



Tanzania Real Estate development: A “boom” or a “time bomb”

Well, there is that one thing we do every day, and it becomes a task, for us town dwellers, shinning our shoes! This happens to some right after we get off the bus or when get to town early to beat the ‘*amazing*’ Dar es Salaam traffic. Well you see I love shinning my ‘okay but not expensive’ shoes. If you are wondering why well it’s because for one I give the shoe shiners around City centre especially near IT Plaza, a very loyal customer, like many others who go there. Mind you this is not only for their benefit for I also get a thing or two. For one I get a lovely, glinting pair of shoes, and well you see I tend to overhear some very interesting conversations. Take the other week, for instance. As I was getting my shoes polished, the shoe-shiner was multitasking, ‘as always’, he was with one hand busy with the brush and kiwi but on the other he was having a fierce or rather vivacious conversation with a fellow of his. The argument was over how the next and next building got build so fast and filled even faster, a fellow was of the view that there is a need for more buildings in town and my shoe shiner held a view that more housing were needed than office buildings. Well they went on and on but to my dismay, I had to leave for the office and hence this article.

If you had a privilege of travelling abroad you will know the feeling of mentioning Africa and see people cringe. The news coverage on the continent is disproportionately about turmoil caused by diseases, vicious wars and dictatorships. Troubled countries abound: Sudan and Somalia are all making news for the wrong reasons. Hunger, strikes, disasters corruption and the list goes on and on. Recently however, there is good economic news trickling from the region. Countries like Tanzania has seen prosperity in new buildings erected everywhere in its major cities, dare s salaam, Mwanza and Arusha (not put in order so don’t panic please). Is this a boom or a boom waiting to explode?

Real estate in Tanzania has been favored by an extensive population with a burgeoning middle class, [a healthy growth rate](#), and real opportunity for real estate, political stability and suitable regulatory framework. The discovery of Oil and gas, substantial mineral resources, tourism and agriculture have all played a part in making Tanzania one of Africa’s fastest-growing economies, with current annual GDP growth in the region of 7% if not more. The ever increasing stability in the East African region and growing appetite from offshore investors for real estate asset from countries like Dubai has increased the attraction of real estate in Tanzania.

There are many skyscrapers in Dar es Salaam alone and many tenants have jumped to occupy their spaces from the VIVA TOWERS to IT PLAZA to DIAMOND PAZA and the recent TANHOUSE. These have made dare s salaam look brilliantly nice and nice, and offered the ever needed space for offices and apartments in the city. Well, this is a very good thing, but let’s look at it from another angle, not necessarily a bad one. The average home in Dar-es-Salaam costs nearly 30 times the average salary of a middle class Tanzanian. People in dare



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s salaam spend nearly three-fifth of their monthly income on rent alone. However, these real estate developments are huge returns to most especially those who buy and sell for the demand is there. Many who benefits would agree with me that Dar es Salaam's housing is no longer for those who need it but for those primarily concerned with accumulating capital. A house that was sold for 30,000 USD for example just two years ago in Sinza can now fetch up to 50,000 USD. When bricks are cash and houses are savings accounts, the meaning of the word “affordable” is warped beyond all recognition. This is scary.

Given the relative infancy of the real estate market in Tanzania, a more significant challenge is the lack of trading information or data on real estate developments in Africa, which makes it difficult to set rentals. Rentals are currently perceived as being very high and therefore lucrative for investors as demand outstrips supply, but some concern remains regarding the sustainability of such high rentals; and as more and more developments are rolled out in the continent, so the rentals will reduce. There is not even an authority to regulate the industry. This is also scary.

Well, moreover the ability to attract high quality tenants in the retail space is a challenge, resulting in a relatively poor depth of retailers. There are many buildings that were erected for example in Arusha that are not occupied todate because of the “per square metre” rent payment. This will, maybe, improve in the near future as tenants start to appreciate newer systems of payment.

Although the demand for quality housing remains high, the expectation of subdued growth in both the Tanzanian economy and household disposable income may dampen house price progression. Meanwhile, banks still have to work out a significant volume of defaulted loans and sell the related properties on the market and the prospect of a gradual rise in interest rates by the end of 2015. This adds to the uncertainty on future gains in house prices.

It is my belief that more is needed to facilitate home ownership both as a fundamental right and as a stimulus to the broader economy. There should be broad tax incentives for home buyers, greater clarity on interest rates and improved investment incentives for developers as has been done in overseas markets. For example house price affordability is the key in England, while in Tanzania lavish and deepness of your pocket is the key. Various incentives mean that more people with average earnings should be able to afford to buy their first house and the house price-to-earnings ratio should be lower as to make it easier to get on the property ladder.

Africa is growing fast, and in a recent report by the African Development Bank it was found that one-third of Africa's countries have GDP growth rates of more than 6% and the International Monetary Fund predicts that 7 out of the world's 10 fastest growing



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economies between 2011 and 2015 will be from Africa. More investments particularly in real estate are bound to come and change the motherland, at whose expense? We are yet to find out. There is also a growing recognition of the need for domestic finance to play a more significant role in real estate development, with rent being paid by tenants in local currencies. In Zambia for instance, in 2012 they promulgated a Statutory Instrument No 33 which aims to reinforce the use of the kwacha in all domestic transactions by stipulating that the Zambian kwacha must be the sole legal tender for all public and private transactions instead of a Dollar.

To protect the real estate industry there should also be curbing on corruption, should it be present now, or in the future, I don't know but I fear it will cripple the industry. Even more so, DFIs require recipients of development finance to implement and maintain good environment, social and governance principles, as well as to comply with international anti-bribery legislation, such as the UK Bribery Act and the Foreign Corrupt Practices Act of the US, which have extra-territorial reach. The creation of such high value “stock” in the real estate market, in turn, creates a healthy secondary exit market. This makes it easier for UK and US investors to sell their developments, whether it is a retail mall, office block or hotel, and offers a sophisticated platform for investors to invest in.

All in all, the real estate market in Tanzania could be both a boom and a time bomb, which is which, ah well we are yet to find out, best we be prepared, prevention is better than cure, so they say.

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The author is an Associate with ABC ATTORNEYS of IT Plaza 8th Floor, Dar-es-Salaam, Tanzania and an Arbitrator with the Tanzania Institute of Arbitration and Young International Arbitrators (YIAG)-London. For more articles please visit www.abccattorneys.co.tz or email the author at info@abccattorneys.co.tz or **0713055195**