allows an individual to visualise the subject project, and thus provides more comfort and support to better assess a transaction. Easy access to on-the ground consultants and specialists is also an advantage, as they would be better versed with the micro-dynamics pertaining to a specific property or area.

iii) Client's knowledge of the product offering

Non familiarity of a product could lead to low uptake or aversion towards the product. If the client is not well versed with the product offered, there could be a mismatch between the client's expectations and the product offering.

Lack of substantial equity injection into projects by clients was also highlighted. These situations results in higher LTV/LTC scenarios, and lower DSC/ICR, which could be in breach of the lender's lending policy, hence negatively affecting the sanctioning outcome of a transaction.

iv) Unfamiliarity of business and legal environment

A respondent mentioned that "different regions have unique property market feature that need to be recognised". The unfamiliar is already a risk on its own, and transacting with the inclusion of unknown factors further enhances the risk of a transaction.

Unfamiliarity around title deeds registry and property transfer processes prove to be a severe challenge, primarily when doing cross border transactions. Understanding the legal framework and establishing a system thereto provides greater lending comfort, as it establishes more structured and more transparent scenarios should there be a default on a transaction.

v) Support structure for deal arrangement

Due to the sophistication of real estate markets, and the fact that lenders typically classify it as a "specialised product", there are various individuals that are party to the decision making process, from initial assessments of the client and property, to the deal structuring, financial analysis and deal closure. The value chain is not always available and accessible to finalise transactions seamlessly.

vi) Access to verifiable data and information

From the SAPOA PDP handbook discussions, it can be summarised that property assessment comprises element of qualitative (behavioural economics) as well as

quantitative issues. With limited data at hand, the perception is that there would be greater tendency to lean towards qualitative (gut-feel) issues for assessing transactions. Following on discussions by Nevitt (1989), data is sometimes available in the emerging markets, but it is not always verifiable and up to date. This means that recent market trends and market movements are not always captured, thus leaving the lender to "guestimate", affecting forecasting and overall performance. Wight and Ghyoot (2005) explain that correct information allows the lender to assess risk and potential returns timeously, and initiates a smooth loan application process.

4.7.2 Associated risks to consider when financing real estate transactions

The below is a summary of the responses regarding potential risks in financing real estate transactions, and they have been grouped into five main categories:

i) Economic & Financial risk

Respondents described ***high interest rates*** as a potential risk when financing a transaction, as it could lead to increased client default due to stress being put on the client's debt repayment ability. Cloete (2005) further contributes that riskier clients would get charged higher interest rates, to compensate the lender. Lack of information, unknown territories (characters of SSA markets) would generally result to clients or transactions being classified as risky, hence these are charged higher interest rates.

Slowdown in the economy was also mentioned by respondents as a risk to consider, as this would generally translate to less disposable income, and could lead to property value destruction. Another associated risk highlighted was ***currency fluctuations***. This becomes a concern when the loan repayments are denominated in a currency which is different from income received / generated by the client.

ii) Delivery risk for development projects

Following from Geltner and Miller (2001) development projects are riskier in nature, in comparison to acquisition projects, as there are numerous factors that could reduce

viability of a project. Various respondents mentioned ***cost overruns*** as potential risk to consider. ***Pre-sales and pre-let conditions*** that do not materialise timeously were also mentioned as a risk, as this could cause further delays and aggravate cost overruns. Delayed processes with ***local authority approvals*** (regarding availability of land, infrastructure and environmental impact assessments), could also lead to further cost overruns. This is an issue which is out of the control of the lender, as well as the client, as much reliance is placed on delivery from local authority. A respondent highlighted "residents opposing developments" as another risk to consider.

Completion risk was also highlighted as a potential risk to consider. This risk refers to the ability of the client to complete the project within the specified timeframe. The risks highlighted in the above paragraph would either delay or totally cause prevention of project completion.

iii) Uncertainty of long-term income (term mismatch)

A respondent indicated that although the lender takes long term views and offers long term facilities (typically 10 year loans), there is no guarantee that the underlying asset mortgaged would generate income for the same term duration. The risk arising from this situation is that lease agreements may expire without an option of renewing, thus creating unwanted vacancies or reduction of income to service debt.

iv) Cultural diversity

"The different ways things are done" has been highlighted as a potential risk. This cultural diversity could bring with it misunderstanding if not dealt with adequately. This finding is in line with Ukpabi (1990) who cites that negotiation styles, decision making, conflict resolution and delegation of authority could differ based on cultural values. Thus, there is room for misrepresentation or misunderstandings during the deal negotiation phase, which could result in inappropriate representation of the client's requirement, which negatively affects the deal making or loan application process and outcome of a transaction.

v) Competition

Competing financial institutions or sources of finance was highlighted as a risk, since it would lead to lower market share of the lender. According to Collins and Ghyoot (2012), as competition intensifies in the market, the lender may need to take drastic measures to remain relevant such as the reduction of pricing and fees, which in turn negatively impacts ROE of a transaction. This situation is confirmed in Sacerdoti (2005), where it is recorded that increased competition reduces interest rate (margin spread).

4.7.3 Risk mitigants

In chapter 2, risk was defined as the possibility and probability of a difference between actual and expected return (Clauretie and Sirmans, 2014). Thus, risk mitigation could be defined as a method or structure to reduce the probability of the occurrence of the variance in actual and expected return.

The general trends highlighted by respondents to mitigate the risks presented in 4.6.2 above, is summarised below in their respective categories:

i) Economic & Financial risks mitigants:

Respondents provided the view that ***additional collateral, higher DSC,*** with ***lower LTV*** ratios to ***increase client's equity***, would be mitigants, for some economic and financial risks. These solutions will allow for the lender to have alternate recourse in case of default, or greater equity in value of property should a forced sale situation occur; hence lowering exposure at default. The RMB WTIA 2013/14 report highlights that some developments in South Africa are funded with up to 100% debt. In the rest of the continent developers often need to put down 50% in cash. The higher equity contribution by the client is a form of risk mitigant, as it provokes the client to take greater care of his interest in the transaction.

It has been noted from Cloete (2005), that in general, interest rates could be ***fixed*** to prevent unforeseen hikes, and currency could be ***hedged*** to cater for fluctuations. This observation is similar to responses provided by the respondents. In Baum and Murray

(2013) hedging is cited as being expensive and difficult to achieve. Questionnaire responses also revealed that an alternative to hedging could be to provide funding in currency which is denominated in same currency as income proceeds.

ii) Delivery risk mitigants for development projects

Due diligence and comprehensive feasibility studies: These studies allows for typical project risks to be identified upfront, and for solutions to be developed prior to commencing a project. ***Experienced/reputable jockey*** and professional team: the more experienced the client is, the lower the risk profile of that client. This is also the case for an ***experienced professional team***. Experience within the field de-risks the transaction, and project completion risk is also lower.

A respondent mentioned that it is encouraged to ***partner with a reputable contractor***, in order to reduce completion risk. From the above, it is clear that experience of the client and professional team are key mitigants to delivery risk.

iii) Uncertainty of long term income

Respondent indicated that the lender needs to ensure that debt exposure is at least 20% below property value. This buffer will allow for the lender to cover its debt, should the property need to be sold to recover outstanding loan amount.

Another solution provided by respondents to mitigate term risk, is by funding over a short period, and including a residual/balloon payment after a certain period. This will allow the lender to review the transaction at that point in time, and decide whether to refinance the transaction.

iv) Cultural diversity

Having better understanding of local market conditions, and local business operations would provide greater comfort to liaise with diverse cultures. Once cultural differences and cultural similarities are highlighted, it is then easier to communicate. This ease of

communication, can then allow for better negotiation between the client and the bank, hence positively affecting sanctioning of a transaction.

v) Competition mitigants:

A respondent described competition as being healthy, and motivates for the lender to customise structured products to suit the client's requests. Competition between the lenders is beneficial to the client form a service and pricing point of view. In Luiz and Charalambous (2009), it is observed that banks are service providers in a competitive market, in comparison to profit or income generator in less competitive markets

vi) Additional mitigants

A respondent stated that ***stringent and selective lending criterion*** was a strong risk mitigant. This mitigant relates more to the lending policy of the lender, as they would determine upfront the lending parameters, hence delineating lending appetite.

The above statement also relates to revelation from other respondents, who stated ***pre-registration and pre-disbursement*** conditions as risk mitigants when financing property transactions. The lender would typically register a mortgage over the subject property, prior to making any disbursements towards the project. The terms and conditions to be adhered to prior to bond registration (conditions precedent) are key risk mitigants which allow the lender to withhold from the project, until such conditions have been met. There is another suite of conditions to be met prior to disbursing funds, and these conditions further protect the bank from disbursing funds in projects which do not adhere to the lender's regulations.

Keeping within urban areas: The legal systems and real estate market maturity is usually higher in urban areas, in comparison to non-urbanised areas. This could also entail higher saleability of a project, should the bank need to foreclose on a project and sell the project in the open market.

In the study of Games (2005), it was explained that the World Bank Multilateral Insurance Guarantee Company (MIGA), Africa Trade Insurance and South Africa's

Export Credit Insurance Corporation (ECIC) can provide risk insurance which covers political and credit risk.

4.8 Doing business in rest of Africa more risky that doing business in RSA

The general consensus amongst the respondents was that the rest of Africa is more risky than RSA in terms of doing business, although not a rule of thumb. The general themes could be summarized as per below.

Respondents mentioned that legal systems and regulatory issues are not fully understood by the lender outside RSA. This unfamiliarity of legal framework typically heightens the risk profile of a transaction. Even in instances where adequate collateral is provided, such collateral becomes vulnerable if the process to execute on that collateral is not clear and well understood.

Support structures to execute transactions are more developed on RSA than in rest of Africa. This environment makes it easier to do business in RSA, as it contains the necessary platform and support structures for transacting. However, a respondent expressed that what has worked for South Africa as best practice may not necessarily be accepted or relevant in other parts of Africa.

Fewer respondents revealed that although it may be riskier on the rest of Africa, the returns could justify the risk. They also highlighted that it may not necessarily be more risky outside RSA, but there are different risk categories to take into consideration. A RSA based respondent revealed that he perceived the rest of Africa as more risky, although he had never been there personally. This opinion was made based on stories that he or she had heard.

Only one respondent referred to rest of Africa as being less risky, as the typical client is less sophisticated, and requires less complicated transactions. By removing the complexity element in a transaction, familiarity and ease of doing business increases further.

4.9 Dynamics of a sweet deal

Respondents were asked to highlight the dynamics a deal should have in order to be a "most ideal transaction". This question was asked in order to highlight the composition of most desirable transactions, and the below summarises their comments.

Based on respondent remarks, a most desirable transaction could be summarised as follows: "*Financially strong client with proven track record, requesting low gearing funding for an unencumbered, non-specialised, blue chip tenanted property situated in a prime location*".

An overwhelming majority of respondents (71%) consistently expressed the view that low gearing ratio is a pertinent ingredient required for a sweet transaction. Generally, a low gearing ratio (LTV/LTC below 50%) places the lender in a more favourable position should a default situation occur (i.e. the loss incurred or exposure a point of default would be less than 50% of the property value, which allows the lender to recuperate its costs should the property be sold off.

Another factor which proves to be popular (where 50% of respondents provided comments) was DSCR, and some respondents further suggested that it should be at least 1.5 times cover. From a lender's perspective, this risk mitigant caters for any unforeseen cash shortfall that may arise. It allows the borrower to meet the repayment obligations, amidst volatile income or uncertain / unattainable parts of income.

The ROE generated on transactions was also highlighted as a factor which could sweeten a transaction, should the returns generated yield an output well above the lender's minimum requirements.

One respondent made mention of syndicated loans. This solution is a key ingredient primarily in large transactions, where a single lender is not comfortable to assume the entire risk of a transaction. The lender would co-lend with other lender(s) to distribute the risk of a transaction.

The track record of a developer and experience of professional team were indicated as pertinent ingredients to generate desirability for real estate development transactions.

4.10 Additional comments on factors and dynamics influencing property financing

The last question allowed for respondents to highlight or include any other factors which they thought could be of importance in influencing property financing.

There were no comments which were contradictory to any of the findings reported thus far. A respondent emphasized that there was a necessity to construct customized solutions for each of the various Sub Saharan Africa countries where the lender operated. This is primarily due to the variances and differences in market conditions in the various countries. The "highest and best practice" of RSA real estate funding would not necessarily fit comfortably in all other markets. Customization could result in a better business environment.

A respondent shared that "the relative risk of doing business improves the more we execute business transactions". This statement confirms that as volume frequency increases, it could allow for the lender to be more familiar with the business operations, and thus enhance lending appetite.

One respondent asked the question "will the perfect deal today be the perfect deal tomorrow?" Demand and supply of property moves in cycles, and it is important to understand where the cycles are in terms of recession, recovery and boom (Collins and Ghyoot, 2012). In order for the lender to remain relevant in volatile or changing market environment, it could be critical for the lending criterion and framework to remain flexible.

4.11 Conclusions

Factors that have been identified as being most influential to the lender in deciding whether to finance real estate project are cashflow, pricing and lender's ROE. The components of a most desirable transaction would include low gearing, strong financial position of borrowing entity, prime location and non specialised property. This could form a basic guideline of issues that a borrower could incorporate in structuring feasible project proposals.

The importance of sound market research is often underestimated in the property development process, but in reality conducting thorough market research has the potential to make or break a successful property development (Wilkinson and Reed, 2009). This could be similarly argued for property acquisitions.

As much as the lender engages in market research, it would be advantageous for clients to undertake similar initiatives, in order to enhance the quality of their proposals and substantiate the feasibility of their project.

Doing business in the rest of Africa is perceived to be riskier than in South Africa, but the returns could justify the risk. Risk primarily associated with unfamiliar legal and regulatory issues. However, each identified risk has a sustainable risk mitigant, which could increase lending appetite of a transaction.

CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights the objectives of the research and the development of previous chapters. Important findings are summarised, and related to the initial problem statements proposed by the researcher. Recommendations and suggestions are then presented for future research in this scarcely documented subject of African Real Estate funding.

5.2 Summary

The research sought to identify and examine the factors that influence the decisions to finance real estate transactions. It further sought to explore the dynamics associated with the risks and challenges of doing real estate business in Sub Saharan Africa, in order to facilitate access to finance.

5.2.1 Objective 1- Identifying the factors that can influence funding for real estate projects

Project cashflow was rated as the most influential factor that influences property finance decisions. The results show that the lender is first and foremost concerned with the repayment ability of a deal proposal, prior to addressing other factors. Should repayment ability be comfortably demonstrated early during the loan process, there would be greater appetite to provide funding for a proposal, thus facilitating access to finance.

Pricing and lender's return on equity were rated second and third most influential factors respectively. The results reveal that the borrower's funding proposal needs to be able to generate sufficient returns for the lender, over and above the borrower's own returns. The bank is in the business of making profit (Wilkinson and Reed, 2009), so if a funding proposal can demonstrate profitability both for the bank and the borrower, lending appetite for the transaction is enhanced.

The location of a property was ranked fourth most influential factor. The research revealed that a poorly located property could demerit access to funding, despite of its tenancy profile. However, in instances where there is scarcity of infrastructure and

amenities, the influence of location plays a greater role. This factor is primarily relevant in Sub Saharan countries where saleability and lettability are predominantly driven by availability of infrastructure.

Client risk grading was joint fourth most influential factor with property location. This is driven by the lender's internal policies and systems, and the results highlight that such grading can be enhanced by demonstrating repayment ability and credit worthiness.

The results classified type of property as the sixth most influential factor. If a property is fairly specialised in nature, the borrower could facilitate access to funding by tenanting such a property with strong tenants. The seventh most influential factor was nature of business of the borrower. A respondent contributed that as long as the borrower is able to demonstrate repayment ability, the influence of this factor is insignificant.

Security provided as collateral for a transaction was rated as eight most influential factor. The relevance of this factor is more significant if the collateral provided can be promptly converted to cash, in order to contribute towards loan repayment. Respondents rated client relationship as being the ninth most influential factor, although relationship can mean the difference between success and failure, as argued by Luiz and Charalambous (2009). The advantage of relationship is that the turn-around time of a loan application can be enhanced, and generally the costs associated in providing a loan could also be reduced.

Other factors that were raised as being influential are experience and track record of the borrower, as well as term duration of the loan facilities. It has also been noted that the relative importance of primary factors of influence is dependent on the bank's internal lending policy / framework, and the property cycle also plays a part in influencing the importance of these factors.

5.2.2 Objective 2- Establishing and examining challenges and associated risks of doing business in Sub Saharan Africa

Unfamiliarity of business and legal environment were mentioned as major constraints in transacting in Sub Saharan Africa. This challenge is further heightened by limited access to verifiable data and information with regards to real estate transactions. In general, there are real estate business conducts and norms that are practiced in SSA, without necessarily being documented. Previous chapters highlighted that unfamiliarity is already a risk on its own, and transacting with the inclusion of unknown factors further enhances the risk of a transaction. The research also revealed that cultural diversity needs to be understood, as it could bring about conflicts if not managed appropriately.

Economic risk, financial risk and delivery risk were also highlighted as prominent risks to consider when deciding to finance a transaction, and more so if on a cross border basis.

The common thread from literature review and respondents is that development loans carry greater delivery risks in comparison to conventional term loans, and require detailed attention.

5.2.3 Objective 3- Establishing mitigants to the challenges and risks, in order to facilitate access to finance

The research revealed that as the lender generates greater business volumes, familiarity of terrain is enhanced, and thus risks can be better identified and better managed. If managed adequately, the risks can be further reduced.

By having sound insight on local and cultural dynamics, negotiation, conflict resolution and delegation of authority is facilitated, which in turn benefits the ease of doing business in Sub Saharan Africa.

Financial instruments are available to mitigate the financial and economic risks, and clients need to assess whether transaction is still profitable after implementation of such mitigants.

Each risk that has been revealed in this research has risk mitigating mechanisms which could provide greater lending comfort. The research findings agree with the literature from Collin and Ghyoot (2012) stating that risk can be managed properly, in order to enhance returns.

5.3 General

Sub Saharan Africa is generally lumped as one region, although it is made up of countries with minor homogeneity between them. Thus, the approach to adopt a single strategy to service the region would not be conducive, it is imperative for each country to be treated individually to assess the business environs, and it would be advantageous for the lender to be responsive to changes in businesses environment.

The financier is more comfortable with lending in the South African market due to familiarity of terrain, and access to information for decision making is within comfortable reach, in comparison to Sub Saharan (SSA) markets. The financier however needs to distinguish between perceived and real risks, as there is generally an inflated perception of higher risk in Sub Saharan Africa. This finding is in line with Kusiluka (2012), who mentioned that there is exaggeration in perceived risk, in comparison to actual risk on the ground.

As familiarity and knowledge of other Sub Saharan Africa markets grow, the lender needs to review the lending appetite accordingly, and possibly relax lending criterions.

5.4 Concluding remarks

This research report has attempted to positively contribute in understanding the dynamics that influence real estate lending in Sub Saharan Africa. This allows property finance proposals to be packaged and structured more favourably, by focusing on factors that are of high importance for the lender. The ultimate result of the outcome is facilitation of transaction sanctioning, and hence an improvement of access to funding.

Referring to feedback received from respondents, a most desired transaction could be summarised as "*financially strong client with proven track record, requesting low gearing funding for an unencumbered, non-specialised, blue chip tenanted property situated in a prime location*".

In order to facilitate access to funding, the borrower first and foremost needs to comfortably demonstrate repayment-ability. Thereafter, a meaningful conversation can be undertaken with the lender with regards to the other factors that may arise in concluding the transaction.

5.5 Recommendations for future work

Due to reasons of confidentiality, the questionnaires which were distributed are all representations of the view of one bank. However, other South African banks have started strategising and entering the African real estate markets, which could allow for a greater sample to be surveyed. The validity of the results can then be tested with other financial services provider.

Furthermore, there is heightened activity from RSA based equity firms, who are in pursuit of real estate exposure in Sub Saharan Africa in search of higher yields and portfolio diversification. A study could be done on the factors that influence the investment decision of private equity firms, in comparison to the factors that influence the commercial banks, and whether there are strong similarities. The above exercise could also facilitate access to funding for real estate projects from an equity perspective.

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