

Heri Bomani: provision of mortgages low

WARNING. Heri Bomani is the founder and managing director for Pangani Real Estate Services Limited. BusinessWeek's Alawi Masare sought his views on growth prospects and challenges facing Tanzania's real estate industry

Can you briefly tell us what Pangani Real Estate is doing in the property industry?

Pangani Real Estate Services Limited, a subsidiary of the Pangani Group, was established in 2013 with the aim of bringing world class property services and solutions to Tanzania and the East African market.

Our primary focus is to serve corporate entities from both the public and private sectors with a particular emphasis on leasing and brokering services for the commercial, retail, and residential arena. We also avail development services, property advisory and research services, and finally interior design and space planning services. The company is led

What do you think will change after Pangani partnered with JLL?

JLL is a multinational professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate worldwide. A fortune 500 company, with annual fee revenue of \$5.0 billion, JLL has more than 200 corporate offices, operates in 75 countries and has a global workforce of approximately 53,000. Given this reach, we will be able to attract new multinational investors into Tanzania by communicating the opportunities to do business in this country, and also to make investments in the real estate sector which should be an engine of growth for the economy going forward. JLL has tremendous talent pool, experience and skills in the real estate sector. We will be



Heri Bomani poses for a photo in his office. PHOTOFILE

market as part of our contribution to providing market insight on the real estate sector in Tan-

be considered.

However, ultimately there are simply too few institutional

and are borrowing heavily today as observed with the explosive growth in personal lending over the last 15 years.

Mortgages have remained in limited supply partly due to the housing supply gap, but also due to a lack of awareness and understanding of the benefits of a mortgage product. Consumers tend to think of risk and costs, and not the asset appreciation, investment opportunity, and also the trade up benefits.

Let me illustrate this with a scenario of someone in the early stages of their professional career. We can assume this person is 28, single, and working in a job earning Sh2 million. He would qualify for a mortgage to buy an affordable unit e.g. in NHC or NSSF's schemes in Kigamboni or a studio apartment in Upanga. He then gets married at 32 at which stage his income has increased to Sh3 million, and his wife grosses a further Sh1 million, so together they earn Tsh4m.

They could now afford a bigger home, and by selling off their old property unlock money for a deposit for the new home and some cash. This cycle should continue and as the two parties age they build an asset portfolio and create wealth for the future benefits of their children.

We have noticed many new firms entering real estate market in Tanzania and already some new modern towns/cities are being developed. What does this tell us and probably what's likely to

by experienced executives comprising international and Tanzanian staff with over 50 years of property industry experience.

Do you have any projects you are implementing or lined up in Tanzania?

With the rapid population growth in Tanzania and Dar es Salaam in particular (which could have as many as 20 million people by 2050 as per The Economist) we see residential developments as critical to address the deficit in housing solutions for Tanzanians. The Pangani Group has a development arm and will be undertaking residential and retail property development projects with several projects slated for ground break by 2016.

Pangani Real Estate Services is not a developer and thus does not undertake such projects but naturally most of the work we do for clients could be viewed as projects for instance Ecobank whom we acted for with the relocation to a new head office and main branch from CBD to Kinondoni earlier this year.

able to leverage these strengths and build strong and professional Tanzanian staff, and to support the formalization of the real estate sector as a whole through international best practices and processes.

Why did you decide to partner with JLL and not with any other company i.e. what makes JLL your best partner in the type of business that you specialise in?

JLL is a leading multinational firm in real estate services. We were attracted to them as a partner due to their strengths in commercial agency, but also their specialist services such as hotel and hospitality services and capital market advisory. I will give an example of the benefits of the capital markets business. If you look at Tanzania today, you note that many ambitious commercial and retail real estate projects come to a stand still due to a lack of capital and technical know how. Working with JLL we will help entrepreneurs and developers unlock capital and structure these transactions so that they are appropriately planned, financially structured, and then matched with client offtake so that banks feel comfortable to lend.

With the partnership, how do you estimate the availability of modern residential and commercial buildings in Tanzania during the next five years or so?

Earlier this year Pangani Real Estate and JLL completed a Dar es Salaam city profile report, one of regular research publications we will make available to the

zania. In this report we made reference to commercial stock as being in excess of 310,000 m2 (over three times the size of retail stock) but with rental growth slowing. Whilst we are seeing significant investment in commercial buildings in Dar es Salaam, which has surpassed the growth in demand, there is a clear correlation between asset quality and location where A Grade stock in a node such as Victoria or Masaki can be rented quickly despite the overall demand shortfall.

The government estimates that Tanzania has a housing deficit of three million units and the demand is growing at one per cent every month, what do you think the country needs to do to make decent housing available to the population?

The government has already done a lot to address the challenges around residential housing, and I can cite a few examples; the review of VAT on residential assets; establishment of Watumishi Housing Corporation with a specific focus on affordable housing; Tanzania Mortgage Refinance (TMRC) to improve liquidity and tenor mismatch for residential mortgage lending by commercial banks, and so on. There are other laws and practices that could be reviewed. For instance, the minimum plot size for residential housing - which currently stands at 450 square meters - is limiting developers' ability to densify smaller plots for stand-alone homes. The qualifying criteria for investments under TIC for residential developments as a specific asset class could also

private sector developers in this sector, and supply has thus been constrained, coupled with inadequate sales and marketing push to communicate options to the public. NHC as a public sector developer has demonstrated the benefits of effective sales and marketing approach and how to stimulate demand from consumers.

Looking at the government measures to avail mortgage facility and develop the housing industry, do you think what has been done so far is enough?

I would argue that the biggest impediment to housing take off is traffic and access to wards away from the CBD in Dar es Salaam. If the infrastructure, and particularly roads was addressed in Dar es Salaam, consumers would be very comfortable to consider new locations and the market as a whole would open up enabling developers to ramp up supply.

From your experience in both banking and real estate industries, is there any financing gap in the real estate industry that hinders its growth in Tanzania?

In my view there isn't a funding gap at all as banks have excess deposits and liquidity to lend. Let me go back in time to evidence this. Tanzania Housing Bank (THB) prior to its demise had in excess of 15,000 mortgages which compares to Kenya which has close to 20,000 mortgages in total today approximately four times the size of Tanzania's current mortgage stock. Tanzanians have borrowed in the past as seen with the THB statistics,

happen in the next five years?

The biggest opportunities in Tanzania are in residential, retail, and mixed use schemes, and I would expect to see faster growth in these types of assets than any other over the next few years, as well as some development of industrial parks. However in all asset classes innovation will generally be rewarded by consumers. As an example today there are many developers completing large apartment blocks. Is this the product that the Tanzanian consumer wants? A diversification strategy, where for instance residential gated communities are built, may serve some of these investors better as they create different options for consumers.

Tanzania has the highest housing cost in East Africa may be due to limited supply. Looking at the current property development, especially low-cost housing, when do you think the prices and renting cost will go down?

In our discussions with investors Tanzania is not viewed as having very high construction costs. Markets such as Angola, Ghana, and Nigeria experience construction costs of \$2,000 per m2 or more and whilst rental returns are correspondingly high, there is risk of rental correction in the near term for these markets. Our view is that the Tanzania market has reasonable construction costs (typically 10 per cent higher than Kenya), and also reasonable and sustainable rental returns for investors. In fact in some asset classes such as commercial, rental returns have been the highest in East Africa.

“There are simply too few institutional private sector developers in this sector, and supply has thus been constrained, coupled with inadequate sales and marketing push to communicate options to the public”

HERI BOMANI,
PANGANI REAL ESTATE
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MANAGING DIRECTOR

MORE INFO: THE REAL ESTATE SERVICES

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