

## ABSTRACT

National real estate markets are globally recognized as essential segments of an economy and major contributors to national aggregate outputs. However, Africa's national real estate markets are largely underdeveloped mainly because capital is in short supply. In this study, we examine the effects of foreign direct investment (FDI), foreign portfolio investments (FPI) and remittances on Africa's real estate markets. We also sought to establish the financial market channels of capital inflows that are especially important for the real estate markets.

In 1980s and 1990s, the widespread influence of the Bretton Woods institutions' policy prescriptions saw many African countries implement far-reaching financial liberalization reforms. These reforms were meant to address low domestic savings and investments by opening the capital accounts of nations as to enable inflow of foreign capital. In this study, we test the externalities of these inflows.

Specifically, we examine the effects of foreign capital inflows on African real estate markets by estimating a structural investment model using a pooled feasible generalized least square and general method of moment estimators in a panel set-up. We use data from Botswana, Kenya, Morocco, Namibia and South Africa for this test. Second, we examine causality relationships between real estate investments and foreign capital inflows using vector autoregressive (VAR) models and the Bai-Perron threshold test. Third, using the optimal general method of moment estimators and interactive term approach, we model the most important channel for foreign capital inflows' externalities on the real estate markets.

The panel results show that FDI and remittance do not have favourable associations with residential and non-residential real estate investments during their initial period of inflow, but in later periods, they correlate positively and significantly with real estate investments. The relation between FPI and the real estate investments is inconclusive. The VAR test suggests that the effects of foreign capital inflows on both residential and non-residential real estate investments vary across countries and markets. In some cases,

the effects are time-varying and size-dependent, but in the majority of the cases, the effects are contingent on the size of the inflows.

In respect of the most important channel(s) reflective of effects of cross-border flows on real estate markets, the results appear largely country-dependent: the credit market channel appears to stand out in reflecting most favourable externalities from cross-border flows. Further, evidence on the direct channel effect also varied from country to country. The indirect channel of the equity market is only important in South Africa, especially, when remittances are funnelled via the equity market channel.

Based on the forgoing, it appears clear that in order to fast-track growth in national real estate markets, we should recommend that African countries put policies in place to motivate direct foreign capital inflows, encourage channelling of foreign capital inflows, particularly remittances and FDI's through the financial markets, with emphasis on credit markets.