

Charting a course beyond the pandemic for the East African property industry

By [Matthew Renshaw](#)

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East Africa has long been a challenging region for property developers to operate in, and not as buoyant as other markets. With Covid-19 triggering a recessionary environment, the property industry, always deeply affected by changes in the economy, is identifying areas of resilience and pockets of opportunity. As investors and developers step back, regroup and respond in innovative ways, the need for insight from local partners is more critical than ever.



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Perceptions, rather than reality, are often a strong driver of business decisions on the African continent, and they are often skewed. In an environment where regions and countries are being affected in different ways, you need to understand what's happening on the ground. In East Africa, we always see a strong resilience and will to thrive through challenging conditions that prevail, rather than just surviving. We believe that consistent international interest, continued investment flows and a stronger regulatory environment in countries including Kenya are positive indicators.

For construction projects underway, the impact of strongly regulated curfews has been felt across the industry. Estimates put construction cost increases at an average of 10% since lockdown measures were imposed, challenging the viability of projects should this continue. The labour force is less accessible, although wage bills remain the same for less productivity. There have been delays in availability of imported material, especially for electrical equipment, steel and interestingly concrete. Projects are progressing at a slower pace, based largely on local availability of materials, and we continue to assess the impact project by project.

Investors and clients are entirely re-evaluating the viability of projects in extreme cases based on widely-felt sectoral impacts – particularly in the retail, entertainment and hospitality sectors, which have been hit hard. Financiers are relooking at feasibilities and wanting them to be rerun in the middle of projects. We may see shifts in focus to accommodate changing demand, such as developments moving from commercial to being a mix of residential and commercial. We anticipate a lot of repurposing and re-evaluation of strategies in the next few months.

East Africa can remain a relatively strong hub with healthcare, logistics, warehousing, commercial and residential sectors showing some resilience. The need for investment in essential areas such as residential projects, healthcare facilities, data centres and other technology services is marked, and Covid-19 has further accelerated this need. Responsive changes in the commercial occupier space are coming to the fore. At the moment, we are seeing widespread caution across the industry, with investors and developers holding back for more certainty. However, the time will come to move forward and grasp the opportunities in key areas.

Office space

The team is seeing contrasting approaches from large global clients for the post-Covid world. Some clients believe that once the vaccination has been found, we will quickly go back to pre-Covid normality and businesses will still need large, group offices rather than remaining with remote working arrangements. A major factor still impacting on remote working possibilities in many African countries is reliable access to electricity and the internet.

On the other hand, many other tenants have realised that remote-working flexibility works well for both productivity and cost-saving and plan to have only a third of the workforce in the office at any time. There will be a need for smart, less open-plan design and hot-desking flexibility. There will be a focus on co-working spaces rather than businesses leasing large properties. Either way, offices and technology will need to support a strong need for management to be able to supervise, collaborate and engage in a range of formats.

Smart building technology will definitely be accelerated post-pandemic, including occupancy monitoring. Working spaces will also need to be easily disinfected and well-ventilated, even using antimicrobial substances in materials.

In an environment where demand is changing, repurposing of existing assets will become more prevalent. We are seeing an increase in commercial spaces being repurposed into residential in the South African environment, and this may be something we'll see in the other regions. New buildings in business hubs will need to be future-proofed for flexibility of purpose.

Healthcare

East Africa will need to catch up on the lack of healthcare facilities of acceptable quality. Covid-19 has been a shot across the bows for many countries and we may see healthcare now getting more of a focus. Africa's medical research capability has also grown tremendously and there is some interest in the medical supply industry as well. The need for both clinical spaces and pharmaceutical developments will increase.

Datacentres

Countries across the African continent now have to leapfrog when it comes to evolving technologies. We will continue to see rapid growth in data-hungry new technologies, including the accelerated roll-out of broadband, artificial intelligence, cloud, 5G and the internet of things (IoT). The ability to rapidly adapt and implement, as well as operate and secure business-critical data enables businesses to survive shocks to the economy, with the data centre at the core of this. There is a concentration of submarine cable landings in Mombasa and we are starting to see meaningful investment in connectivity in East Africa, one of the least-connected regions in the world.

Logistics and warehousing

E-commerce growth will continue in Africa, with the pandemic as a major catalyst, and world-class logistics hubs and warehousing will be needed to support this with consumers moving towards a no-touch model. We will see a greater need for fulfilment centres and sophisticated, centrally located warehousing. Logistics businesses will require more space for stock to be held.

Hospitality

Globally, sectors relying on social interaction, tourism and travel have been fundamentally affected by the pandemic and East Africa, with tourism contributing up to 10% of GDP in Kenya, is no exception. However, there are opportunities in the region. While Kenya has an oversupply of hospitality infrastructure, there is a shortage in Tanzania, especially in tourist and business hotspots. As activity resumes, even on a more limited basis, there may still be demand.

Thriving post Covid-19 requires a medium to longer-term strategy – opportunities such as working on how existing assets can be repurposed and seeing how distressed assets can be dealt with. Projects are starting again, and industry players must ensure they are strategically positioned. We don't know what the future normal is, but key areas may move quite quickly. The most agile businesses who can take advantage of evolving market opportunities will survive. Now is the time to find the opportunities, innovate and reinvent ourselves to face a new reality.

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