

Master Thesis



Maturity of the Property Market Dar es Salaam in context of the requirements of International Investors

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Submission Date: 31.03.2016

Term: Winter Term 2015/2016

Matriculation No: 1701152

Abstract

The commercial property market in Dar es Salaam is virtually unexplored. This research is designed to evaluate the maturity of this market for international investors. To achieve that, this thesis investigates whether the economy of the region indicates future demand for commercial space, compiles all relevant inputs to carry out a commercial property investment and vicariously matches the findings to the return requirements of possible investment vehicles. In order to fill up data missing in the literature, this research adds information sourced from interviews carried out on point with real estate professionals. Key findings include the existence of five different property submarkets, office rents charged up to \$24 in Oyster-Bay and that the information and financial sector in Dar es Salaam indicate clear future demand for office space. Additionally, one office property in the central business district was selected to carry out an exemplary investment that takes all taxes, costs associated and investor benefits into account. The total return on equity with a 30%-equity injection was found at 22% in a base scenario with conservative assumptions. This observed return fairly exceeds the requirements for opportunity funds and therefor indicate a risk-appropriate return. However, further research along the identified submarkets should be raised to substantiate the findings of this thesis.

Acknowledgment

This work has only been possible through the support and guidance of my friends in Tanzania and Germany, my family and scholars whom I dedicate the first page of this thesis. I would like to express my deepest gratitude to my supervisor Prof. Dr. Schulte for the adoption and assistance of this thesis, particularly since he is no longer an active professor. I was intensively supported by Dr. Moses Mpogole Kusiluka in Dar es Salaam, who spend a lot of time to make me understand the characteristics of the local property market and kindly introduced me to the interviewees. At that opportunity I would like to very warmly thank Mr. Hamad Abdallah, Dr. Fred Msemwa, Mr. Oscar Mgaya and Mr. Mathew Nhonge for the exciting and insightful interviews. To most of the interviews I was accompanied by my friend Malisa Elisonguo, who often got up early in the morning to be with me in the city centre on time. I cannot put into words how grateful I am to be in touch with the Kanafunzi family in Mbezi Louis who hosted me for five weeks. Thank you John Herman Kanafunzi for letting me stay in your house and all the hours of philosophical discussions with you. Without the delicious wali maharage of Bupe John Kanafunzi I would not have been able to make it through the day and without Neema and Melitta Kanafunzi days and evenings would not have been that cheerful. Last but not least my brother Amana John Kanafunzi, who guided me all day and night through the city, you made me survive. I also want to especially thank Rebecca Milamo from NHC who assisted me so patiently with her knowledge. Without the support of Fred Kusekwa, who sent me the needed data quickly, this thesis would no have reached the extent! Also, thanks to my mother Jana Franke, my girlfriend Katharina Daun and my best friend Christian Laatsch, you always backed my vision and dream of returning to Dar es Salaam. There are so many other people which I would like to thank, on behalf of all people mentioned above:

Asante sana!

Vielen Dank!

„ Dar es Salaam cannot be compared to any other city... “

Mathew Nhonge
Assistant Commissioner of Lands, Tanzania

The exchange rate applied in this Study is:

US\$ 1.00 = Tshs. 2,200

(as of March 2016)

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List of Abbreviations

BOT	Bank of Tanzania
BRT	Bus Rapid Transit
CEO	Chief Executive Officer
CAHF	Center for Affordable Housing Africa
CBD	Central Business District
CMSA	Capital Market Security Agency
DSM	Dar es Salaam
DSE	Dar es Salaam Stock Exchange
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
JLL	Jones Lang LaSalle
IRR	Internal Rate of Return
LQ	Location Quotient
MLHHS	Ministry of Lands, Housing and Human Settlement
NHIF	National Health Insurance Fund
NPV	Net Present Value
NSSF	National Social Security Fund
NIPPA	National Investment Promotion and Protection Act
ROE	Return on Equity
ROB	Registrar of Building
ROI	Return on Investment
PPF	Parastatal Pensions Fund
PSPF	Public Service Pensions Fund
SADC	Southern African Development Community
SWOT	Strengths, Weaknesses, Opportunities and Threats Analysis
TBA	Tanzania Buildings Association
THB	Tanzanian Housing Bank

TMRC	Tanzania Mortgage Refinance Company
TShs	Tanzanian Shillings
TIC	Tanzania Investment Centre
TRA	Tanzania Revenue Authority
TR	Total Return
UN	United Nations
VAT	Value-Added Tax
WHC	Watumishi Housing Company

List of Symbols

Symbol	Name of Symbol	Dimension
b	basis points	percentage-points
E_r	Expected return	percentage
E_t	Value of the equity at the time t	US-Dollar
GDP_{TZ}	Gross domestic product of Tanzania	US-Dollar
GDP_{DSM}	Gross domestic product of Dar es Salaam	US-Dollar
m^2	square meter	meter
n	Duration of the investment	years
N	Total national employment in all industries	population
N_{mi}	Employment in city m in industry i	population
N_m	Total employment in city m in all industries	population
NR_{DSM}	Non-residential buildings in Tanzania	US-Dollar
NR_{TZ}	Non-residential buildings in Dar es Salaam	US-Dollar
N_i	National employment in industry i	population
PV_t	Value of the property at the end of time t	US-Dollar
ROE_t	Return on equity at the time t	percentage
R_p	Risk premium	percentage
t	time index number, with $t=1, \dots, n$	years
TR_P	Total return on the property level	percentage
TR_E	Total return on the enterprise level	percentage

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1 Introduction

Africa covers one-fifth of all land area on earth and is bigger than the USA, China, India, Japan and Europe combined. The continent consists of 55 independent states which are all very different and hence should not be considered as one area nor as one property market.¹ One of these countries is Tanzania, which is economically governed by the commercial hub Dar es Salaam. The recognition of this region as a property market by international investors was low in recent years, most of investments were allocated to South Africa. The reason for that is mainly found in the maturity of the market, which is by global standards considered to be opaque.² Accordingly, the property market is yet not even rated by the Jones Lang LaSalle Transparency Index, making it highly complicated for interested parties to put themselves into the market. An absence of a property databank in Tanzania goes along with most of transactions being unrecorded, while much of the countries region is not even surveyed.³ However, this is going to change! A series of actions are currently implemented to significantly increase the transparency of the property market Dar es Salaam.⁴ Favored by a revival of the capital market, sustainable economic growth, a continuous improvement of the infrastructure, a growing middle class, a stable environment with a peaceful culture and local professionals ready to partner up will change investors perception towards the region soon. Pablo Picasso once said: *“Action is fundamental key to all success”*

Accordingly, this thesis takes action through an approach to evaluate the city specific determinants relevant for the real estate business, analyzes interviews conducted with professionals directly on the spot and performs an exemplary investment on an actually existing commercial property in the cities central business district. Assumed, this thesis would reflect the actual investment of a real investor. Would that investment be a pioneering and sustainable success?

¹ See Schulte/Rothenberger (2011).

² See Knight Frank (2015), p. 5.

³ See Kongela (2013), p. 212.

⁴ For example through the establishment of the Real Estate Authority and two credit bureaus.

1.1 Statement of the Problem

The economy of Dar es Salaam is growing fast and sustainably while the cities population increases rapidly. This development has an impact of the local commercial property market. Kongela (2013) for example carried out a Strengths, Weaknesses, Opportunities and Threats Analysis (SWOT) of the Tanzanian real estate sector and identified among others lack of transparency which is caused by many factors as the main weaknesses of the sector.⁵ From this lack of transparency, a lack of data arises which does not allow derivation of commercial property relevant determinants such as supply of space or vacancy rates. Kusiluka (2012) further identified a common practice by local real estate professionals, who mainly use the Return on Investment Method (ROI) as a common return indicator which can be only insufficiently used as a benchmark for real estate performance.⁶ This lack of data in the literature makes it impossible to assess the maturity of the commercial property market in Dar es Salaam. Data provided by local professionals cannot be used to match the returns achieved to the required return of international investment vehicles, hence leaves a gap for this particular research.

1.2 Main Objective

The main objective of this study is to examine the maturity of the property market in Dar es Salaam for international investors.

1.2.1 Specific Objectives

- i. to introduce all relevant inputs for a commercial property investment.
- ii. to indicate demand for commercial properties in Dar es Salaam.
- iii. to match the net return of a CBD's commercial property with the requirements of international investors.

⁵ See Kongela (2013), p. 212.

⁶ See Kusiluka (2012), p. 121.

1.2.2 Research Questions

- i. Which economical sectors in Dar es Salaam indicate demand for commercial space?
- ii. In which segments is the property-market Dar es Salaam geographically divided?
- iii. What are the inputs for a commercial property investment in Dar es Salaam?
- iv. Does the achieved return matches the required return of international investors?

1.3 Significance of the Study

Scientists receive a comprehensive analysis of the property market in Dar es Salaam. The study draws on existing data from the literature and adds latest findings together for the purpose of this paper. The performed location- and market analysis offers a comprehensive summary and analysis of the prevailing conditions. Furthermore, four interviews conducted with professionals in Dar es Salaam add research data the literature and offer a base for further investigations.

Potential investors will receive a first comprehensive location and market analysis of the property market Dar es Salaam. All relevant inputs for a property investment based on previous literature and institutional documents are derived. At the end of the paper a detailed microanalysis of an actual property within the CBD is performed to indicate the profitability of an investment in the submarket and offer an insight in the market. The importance of this investigation can be detected since plenty of reports call for an investment in the Tanzanian property market⁷ while local professionals have a very positive attitude towards foreign investors and welcome them to partner up.⁸

⁷ See PWC (2015), p. 11., Centre for Affordable Housing Finance in Africa (2015), p. 3.

⁸ See Interview from the 13th October 2015 with Mr. Hamad Abdallah (NHC), Appendix XII: p. 88, TanzaniaInvest 15th December 2015, Interview from the 19th of October 2015 with Mr. Oscar P. Mgaya (TMRC), Appendix XV: p. 114.

1.4 Research Methodology

This section of the paper presents an overview of the applied type of investigation. It also represents the origin of the applied data and shows how information were used to pursue the main objective of the thesis.

1.4.1 Research Design

This thesis is designed to compile all relevant information to perform an investment analysis in the region Dar es Salaam. The technique combines the location, market, property and rental analysis.⁹ The results are summarized and analyzed in a manner, that the demand for commercial properties can be indicated and inputs to carry out a profitability analysis accurately derived. The profitability analysis is performed on a property and enterprise level, whereby the latter ones total return (TR) will be used to vicariously match the requirements of international investors.

Consequently, the thesis is categorically ordered as followed:

Chapter one introduces the scientific problem, declares the methodology chosen to perform the research and discusses the literature.

Chapter two performs a location analysis including a geographical, population, spatial and economical investigation of the region Dar es Salaam. The aim of this chapter is to indicate whether demand for commercial property space exists or not.

Chapter three analyzes the property-specific characteristics of the commercial-property market in Dar es Salaam. The chapter is designed to separate the whole property market into submarkets and represent the current rents payed.

Chapter four covers aspects which are governed by national circumstances and affect specifically a commercial-property investment in Tanzania for an international investor. Additionally, the introduced conditions are compared to the findings of the latest Global Competitiveness Report 2015 to suggest whether Tanzania offers a competitive advantage in the particular field or not.

⁹ See Våth/Hohberg (2005), p. 363.

Chapter five makes use of the data sourced from chapter two to four and performs a micro-investment analysis of an actual existing property in the CBD of Dar es Salaam. The results are vicariously used to match the return-requirements of international investors and answer the guiding research question.

Chapter six concludes the thesis, answers the research questions, provides an outlook and introduces the field for further investigations.

1.4.2 Data Sources

The study uses both primary data as well as secondary data. The primary data was conducted by carrying out in-depth qualitative interviews with real estate professionals personally in Dar es Salaam in October 2015. The secondary data was collected using scientific research mainly from the **IRE|BS** Foundation for African Real Estate Research, real estate reports, annual reports, reference books, textbooks, and other relevant sources. Further, unpublished information provided by the National Housing Cooperation (NHC) and Mr. Elisonguo from the Ardhi University in Dar es Salaam are applied.

1.4.3 Data Processing, Analysis and Presentation

The interviews conducted are designed as explorative expert interviews, aligned to gather data for the construction of scientific theory. Consequently, the questions are usually placed in a manner that encouraged the interviewees to answer comprehensively and unconditionally. The transcribing technique of the interviews is kept simple as suggested by Dresing/Pehl (2013).¹⁰ Word and sentence terminations are smoothed accordingly and understanding signals such as stutter or delay sounds are not captured. Incomprehensible parts are marked as „not understandable“ and the sentence structure is maintained even if it contains syntax errors. If the interviewee emphasized a part of the interview particularly through his pronunciation, the constituent of the sentence is written in capital letters while three dots in a row indicate a longer break. The chosen technique is justified both with the value of information rather than pronunciation as well as a faster accessibility of the data. The interviews are entirely added to

¹⁰ See Dresing/Pehl (2013), pp. 21-22.

the appendix for further research. The conversion of the transcribed conversations in scientific data is done through paraphrasing information and identifying thematic comparisons as proposed by Meuser/Nagel (1991).¹¹ Additionally, single expert comments are cited, if the individual statements comprises facts which are not yet recorded in the literature available.

1.4.4 Scope of the Study

This paper investigates the maturity of the commercial property market in Dar es Salaam. In other words, it focuses primary on the existing office and retail commercial properties within a certain area of the region. The performed location analysis is designed to derive demand for those properties, hence excludes data not relevant for that purpose. Areas of Dar es Salaam other than identified to be a commercial submarkets are not covered.

1.5 Literature Review

The property market in Tanzania is still quite young and heavily influenced by multiple transformations in recent years since the countries independence. The market is dominated by a few participants, mostly parastatals and pension funds and can characterized by information asymmetries which leads in combination with other factors such as the salary level of employees to a great variety of agency conflicts. Furthermore, local knowledge and expertise in the field of real estate is low, which is accompanied by an infant stage of corporate governance institutions.¹² The lack of transparency is strongly correlated to the absence of both land- and property data bank and the shortage of surveyed land. The countries economic development is decelerated by the infant stage of the capital markets, insufficient infrastructure, corruption and bureaucracy. On the other hand the country benefits from its perceived friendly culture, the political stability, the continuous improvement of the institutional framework such as the establishment of the Tanzania Investment Centre (TIC), the enactment of laws for a conducive real estate environment and a sustainably growing

¹¹ See Meuser/ Nagel (1991), pp. 456-466.

¹² See Kusiluka (2012)

economy with a young population combined with a low salary level.¹³ The conditions for a property investment are very bright in one of the wards of Dar es Salaam. Kariakoo rewards investors in multi-storey properties in certain types of contracts with a full occupancy rate and an IRR >25%. Admittedly, properties are often found to be built on unsurveyed plots while the quality of properties can be described due to the nature of the underlying contract as poor and unsustainable.¹⁴ The literature available draws a comprehensive framework on the forces that affect and characterize the real estate environment in Tanzania. A study that focuses on the commercial-property market in Dar es Salaam and examines the underlying factors that shape demand for commercial properties does not exist to date.

¹³ See Kongela (2013)

¹⁴ See Elisonguo (2015)

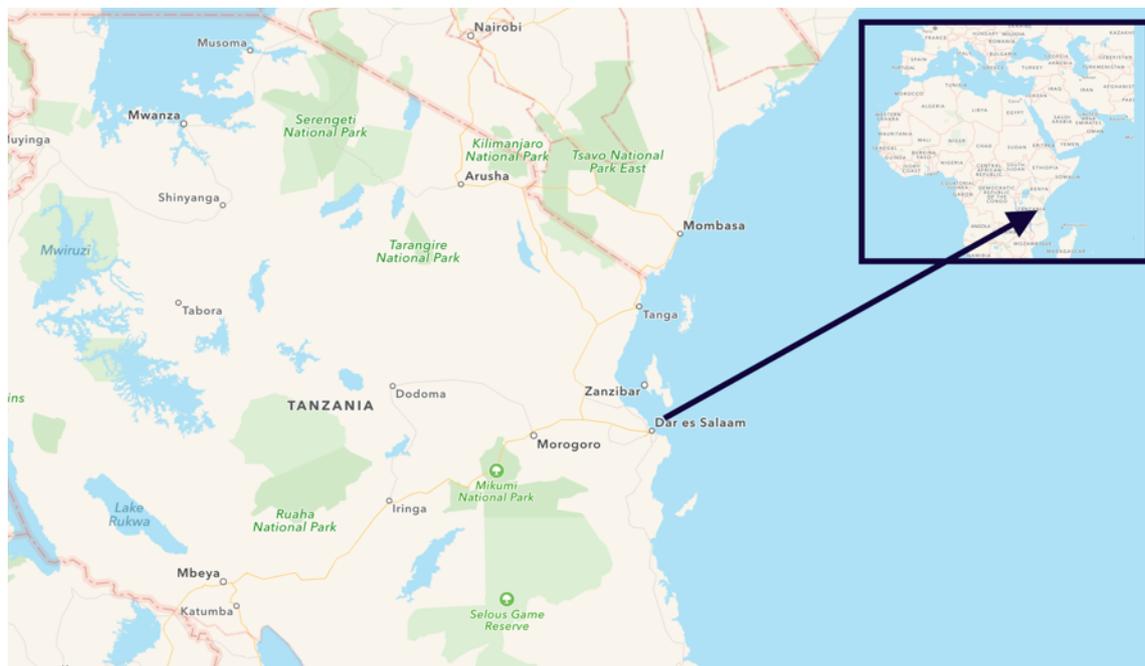
2 Location Analysis

The following chapter performs a location analysis of the region Dar es Salaam. The chapter is structured logically in a way, that the main socio-demographical development and economical forces are presented and analyzed thereafter. The results have a major influence on the main-demand drivers of commercial properties. In the case of office space, it is necessary to examine the employment in office-related sectors while retail demand is mainly driven by disposable income, aggregate-household wealth and the traffic volume.¹⁵ In order to project the most accurate picture of future growth for commercial properties in Dar es Salaam, the last section will combine the findings of the export base of the region with the recent sector specific GDP growth in context of the National Vision 2025, which is the major guidance of the country.

2.1 Geographic and Administrative Regions

Dar es Salaam is nowadays the largest and richest city in Tanzania as well as the economic center of the country.

Figure 1 - Location of Dar es Salaam

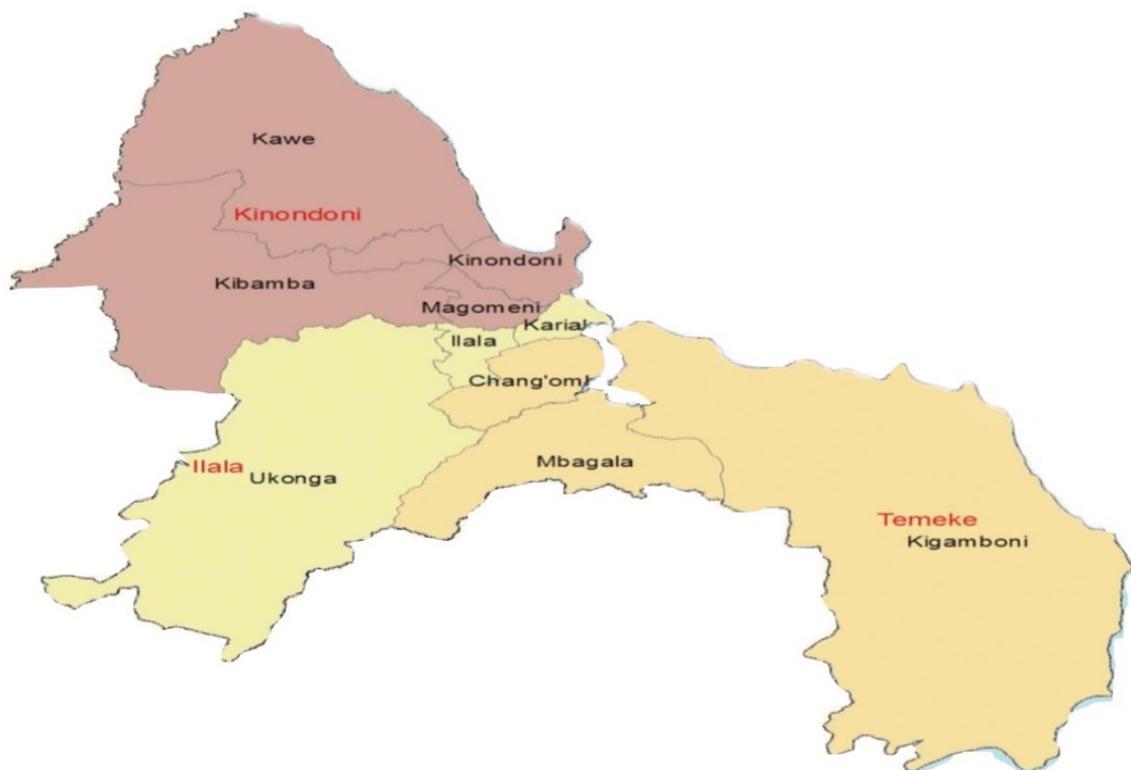


Source: Own illustration, Data sourced from Apple Maps

¹⁵ See Geltner et. al. (2007), p. 112.

The roots of the city date back to the year 1862, when Seyyid Majid Sultan of Zanzibar founded the city. Until 1973 the city was formally known as Mzizima while one year later in 1974, the city lost its capital status to Dodoma, even though still many governmental institutions such as the State House, various ministries and most of foreign embassies are still located in the region.¹⁶ On a national level, Dar es Salaam is one out of 30 administrative regions. The region is located south to the Equator, with a coast to the Indian Ocean in the East and a total land surface of 1,393 km² which is equivalent to approximately 0.16% of the Tanzania's total land area.¹⁷ Due to its location, the climate is tropical and the humidity dry. The temperature averages 29 degree, with peaks of 35 degree. Two rain seasons occur during the year, which usually take place from March to April and October to December.¹⁸

Figure 2 - Administrative Districts of Dar es Salaam



Source: Adapted from: National Bureau of Statistics / Regional Commissioner's Office Dar es Salaam (2014) : Dar es Salaam Region, Socio-Economic Profile, p. 2.

¹⁶ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 4.

¹⁷ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 2.

¹⁸ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 4-5.

Dar es Salaam is surrounded by the Pwani region which in turn borders to the regions of Tanga in the North, Morogoro in the East and Lindi to the South. Dar es Salaam is divided into four governmental authorities and three administrative districts namely Kinondoni, Ilala and Temeke.¹⁹ The biggest area in terms of total land is Temeke consisting of 684 km², followed by Kinondoni with 501 km² while Ilala is the smallest covering 208 km².²⁰

2.2 Population

The population of Dar es Salaam has grown from approx. 2.5 million in the year 2002 to approx. 4.4 million in 2012, resulting in an average growth rate of 5.6% per annum and a total growth of 75.5% within the last ten years.²¹ By the year 2025 the population of Dar es Salaam is expected to reach 6.2 million, which computes to a total growth rate of 85.2%, making Dar es Salaam the fastest growing city in Africa.²² The reason behind this growth is an influx of the countries youth. The young people migrate from the rural areas of Tanzania to the big cities, mainly Dar es Salaam, driven by the prospective of a better life. By the year 2012, the average household size was recorded at four citizen per household, which is slightly lower than the national average at 4.8.²³ The large part Dar es Salaam's population originates from different tribes all over the country accompanied by a minority share of residents from India, the Arab states and Europe.²⁴ Approx. 67% of the regions population is younger then 29, out of which 38% is below 17 years.²⁵ The education system in Dar es Salaam is divided into four major groups, namely: pre-primary, primary, secondary and tertiary education.²⁶ In the Declaration of Intent: Vision 2025, the Government of Tanzania stated comprehensive education on all levels as a state priority.²⁷ Currently the country suffers a shortage of qualified labour at the

¹⁹ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 1.

²⁰ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 4.

²¹ See National Bureau of Statistics/Ministry of Finance (2013), p. 2.

²² See African Development Bank (2014), p. 9.

²³ See National Bureau of Statistics/Ministry of Finance (2014), p. 9.

²⁴ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 12.

²⁵ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 25.

²⁶ See National Bureau of Statistics/Ministry of Finance (2014), p. 117.

²⁷ Planing Commission (1999), p. 7.

vocational and managerial level.²⁸ 62% of the population of the Region possesses only primary education, while 24% of citizens have completed post primary education, the remaining part portion had no education or adult education.²⁹

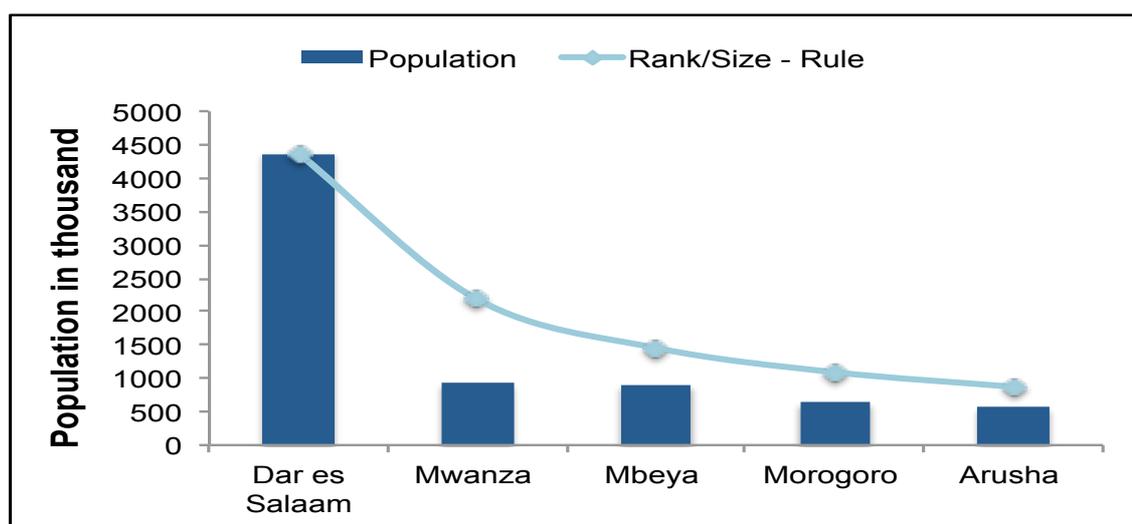
2.2.1 Comparative Overview of the Cities in Tanzania

A basic urban economy technique to set a ratio of cities within an of coherent area is the Rank/Size - Rule. The Rank of the city is fixed due to the population size compared to the biggest city observed.

$$\text{City population} = \frac{\text{Largest city's population}}{\text{Rank of city}}$$

In the presentation below, the line indicates the rule-compliant population of the particular city whereas bars represent the actual population size.

Figure 3 - Rank / Size - Rule in Tanzania



Source: Own illustration, Data sourced from: National Bureau of Statistics / Ministry of Finance (2014) p. 4.³⁰

²⁸ International Monetary Fund (2009), p. 67.

²⁹ See National Bureau of Statistics/Ministry of Finance (2014) p. 37.

³⁰ See Appendix I: Rank / Size - Rule

It is evident that Tanzania does not follow the rule since Dar es Salaam has approx. a-five times higher population than the second biggest city Mwanza. This leads to the conclusion of Dar es Salaam being an obvious primate city. In theory, a primate city attracts various business and services such as international trade and shapes the country to a centralized structure. On the other hand the region may suffer through the high immigration. If the cities infrastructure and employment capacity cannot effectively absorb the new citizens, the unemployment rate is likely to grow parallel to the crime and unemployment rate and result in overcrowded districts and a soiled environment. Some of those detriments such as the overcrowded districts and the soiled environment have already affected Dar es Salaam. The recent population growth results to a population density of 3,111 people per km² which is approx. 60 times higher than the national average of 51 people per km².³¹ Further, the current solid waste management of the region can only handle 59% of the daily 4,252 tonnes waste which results in a heavily polluted environment.³² Based on the latest National Panel Survey Report, Dar es Salaam had an unemployment rate of 13.7% and a Labour force participation rate of 72.1% in 2011.³³

2.2.2 Population Distribution and Movement

Out of the approx. 4.4 million regions citizens, the approximately distribution within the districts and growth between 2002 and 2012 is 1.7 million in Kinondoni (+40.7%), 1.4 million in Temeke (+31.4%) and 1.2 million in Ilala (+27.9%).³⁴ Official statistics suggest an identical distribution within the districts. Accordingly, the population has grown in all three districts equally between the two census undertaken in 2002 and 2012 within a corridor of 4.6% to 5.6% per year.³⁵ Administratively these districts are almost equally subdivided further into 90 wards with an average size of 15.5 km². Agergaard (2013) identified quite a lot of variation among the wards in terms of population change.³⁶

³¹ See National Bureau of Statistics/Ministry of Finance (2013), p. 6.

³² See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014) p. 6.

³³ See National Bureau of Statistics/Ministry of Finance (2012), p. 15.

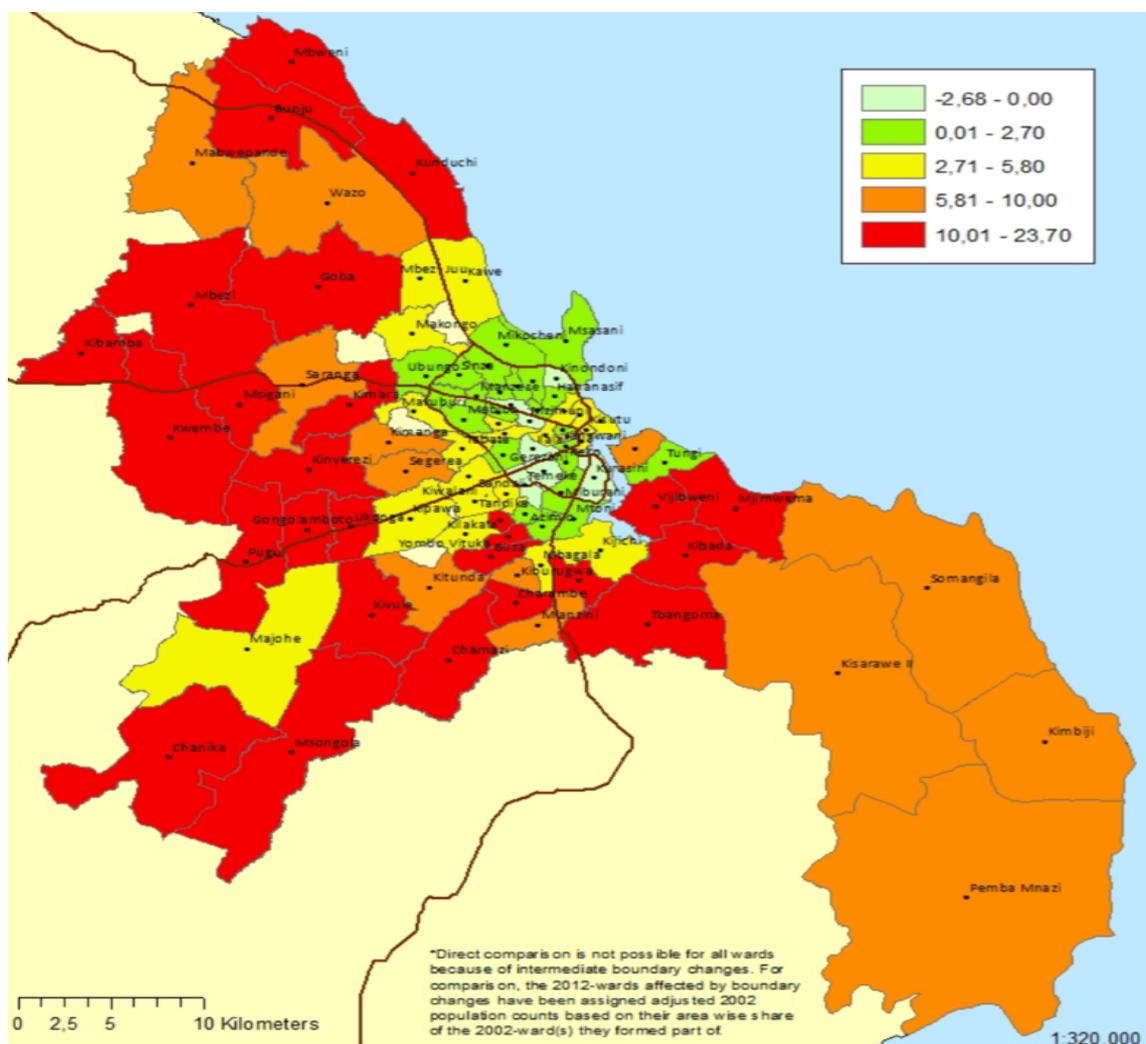
³⁴ See National Bureau of Statistics/Ministry of Finance (2014), p. 17.

³⁵ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 17.

³⁶ Agergaard (2013), pp. 11-22.

It was observed that 39 out of 90 wards grew faster than the cities average of 5.6%. Those wards received approx. 1.4 million new citizen which corresponds to 73% of the total increase between 2002 and 2012. Further, the study shows that 75% of the growth took place more than ten kilometers away to the city centre. Only 2% of the population growth happened in a five-kilometer radius of the city centre. Within that time, the population within the city centre has grown from 382,541 to 428,741 which accounts a for 10%-share of the regions total population.

Figure 4 - The Population Growth within the Administrative Wards



Source: Agergaard, J.(2013), *Population Growth and Spatial Expansion of Dar es Salaam*, page. 14.

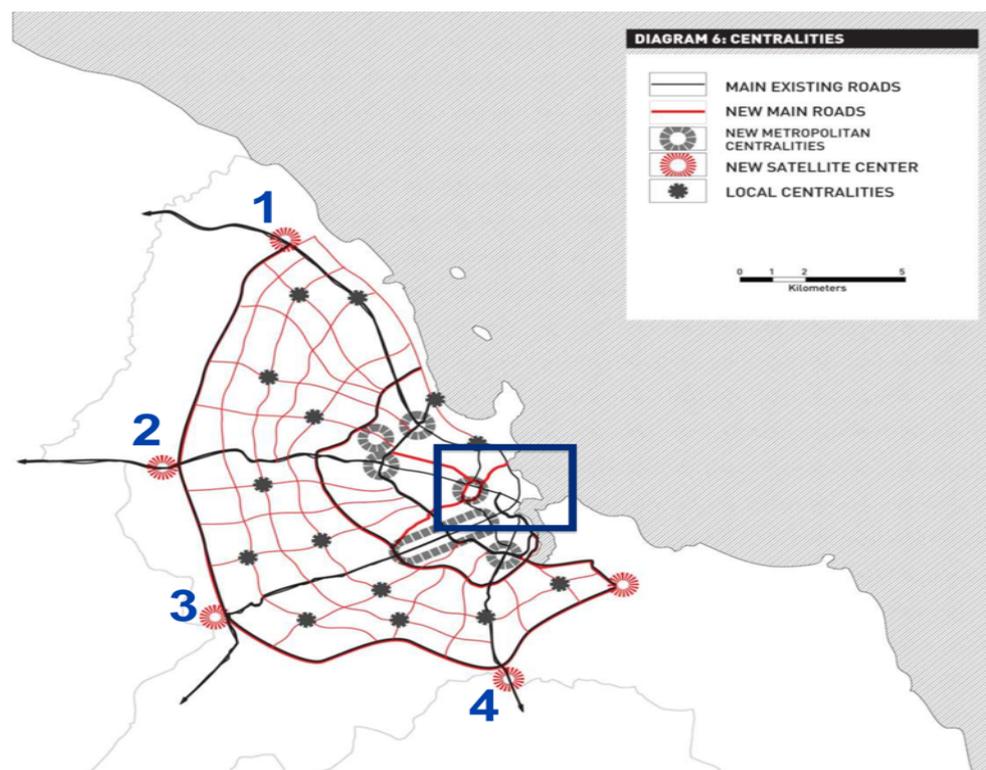
The illustrations shows that the annual immigration to the CBD between 2002 and 2012 was in the range from 0% to 5.8%. The districts Kinondoni in the

North and Ilala to the East show the highest-growth rates with up to 23.7% annually.

2.3 Masterplan 2032

In order to implement the National Vision 2025, the Ministry of Lands, Housing and Human Settlement Development (MLHSD) has developed the guiding Masterplan 2032 for the region Dar es Salaam. On the path of becoming a national economic center, which attracts both business and investments, the ministry has suggested a large-scale infrastructure improvement whose implementation has already started.³⁷

Figure 5 - Masterplan: Dar es Salaam 2032



Source: Adapted from: Ministry of Lands, Housing and Human Settlements Development (2013), p. 23.

The blue line indicates the CBD-Area. The black marked roads already exist and are the main supply roads in Dar es Salaam nowadays. All four existing

³⁷ See Ministry of Lands, Housing and Human Settlements Development (2013), p. 11.

main roads are supposed to flow towards a satellite city and are currently subject to a bus-rapid transit (BRT) implementation project. The project's aim is to ensure a flowing and orderly traffic in the region through the provision of a mass-transit bus system which uses privileged- and exclusive lines on the provided roads. This system will replace the old "Dala - Dala" public buses, which are usually in the morning and night overcrowded and run without any schedule.³⁸ However, the four main roads presented on the map are named accordingly to their final destination. Correspondingly, Bagamoyo Road (1) directs to the North, Morogoro Road (2) to the East, Nyerere Road (3) to the Nyerere International Airport and Kilwa Road (4) to the South of the Country. So far, Morogoro Roads BRT upgrade was performed, the remaining roads are currently under preparation.³⁹

2.4 Tanzanian Economy

Tanzania went through a comprehensive transformation in the last 60 years which has been widely discussed in the literature.⁴⁰ In a nutshell, three stages occurred in the transformation from a socialism economy to a market economy. The first happened between 1970-1985 and was based on the Ujamaa Socialism going along with an economic decline. Between 1986 and 1995 the country went through a broad liberalization process regarding exchange and trade regimes, agriculture and others. The most recent stage was observed between 1996 and 2006 and mainly shaped through structural reforms and stabilization of the macroeconomic environment. During the last period most of the parastatal institutions were reformed, accompanied by a liberalization of the financial sector and the establishment of a market-oriented regulatory framework.⁴¹ Kusiluka (2012) identified the shift towards socialism and the associated state control as one of the most incisive events for the Tanzanian real estate environment. It is argued that the nationalization of urban property motivated most of foreign investors to leave the country with which the property market came under control of inefficient governmental institutions.⁴²

³⁸ See African Development Bank (2015), p. 3.

³⁹ See African Development Bank (2015), p. 4.

⁴⁰ See International Monetary Fund (2009), p. 4.

⁴¹ See International Monetary Fund (2009), p. 4.

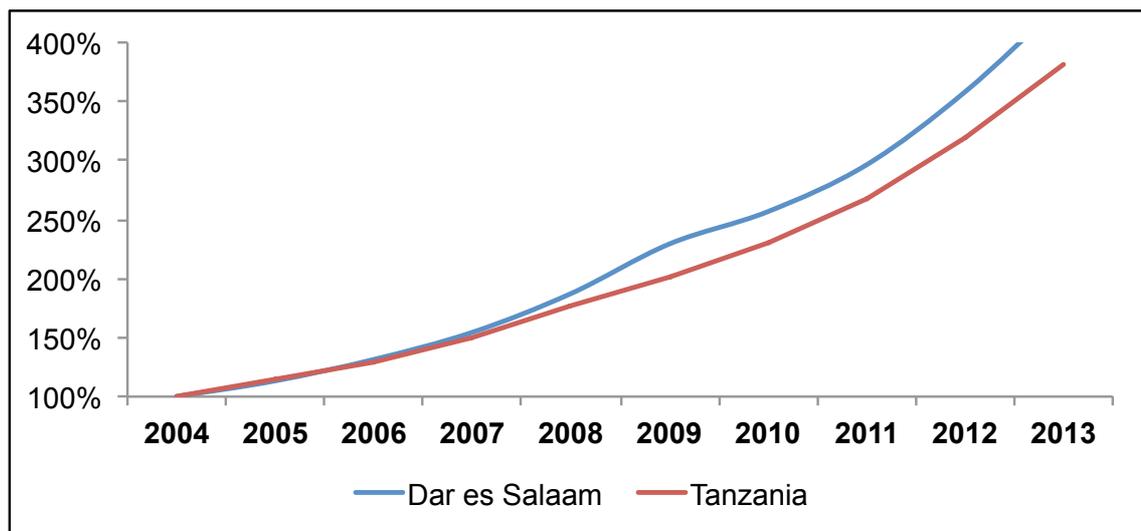
⁴² See Kusiluka (2012), pp. 118-119.

However, the Tanzanian economy is still heavily depended on foreign assistance such as loans, grants and debt relief which is given under the Heavily Indebted Poor Countries Initiative granted by the International Monetary Fund (IMF) and the World Bank.⁴³ Along with the continuously growth of the GDP, Tanzania achieved a competitive advantage which presents itself through a comparatively low-public debt to Gross Domestic Product (GDP) ratio.⁴⁴

2.4.1 Dar es Salaams Economy

Within Tanzania, Dar es Salaam is the most industrialized area and the countries largest commercial center.⁴⁵ Approximately 2.9 million people are either formally or informally employed in the region.⁴⁶

Figure 6 - Accumulated GDP Growth of Dar es Salaam and Tanzania



Source: Own illustration, Data sourced from: National Bureau of Statistics/Ministry of Finance (2014) p. 11 and p. 40.⁴⁷

⁴³ See International Monetary Fund (2009), p. 53.

⁴⁴ See World Economic Forum (2015), p. 342.

⁴⁵ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 28.

⁴⁶ See National Bureau of Statistics / Ministry of Finance (2014), p. 107.

⁴⁷ See Appendix II: GDP Index Dar es Salaam / Tanzania

The diagram indicates a slightly faster GDP growth in Dar es Salaam compared to the national GDP. The GDP at current prices in Dar es Salaam in 2013 is estimated at approx. \$4.2 billion⁴⁸ compared to the national GDP approx. \$24 billion. The factors driving the economic growth on a national level has been identified between the year 2001 and 2008 as following. Out of an average GDP growth of 7.1%, the biggest share was contributed by the total factor productivity starring 3.5%, following capital contribution by 1.9% and a labor force contribution of 1.7%.⁴⁹ A previous study which applies the economic assumptions based of the National Vision 2025 suggests that on top of that, Dar es Salaams GDP growth will outperform the national GDP due to its dominance of the tertiary industry. The resulting assumptions leads to a forecast as follows: 2015-2020 by 6.7%, 2020-2025 by 6.4%, and 2025-2030 by 6.1%.⁵⁰ Following these assumptions, the GDP of Dar es Salaam will increase 2.5 times, resulting in an approximate GDP of \$10.6 billion by 2030.⁵¹

2.4.2 Disposable Income

The disposable income of citizens in a certain area is the key indicator for the demand for retail properties. The following subsection will accordingly investigate the purchasing power of the Dar es Salaams citizen. In order to understand the retail demand, is necessary to understand the habits of the regions citizens. The majority is used to buy their everyday items and food by street vendors. Those small businesses are located wherever demand exists, such as close to all places of work, schools, markets and transit points.⁵² This habit is backed by a common misperception of all goods being higher priced in shopping malls compared to the street vendors. It will take time for the majority of citizens to get familiar with retail facilities.⁵³

In theory, the per-capita ratio is seen as an indicator for the income of the citizens. This ratio is calculated through dividing the GDP by the population of the area.

⁴⁸ See National Bureau of Statistics / Ministry of Finance (2014b), p. 40.

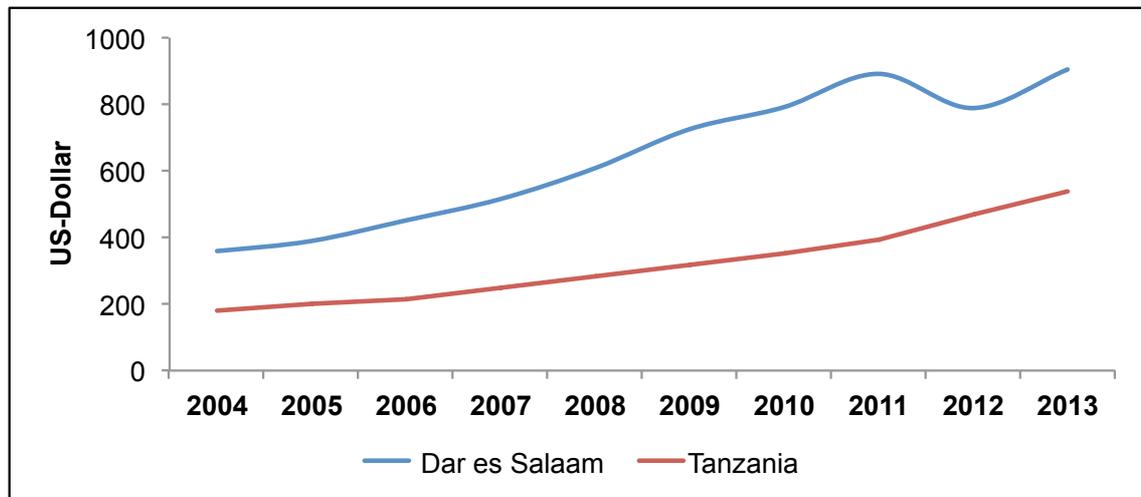
⁴⁹ See International Monetary Fund (2009), p. 58.

⁵⁰ See Japan International Cooperation Agency (2008), p. 2.

⁵¹ Own calculation

⁵² See Bumarwa (2009), p. 9-10.

⁵³ See Interview from the 13th October 2015 with Mr.Hamad Abdallah , Appendix XII: p. 82.

Figure 7 - Per Capita Income in Dar es Salaam and Tanzania

Source: Own illustration, Data sourced National Bureau of Statistics/Ministry of Finance (2014) p. 11. and p. 42.

The diagram above evidentially shows a higher per-capita income at current market prices in Dar es Salaam compared to Tanzania, assuming income is distributed equally. In fact, the income earned in Dar es Salaam is reasonable equally distributed as indicated by a gini-coefficient of 0.32.⁵⁴ However, the income earned by Dar es Salaam's citizen is low and on average currently 100 economical active citizens have to support 51 dependents.⁵⁵ The World Bank categorizes an economy as low income if the per capita income is below \$1,045, which is currently the case of Dar es Salaam. A recent study which focuses on the region, identified a medium net average salary per hour among formal and informal employees in 2012 of 550 TShs which equals \$0.25.⁵⁶ Current minimum wages per hour ranges between 500 TShs (\$0,23) for employees in the agriculture sector and 2,100 TShs (\$0,95) among others in the telecommunication sector.⁵⁷

Accordingly, the supply of food is still a threat in the region.⁵⁸ The per-capita income indicates the growth of the theoretical income of an average citizen but does certainly not indicate a trend for retail stores. To illustrate, the following

⁵⁴ See National Bureau of Statistics/Ministry of Finance (2012), p. 6.

⁵⁵ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 22.

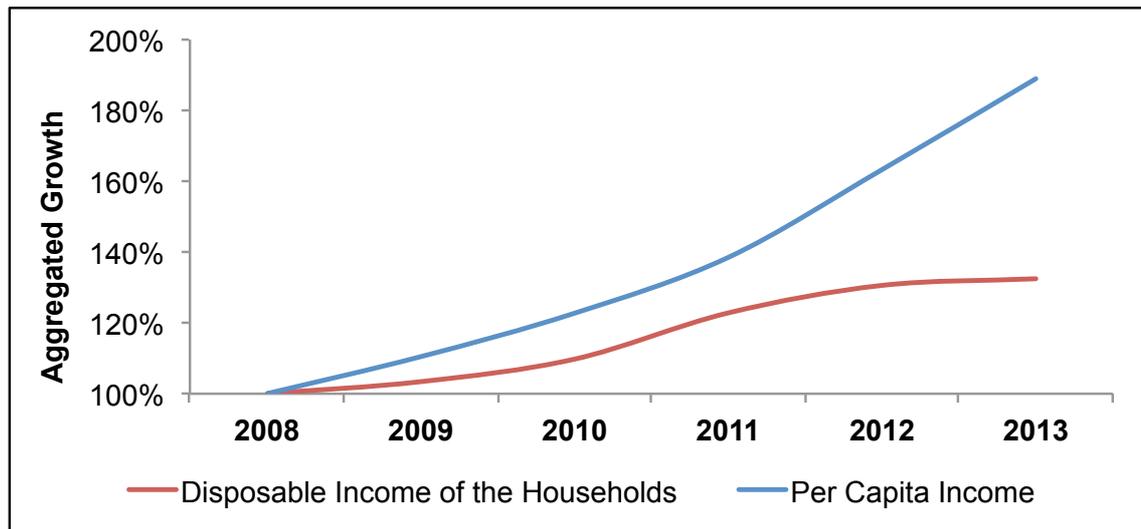
⁵⁶ See Tijdens/Kahyarara (2012), p. 9.

⁵⁷ Ministry of Labour and Employment (2013), p. 1.

⁵⁸ See National Bureau of Statistics/Ministry of Finance (2014), p. 14.

diagram compares the per-capita income to the disposable income in current prizes of citizens on the mainland. Data for Dar es Salaam is not available and may hence only suggest the development in the region.

Figure 8 - Disposable Income in Context to the Per Capita Income



Source: Own illustration, Data sourced from: See National Bureau of Statistics/Ministry of Finance (2014) p. 11. and Bank of Tanzania (2014) p. 9.⁵⁹

The graph clearly shows how the per-capita income significantly drifts apart of the disposable income. Both lines show the development in constant prices hence exclude inflationary development. The reasons for the drift may be of different nature, but it is clear that the economic growth does not yet increase the disposable income at the same pace. This development leads to different consequences, Kusiluka (2012) for example identified low salaries within the Tanzanian real estate industry to be the main reason for undesirable behavior.⁶⁰ The study furthermore reveals that employees in the real estate sector were not payed index-adjusted and in most cases employees cannot afford most of the basic needs such as a decent accommodation or access to medical services. Another study demonstrates the food-associated poverty in Dar es Salaam by 7.4%, while currently 16.4% of citizens in the region cannot satisfy basic needs. Those numbers have not significantly changed since 2000.⁶¹ Furthermore, the

⁵⁹ See Appendix III: Disposable Income / Per Capita in Tanzania

⁶⁰ See Kusiluka (2012), p. 150.

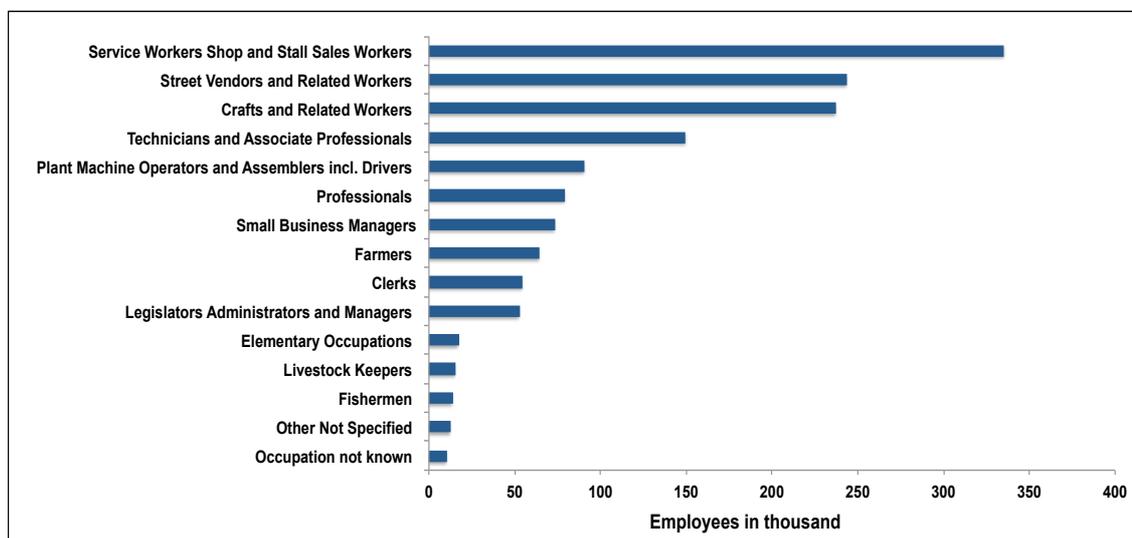
⁶¹ See International Monetary Fund (2011), p. 5.

development has strong impacts on the residential-housing sector, where the cheapest house built by a formal constructor in the country costs \$14,820 which can be currently afforded by 0.7% of the urban population with the prevailing mortgage rates.⁶² The government has recognized the importance of poverty reduction along the Vision 2025, where MKUKUTA II currently pushes fight against poverty.

2.4.3 Economic Base

So far, the chapter has covered the performance of Dar es Salaam's GDP compared to the national benchmark. While the measurement compares the aggregated overall performance, it does not take into account the city-specific industry development. In order to determine the detailed employment in Dar es Salaam, the following diagram shows the leading occupations of the regions employed citizens.

Figure 9 - Occupation of Dar es Salaams Employed Citizens in 2012



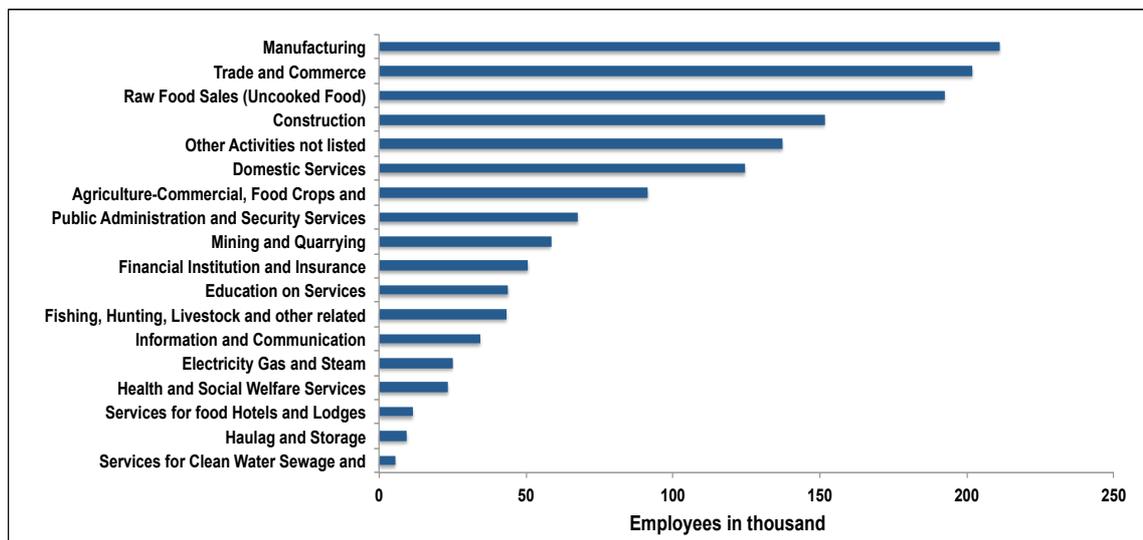
Source: Own illustration, Data sourced from: National Bureau of Statistics / Ministry of Finance (2014) p. 107.

The diagram illustrates that four-occupation groups lead in Dar es Salaam. Service-workers shops and sales workers provide employment for approx. 330,000 citizen, followed by street vendors and related workers with 240,000

⁶² See Centre for Affordable Housing Finance in Africa (2015), p. 16.

jobs. The third group consists of crafts and related workers who account for around 235,000, whereby the last group consists of approx. 150,000 technicians and associate professionals.⁶³ A total of approximately 750,000 citizens are employed by approx. 25,000 employer. Further, on average 800,000 citizen are considered to “own non-agriculture business,” while approx. 60,000 earn livelihood with their own agriculture.⁶⁴ However, the demand for commercial-property space is ultimately sourced by companies in the respective industry. Accordingly, the key industries in the city are supposed to continuously generate income which leads to further expansion.⁶⁵

Figure 10 - Dar es Salaams Leading Industries in 2012



Source: Own illustration, Data sourced from: National Bureau of Statistics / Ministry of Finance (2014) p. 113.

From the diagram it is apparent that two industries within the city employ each more than 200,000 employees.

The manufacturing industry unites 211,000 employees, followed by trade and commerce with approx. 200,000 employees. Furthermore, it is evident that four sectors employee between 100,000 and 200,000 citizens, namely the raw-food sale industry, the construction sector, approx. 140,000 activities which are

⁶³ See National Bureau of Statistics / Ministry of Finance (2014), p. 107.

⁶⁴ See National Bureau of Statistics / Ministry of Finance (2014), p. 101.

⁶⁵ See Geltner et al. (2007), p. 48.

grouped together, and the domestic-service sector. These six groups together represent one million workers out of 1.7 million employees captured in the diagram above. Finally, it should be mentioned that the National Bureau of Statistics does not indicate whether these people are employed formally or informally.

2.4.4 Export Base

To assess the economic strength of a city, it is important to consider not only the composition of the economy, but also to investigate if the products and services are locally consumed or exported. Products and services can be considered excess production if they exceed the need of the regional markets and consequently generate income to the city. The literature characterizes the growth of the export base as the most important influence for the further economic growth of the observed city.⁶⁶ The Measurement and identification of industries and businesses which are part of the export base can be calculated through the location quotient (LQ). Mathematically, the LQ is expressed as follows:

$$LQ_{mi} = \frac{N_{mi} / N_m}{N_i / N}$$

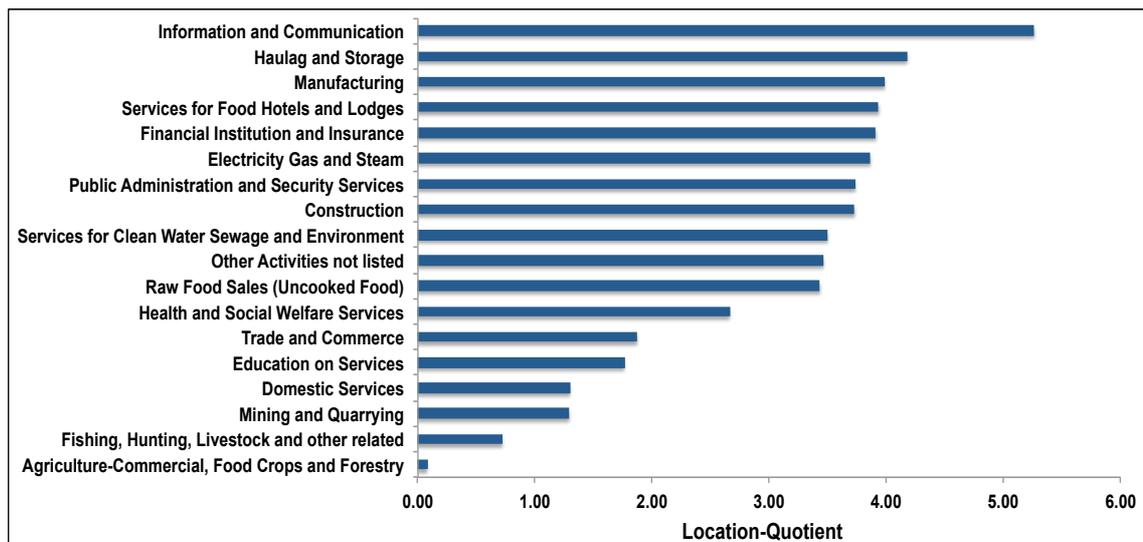
where N = Total national employment in all industries

N_{mi} = Employment in city m in industry i

N_m = Total Employment in city m in all industries

N_i = National employment in industry i

⁶⁶ See Geltner et al. (2007), p. 48.

Figure 11 - Location Quotients by Occupation

Source: Own illustration, Data sourced from: National Bureau of Statistics / Ministry of Finance (2014) p. 113.⁶⁷

A LQ equal or close to one indicates national average, where the goods or services produced are likely to be consumed within the city. If the LQ is considerably larger than one, the product or service is added to the export base and accordingly considered an import product if the LQ is significant below one. It is evident that the information and communication industry leads with a 5.26 times higher delivery on products and services compared to the national average. A recent research by the Bank of Tanzania identified the real GDP growth for the communication sector at 20.6% in 2012 and 22.8% in 2013, outperforming all other sectors.⁶⁸ Behind, a group of ten sectors, which all show a LQ between three to four appear. Out of that group, financial intermediations grew by 13.2% in 2013 and 12.2% in 2012, which makes it reasonable to assume a high demand for commercial space in this sector too.⁶⁹ The remaining nine sectors grew in line with the regions average,⁷⁰ suggesting moderate demand for commercial space. The lowest LQ-ratio of 0.08 is achieved by the agriculture sector, which demonstrates the dependency of Dar es Salaam to the food supply of other parts of the country. In theory, the expected occupation

⁶⁷ See Appendix IV: Location Quotient

⁶⁸ See Bank of Tanzania (2014), p. 1.

⁶⁹ See Bank of Tanzania (2014), p. 1.

⁷⁰ See Bank of Tanzania (2014), p. 1.

growth within the groups identified can be used as a component to forecast the demand for commercial space.

Consequently it is reasonable to consider the Tanzania Development Vision 2025, issued by the Planning Commission on behalf of the former President Benjamin William Mkapa. The report calls for a transformation from:

„a low productivity agricultural economy to a semi-industrialized one led by modernized and highly productive agricultural activities which are effectively integrated and buttressed by supportive industrial and service activities in the rural and urban areas.“⁷¹

Additionally, the Masterplan of Dar es Salaam 2032 intends a transformation of the region towards a:

“National commercial hub, a competitive economic environment and attractive to investment and business”⁷²

Consequently the information and communication industry as well as the financial sector and related back office activities in Dar es Salaam can be identified to be among the top-commercial space demanders in the future.

2.5 Chapter Summary

Dar es Salaam can be classified as a primate city and has already attracted due to its national importance many new citizens in recent years who primarily settle outside the city centre. The region grew economically rapidly and sustainable for many years and is projected to continue the trend since the Government committed to upgrade the country to a middle-income economy. Based on the export theory in combination with the projected-GDP growth of the particular sector, it is assumed that the information / communication sector and financial institutions represent the main future demand for office properties in Dar es Salaam.

⁷¹ Planing Commission (1999), pp. 5-6.

⁷² See Ministry of Lands, Housing and Human Settlements Development (2013), p. 11.

Further, ten other sectors with LQ-ratios above average and ordinary GDP-growth rates may be identified among the demander for commercial space. To date, demand for retail space cannot be identified throughout the territory of Dar es Salaam.

The reasons are based on the habit of the citizens to buy their products by street vendors and the widespread poverty. The allocation for retail space related demand must take place in a more particular analysis of the cities wards to identify the preferred location of wealthy residents. Currently the city lacks skilled employees which has been addressed by the government as a national priority, but still the region dominates the country based on the tertiary sector employment. However, the determinants age and population can be seen positively, while the purchasing power depends on the future growth of the region. Additionally, the population distribution currently shows that 90% of the citizen live outside the city centre, which calls for further improvement of the regions traffic infrastructure and is addressed by the Dar Rapid Transit Agency.

3 Market Analysis

The property-market Dar es Salaam can be classified as opaque. An accurate estimation of demand for commercial and retail properties is not possible due to the absence of reliable data.⁷³ Some reports indicate average rents for commercial properties while others suggest capitalization rates for one or two property types. For example, a research carried out by Knight Frank in 2015 compared African prime rents whereby Dar es Salaam ranked position number 19 with an average office prime rent of \$21, retail \$30 and industrial of \$5.⁷⁴ Going along with the missing data for property demand, vacancy rates can only be estimated as well. A previous research observed cases though, in which commercial space was nearly sold out before even completing the construction.⁷⁵ Another roughly indicator may be found in the fact that in the past, many residential properties have been converted into commercial properties due to the shortage of office space.⁷⁶ The following chapter aims to illuminate different commercial property submarkets for office and retail space, using data available in literature, conducted in in-depth interviews as well as unpublished documents.

3.1 Overview of the Submarkets

The individual submarkets are locally distributed within ten different wards and administratively assigned to the Kinondoni and Ilala District. Most of the governmental-administration properties are located in the Ilala District, which also hosts the main airport, the train station and is inhabited by middle to high-income citizens.⁷⁷ Kinondoni is the most popular wards of the region, most of luxury apartments are located in this ward, whereby highest rents are achieved on the beachfront. Generally for the whole Area, Mr. Hamad Abdallah, Director of Property Management of NHC estimates office rents to range on average between \$16 to \$18.⁷⁸

⁷³ See Kongela (2013), p. 113.

⁷⁴ See Knight Frank (2015), p. 13.

⁷⁵ See Kongela (2013), p. 159.

⁷⁶ See PriceWaterHouseCoopers (2015a), p. 63.

⁷⁷ See Kusekwa (2016), p.1.

⁷⁸ See Interview from the 13th October 2015 with Mr.Hamad Abdallah(NHC) , Appendix XII: p. 82.

He further expects rents to stabilize at \$14 in the next five years. The view is shared by Dr. Fred Msemwa, CEO of Watumishi Housing Cooperation (WHC) who witnesses an impressive pace of commercial space supplied in the market, leading to a balance between supply and demand expressed through the prevailing rents.⁷⁹

Figure 12 - Overview of the Main Commercial Areas in Dar es Salaam

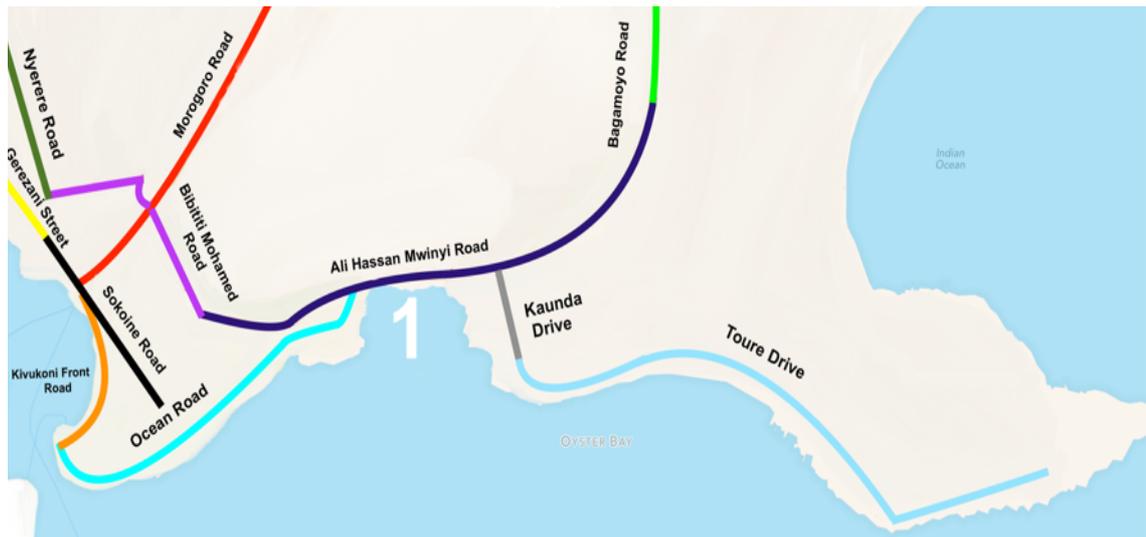


Source: Own illustration, Data sourced from Apple Maps

The map shows the angle from the east of Tanzania, indicating the Indian Ocean in the South. The blue lines show the administrative borders of the certain ward, whereby wards without a name are not subject of further investigation. It is evident that three wards are situated near the Indian Ocean. Those wards are Msasani, Kivukoni and Mchafukoge. The Kinondoni ward is named as the superordinate district, which makes it necessary to distinguish between those two administrative areas in the following text. However, some areas are bordered by the streets in the respective area. Additionally, local citizens are used to describe areas through the street associated with the area. To take that into account, the following figure number 13 shows the main roads of the commercial areas presented.

⁷⁹ See Interview from the 16th October 2015 with Dr. Fred M. Msemwa (WHC), Appendix XIII:p. 92.

Figure 13 - Overview of the Main Roads in the Commercial Area



Source: Own illustration, Data sourced from Apple Maps

Some of the roads change abruptly the name, which is presented through different colors on the map. The illustration also shows that two of the main roads in the regions end up in the area, namely Morogoro Road and Bagamoyo Road. Both roads are subject to the Rapid Bus Transport implementation and will hence significantly increase mobility of citizens towards and within the whole area. Number one on the map indicates the location of the Salendar Bridge, which is of particular interest since the bridge is commonly used by local real estate professionals to separate between submarkets.

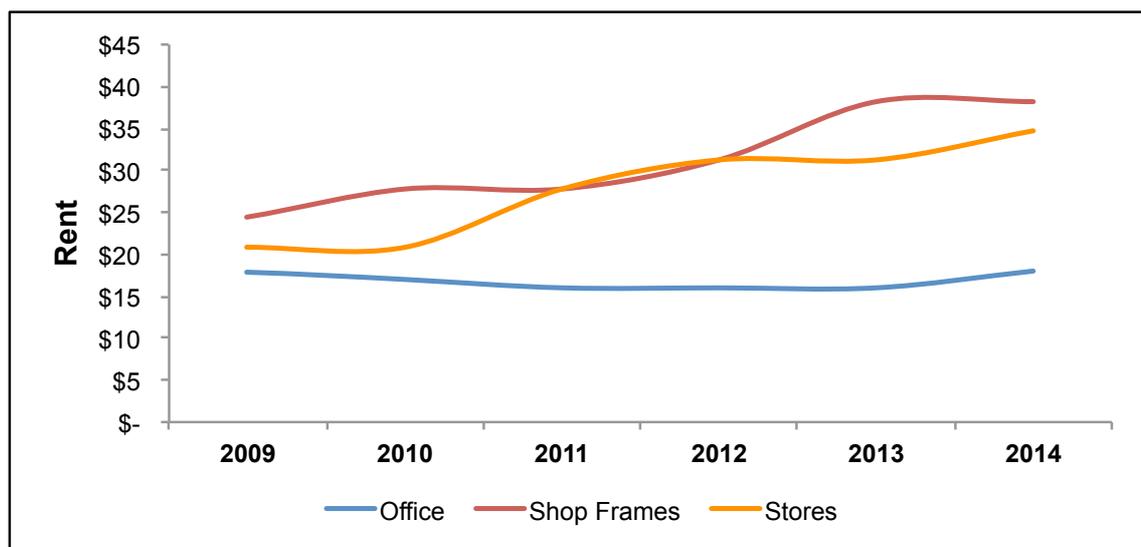
Figure 14 - Overview of the Main Submarkets of Dar es Salaam



Source: Own illustration, Data sourced from Apple Maps

The area is known far beyond the countries borders and caters for Eastern Africa. Citizens from Congo, Zambia, Ruanda, Burundi, and Malawi are shopping in Kariakoo.⁸³ In Kariakoo up to \$45 for retail space are charged, whereas \$25 is considered to be a realistic rate.⁸⁴ In contrast to other areas, rents in Kariakoo are charged in the local currency.⁸⁵

Figure 16 - Rental Development in the Kariakoo Ward



Source: Adapted from :Elisonguo E., Malisa, *Examining BOT as a financing mechanism by private property investors in prime areas in DSM*, p. 42. (unpublished)

A previous study identified Build and Operate Agreements are common in that area.⁸⁶ In a nutshell, the agreement awards the responsibility of constructing a property to an investor and gives him the contractual right to use it after a few years to recover costs and achieve profit. Elisonguo (2015) carried out a study in the ward and investigated 36 samples in Kariakoo where most were multi-storey retail and commercial properties. The study unveils an occupancy rate of 100%, which is one of the reasons for the high rents⁸⁷ and an average IRR of approx. 25% for Build and Operate-run project models.⁸⁸

⁸³ See Interview from the 13th October 2015 with Mr.Hamad Abdallah(NHC), Appendix XII: p. 83.

⁸⁴ See Interview from the 13th October 2015 with Mr.Hamad Abdallah(NHC), Appendix XII: p. 83.

⁸⁵ See Interview from the 13th October 2015 with Mr.Hamad Abdallah(NHC), Appendix XII: p. 83.

⁸⁶ See Elisonguo (2015), p. 35.

⁸⁷ See Elisonguo (2015), p. 42.

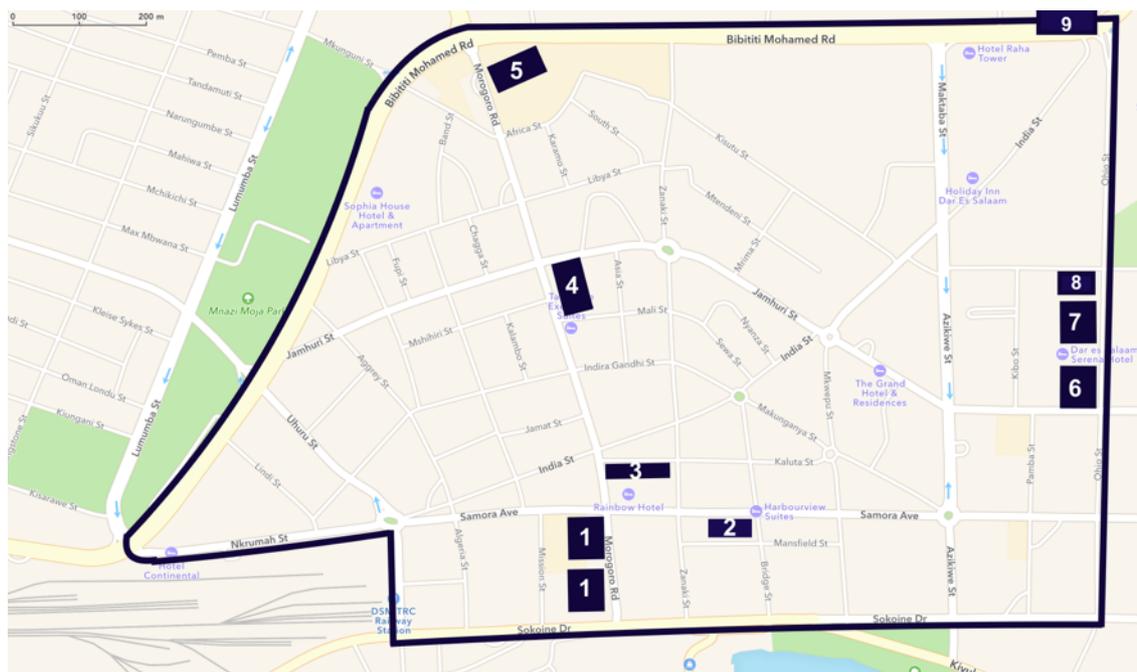
⁸⁸ See Elisonguo (2015), p. 50.

Detrimental of those agreements are compromises in quality of construction standards because investors want to keep the construction costs low since with the expiration of contract the property comes into possession of the land owner.⁸⁹

3.1.2 Central Business District

The CBD area is highlighted as number two on figure 14 and is called “Posta” by the locals and accommodates mostly middle to high-income citizens.⁹⁰ The area is surrounded by the Bibititi Mohamed Road in the West and North and Sokoine Drive in the South with a coastal border. The population growth in the CBD was recorded by annually 2.7% to 5.8% between 2002 and 2012, which is below the city average.⁹¹

Figure 17 - Overview of the Central Business District



Source: own illustration, based on Apple Maps

⁸⁹ See Elisonguo (2015), p. 38. and 47.

⁹⁰ See Kusekwa (2016), p. 2.

⁹¹ See Agergaard (2013), p. 14.

Table 1 - Selected Rents and Space in the Central Business District

No.	Name	Rent (US-Dollar)	Space (m ²)
1	PSPF Commercial Twin Towers	22	N/A
2	Office Harbour View Tower	18	N/A
3	NHC House	18	N/A
4	Tronic Offices	18	N/A
5	Social Security House	14	N/A
6	PPF Tower	10-11	13.560
7	Golden Jubilee Towers	16	N/A
8	Amani House	N/A	13.500
9	Uhuru Heights	N/A	60.000

Source: own compilation with reference to data from National Social Security Fund (2014) and the Tanzanian-Frank Knight Website:<http://www.knightfrank.co.uk/commercial> and the findings of figure 18.

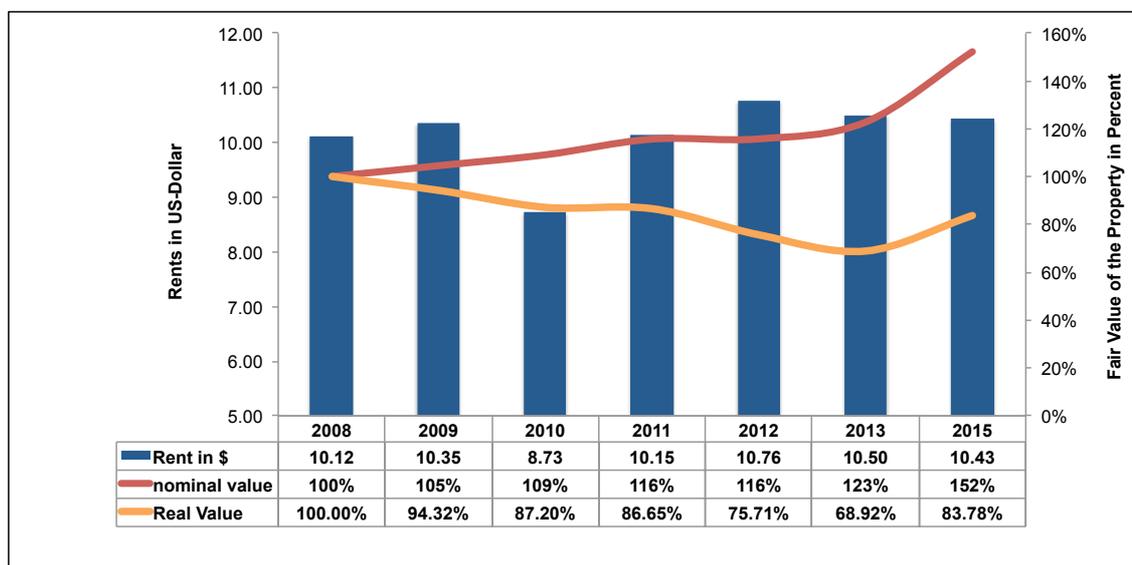
The table shows the current rents found by the author, suggesting rents between \$16 and \$22. The rents for retail properties were stated to be between \$7 and \$30 in the year 2013.⁹² In the literature and in the interviews conducted, the main opinion was that due to the congestion and the limited space in the CBD, new commercial property developments are settled outside the CBD.⁹³ Additionally, some occupiers left the area to construct owner occupied properties.⁹⁴ The preferred areas for new developments are beyond Salander Bridge, around Bagamoyo Road, Oyster-Bay in Peninsula, which is indicated as area number 5.⁹⁵ The pension funds in Tanzania generally publish once a year their reports. The Parastatal Pensions Fund (PPF) possesses the PPF-Tower, which is indicated as number six on figure 17. For the last seven years, the fund regularly publishes the fair value, the occupancy rate and the rental income in TShs.

⁹² See Kongela (2013), p. 117.

⁹³ See PWC (2015a), p. 63. ; Knight Frank (2015), p. 41., Interview from the 16th October 2015 with Dr. Fred M. Msemwa (WHC), Appendix XIII:p. 92; Interview from the 17th October 2015 with Mr. Mathew Nhonge(MLHHSD) , Appendix XIV: p. 105.

⁹⁴ See Kongela (2013), p. 117.

⁹⁵ See Knight Frank (2015), p. 41.

Figure 18 - Rental- and Value Trend of the PPF-Tower

Source: own calculation, Data sourced from: Parastatal Pension Fund (2009), p. 54; Parastatal Pension Fund (2011), p. 73.; Parastatal Pension Fund (2013), p. 88. and Parastatal Pension Fund (2015), p. 112.⁹⁶

The PPF Tower was constructed in 1997 and offers 13.560 m² lettable office space.⁹⁷ The diagram above illustrates the rental trend and the published fair value for the property. The occupation rate was at 95% in 2008 and continuously declined to currently 75%. The rent charged has not been changed significantly during the seven years. The movement was between \$8.7 in 2010 and \$10.8 in 2012. The nominal value of the property is quoted in TShs and increased 52% in seven years, which resulted combined with the national inflation rate in a depreciation of 16.22%. The strong inflation and depreciation of the local currency led to a dollarization of the property market Dar es Salaam.⁹⁸ Most of the prime-office properties are accordingly require rents in US-Dollar, while contrary the fair value for those income generating properties is published in the local currency.

⁹⁶ See: Appendix V: Rental and Value Development of the PPF-Tower

⁹⁷ See: Public Service Pension Funds (1997), p. 11.

⁹⁸ See Kusiluka (2012), p. 121.

Figure 19 - View from the CBD Towards the Oyster-Bay Area



Source: own picture, taken in October 2015

The picture was taken in the Golden Jubilee Tower in the CBD of Dar es Salaam. The location can be found at figure 17, where the property is highlighted with the number seven. The green area just before is reserved for the golf course. The kinked property before is known as the Southern Sun Hotel. Just before the horizon, area number five can be seen.

3.1.3 Golden Triangle

The so called “Golden Triangle” is the new prime-office location of Dar es Salaam. It is located between the Ali Hassan Mwinyi Road in the North and the Ocean Road to the East. The area is bordered with the CBD to the West and

separated through the Ohio Street. The area is characterized by several hotels, a golf course, a botanical garden and a direct border to the Indian Ocean.⁹⁹

Figure 20 - View from CBD Towards the Golden Triangle



Source: own picture, taken in October 2015

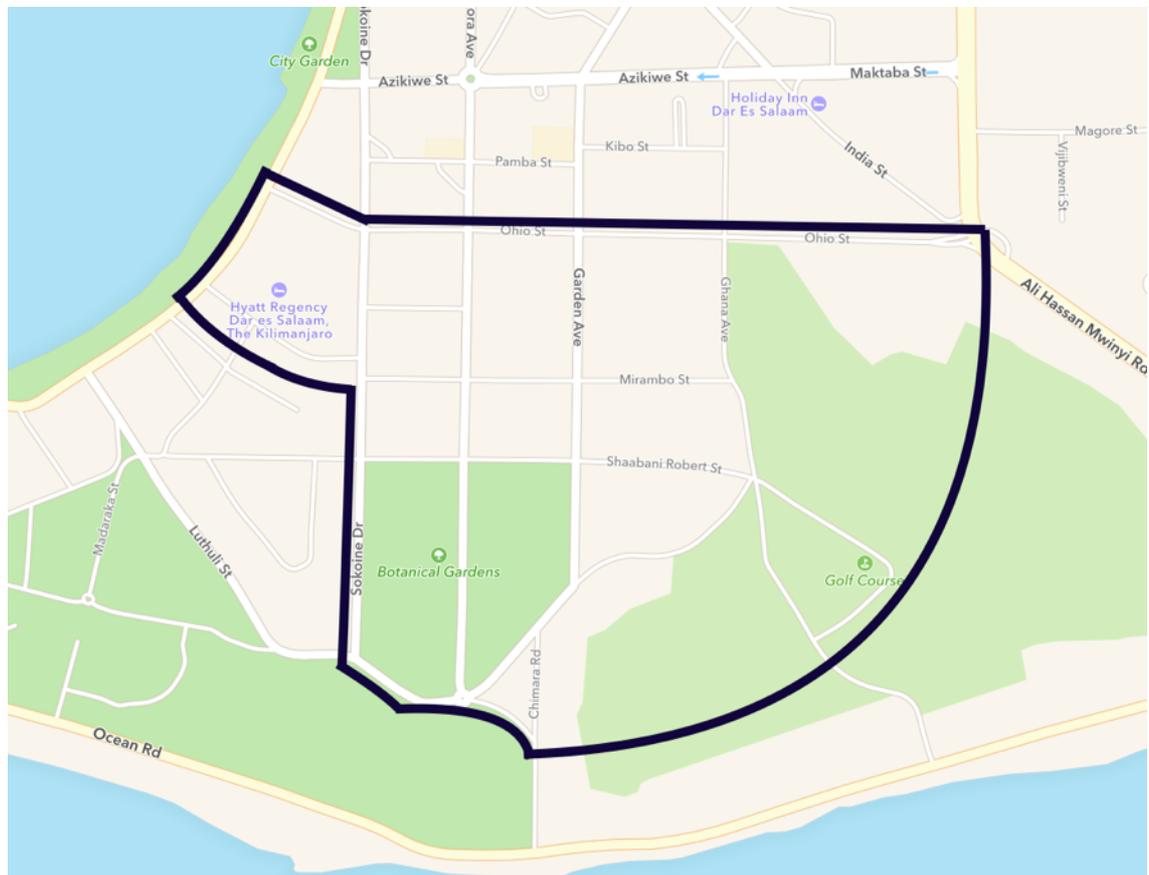
The picture shows the area of the Golden Triangle. The PPF-Tower in the front, was subject in Figure 18, and can be seen as the border between the CBD and the Golden Triangle. The twin towers at the end of the area hosts the Bank of Tanzania. The ferry to Kigamboni can be also found just behind the twin towers. The Golden Triangle areas population growth was in line with the CBD-area at 2.7% to 5.8%.¹⁰⁰ The majority of new office developments were located in this

⁹⁹ See Kusekwa (2016), p. 2.

¹⁰⁰ See Agergaard (2013), p. 14.

area since 1994, where nowadays international companies prefer to stay and pay between \$16 to \$21 for office space.¹⁰¹

Figure 21 - Overview of the Golden Triangle



Source: Own illustration based on Apple-Maps

3.1.4 Ali Hassan Mwinyi, Bagamoyo and Wmai Kubaki Road

The following submarket is associated with three different streets and can be found on the outline map as number four. The area starts in the North of the Golden Triangle area and follows the Ali Hassan Mwinyi Road across the Salander Bridge towards north in the Kinondoni District. Just before the Salander Bridge, towards east at Upanga, NHC has implemented 2015 the construction of a \$200 billion financial district, which will take between five to seven years for completion.¹⁰² At the point where the Wmai Kubaki Road crosses the Ali Hassan Mwinyi Road, the road becomes Bagamoyo Road.

¹⁰¹ See Kusekwa (2016), p. 2.

¹⁰² See AllAfrica, 28th October (2014)

between \$19 to \$24. The area is bordered by the Haile Selassie Road in the North, where the rental level decreases to \$16 to \$18m².¹⁰⁸

The Oyster-Bay area hosts many supermarkets with sophisticated products, who serve high-income residential residents in the area.¹⁰⁹ The retail market in Dar es Salaam is dominated by South African Retailers like Game and Woolworth and Kenya's Nakumatt stores.¹¹⁰

Table 2 - Rents for Residential Properties in Selected Wards

Location (rents in \$)	2 Bed Apartment	3 Bed Apartment	Large House (4-6 beds)	Average House (2-3 beds)	Population
Upanga	1,000 -2,000	1,500-2,500	2,000-4,000	1,500-2,000	24,643
Kinondoni	500-1,200	1,000 - 2,000	1,500 - 3,500	1,500 - 3,000	21,239
Oyster bay - Sea front	2,500-3,000	3,000-4,000	5,000-10,000	3,500-4,000	N/A
Oyster bay, Masaki Peninsula- other	1,600-2,500	2,500-3,500	4,000-10,000	3,000-4,000	N/A
Mikocheni - Beachfront and other	1,000-1,500	1,300-2,000	2,500-3,500	2,000-2,500	32,947
Msasani- Beachfront	1,500-2,000	1,500-2,500	2,000-3,500	2,000-2,500	48,920
Msasani Other	500-1,000	1,000-2,500	2,000-3,500	2,000-2,500	
Kawe - Beach Front	800-1,500	1,500-2000	2,500-3,000	2,000-3,000	67,115
Kawe other	500-1,000	1,000-1,500	2,000-2,500	1,500-2,000	
Mbezi - Beach Front	500-800	800-1,200	1,000-2,500	1,000-2,000	73,414
Mbezi - other	500-600	800-1,000	1,500-2,000	1,000-2,000	

Source: adapted from Kusekwa (2016): Commentary on the Property Market, p.2. and National Bureau of Statistics/Ministry of Finance (2013a), p. 75-76.

Table two illustrates the rents paid in the middle to high-income residential properties in Dar es Salaam. It is evident that also the residential rents for

¹⁰⁸ See Kusekwa (2016), p. 2-3.

¹⁰⁹ See PricewaterhouseCoopers (2015a), p. 63.

¹¹⁰ See PWC (2015a), p. 63.

higher income properties quoted in US-Dollar. The highest rents are charged in to Oyster-Bay area with up to \$10,000 a month for a large house.

The Assistant Commissioner of Lands noted during an interview in October 2015 he sees most of the dynamics in this area when he emphasized: "*If you tell me to rank between the municipalities: Kinondoni! The dynamics are very, very, very big.*"¹¹¹ Compared to all other districts in Dar es Salaam, Kinondoni is subject to a lot of disagreements regarding land and business issues.¹¹² Another notable fact was pronounced during the interviews, where Mr. Abdallah said that sometimes the price for land exceeds the development value in the Oyster-Bay area.¹¹³

3.2 Market Participants

The property market in Tanzania is on a national to mainly dominated by large institutional and a few foreign investors.¹¹⁴ Data for the national level shows that pension funds and NHC are currently among the main players in the real estate investment market in Dar es Salaam. Interviewees agreed mutually that NHC went through a significant transformation since the former President Jakaya Mrisho Kikwete replaced the board of directors in 2010 with professionals from the private sector.¹¹⁵ Between 2010 and 2015 the collection of rents increased from below 50% up to 98% in 2015 with monthly rents of 8.1 billion Tshs (\$3.68 million). The value of the current projects are estimated at 600 billion Tshs (\$272.73 million).¹¹⁶ Since NHC nowadays operates entrepreneurial sustainable and profitable through targeting the middle to high-income society of Tanzania, a gap for WHC opened up to serve the low income population as intended by the Public Servant Housing Scheme initiated by the government.¹¹⁷ WHC plans to go public in three years at the Dar es Salaam Stock Exchange (DSE), being

¹¹¹ See Interview from the 17th October 2015 with Mr. Mathew Nhonge(MLHSD) , Appendix XIV: p. 105.

¹¹² See Interview from the 17th October 2015 with Mr. Mathew Nhonge(MLHSD) , Appendix XIV: p. 105.

¹¹³ See Interview from the 13th October 2015 with Mr.Hamad Abdallah (NHC), Appendix XII: p. 82.

¹¹⁴ See Kusiluka (2012), p. 122.

¹¹⁵ See Interview from the 13th October 2015 with Mr.Hamad Abdallah(NHC), Appendix XII: p. 86., Interview from the 16th October 2015 with Dr. Fred M. Msemwa (WHC), Appendix XIII:p. 93, Interview from the 19th of October 2015 with Mr. Oscar P. Mgaya (TMRC), Appendix XV: p. 112.

¹¹⁶ See Interview from the 13th October 2015 with Mr.Hamad Abdallah(NHC) , Appendix XII: p.86.

¹¹⁷ See Interview from the 16th October 2015 with Dr. Fred M. Msemwa(WHC), Appendix XIII:p. 93.

the first REIT in Tanzania, to both increase the equity base and give citizens the opportunity to invest indirectly in real estate for the first time.

Within the first years, WHC will sell residential properties to public servants, and subsequently construct also satellite-cities and commercial properties such as malls and office buildings to subsidize the residential houses.¹¹⁸ As today, WHC achieves a Return of Investment (ROI) of approximately 15%.¹¹⁹

3.3 Stock of Non-Residential Buildings

According to Geltner et al. (2007) the property market commonly refers to the asset market.¹²⁰ The author further illustrates the importance of the asset market as equal to the space market, where demand and supply determine the price of rents. Consequently, the asset market can be regarded as a market for existing properties. The asset market has a causal context to the space market in a matter that the price level of assets influence the activity of the construction activity. Kusiluka (2012) defines the property market Tanzania due to the absence of property market institutions as imperfect, while many transactions are not recorded which leads to difficulties for investors to evaluate the proposed investment.¹²¹ However, the National Bureau of Statistics published in cooperation with the Ministry of Finance the Gross Fixed Capital Formation for the years 2004 to 2013.¹²² The Gross Fixed Capital Formation by definition is a part of the expenditure approach to compute the national GDP. This sum is interpreted as the net increase in the national capital stock and hence can be used as an indicator for the annual supply of non-residential buildings in the region. The GDP of Dar es Salaam is not separately computed.¹²³ However, based on the annual share of Dar es Salaam's GDP to the national GDP, the formula below can be derived to compute the annually approximate capital formation of non-residential buildings in Dar es Salaam.

¹¹⁸ See Interview from the 16th October 2015 with Dr. Fred M. Msemwa (WHC), Appendix XIII:p. 93.

¹¹⁹ See Interview from the 16th October 2015 with Dr. Fred M. Msemwa (WHC), Appendix XIII:p. 94.

¹²⁰ See Geltner et al. (2007), p. 11.

¹²¹ See Kusiluka (2012), p. 219.

¹²² See National Bureau of Statistics/Ministry of Finance (2014b), p. 33.

¹²³ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 34.

$$NR_{DSM(i)} = \frac{GDP_{TZ(i)}}{GDP_{DSM(i)}} \times NR_{TZ(i)}$$

where :

$NR_{DSM(i)}$ = Capital Formation of non-residential buildings in Dar es Salaam

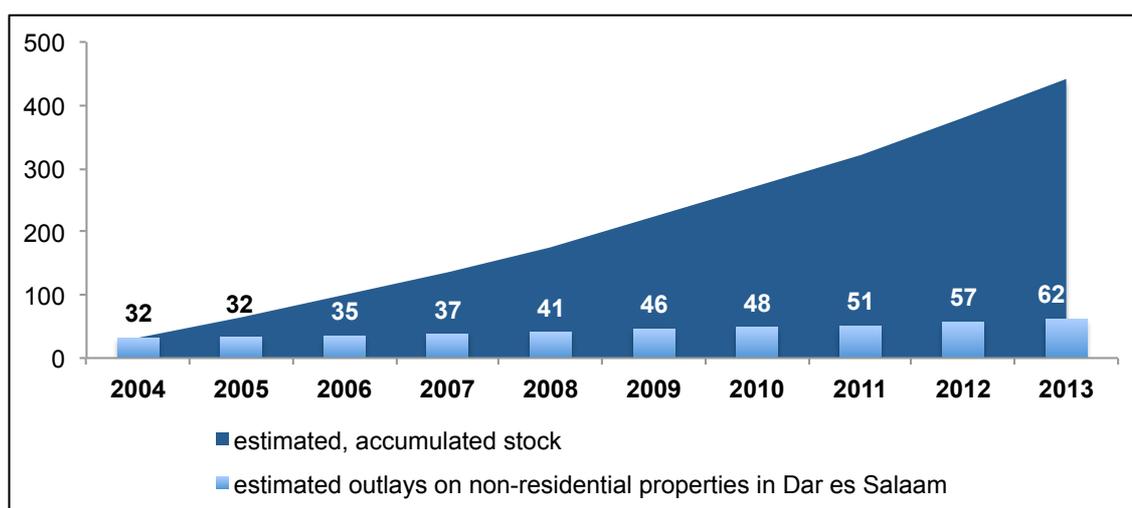
$NR_{TZ(i)}$ = approximate Capital Formation of non-residential buildings in Tanzania

$GDP_{TZ(i)}$ = Gross domestic Product of Tanzania

$GDP_{DSM(i)}$ = Gross domestic Product of Dar es Salaam

Based on the calculation, the capital stock at current prices of non-residential properties increased between 2004 and 2013 in Dar es Salaam by \$440 million. This number is an approximate indication, but may offer a perception for the annual non-residential capital stock addition in the region which is consequently at approx. \$44 million.

Figure 23 - Estimated Capital Value of Non-Residential Properties



Source: own illustration Data sourced from National Bureau of Statistics/Ministry of Finance (2014b) p. 31 and p.41.¹²⁴

¹²⁴ See Appendix VI: Gross Capital Formation of Non-Residential Properties

3.4 Best-Practices

Parts of contractual agreements in the region show a certain pattern. In terms of occupational costs, generally the tenant pays the service charges, utilities as well as internal reparations. The landlord responsibility is to deal with external reparations, the payment of the property insurance and the agent fee, which usually equals one monthly rent.¹²⁵ According to Kusekwa, water is usually not included and therefor payed by the landlord.¹²⁶ The prevailing escalation rate was subject to different investigations. Kongela (2013) discovered that most agreements go without such an agreement, but if agreed, range between 2% and 3%.¹²⁷ Kusekwa (2016) reports the usual rate between 0% and 2%, while longer contracts are more likely to include such an agreement.¹²⁸ The rent is usually payed one year a head.¹²⁹ The average lease term ranges between three and five years, with larger companies signing contracts up to ten years.¹³⁰ If the property is transferred, the agent fee and lawyer cost are due and can be both arrive at up to 10% of the sale price, whereby every party pays its own lawyer.¹³¹ Kusiluka (2012) identified a wide range of agency conflicts among Tanzanian real estate professionals which affect the real estate business in the country clearly. The study suggests to partner up with local investors and to gather information concerning the institutional environment to mitigate those agency conflicts.¹³²

3.5 Chapter Summary

The data available is not sufficient to perform a classical market supply and demand analysis on the property market in Dar es Salaam. Typical indicators such as the vacancy rate, rent level, quantity of new construction completed as well as the absorption of new space are not conclusively computable.

¹²⁵ See Knight Frank (2015), p. 14.

¹²⁶ See Kusekwa (2016), p.4.

¹²⁷ See Kongela (2013), p. 92.

¹²⁸ See Kusekwa (2016), p. 4.

¹²⁹ See Knight Frank (2015), p. 14.

¹³⁰ See Kusekwa (2016), p.4.

¹³¹ See Kongela (2013), p. 92.

¹³² See Kusiluka (2012), p. 252.

The chapter has illustrated five different submarkets within the property market Dar es Salaam. All of them came into existence due to the congestion, limited space and high rents demanded in the CBD. The highest rents are currently demanded in the Oyster-Bay with up to \$24 for commercial space and \$10,000 for a residential property. This area can therefore be considered basically suitable for retail-office properties, but must be further investigated through an intensive microanalysis. All areas covered show moderate population growth below the cities average. Main driver of the cities development will be the implementation of the Masterplan 2032 which will together with the Bus Rapid System affect the identified five property submarkets positively due to a higher mobility of employees and inhabitants of this area.

4 National Framework

The previous chapters have indicated the existence of demand for commercial space and introduced five different submarkets in the region. Based on that data, a theoretical equity financed property investment could be performed. However, Dar es Salaam is part of Tanzania therefor governed by national circumstances such as taxation, and the legal framework. Additionally, evolution of the capital market is required to decide the usage of local credit facilities.

4.1 Legal Framework

Nowadays Tanzania is a sovereign United Republic and governed by a multi-party parliament democracy. The Head of Government is an executive President who gets elected every five years for a maximum total duration of ten years. Since independency of the country, many laws have been enacted, rewritten and abolished.¹³³ Kusiluka (2012) evaluates those reforms as a great success for the real estate sector in Tanzania which is reflected in the fact that more and more market participants freely enter the market.¹³⁴ Nowadays the Tanzanian Law is sourced from the English-Common Law, statutes, case law, Islamic Law and Customary Law.¹³⁵ Relevant for real estate issues are statutory and customary law.

4.2 Land Ownership

Basically the Government is the only provider and administrator for the entire land in Tanzania.¹³⁶ The current legal environment concerning land ownership was originally initiated under the so called „African socialism decade“ which came into force immediately after Tanzania took independency. From that time land was viewed public with the President being the ultimate administrator.¹³⁷

¹³³ See Kongela (2013), p. 80.

¹³⁴ See Kusiluka (2012), p. 123.

¹³⁵ See Kapinga/Mkono (2015), p. 78.

¹³⁶ See Centre for Affordable Housing Finance in Africa (2015), p. 193.

¹³⁷ See Urban Solution (no date), p. 14.

Nowadays the legal foundation of land ownership in Tanzania is based both on the Land Act and the Village Land Act which are derived from the National Land Policy.¹³⁸ Land is under the Administration of the MLHSD. It should be noted that this Ministry is regarded by local and international investors to be ineffective. The main reasons are found in delays of documents, corruption and bureaucratic procedures.¹³⁹

All public land in the country is divided in three different categories, namely Village Land, General Land and Reserved Land. The latter one consists among others of land, which is reserved for national- and game parks, conservation areas, highways and land that is reserved for public utilities or land that has been declared to be hazardous land.¹⁴⁰ The second category of land is called village land and regulated under the Village Land Act No. 5 from the year 1999.¹⁴¹ All land that is left after deducting Reserved Land and Village Land is considered to be general land and regulated under the Land Act number 4 from 1999 and offers basically two different ways to lawfully occupy land. These two lists the law as the Right of Occupancy which can granted or deemed to have been granted under the name of the President and under customary law.¹⁴² The right to occupancy land in Tanzania can be only granted to citizen or a group of citizens in a legal entity. Further, the Granted Right of Occupancy will be issued only to surveyed land which is registered under die Land Registration Act for a certain period up to 99 years and has to be approved at the responsible municipality. The beneficiary has to pay an annual rent which can be revised and is entitled to sell and mortgage the granted right.¹⁴³ However, in accordance with the Land Act, occupation of land by non-citizen is restricted to investment purposes under the Tanzania Investment Act. In the case of a foreign investor purchasing a commercial property, both purchaser and seller have to enter into a contract where the seller surrenders the title.

¹³⁸ See Land Act (1999) Part II, Section 3 (1).

¹³⁹ See Kongela (2013), p. 199.

¹⁴⁰ See Land Act (1999) Part III, Section 4 (4).

¹⁴¹ Part III of the Village Land Act No 5. 1999 regulates the circumstances under which Village Land may be transformed into General Land. Part IV of the Village Land Act No.5 describes under which conditions land in Tanzania is considered to be village land. For further reading, see Mousseau, F./ Mittal, A. :Understanding Land Investment Deals in Africa. Country Report: Tanzania. The Oakland Institute (2011) p. 10-15.

¹⁴² See Land Act (1999) Part III, Section 4 (3).

¹⁴³ See Land Act (1999) Part V, Section 5 (22).

The contract has to be forwarded to the responsible Municipality and after passed to the Commissioner for Lands at the MLHSD who will overwrite it to a so called Tanzania Investment Centre (TIC) on behalf of the investor.¹⁴⁴ With this step, the Right of Occupancy is transformed into a Derivative Right of Occupancy.¹⁴⁵ The issued Derivative Right of Occupancy will state a slightly shorter term than the original Right of Occupancy which was transferred from MLHSD to the TIC.¹⁴⁶ Currently there is a debate in Tanzania questioning if the devision of occupancy rights to own land is still useful or not. It is argued that even if land is owned by the Tanzanian public, foreigners would either leave it or sell it when the investment purpose was accomplished.¹⁴⁷

It is noteworthy that the TIC in contrast to the MLHSD, is perceived to be efficient. In the previously mentioned investigation of Kongela (2013), 100% of interviewed foreign real estate investors stressed the fact that support is performed when needed and relevant documents are delivered satisfactory.¹⁴⁸ Also Kusiluka (2012) observed a positive attitude towards the institution.¹⁴⁹

This is a relevant due to the fact that the (TIC) is appointed by law to assist investors in obtaining:

*„(...) all necessary permits, licences (!), approvals consents, authorizations, registrations and other matters required by law for a person to set up and operate an investment(...)“.*¹⁵⁰

The latest Doing Business Report ranked Tanzania below the Sub-Saharan average for the registration of a property. The study ranks the country at 133 out of 189, and indicates 8 procedures necessary to undertake, which takes on average 67 days and costs 4.4% of the property value.¹⁵¹

¹⁴⁴ See Interview from the 17th October 2015 with Mr. Mathew Nhonge (MLHSD), Appendix XIV: p. 102.

¹⁴⁵ See Land Act (1999) Part VI, Section (25i).

¹⁴⁶ See Interview from the 17th October 2015 with Mr. Mathew Nhonge (MLHSD), Appendix XIV: p. 101.

¹⁴⁷ See Interview from the 17th October 2015 with Mr. Mathew Nhonge (MLHSD), Appendix XIV: p. 100.

¹⁴⁸ See Kongela (2013), p. 206.

¹⁴⁹ See Kusiluka (2012), p. 156.

¹⁵⁰ The Tanzania Investment Act (1997) Part II, Section 6 (d).

¹⁵¹ See World Bank Group (2016), p. 12.

4.3 State Incentives and Guarantees for Investors

The Tanzanian Investment Act No. 26 of 1997 was designed to provide favorable and predictable conditions for investors. The act replaced the original National Investment Promotion and Protection Act (NIPPA) which was launched in 1990. The Government recognizes the importance of foreign direct investment (FDI) and local investment in various sectors by offering incentives and guarantees for both foreign investors and local investors. In order to determine the incentives, the purpose of the business has to be classified either into the Lead or Priority Sector. Commercial Buildings are currently considered to be in the Priority Sector.¹⁵² Specifically, if the proposed investment meets the conditions of the TIC, the authority will issue a certificate of incentives. Such certificate can be received by business enterprises which are wholly owned by a foreign investor or joint venture with a minimum equity equivalent to \$500,000.¹⁵³ The Certificate of Incentives is charged at \$750, while each application costs \$210 and all other services are charged 10% upon charges from the different departments.¹⁵⁴ The act states four different benefits other than monetary value which are not subject to any future change to the drawback for investors who would be otherwise affected by those implementations.¹⁵⁵

First, the investor enjoys a warranted and unconditional transferability in the preferred currency of net profits, dividends, payments for a foreign loan, charges for any technology transfer, the net proceeds in case of liquidation or sale of the business enterprise as well as salaries for personnel.¹⁵⁶

The second point describes a guarantee against expropriation. This part of the act encouraged real estate investors to re-enter the property market in Tanzania who faced nationalization of properties backed by the Building Acquisition Act of 1971 and motivates new market participants to invest in the country.

¹⁵² See Tanzania Investment Centre (2014), p. 62-63.

¹⁵³ Previously 300,000 US-Dollar. See The Tanzania Investment Act (1997) Part I Section 2 (2b), revised by the Tanzania Finance Act 2014 Part X, Section 47.

¹⁵⁴ See United Republic of Tanzania-President's Office/Tanzania Investment Centre (2012), p. 6.

¹⁵⁵ See The Tanzania Investment Act (1997) Part III, Section 19 (2).

¹⁵⁶ See The Tanzania Investment Act (1997) Part III, Section 21.

Consequently, this part of the act can be seen as one of the factors pushing the current real estate market in Dar es Salaam.¹⁵⁷ Admittedly, despite all efforts, property rights in Tanzania are not considered to be a competitive advantage of the country. The Global Competitiveness Report accordingly ranks Tanzania at 117 out of 140 investigated countries.¹⁵⁸

The third advantage regulates the case of a disagreement between the investor and the government. Both parties are supposed to jointly agree on a mediation either within the consents of the arbitration laws of Tanzania for investors or the framework conditions specified by the International Centre for Settlement of Investment Disputes.¹⁵⁹ The latter one is attached to the World Bank where Tanzania is a registered member.¹⁶⁰ Last, it might be also mutually agreed to discharge the dispute under any bilateral or multilateral agreement between Tanzania and investors home country.¹⁶¹ The efficiency of the legal framework in settling disputes can be interpreted comparatively high, since Tanzania ranks 65 out of 140 investigated countries which is significantly lower than the countries average performance which is found at 120.¹⁶²

The fourth point deals with the entry requirements of foreign workers for companies who are in possession of a Certificate of Incentives issued by the TIC. The beneficiary may take five foreign employees to Tanzania during the launch phase.¹⁶³ If more foreign workers are needed, an application has to be transferred to the Immigration Department.¹⁶⁴

There are further investment schemes in Tanzania, offering a wide range of monetary incentives. For example the so called Special Economic Zones and Special Economic Zones. To date, both do not apply for a commercial property investment in Dar es Salaam.¹⁶⁵

¹⁵⁷ See Interview from the 13th October 2015 with Mr.Hamad Abdallah (NHC) , Appendix XII: p. 82.

¹⁵⁸ See World Economic Forum (2015), p. 343.

¹⁵⁹ See The Tanzania Investment Act (1997) Part III, Section 23 (1) and (2).

¹⁶⁰ See Kusiluka (2012), p. 99.

¹⁶¹ See The Tanzania Investment Act (1997) Part III, Section 23 (1) and (2).

¹⁶² See World Economic Forum (2015), p. 343.

¹⁶³ See The Tanzania Investment Act (1997) Part III, Section 24 (1).

¹⁶⁴ See The Tanzania Investment Act (1997) Part III, Section 24 (2).

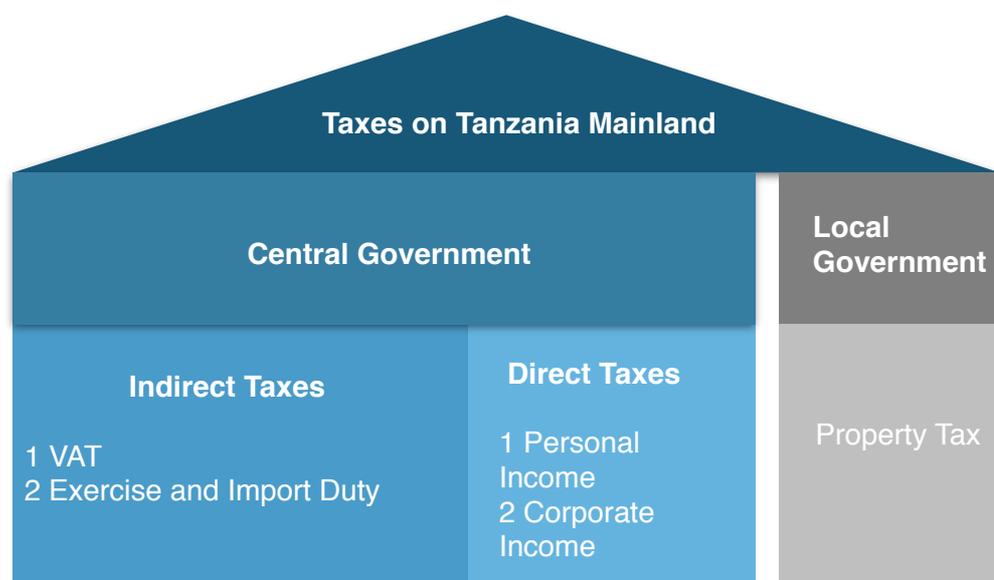
¹⁶⁵ See Export Processing Zones Authority (no date).

4.4 Taxation

Tax collection in Tanzania is subject to a number of different legal texts and administratively divided into local authorities, the authority on the island Zanzibar and the central Government. In the case of a commercial property investment, mainly the Central Government collection performed by the Tanzania Revenue Authority (TRA) is relevant.¹⁶⁶

The first category of legal texts are the main Tax Acts in the latest version. As of today, there are 14 different fundamental acts. Every Act has to be assessed with the annual Finance Act which states the changes in law for a certain fiscal year. The third category needed to fully overview the taxation are various regulations. Those papers are published on behalf of the responsible minister and designed for a better governance of the principles, objectives and provisions of the Acts mentioned above. Further, taxes in Tanzania are divided into direct and indirect taxes whereby the latter one is charged on international trade and the first on income. The classification on payment is segmented into assessment, installment and withholding.¹⁶⁷

Figure 24 - Classification of Taxation in Tanzania



Source: own illustration

¹⁶⁶ See Tanzania Revenue Authority (no date), p. 1.

¹⁶⁷ See Hanif Habib (2014), pp. 1-16.

The literature generally agrees on the fact that Tanzania still needs to further optimize its tax system.¹⁶⁸ With an average total tax rate of 44.3% on profits, Tanzania is ranked 93 out of a 140 countries in the Global Competitiveness Report which in respect to the overall countries performance cannot be seen as a competitive advantage.¹⁶⁹ At this point, however, the historical context should be considered. In the past, the country undertook many reforms which significantly lowered the tax burden and simplified the framework.¹⁷⁰ The political commitment to reform and develop the tax framework is omnipresent.¹⁷¹ Kongela (2013) identified five main taxes for foreign real estate investors operating in Tanzania: Capital Gain Tax, Property Tax, Corporate Income Tax and Value-Added Tax on rental income.¹⁷² The following subchapters investigate those taxes on the latest date and identifies whether offered concessional rates and other tax reliefs exists.

4.4.1 Indirect Taxes:

Basically two different tax categories are grouped into this group, namely taxes on international trade transaction and an extra charge upon locally produced products and services. The latter one is regulated by the-Value Added Tax Act and is named accordingly. Rental income gained by a foreigner or a foreign company is subject to this tax and will be charged at the rate of 18%.¹⁷³ However, Certificate of Investment holders enjoy a zero import duty for the import of capital goods and deferment of VAT associated.¹⁷⁴ Tax reliefs for the rental income are not granted.

¹⁶⁸ See PWC (2015b), p. 114.

¹⁶⁹ See World Economic Forum (2015), p. 343.

¹⁷⁰ See International Monetary Fund (2009), pp. 29 - 36.

¹⁷¹ The government has for example announced a further reduction on the value-added tax on houses during the fiscal year 2016/2017 to further encourage investment in the real estate sector. For further information see: TanzaniaInvest, 12th January (2016).

¹⁷² See Kongela (2013), p. 122.

¹⁷³ See Tanzania Revenue Authority (no date), p. 3.

¹⁷⁴ See Tanzania Investment Centre (2015), p. 91.

4.4.2 Direct Taxes

The Capital Gain Tax, Corporate Tax and Withholding Tax are regulated in the Income Tax Act Cap. 332 Revised Edition of 2008. Starting with capital gain tax, a foreign company is supposed to pay 30% on the realized gain in a single installment at the commissioners office in exchange for a certificate which allows the legal ownership transfer at Registrar of Buildings.¹⁷⁵

Table 3 - Formula for the Capital Gain Tax

Calculation of Capital Gain Tax	
Sale price of the property	
- cost of acquisition	
-Expenditure for improving the property	
- direct selling costs	

Source: own illustration

Coming to withholding tax, the act distinguishes between withholding payments for dividends and interests, which are charged at a rate of 10%, while rental income is subject to a 15% taxation.¹⁷⁶ If the Investment generates surplus and invests the cash in foreign loans, the interests charged are not subject to withholding tax under the Certificate of Incentive scheme.¹⁷⁷ The last relevant tax under the Income Tax Act is the corporate income tax for legally established cooperations in Tanzania such as: Limited Companies, Trusts and Domestic Permanent Establishments.¹⁷⁸ The final rate of income has to be attested by an auditor registered at the National Board of Accountants and Auditors (NBAA)¹⁷⁹ and will be taxed at a rate of 30%.¹⁸⁰ Within the first five years of business, the TIC allows tax freedom.¹⁸¹

¹⁷⁵ See The Income Tax Act (2008) Devision III ,Section 90 (1b).

¹⁷⁶ See The Income Tax Act (2008) Devision II , Section 86.

¹⁷⁷ See Tanzania Revenue Authority (no date), p.12.

¹⁷⁸ See The Income Tax Act (2008) Part I , Section 3.

¹⁷⁹ See The Income Tax Act (2008) Part I , Section 3.

¹⁸⁰ See The Income Tax Act (2008) First Schedule, Tax Rates , Section 3 (1).

¹⁸¹ See Kongela (2013), p. 122.

Further, income from interests and dividends by a foreigner are charged with 10% while the rental income faces a 15% deduction. Finally, the maximum depreciation rate of 5% for properties other than agriculture, livestock farming and fishing can be also found in the Income Tax Act.¹⁸² Even though the government undertook an obvious effort to attract investment through tax reliefs, taxation on incentives to invest in the country cannot be considered a competitive advantage.¹⁸³

The stamp duty is regulated under the Stamp Duty Act from the year 2006 and states that for the exchange of a property 0.5% for the first 100,000 TShs and 1% above the property value are liable for payment.¹⁸⁴ Also, 1% of the annually reserved rent must be dissipated under the stamp duty act.¹⁸⁵ However, in Tanzania the stamp duty is usually paid by the tenant.¹⁸⁶ Property Tax is locally charged and depends on location, size and type of the property and amounts to about 0.15% per annum of the property value.¹⁸⁷

4.5 Capital Market

If a property investment is examined, the institutional investor may consider the use of debt for different reasons such as the equity leverage or equity conservation. This links to the private debt part of the capital market, where market participants refinance their operations through different securities. Until 1980, the Tanzanian financial sector by fact was not existent, which placed the Tanzania in this category among the most underdeveloped countries. The Bank of Tanzania at that time had no influence on the monetary policy while the government printed inflationary money to meet financial obligations and to provide the state-owned banking sector with capital.¹⁸⁸

¹⁸² See The Income Tax Act (2008) Third Schedule No. 1. and 5.

¹⁸³ See World Economic Forum (2015), p. 343.

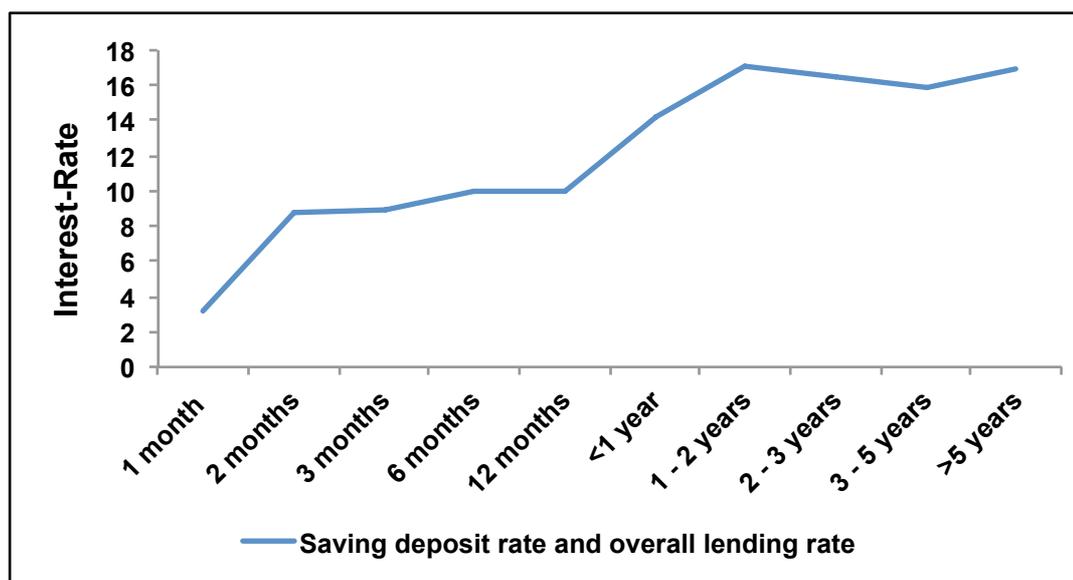
¹⁸⁴ See Stamp Duty Act (2006) Section 5, No. 30.

¹⁸⁵ See Stamp Duty Act (2006) Section 5 No. 34.

¹⁸⁶ See Knight Frank (2015), p. 14.

¹⁸⁷ See Kongela (2013), p. 252.

¹⁸⁸ See International Monetary Fund (2009), p. 38.

Figure 25 - Saving Deposits and Overall-Lending Rates in Tanzania

Source: Own illustration, Data sourced from Bank of Tanzania (2014): Annual Report 2013/14 p. 18.

The prevailing high interest rates can be seen as one of the main weaknesses in the Tanzanian real estate industry.¹⁸⁹ In theory, the capital market has a strong correlation to the property market. In the case of Tanzania, Kongela (2013) discovered a weak relationship between the property market and the capital market.¹⁹⁰ The study further describes the isolation of the property market from the capital market as a reason for inflated rent, land and property prices. To connect the property market to the capital market, among others, the Tanzanian Mortgage Refinance Company (TMRC) was founded through an initiative through the Government of Tanzania and the World Bank with the aim to provide banks in Tanzania with long time liquidity which was due to a lack of debt in the capital market not available for banks. In the future, TMRC plans to access the capital market independently through the issuance of bonds¹⁹¹ and with that intends to revive the corporate bonds market, which has not developed as well as the equity part of the capital market.¹⁹²

¹⁸⁹ See Kongela (2013), p. 212.

¹⁹⁰ See Kongela (2013), p. 135.

¹⁹¹ Interview from the 19th of October 2015 with Mr. Oscar P. Mgaya (TMRC), Appendix XV: p. 109.

¹⁹² Interview from the 19th of October 2015 with Mr. Oscar P. Mgaya (TMRC), Appendix XV: p. 113.

To reduce decency to the rates shown in figure 25, the government will issue within the current legislation eurobonds.¹⁹³ The financial market development of Tanzania is ranked 101 of 140 investigated countries, with a score of 3.4 out of 7 in the Global Competitiveness Report 2015/2016. Within the report, business-respondents indicated the access to finance as the most problematic factor for doing business in Tanzania.¹⁹⁴ However, the Tanzanian commercial-property market is special in a way that most of payments are made in favor of the US-Dollar against the TShs.¹⁹⁵ This results in the logical conclusion that capital should be borrowed in US-Dollar.

4.6 Chapter Summary

This chapter has shown that the direct land ownership is not possible in Dar es Salaam. Foreign investors have to go through a process associated with the positively perceived Tanzanian Investment Centre. Five different benefits associated with the Tanzania Investment Act were identified. The Government evaluates commercial property investments in the Priority Sector, which results together with the Certificate of Incentive in various monetary benefits. The debt part of the capital market is despite all improvements still in its early stages. Through the dominance of the US-Dollar in the market and the guarantee associated under the Tanzanian Investment Act, it is reasonable to access an US-Dollar loan if a financial leverage is desired.

¹⁹³ Interview from the 19th of October 2015 with Mr. Oscar P. Mgaya (TMRC), Appendix XV: p. 111.

¹⁹⁴ See World Economic Forum (2015), p. 342.

¹⁹⁵ See Kusiluka (2012), p. 121.

5 Exemplary Commercial-Property Investment Analysis

This chapter makes use of the collected findings throughout the thesis and performs a micro-analysis on the NSSF owned Waterfront Building in the CBD of Dar es Salaam. The property is located in the Mchafukoge ward, at the southern border of the area. By definition, a specific micro-level analysis focuses on the individual building location to carry out a feasibility or site analysis.¹⁹⁶ The return results will be used to vicariously match the return-requirements of international investors.

5.1 Micro-Analysis of the Waterfront Building

The NSSF-Waterfront Building is located in the Ilala Municipal Council and administratively sub-organized in the Mchafukoge ward. According to the National Census 2012, Mchafukoge inhabited 10,688 citizen with an average household size of 3.9.¹⁹⁷ Mchafukoge has five neighboring CBD wards. The first two are on the northern border, namely Kisutu and Kivukoni District. The latter one hosts the State House Compound and the Zanzibar ferry facility directly on the boundary line Kivukoni / Mchafukoge. In the East direction, Mchafukoge has boundary lines to Jangwani, Gerezani and Kariakoo. Kariakoo is the main commercial center of Dar es Salaam and is popular and well known among East African countries. Kurasini is located Southern to Mchafukoge and is a non-CBD ward hosting the Dar es Salaam Marine Port. Nowadays the port is accounts for 95% of the Tanzanian international trade.¹⁹⁸ For a long time, the Government of Tanzania focused on building the biggest port of Africa at the Bagamoyo region for \$10 billion but has recently suspended plans in favor of increasing the performance, efficiency and capacity of the ports in Mtwara and Dar es Salaam.¹⁹⁹ Just opposite beyond the harbor basin, the Kigamboni ward is located, where the Tanzanian Naval Base is stationed.

¹⁹⁶ See Geltner et al. (2007), p. 104.

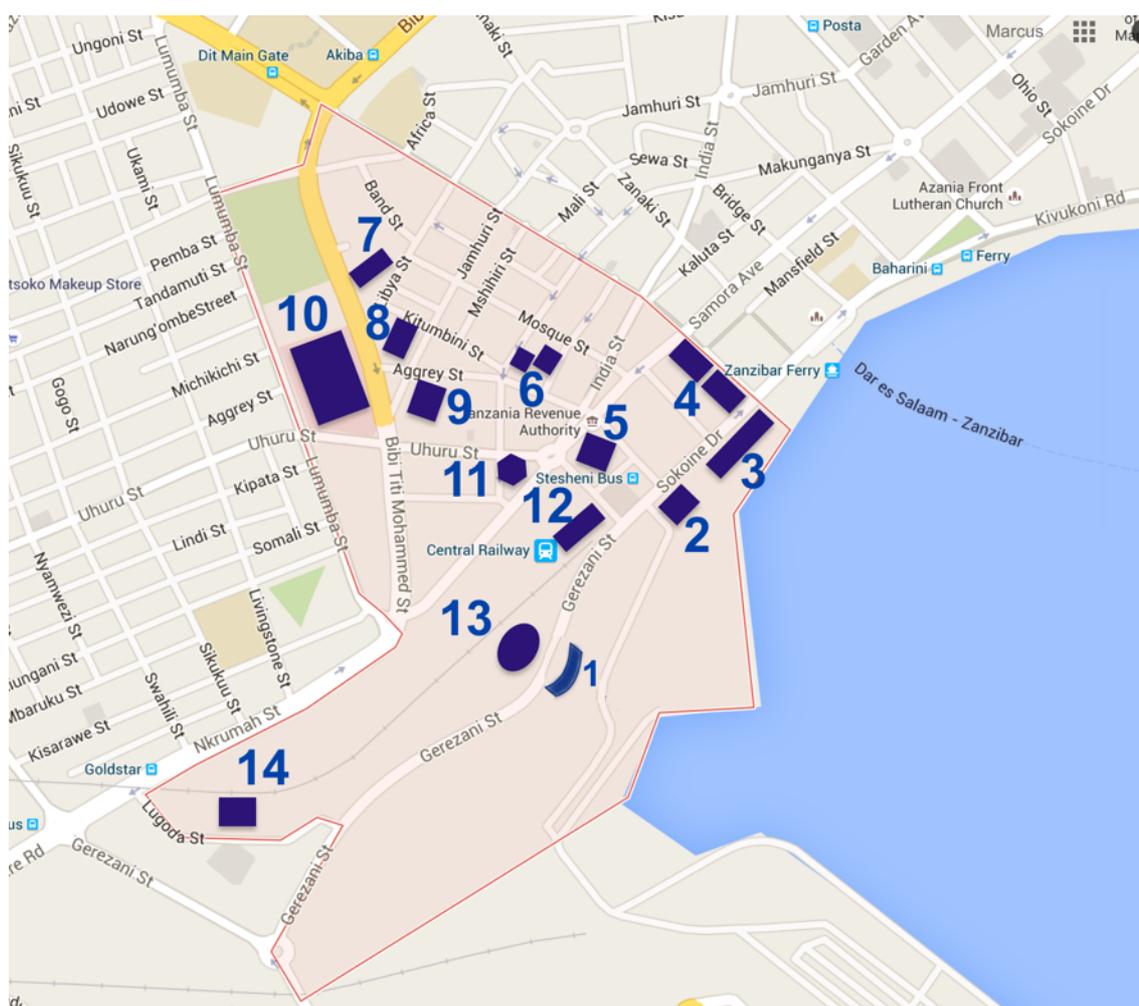
¹⁹⁷ See National Bureau of Statistics/Ministry of Finance (2013a), p. 76.

¹⁹⁸ See National Bureau of Statistics/Regional Commissioner's Office Dar es Salaam (2014), p. 1.

¹⁹⁹ See The Citizen, 8th January (2016)

By the March of 2016, a cross-sea bridge between Kurasini and Kigamboni owned by the NSSF Fund is expected to be operational.²⁰⁰ The bridge will lead towards a new Satellite City called Salama Creek with 9,500 houses, which was initiated to address the housing shortage and to reduce congestion within the CBD-Area.²⁰¹

Figure 26 - Location of the NSSF-Waterfront Building



Source: Google Maps, the properties are found by the authors compilation

The area marked in red shows the jurisdiction of the Mchafukoge ward. The NSSF Waterfront Building (1) is connected to the Gerezani Road, which merges to the Sokoine Drive where the central police station (2) and the Dar es Salaam Maritime Institute (3) are located.

²⁰⁰ See Daily News, 26th January (2016).

²⁰¹ See The Citizen, 3rd August (2014).

Next to the Sokoine Drive, the countries tallest building, the PSPF Commercial Complex with 32 floors (4) was built the junction of Morogoro Road.²⁰² By the time this thesis was carried out, space between 600 m² and 900 m² in the PSPF Commercial complex was available and quoted at \$2,200. It is reasonable to assuming a spelling error and to adopt \$22 as the actual rate and identify the property to be the main competitor for the Waterfront Building.²⁰³

The proximity to the Morogoro and Nyerere Road results in an excellent infrastructural location for the NSSF-Waterfront Building since the Julius Nyerere International Airport is just 11 km away which results in a 15 minute driving time by car. Currently those roads suffer-traffic congestions in the morning and in the evening when the employees commute to the CBD and later again towards home. Admittedly, a Bus Rapid Transit Project has currently finished phase one which includes three streets close to the Mchafukoge ward.²⁰⁴ The first street is Msimbazi Street, which leads in the West to Kariakoo and secondly Kivukoni front in the Kivukoni wards which merges near by the Waterfront Building into the Sokoine Drive.

Figure 27 - Satellite View on the NSSF-Waterfront Building



Source: Apple Maps

²⁰² See Public Service Pension Funds (2013), p. 107.

²⁰³ See Appendix XVI: Current Market Rent of the PSPF Towers

²⁰⁴ African Development Bank (2015), p. 1.

Finally, as one of the four main roads Morogoro Road was completed within this phase. The project team has recently started to facilitate phase two and three, whereby one main road in the Mchafukoge Ward will be upgraded.²⁰⁵ The Uhuru Street on which the Mnazi Mmoja Hospital (10), the Avon Hotel (9), the Maksoors Building (11) and in the immediate surroundings Arwa Hassanali's Mansion (5) and the central line railway station (12) are located. However, in the North part of the ward the Golden Plaza (8) and Starlight Hotel (9) are situated. Right behind the Waterfront Building the Old Roundhouse & Turntable property accommodates steam locomotives from the year 1962 (13). The South of Mchafukoge ward a TIGO property, named on behalf of one of the countries telecommunications companies, concludes the jurisdiction of the ward.

5.2 Characteristics of the Waterfront Building

The Waterfront Building is held as an investment, income-generating property by the current owner.²⁰⁶ Nyerere (2007) examined the Waterfront Building in a previous study.²⁰⁷ The study characterizes the property as an ultra modern building, which comprises of approx. 18,000 m² rentable space. It offers a multipurpose hall for around 500 people, a conference hall with supporting restaurant for 200 people, as well as commercial and banking facilities in the ground floor. Further, the study indicates a reconstruction value of \$1,200 m² when the property was rebuilt after a fire. Due to the high investment, the author characterizes the property to be built on high end quality :

"Material specified includes- Facades clad with curtain walling of double glazing reflective glass with argon gas infill , shading by Hunter Douglas aerofoil aluminium (!) panels to ends and stainless steel catwalks on the horizontal line, roofing-curved sandwiched insulated zincalume on space frame, Entrance canopy slanted supported by stainless steel columns on curved polycarbonate, conference and multipurpose hall lined with acoustic panels, all external doors 1 hr fire rated, all lobbies lined with grade 1 porcelain tiles of marble finish, among others".²⁰⁸

²⁰⁵ African Development Bank (2015), p. 1.

²⁰⁶ National Social Security Fund (2011), p.43.

²⁰⁷ See Nyerere (2007), p. 14.

²⁰⁸ Nyerere (2007), p. 14.

Figure 28 - Picture of the NSSF-Waterfront Building



Source: Tanzania Investment Centre, about TIC, <http://www.tic.co.tz/Contacts?l=en>

The NSSF reports the property in its latest annual report based on International Financial Reporting Standards (IFRS). Specifically based on the regulations of IFRS 13, which indicates the unformed calculation of the fair value. Basically, the fair value would be obtained in an ordinary transaction between market participants on a certain date. However, the latest data is found at the annual report of the fiscal year 2010 and 2011. The fair value of the property was at that time reported at 23,121,333 TShs for 2010 and 23,139,008 for 2011.²⁰⁹ In 2010 and 2011 the exchange rate quoted : **US\$ 1.00 = Tshs. 1,500**, which correspondingly results in a Fair Value of \$15,414,222 for 2010 and \$15,426,005 one year later. Based on reported values, the increase in fair value was 0.07% between 2010 and 2011.

²⁰⁹ See National Social Security Fund (2011) p. 43.

Table 4 - Rental Overview on the NSSF-Waterfront Building

Scenario	Current Rent	Prevailing Rent	Proposed Rent
Ground Floor	\$14	\$9 - 20	\$15
Upper Floors	\$11	\$ 9 -20	\$12
Functional Hall	1,800,000 TShs	N / A	2,000,000 TShs
Conference Hall	2,000,000 TShs	N / A	2,000,000 TShs

Source: Adopted from: National Social Security Fund (2014), Rental Review for NSSF Properties 2014 p.1.²¹⁰

The table shows the current rents paid by the actual occupier, the prevailing rents in the area and the proposed rent.

5.3 Profitability Analysis

The following subchapter makes use of the collected input parameters throughout the thesis to perform a commercial-property investment on two different levels. The first level consists purely of the property and is designed to determine the Net operating income (NOI) and Total Return (TR) for the Waterfront Building. The second level calculation starts with the NOI, applies a corporate body, pays all taxes and uses debt to detect the TR on the enterprise level. Finally, the findings are matched in order to indicate if the return requirements of international investors are met or not.

5.3.1 Property Level Assumptions

This subchapter computes the theoretical case of a foreign institutional investor who purchases the property purely on equity without a corporate body associated. Accordingly, the level-one profitability analysis runs under the following assumptions:

²¹⁰ National Social Security Fund (2014), p. 1.

- 1 The properties lettable area of 18,000 m² is equally distributed among the ground and upper floors (2 x 9,000 m²).
- 2 The proposed rents found in sub chapter 5.2 apply while all payments are entirely accomplished in US-Dollar.
- 3 The property is held for ten years and sold at the same capitalization rate (cap rate) as bought. The cap rate is computed through :

$$\text{Cap Rate} = \frac{\text{Net Operating Income}}{\text{Gross Investment}} \times 100$$

The initial-cap rate is found at 14.60%.

- 4 The property is bought at \$15,000,000 which equals the latest fair value published by the current owner NSSF, with respect to subchapter 5.2.
- 5 Additional costs associated with the initial investment are assumed at 10% with respect to subchapter 3.4 and fully include due-diligence investigations.
- 6 Operational expenses are employed at 15% in relation to the gross rent earned in context of Elisonguo (2015) findings in Kariakoo.²¹¹ Additionally, all service charges are fully payed by the tenant as identified in subchapter 3.4.
- 7 Land rent is in accordance with the TIC charged at 600 Tshs per m².²¹² The covered area of the property was found approx. at 7500 m² (150 m x 50 m)²¹³ while TIC charges upon 10%.
- 8 The property is not refurbished during the whole investment horizon.

²¹¹ See Elisonguo (2015), p. 55.

²¹² See Arusha City Council (note date.) p. 10.

²¹³ own calculation

Additionally the input data will be varied in three different scenarios.

Table 5 - Scenario Overview

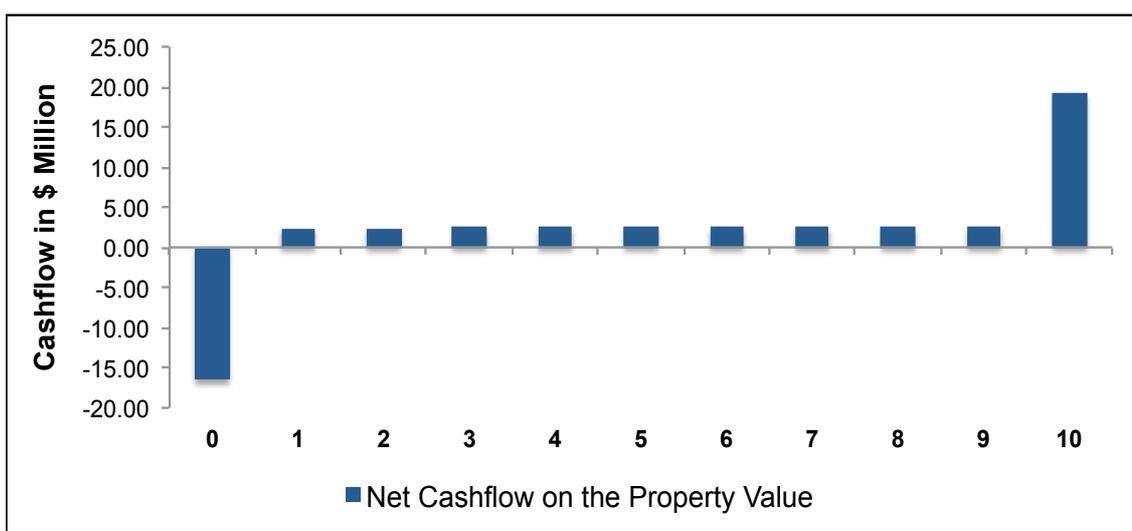
Scenario	Rental Growth	Occupation Rate.	Operational Expenses
Upside	+5%	100 %	-5 %
Base	+1%	90 %	0
Downside	-5 %	80 %	+10%

The escalation rate combines both the escalation rate in the case of a contract extension and the increased market rent requested through new tenants.

5.3.2 Property Level Results

Based on the assumptions made in the previous subchapter, the following net cashflow is achieved.²¹⁴

Figure 29 - Net Cashflow on the Property Level



Source: Own calculation.

²¹⁴ See Appendix VII: Base Scenario - Property Level

Figure 29 shows the cashflow during the progress of the entire investment on the property level. Time zero shows the initial investment of \$16.5 million. Between year one and nine the property generates approx. \$2.3 million annual net-operating income. The tenth year is also the last, consequently the building is sold for approx. \$16.6 million. The price is found by the conversion of the cap rate formula to:

$$\text{Property Value}_{t10} = \frac{\text{NOI}_{t10}}{\text{Cap Rate}_{t0}} - \text{Additional Costs}_{t0}$$

Accordingly, the property value in year ten is calculated as follows:

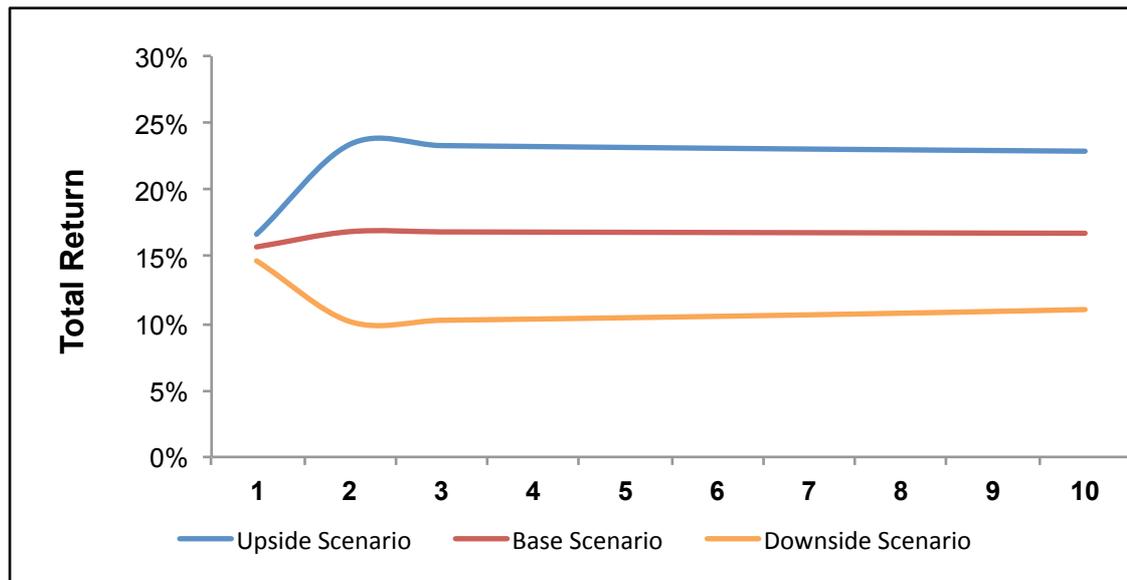
$$\mathbf{\$16,567,345} = \frac{\mathbf{\$ 2,636,291}}{\mathbf{0,146}} - \mathbf{\$1,500,000}$$

Based on the cash flow shown in figure 29, the different scenarios result into the following Internal Rate of Returns:²¹⁵

- | | | |
|---|-------------------|---------------|
| 1 | Upside Scenario: | 19.58% |
| 2 | Base Scenario: | 15.12% |
| 3 | Downside Scenario | 7.66% |

²¹⁵ See Appendix VIII: Upside Scenario - Property Level and Appendix IX: Downside Scenario - Property Level

Figure 30 - TR on the Property Level in Context of the Scenarios



Source: Own calculation.

The illustration shows the different TR-courses of over the holding period of ten years. The TR on the property level is calculated through the following formula:

$$TR_P = \frac{(NOI_1/PV_1) + (PV_{t1} - PV_{t1-1}) / PV_{t-1} \dots + (NOI_n/PV_n) + (PV_n - PV_{n-1}) / PV_{n-1}}{n}$$

where

- TR_P = Total return on the property level
- NOI_t = Net operating income at the time t
- PV_t = Value of the property at the end of time t
- n = Duration of the investment in years

It is evident that all trends start with a kink in the line, which occurs due to the property appreciation return firstly achieved from year one to year two. The upside scenario unsurprisingly leads ahead of the base and downside scenario with an average total return between 17% to 23%.

5.3.3 Enterprise Level Assumptions

This subchapter takes the identified enterprise-framework conditions in Tanzania into account. Accordingly, the theoretical case of a special-purpose company with the exclusive purpose of managing the NSSF-Waterfront Building is illustrated. The company deploys a foreign loan and pays out the exceeding cash as dividends in accordance with the provisions of the TIC identified in subchapter 4.3. The following assumptions are adopted to determine the profitability of the special purpose company:

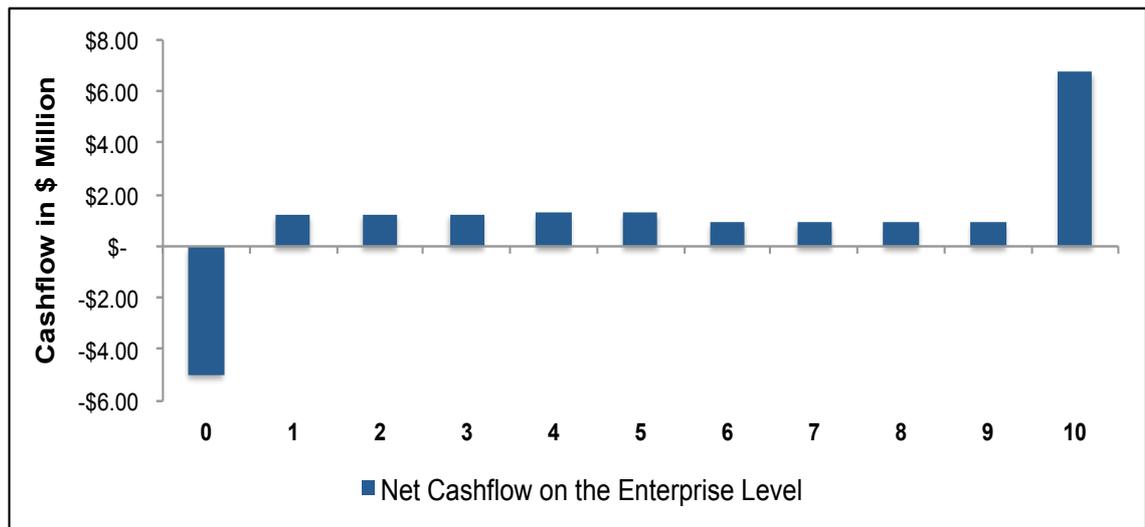
- 1 The calculation is based on the net cashflow shown in Figure 29 and the base-scenario inputs set in subchapter 5.3.1.
- 2 Property tax is charged annually at 0.15% upon the property value.²¹⁶
- 3 Value-added tax is charged 18% at the rental income as shown in subchapter 4.5.2.
- 4 A US-Dollar credit is added as suggested in subchapter 4.6. The risk-free rate for the deployment of debt is based on the current Federal Reserve System Open Market Operation at 0,5% and secured for ten years. The risk premium is fixed at 3%, which leads to an overall rate of 3.5%.
- 5 The company costs extent to \$100,000 annually in Dar es Salaam.
- 6 Cooperate Tax amounts to 30% from year six, before tax holidays are granted as identified in subchapter 4.5.2.
- 7 Capital Gain tax is charged at a rate of 30%, computed by the formula provided in subchapter 4.5.2 and offset with the 5% depreciation rate on the annual property value as identified in subchapter 4.5.2 too.
- 8 All surpluses is be paid out as a dividends. Dividends are taxed at 10% as found in subchapter 4.5.2.

²¹⁶ See Kongela (2013), p. 87.

5.3.4 Enterprise Level Results

Based on the assumptions made in the previous subchapter, the following net cashflow is achieved.²¹⁷

Figure 32 - Net Cashflow on the Enterprise Level

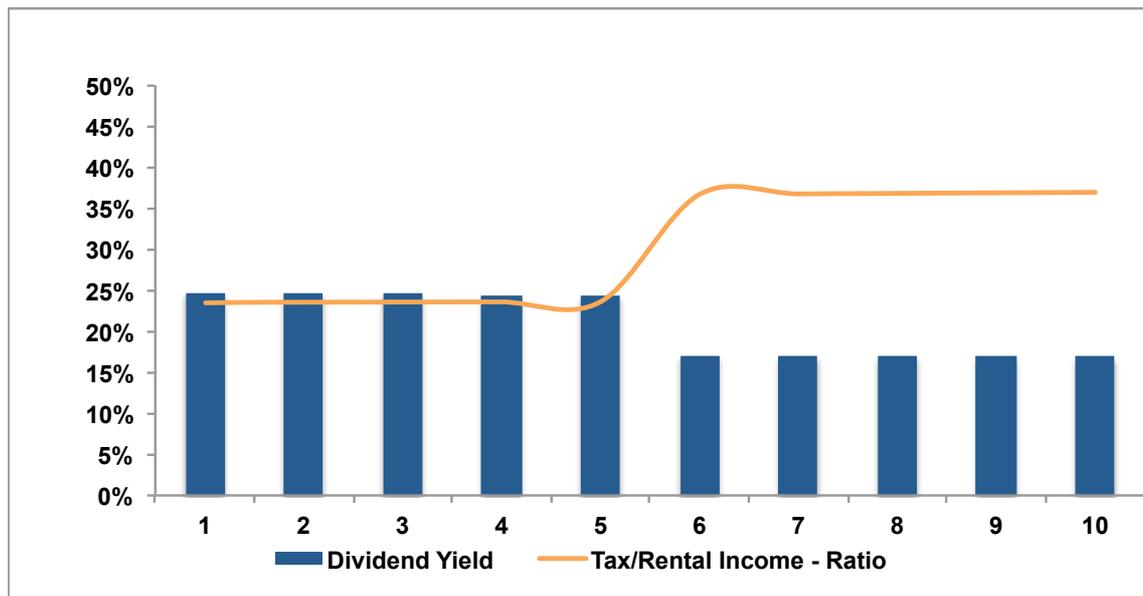


Source: Own calculation.

Figure 32 shows the cashflow during the progress of the entire investment of the special-purpose company. Time zero demonstrates the initial 30%-equity injection which is \$4.9 million. Between time one and time five, the company transfers approx. \$1.3 million as dividends to the owner. The dividends are paid out after all costs and taxes associated with the company and the property were served. From time six, the dividends are significantly reduced to approx. \$1.0 million though the settlement date of the corporate tax. In the last period ten, the company is dissolved and the equity value of approx. \$5.7 million is transferred together with the final rental payment to the owner.

²¹⁷ See Appendix X: Base Scenario - Enterprise Level

Figure 33 - The Dividend Yield in Context to the Tax Burden



Source: Own calculation.²¹⁸

The blue bars show the annual dividend yield achieved by the 30%-equity injection. The net-dividend ratio is based on the net cashflow shown in the pervious figure in relation to the annual equity value. Since all net profits are payed out, the dividend yield can also interpreted as the return on equity (ROE) ratio.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholder's Equity}} \times 100$$

For the first five years, an average ROE of 25% is accomplished, which levels of thereafter to 15% when the tax holiday for the corporate tax runs out. The tax ratio shows all taxes payed on both property and enterprise level in context of the gross rent collected. Within ten years of operation, a total of approx. \$9.1 million taxes are payed, which equals 30% of the collected rent. The tax rate would be boosted, if capital-gain tax would be charged. This theoretical investment does not pay capital-gain tax since the capital depreciation of 5% annually exceeds the annual capital appreciation achieved.

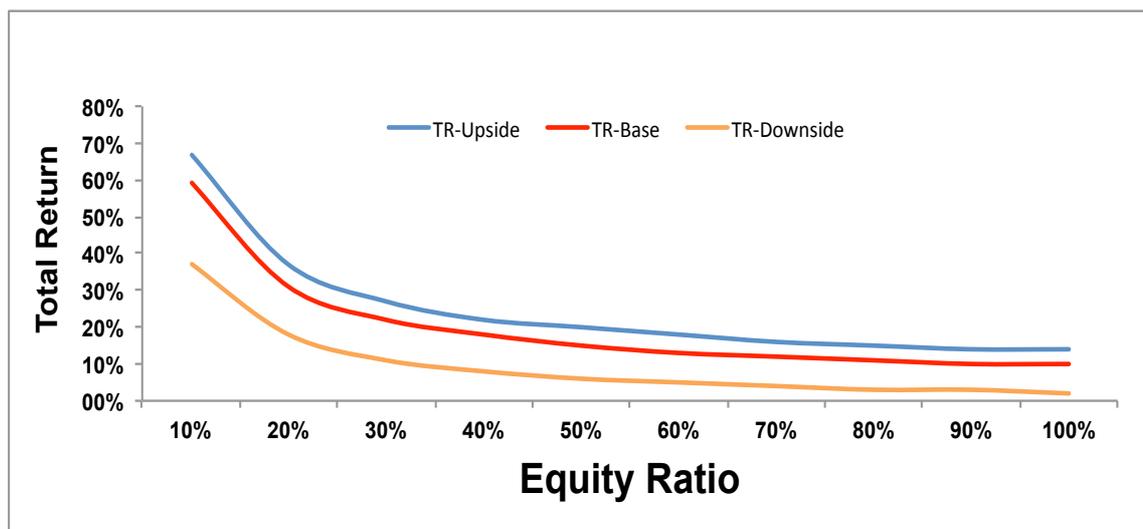
²¹⁸ See Appendix X: Base Scenario - Enterprise Level

The following diagram shows the TR realized in dependence of the equity injection. The TR on the enterprise level is calculated as follows:

$$TR_E = \frac{(ROE_1 + (E_{t1} - E_{t1-1}) / E_{t-1}) \dots + (ROE_n + (E_n - E_{n-1}) / E_{n-1})}{n}$$

where TR_E = Total return on the enterprise level
 ROE_t = Return on equity at the time t
 E_t = Value of the equity at the end of time t
n = Duration of the investment in years

Figure 34 - TR in Dependency of the Equity Ratio at Different Scenarios



Source: Own calculation.²¹⁹

The figure shows the impact of the leverage effect on each scenario performance. It is evident that the TR stays in all possible combinations positive and finds its return peak with a 10%-equity injection at 67% in the upside scenario. The base scenario yields between 59% with a 10%-equity injection and 10% if the whole company would be equity financed. These returns are mainly possible due to the low cost of funding.

²¹⁹ See Appendix XI: Total Return - Enterprise Level

The achieved yield from the property level is significantly higher than the interest rate, which results in a positive-leverage effect especially at an equity proportion below 50%. The TR curve would be much flatter if the local-capital market would be tapped or rents would not be charged in US-Dollar.

5.4 Interpretation and Classification of the Results

The real estate industry has established a commonly accepted method to group various real estate investment vehicles based on their risk and return profiles. Core and core-plus vehicles operate in developed property markets and are associated with low to medium risk. Vehicles in the middle of the risk and return matrix operate in either more risky perceived operations such as redevelopment or target developing property markets. The high return and risk area is assigned among others with opportunity funds.

Table 6 - Risk and Return Requirements of International Investors

in %	Expected Net Return	Leverage Ratio	Risk premium over core
unlevered core	6.0 - 7.75	0	0
levered core	6.1 - 9.75	30 - 50	1 - 2
Value Added	10.3 - 12.3	50 - 65	2
Opportunity Funds	12 - 19	65 - 80	2 - 4

Source: Adapted from: Douvas, Joanne, Risk and return assumptions for various investment strategies 2006, p. 597.

The table shows four different real investment styles. The last one shows the required expected net return of opportunity funds with a leverage rate between 65% and 80%. The performed property investment of the Waterfront Building within a corporate body in the previous subchapter generates a net return fairly above the required return. The net return at a leverage ratio of 65 is found at 20% while a leverage ratio of 80 results in a net return of 31%. These results were achieved in the base scenario with a fair occupation rate of 90% and 1%-rental growth per annum.

6 Conclusion

The thesis has shown that the information/communication sector and the financial sector indicate the highest demand for commercial space in Dar es Salaam. Contrarily, the region does not offer nowadays, nor in the near future a widespread demand for retail space due to the nation-wide poverty. However, some areas of Dar es Salaam inhabit high-income citizens and may call for a retail investment. To date, it cannot be certainly discovered whether the supply meets the demand in the commercial property market in Dar es Salaam, neither robust data for the market size allows a deviation of the of the market's liquidity. Those findings exclude basically all property-investment vehicles with a low-risk/core and medium-risk/value added profile. Admittedly, the theoretical investment in one of the CBD's properties generates an expected net return fairly above the required return for opportunity funds. The thesis has shown five different submarkets in the region, which are all came into existence due to skyrocketing rents and the congestion of the CBD area. For investment vehicles which are aligned to a high risk and return profile, Dar es Salaam offers an interesting chance to pioneer the property market. In the near future, it is reasonable to assume that many new investors will enter the market due to a serious of measurements that will enhance the transparency. The thesis has further proofed the tax and legal system to be complicated and lengthy but not contrary to the interests of international investors. Dar es Salaam is characterized by a stable political system, a friendly culture and excellent socio-economic conditions which form a solid base for joint ventures with local professionals and scholars.

6.1 Field for Further Study

The presented knowledge is explorative and provides the basis for further research. The assumptions may be reviewed and expanded in further investigations. A quantitative research of the rental, investment, and asset market could provide a higher measurability of the results and indicate trends in Dar es Salaam. Other surveys and a close cooperation with experts in Dar es Salaam could lead to more data. The data may be used to substantiate the return findings of this thesis. Accordingly, a portfolio consideration of various property returns within the identified submarkets could lead to a pattern. Within the next years, the legislation in Tanzania will be substantially modified in favor to the real estate industry. These amendments require research and once again, cooperation with local professionals.

Appendices

Appendix I: Rank / Size - Rule

City	Population	Rank	Rank/Size Line
Dar es Salaam	4.364.541	1	4.364.541
Mwanza	924.221	2	2.182.271
Mbeya	898.112	3	1.454.847
Morogoro	636.058	4	1.091.135
Arusha	559.122	5	872.908

Appendix II: GDP Index Dar es Salaam / Tanzania

Year	GDP of Dar es Salaam			GDP of Tanzania		
	Tshs	growth	accumulated	Tshs	growth	accumulated
2004	2.114.612.000.000	0%	1	13.972.000.000	0%	100%
2005	2.397.247.000.000	13%	113%	15.965.000.000	14%	114%
2006	2.780.274.000.000	16%	131%	17.941.000.000	12%	128%
2007	3.266.242.000.000	17%	154%	20.948.000.000	17%	150%
2008	3.959.818.000.000	21%	187%	24.782.000.000	18%	177%
2009	4.848.914.000.000	22%	229%	28.213.000.000	14%	202%
2010	5.428.503.000.000	12%	257%	32.293.000.000	14%	231%
2011	6.265.440.000.000	15%	296%	37.533.000.000	16%	269%
2012	7.571.790.000.000	21%	358%	44.718.000.000	19%	320%
2013	9.188.027.000.000	21%	435%	53.175.000.000	19%	381%

Appendix III: Disposable Income / Per Capita in Tanzania

	Disposable Income			Per Capita		
	Tshs	p.a	accumulated	Tshs	p.a	accumulated
2008	10.512.000.000	0%	100%	627.787.000.000	0%	100%
2009	10.870.000.000	3%	103%	693.470.000.000	10%	110%
2010	11.538.000.000	6%	110%	770.464.000.000	11%	123%
2011	12.911.000.000	112%	123%	869.436.000.000	13%	138%
2012	13.728.000.000	106%	131%	1.025.038.000.000	18%	163%
2013	13.925.000.000	101%	132%	1.186.200.000.000	16%	189%

Appendix IV: Location Quotient

Total Employment Dar es Salaam (Nm)	1.719.466
Total Employment Tanzania (N)	17.916.158

Industry	Nmi (DSM)	Ni (TZ)	LQ
Agriculture-Commercial, Food Crops and Forestry	91.525	11.226.296	0,08
Fishing, Hunting, Livestock and other related	43.461	622.660	0,73
Mining and Quarrying	58.482	470.148	1,30
Domestic Services	124.519	996.353	1,30
Education on Services	44.000	259.742	1,77
Trade and Commerce	201.831	1.121.373	1,88
Health and Social Welfare Services	23.544	92.129	2,66
Raw Food Sales (Uncooked Food)	192.318	583.446	3,43
Other Activities not listed	137.282	413.111	3,46
Services for Clean Water Sewage and Environment	50.634	150.741	3,50
Construction	151.622	423.586	3,73
Public Administration and Security Services	67.683	188.805	3,74
Electricity Gas and Steam	25.055	67.565	3,86
Financial Institution and Insurance	50.737	135.136	3,91
Services for Food Hotels and Lodges	117.584	311.328	3,94
Manufacturing	211.072	551.874	3,99
Haulage and Storage	93.605	233.514	4,18
Information and Communication	34.511	68.352	5,26

Appendix V: Rental and Value Development of the PPF-Tower

	2008	2009	2010	2011	2012	2013	2015
VALUE							
Value Tshs	36,859,000,000	38,562,000,000	40,240,000,000	42,660,000,000	42,690,000,000	45,278,000,000	56,137,119,000
Nominal Value	100.0%	104.6%	109.2%	115.7%	115.8%	122.8%	152.3%
Inflation	10.3%	12.1%	7.2%	12.7%	16.0%	7.9%	5.6%
Real Growth	0%	-6%	-8%	-1%	-13%	-9%	22%
Real Value	100.00%	94.32%	87.20%	86.65%	75.71%	68.92%	83.78%
RENTS							
Office (m2)	13,560	13,560	13,560	13,560	13,560	13,560	13,560
Occupancy-Rate	95%	95%	95%	79%	82%	79%	75%
Rental-Income	3,440,000,000	3,520,000,000	2,970,000,000	2,870,000,000	3,160,000,000	2,970,000,000	2,800,000,000
Rental -Income @ Full Occupancy	3,621,052,632	3,705,263,158	3,126,315,789	3,632,911,392	3,853,658,537	3,759,493,671	3,733,333,333
Rent Tshs	22,253	22,771	19,213	22,326	23,683	23,104	22,943
Rent \$	10,12	10,35	8,73	10,15	10,76	10,50	10,43

Appendix VI: Gross Capital Formation of Non-Residential Properties

	Tanzania			Dar es Salaam		
	TShs	\$Mio	Stock in \$Mio	GDP Dar / GDP TZ	\$ Mio	Stock in \$Mio
2004	460.289.000.000	209	209	15,1%	31,7	32
2005	473.808.000.000	215	425	15,0%	32,3	64
2006	491.387.000.000	223	648	15,5%	34,6	99
2007	525.622.000.000	239	887	15,6%	37,2	136
2008	557.960.000.000	254	1140	16,0%	40,5	176
2009	593.111.000.000	270	1410	17,2%	46,3	223
2010	630.477.000.000	287	1697	16,8%	48,2	271
2011	670.197.000.000	305	2001	16,7%	50,8	322
2012	737.087.000.000	335	2336	16,9%	56,7	379
2013	783.523.000.000	356	2692	17,3%	61,5	440

Appendix VII: Base Scenario - Property Level

Scenario: Base

TSUs vs. \$	2200	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Rents											
Ground Floor	€15.0	€15.2	€15.3	€15.5	€15.6	€15.8	€15.9	€16.1	€16.2	€16.4	€16.4
Upper Floor	€12.0	€12.1	€12.2	€12.4	€12.5	€12.6	€12.7	€12.9	€13.0	€13.1	€13.1
Functional Hall	€918.2	€928.4	€934.6	€943.0	€951.4	€959.9	€968.5	€977.2	€986.0	€994.8	€994.8
Conference Hall	€909.1	€918.2	€927.4	€936.6	€946.0	€955.5	€965.0	€974.7	€984.4	€994.3	€994.3
Space											
Ground Floor	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000
Upper Floor	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000
Functional Hall	1	1	1	1	1	1	1	1	1	1	1
Conference Hall	1	1	1	1	1	1	1	1	1	1	1
Income											
Gross Offices-Rent	\$ 2,936,727.27	\$ 2,966,094.55	\$ 2,995,755.49	\$ 3,025,713.05	\$ 3,055,970.18	\$ 3,086,529.88	\$ 3,117,395.18	\$ 3,148,569.13	\$ 3,180,054.82	\$ 3,211,855.37	\$ 3,211,855.37
Vacancy-Office	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Net Income-Office	\$ 2,851,200.00	\$ 2,879,712.00	\$ 2,908,509.12	\$ 2,937,594.21	\$ 2,966,970.15	\$ 2,996,639.85	\$ 3,026,606.25	\$ 3,056,872.32	\$ 3,087,441.04	\$ 3,118,315.45	\$ 3,118,315.45
Gross Income-Hall	\$ 20,727.27	\$ 20,934.55	\$ 21,143.89	\$ 21,355.33	\$ 21,568.88	\$ 21,784.57	\$ 22,002.42	\$ 22,222.44	\$ 22,444.67	\$ 22,669.11	\$ 22,669.11
Gross Income Property	\$ 2,871,927.27	\$ 2,900,646.55	\$ 2,929,653.01	\$ 2,958,949.54	\$ 2,988,539.04	\$ 3,018,424.43	\$ 3,048,608.67	\$ 3,079,094.76	\$ 3,109,885.71	\$ 3,140,984.56	\$ 3,140,984.56
Operating Expenses											
effective rate	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
	\$ 430,789.09	\$ 435,096.98	\$ 439,447.95	\$ 443,842.43	\$ 448,280.86	\$ 452,763.66	\$ 457,291.30	\$ 461,864.21	\$ 466,482.86	\$ 471,147.69	\$ 471,147.69
Net Income											
Net-Rental Income	\$ 2,441,138.18	\$ 2,465,549.56	\$ 2,490,205.06	\$ 2,515,107.11	\$ 2,540,258.18	\$ 2,565,600.76	\$ 2,591,317.37	\$ 2,617,230.54	\$ 2,643,402.85	\$ 2,669,836.88	\$ 2,669,836.88
Land Rent											
space in m2	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27
TIC Share (10%)	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500
Total Land Rent	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45	\$ 33,545.45
NOI											
Net Operating Income	\$ 2,407,592.73	\$ 2,432,004.11	\$ 2,456,659.60	\$ 2,481,561.66	\$ 2,506,712.73	\$ 2,532,115.31	\$ 2,557,771.92	\$ 2,583,685.09	\$ 2,609,857.40	\$ 2,636,291.42	\$ 2,636,291.42
Property Value											
Initial Cap-Rate	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%
Rental Income / Cap-Rate	€16,500,000.00	€16,667,298.98	€16,836,270.94	€17,006,932.63	€17,179,300.93	€17,353,392.92	€17,529,225.83	€17,706,817.06	€17,886,184.21	€18,067,345.03	€18,067,345.03
Property Value	€15,000,000.00	€15,167,298.98	€15,336,270.94	€15,506,932.63	€15,679,300.93	€15,853,392.92	€16,029,225.83	€16,206,817.06	€16,386,184.21	€16,567,345.03	€16,567,345.03
IRR											
CF-Property	\$ 2,407,592.73	\$ 2,432,004.11	\$ 2,456,659.60	\$ 2,481,561.66	\$ 2,506,712.73	\$ 2,532,115.31	\$ 2,557,771.92	\$ 2,583,685.09	\$ 2,609,857.40	\$ 2,636,291.42	\$ 2,636,291.42
CF-IRR	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%
Total Return											
Performance Property	0.00%	1.16%	1.16%	1.16%	1.16%	1.16%	1.16%	1.16%	1.16%	1.16%	1.16%
Performance CF	16.03%	16.03%	16.02%	16.00%	15.99%	15.97%	15.96%	15.94%	15.93%	15.91%	15.91%
Average Total Return	16.03%	17.20%	17.18%	17.16%	17.15%	17.13%	17.12%	17.10%	17.09%	17.07%	17.07%

Appendix VIII: Upside Scenario - Property Level

Scenario: Upside

TSRs vs. \$	2200	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Rents											
Ground Floor	1510	1518	1615	1655	1714	1812	1911	2011	2111	2222	2333
Upper Floor	1120	1126	1132	1132	1139	1148	1153	1161	1169	1177	1186
Functional Hall	6818.2	6859.1	6902.0	6947.1	6994.5	7044.2	7096.4	7151.3	7208.8	7269.3	7333.3
Conference Hall	6909.1	6954.5	7002.3	7052.4	7105.0	7160.3	7218.3	7279.2	7343.1	7410.3	7480.6
Space											
Ground Floor	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000
Upper Floor	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000	9000
Functional Hall	1	1	1	1	1	1	1	1	1	1	1
Conference Hall	1	1	1	1	1	1	1	1	1	1	1
Income											
Gross Office-Rent	\$ 2,936,727.27	\$ 3,083,563.64	\$ 3,237,741.82	\$ 3,399,628.91	\$ 3,569,610.35	\$ 3,748,090.87	\$ 3,935,495.42	\$ 4,132,270.19	\$ 4,338,883.70	\$ 4,555,627.88	\$ 4,783,892.14
Vacancy/Office	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income-Office	\$ 2,916,000.00	\$ 3,061,800.00	\$ 3,214,880.00	\$ 3,375,634.50	\$ 3,544,416.23	\$ 3,721,637.04	\$ 3,907,718.89	\$ 4,103,104.83	\$ 4,308,260.07	\$ 4,523,673.08	\$ 4,749,892.14
Gross Income-Hall	\$ 20,727.27	\$ 21,763.64	\$ 22,851.82	\$ 23,994.41	\$ 25,194.13	\$ 26,453.94	\$ 27,776.53	\$ 29,165.35	\$ 30,623.62	\$ 32,154.80	\$ 33,769.88
Gross Income Property	\$ 2,936,727.27	\$ 3,083,563.64	\$ 3,237,741.82	\$ 3,399,628.91	\$ 3,569,610.35	\$ 3,748,090.87	\$ 3,935,495.42	\$ 4,132,270.19	\$ 4,338,883.70	\$ 4,555,627.88	\$ 4,783,892.14
Operating Expenses											
effective rate	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
	\$ 418,483.64	\$ 439,407.82	\$ 461,378.21	\$ 484,447.12	\$ 508,669.48	\$ 534,102.95	\$ 560,808.10	\$ 588,848.50	\$ 618,280.93	\$ 649,205.47	\$ 681,734.14
Net Income											
Net-Rental Income	\$ 2,518,243.64	\$ 2,644,155.82	\$ 2,776,363.61	\$ 2,915,181.79	\$ 3,060,940.88	\$ 3,213,987.92	\$ 3,374,687.32	\$ 3,543,421.69	\$ 3,720,592.77	\$ 3,906,622.41	\$ 4,101,657.99
Land Rent											
space in m2	0.27	0.26	0.25	0.23	0.22	0.21	0.20	0.19	0.18	0.17	0.16
TTC Share (10%)	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500
Total Land Rent	\$ 32,318.18	\$ 31,152.27	\$ 30,044.66	\$ 28,992.43	\$ 27,992.80	\$ 27,043.16	\$ 26,141.01	\$ 25,283.96	\$ 24,469.76	\$ 23,696.27	\$ 22,962.41
NOI											
Net Operating Income	\$ 2,485,925.45	\$ 2,613,003.55	\$ 2,746,318.95	\$ 2,886,189.36	\$ 3,032,948.07	\$ 3,186,944.76	\$ 3,348,546.31	\$ 3,518,137.73	\$ 3,696,123.01	\$ 3,882,926.14	\$ 4,078,690.58
Property Value											
Initial Cap-Rate	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%
Rental Income / Cap-Rate	€16,500,000.00	€17,343,463.95	€18,228,327.24	€19,156,698.53	€20,130,789.98	€21,152,922.51	€22,225,531.36	€23,351,171.86	€24,532,525.53	€25,772,406.47	€27,073,526.41
Property Value	€15,000,000.00	€15,843,463.95	€16,728,327.24	€17,656,698.53	€18,630,789.98	€19,652,922.51	€20,725,531.36	€21,851,171.86	€23,032,525.53	€24,272,406.47	€25,573,526.41
IRR											
-16,500,000.00	\$ 2,485,925.45	\$ 2,613,003.55	\$ 2,746,318.95	\$ 2,886,189.36	\$ 3,032,948.07	\$ 3,186,944.76	\$ 3,348,546.31	\$ 3,518,137.73	\$ 3,696,123.01	\$ 3,882,926.14	\$ 4,078,690.58
CF-IRR	19.59%										
Total Return											
Performance Property	0.00%	6.87%	6.87%	6.87%	6.87%	6.87%	6.87%	6.87%	6.87%	6.87%	6.87%
Performance CF	16.57%	16.49%	16.42%	16.35%	16.28%	16.22%	16.16%	16.10%	16.05%	16.00%	15.95%
Average Total Return	16.57%	23.36%	23.29%	23.21%	23.15%	23.08%	23.03%	22.97%	22.92%	22.87%	22.82%

Appendix IX: Downside Scenario - Property Level

Scenario: Downside

This vs. \$		2200	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Rents	Ground Floor		€150	€14.3	€13.5	€12.9	€12.2	€11.6	€11.0	€10.5	€10.0	€9.5
	Upper Floor		€120	€11.4	€10.8	€10.3	€9.8	€9.3	€8.8	€8.4	€8.0	€7.6
	Functional Hall		€818.2	€777.3	€738.4	€701.5	€666.4	€633.1	€601.4	€571.4	€542.8	€515.7
	Conference Hall		€909.1	€863.6	€820.5	€779.4	€740.5	€703.4	€668.3	€634.9	€603.1	€573.0
Space	Ground Floor		9000	9000	9000	9000	9000	9000	9000	9000	9000	9000
	Upper Floor		9000	9000	9000	9000	9000	9000	9000	9000	9000	9000
	Functional Hall		1	1	1	1	1	1	1	1	1	1
	Conference Hall		1	1	1	1	1	1	1	1	1	1
Income	Gross Office-Rent		\$ 2,936,727.27	\$ 2,789,890.91	\$ 2,650,396.36	\$ 2,517,876.55	\$ 2,391,982.72	\$ 2,272,383.58	\$ 2,158,764.40	\$ 2,050,826.18	\$ 1,948,284.87	\$ 1,850,870.63
	Vacancy/Office		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
	Net Income-Office		\$ 2,656,800.00	\$ 2,523,960.00	\$ 2,397,762.00	\$ 2,277,873.90	\$ 2,163,980.21	\$ 2,055,781.19	\$ 1,952,992.14	\$ 1,855,342.53	\$ 1,762,575.40	\$ 1,674,446.63
	Gross Income-Hall		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Gross Income Property		\$ 2,656,800.00	\$ 2,523,960.00	\$ 2,397,762.00	\$ 2,277,873.90	\$ 2,163,980.21	\$ 2,055,781.19	\$ 1,952,992.14	\$ 1,855,342.53	\$ 1,762,575.40	\$ 1,674,446.63
Operating Expenses	effective rate		16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
			\$ 418,446.00	\$ 397,523.70	\$ 377,647.52	\$ 358,765.14	\$ 340,826.88	\$ 323,785.54	\$ 307,596.26	\$ 292,216.45	\$ 277,605.63	\$ 263,725.34
	Net-Rental Income		\$ 2,238,354.00	\$ 2,126,436.30	\$ 2,020,114.49	\$ 1,919,108.76	\$ 1,823,153.32	\$ 1,731,995.66	\$ 1,645,395.87	\$ 1,563,126.08	\$ 1,484,969.78	\$ 1,410,721.29
Land Rent	\$	0.27	\$ 0.29	\$ 0.30	\$ 0.32	\$ 0.33	\$ 0.35	\$ 0.37	\$ 0.38	\$ 0.40	\$ 0.42	\$ 0.44
	space in m2	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500
	TIC Share (10%)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
	Total Land Rent		\$ 34,772.73	\$ 36,061.36	\$ 37,414.43	\$ 38,835.15	\$ 40,326.91	\$ 41,893.26	\$ 43,537.92	\$ 45,264.82	\$ 47,078.06	\$ 48,981.96
	NOI		\$ 2,203,581.27	\$ 2,090,374.94	\$ 1,982,700.05	\$ 1,880,273.61	\$ 1,782,826.41	\$ 1,690,102.40	\$ 1,601,857.95	\$ 1,517,861.26	\$ 1,437,891.72	\$ 1,361,739.33
Property Value	Initial Cap-Rate		13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%
	Rental Income / Cap-Rate		€16,500,000.00	€15,652,332.35	€14,846,083.18	€14,079,133.32	€13,349,467.14	€12,655,167.27	€11,994,409.54	€11,365,498.21	€10,766,661.38	€10,196,446.66
	Property Value		€15,000,000.00	€14,152,332.35	€13,346,083.18	€12,579,133.32	€11,849,467.14	€11,155,167.27	€10,494,409.54	€9,865,458.21	€9,266,661.38	€8,696,446.66
IRR	\$	-16,500,000.00	\$ 2,203,581.27	\$ 2,090,374.94	\$ 1,982,700.05	\$ 1,880,273.61	\$ 1,782,826.41	\$ 1,690,102.40	\$ 1,601,857.95	\$ 1,517,861.26	\$ 1,437,891.72	\$ 1,361,739.33
	CF-Property CF-IRR		2,203,581.27 7.66%	2,090,374.94 7.66%	1,982,700.05 7.66%	1,880,273.61 7.66%	1,782,826.41 7.66%	1,690,102.40 7.66%	1,601,857.95 7.66%	1,517,861.26 7.66%	1,437,891.72 7.66%	1,361,739.33 7.66%
Total Return	Performance Property		0.00%	-4.67%	-4.67%	-4.67%	-4.67%	-4.67%	-4.67%	-4.67%	-4.67%	-4.67%
	Average Total Return		14.69%	10.10%	10.19%	10.28%	10.38%	10.48%	10.59%	10.72%	10.85%	10.99%

Appendix X: Base Scenario - Enterprise Level

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Initial Property-CF	CF-Property	\$ 2,203,581.27	\$ 2,090,374.94	\$ 1,982,700.05	\$ 1,880,273.61	\$ 1,782,826.41	\$ 1,690,102.40	\$ 1,601,857.95	\$ 1,517,861.26	\$ 1,437,891.72	\$ 1,361,739.33
Property Tax	Property Value	\$16,000,000.00	\$14,152,332.35	\$13,346,083.18	\$12,579,133.32	\$11,849,467.14	\$11,155,167.27	\$10,494,409.54	\$9,865,458.21	\$9,266,661.38	\$8,696,446.66
	Property Tax-Rate	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
	Property Tax-Payable	\$ 22,500.00	\$ 21,228.50	\$ 20,019.12	\$ 18,868.70	\$ 17,714.20	\$ 16,732.75	\$ 15,741.61	\$ 14,798.19	\$ 13,899.99	\$ 13,044.67
Value-Added Tax	Gross Income Property	\$ 2,656,800.00	\$ 2,523,960.00	\$ 2,397,762.00	\$ 2,277,873.90	\$ 2,163,980.21	\$ 2,055,781.19	\$ 1,952,992.14	\$ 1,855,342.53	\$ 1,762,575.40	\$ 1,674,446.63
	Value-Added Tax Rate	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
	Property Tax-Payable	\$ 478,224.00	\$ 454,312.80	\$ 431,597.16	\$ 410,017.30	\$ 389,516.44	\$ 370,040.62	\$ 351,538.58	\$ 333,961.66	\$ 317,263.57	\$ 301,400.39
Debt	FOMC-Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
	Risk premium	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
	applied Interest rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
	Interest payable	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00	\$ 404,250.00
Costs Corporate Body	CF after debt service	\$ 1,298,607.27	\$ 1,210,583.64	\$ 1,126,833.77	\$ 1,047,137.61	\$ 971,285.77	\$ 899,079.03	\$ 830,327.76	\$ 764,851.42	\$ 702,478.16	\$ 643,044.26
	Company costs	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00
	CF after company	\$ 1,198,607.27	\$ 1,110,583.64	\$ 1,026,833.77	\$ 947,137.61	\$ 871,285.77	\$ 799,079.03	\$ 730,327.76	\$ 664,851.42	\$ 602,478.16	\$ 543,044.26
Corporate Tax	Corporate Tax Rate										
	Corporate Tax Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Gain Tax	Capital Appreciation	\$ -	\$ -847,667.65	\$ -806,249.17	\$ -766,949.86	\$ -729,666.18	\$ -694,299.87	\$ -660,757.73	\$ -628,951.33	\$ -598,796.83	\$ -570,214.71
	Capital Depreciation	\$ -	\$ 707,616.62	\$ 667,304.16	\$ 628,956.67	\$ 592,473.36	\$ 557,758.36	\$ 524,720.48	\$ 493,272.91	\$ 463,333.07	\$ 434,822.33
	Capital Gain	\$ -	\$ -1,555,284.26	\$ -1,473,553.33	\$ -1,395,906.53	\$ -1,322,199.54	\$ -1,252,058.23	\$ -1,185,478.20	\$ -1,122,224.24	\$ -1,062,129.90	\$ -1,005,037.05
	Capital Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Withholding (Dividend-Tax)	Gross Dividends	\$ 1,198,607.27	\$ 1,110,583.64	\$ 1,026,833.77	\$ 947,137.61	\$ 871,285.77	\$ 799,079.03	\$ 730,327.76	\$ 664,851.42	\$ 602,478.16	\$ 543,044.26
	Dividend Tax	\$ 119,860.73	\$ 111,058.36	\$ 102,683.38	\$ 94,713.76	\$ 87,128.58	\$ 79,907.93	\$ 73,032.76	\$ 66,485.14	\$ 60,247.81	\$ 54,304.42
	Net Dividends	\$ 1,078,746.55	\$ 999,525.27	\$ 924,150.39	\$ 852,423.84	\$ 784,157.20	\$ 703,171.10	\$ 631,295.82	\$ 564,366.28	\$ 502,173.35	\$ 448,739.84
Return I Dividend Yield	Equity	\$ 4,950,000.00	\$ 4,735,272.87	\$ 4,520,545.73	\$ 4,305,818.60	\$ 4,091,091.47	\$ 3,876,364.33	\$ 3,661,637.20	\$ 3,446,910.06	\$ 3,232,182.93	\$ 3,017,455.80
	Net Dividends	\$ 1,078,746.55	\$ 999,525.27	\$ 924,150.39	\$ 852,423.84	\$ 784,157.20	\$ 703,171.10	\$ 631,295.82	\$ 564,366.28	\$ 502,173.35	\$ 448,739.84
	Average Dividend Yield	22%	21%	20%	20%	19%	18%	17%	16%	15%	14%
Return II Capital Appreciation	Net Capital Appreciation	0.0%	-4.3%	-4.5%	-4.8%	-5.0%	-5.2%	-5.5%	-5.9%	-6.2%	-6.6%
	Net Capital Appreciation p.a	-3.9%	-4.8%	-5.1%	-5.4%	-5.7%	-6.0%	-6.3%	-6.6%	-6.9%	-7.2%

Appendix XI: Total Return - Enterprise Level

Equity-Ratio	TR-Downside	TR-Base	TR-Upside
10%	37,0%	59,0%	67,0%
20%	18,0%	31,0%	37,0%
30%	11,0%	22,0%	27,0%
40%	8,0%	18,0%	22,0%
50%	6,0%	15,0%	20,0%
60%	5,0%	13,0%	18,0%
70%	4,0%	12,0%	16,0%
80%	3,0%	11,0%	15,0%
90%	3,0%	10,0%	14,0%
100%	2,0%	10,0%	14,0%

Appendix XII: Interview Mr.Hamad Abdallah

Records of Interviews

Name of the interviewee:	Hamad Abdallah (H.A.)
Company:	National Housing Cooperation
Position :	Director of Property and Management
Professional Experience in the Real Estate Industry:	>10 years
Professional Position:	Director of Property Management
Location:	NHC Place 6 Ufukoni Street P.O Box 2977 11101 Dar es Salaam, Tanzania
Time and Date :	13 th of October 2015, 10 am.
Interviewer :	Malissa Elisonguo (E.G.), Marcus Franke (M.F.)

M.F: Mr. Abdallah, where did you work in your career?

H.A.: Actually I have been working in Tanzania and I have a bit experience in the Kenyan-Market. My first company I was working for was called Gimco Africa, which is a joint venture between Gimco Kenya and Africa Property of Tanzania. After I worked with Knight Frank, actually Knight Frank is a familiar company also in Germany but it is a UK-based company. I have worked with Knight Frank up to end of 2010, this is when I joined National Housing Cooperation. I have been working for National Housing Cooperation (NHC) for almost five years now.

M.F.: When we talk about NHC, can you briefly explain the business of National Housing Cooperation? (1:40)

H.A: NHC is a pure real estate company. It is owned by government by 100% and was established in 1962... It is the first company in Tanzania to cater for accommodation services. I have been working up to now but we had another company called Registrar of Building (ROB), which was in charge of all acquired buildings. I am not sure if you are aware that some properties owned of private people were nationalized in 1971... All acquired buildings were under the RoB up to 1990, where the government had to make a decision of merging the two companies NHC and ROB. Currently we are doing management of the buildings and construction of new projects for leasing and for selling. We are also going to start soon a service we call „side and service“ whereby we buy a chunk of land, doing a masterplan survey and therefor provide infrastructure and sell to individuals.

M.F.: In the first group of questions I would like to talk about Dar es Salaam, because actually my thesis covers Dar es Salaam Investment-Market. So, first: In a Directors or Investors view,how would you generally describe the residential and commercial property market Dar es Salaam? (4:13)

H.A.: In general I can say the property market in Dar es Salaam is growing and is growing very fast. I have seen a positive change actually... This has a historical background. Why can I see a positive response of the market now, not before? The national policies, and here let me refer to a building acquisition act of 1971 whereby a good numbers of properties owned by individuals were nationalized. Actually it had an impact on the investment of real estate in Tanzania. The Act was abolished in 1978, but still people were afraid to invest in real estate until 1990 - 1997 were the act was established. To major investment were done by a parastatal like NHC, pension funds and very few individuals who were not afraid of taking risk. Foreign investors were afraid because of a fear that maybe one day the same government will nationalize their property. Then it went actually up to 1990 whereby we had a trade liberalization policy of which will open doors to all type of investments. We even encouraged some real estate investors. The president Ali Hassan Mwinyi went by then to put a trust to those who's properties were nationalized. He opened a door by them to appeal to the government that who were affected by the 1971 Act can appeal and can just justification why the government should return his property to him. Some of them actually submitted their application and some were of the properties were returned. Some of the properties from national housing were taken back to the original owners, just to put a trust, ok? Although whenever you open something, it is like a pandora box. People take advantage of the situation. So even if one of the guys was not the real owner, he pretended to be and some of the properties went to the wrong people. When President Mkapa was elected, he had to review the process and he had to return those properties to the ex-owners. But, that in a way actually to put trust back, the government came up with a very nice policy to attract. From 1996 we have seen some individuals investing in real estate. From 1997 were a building like PPF-Tower, those are the first high risen building apart of some few which were done by governmental parastatal, Investment-House. Those were few properties which were done in 1990s. By that time, the rent was around \$30 per m². Those higher rents attracted more and more investors, but it is just a demand and supply situation. As more buildings were coming up, the rents started going down. Currently we are talking of \$16-\$18 for offices space. In some areas like Oyster-Bay and Masaki, it's the high end market, they re charging up to \$25 per m². But for retail space in some areas we are archiving up to \$30, within the city centre. The realistic rent is around \$16 - 20. But when you compare the Tanzanian Rents, especially Dar es Salaam with Nairobi we are still archiving higher rents on office buildings. If you go to Kenya, for a grate A-Office, they can achieve a maximum of \$9 - 10, whereby in our market we can achieve up to \$18-20. So you can see, rents in Tanzania are very high. If you go to retail, rents in Kenya are very high too.**(not understandable)**If you have a mall in Tanzania, there is a feeling that it is very expensive to shop in this malls. It is a feeling, but if you go to some of the supermarkets, you will realize it is much cheaper than at the street shops. But it will take time for people to understand that,but we will be there. In Kenya actually they started in the 1960 and were not much affected with any policies compared with Tanzania. Yeah, but that is office side, commercial side.

Likewise in the residential ...we are affected by the similar policies because the acquisition were done with commercial buildings, they were also done in residential, ok? But apart of that we had another policy. You know,we are coming from a single ruling party, I mean a political party and in the CCM-Policy all leaders were not allowed to have more then one house, not allowed. So they were restricted to have only one.That one was also abolished. Right now, you are free to build as much properties as you can afford to. If you can afford to buy a 100, just do it! We also started seen people investing in residential properties. But between 1960 and 1970 is was mainly done by the National Housing Cooperation. But now some individuals and some private companies have invested much in residential properties. In recent years the rent in the residential side was very, very high, but now I can see they are coming down. Is it bad for the investors? I think we are just stabilizing. We are coming from artificial market, I can say artificial because of the low supply in the market. People were charging unrealistic rents. But now I can see more supply and rents are coming

down. But where are we going? For Office I can see actually see rents are going down, from \$18 to 16, in some areas maybe \$14. This is what I can see in the next 5 years.

E.G.: You know, M. F. has noted that some of the rents here are even higher than in Europe. For example in Kariakoo...(15:59)

H.A. : For Kariakoo, let me tell you. Kariakoo for retail space, rents are VERY,VERY HIGH. In some areas you can find people charging \$40 m², 45...

E.G.: Yeah, you know I did my undergraduate study there. If you convert, because they are quoting in TShs, you will find them above \$35 (16:39)

H.A. : And that excludes service charges.

E.G.: And even the buildings there made of substandard materials and the rents are very, very high. (16:52)

H.A. : But you know the Kariakoo caters for Eastern Africa. People from Congo, Zambia, Ruanda, Burundi, and Malawi are shopping in Kariakoo.

E.G. Why is the NHC not taking advantage of that the high rents in Kariakoo? (17:20)

No, we have some properties in Kariakoo, a good number of properties. But should we charge those unrealistic rents? We are not doing that. For us we are archiving up to \$25 per square meter and we think that is a realistic rent.

M.F.: Ok, we spoke about a few rents and how they developed and you said right now we are somehow in a stabilization phase. When investors usually enter a market, the first thing apart of rents they ask about financial ratios. Especially for European Investors, as you know they like to calculate a so called capitalization rate. What do you think is the average capitalization rate for residential and commercial properties and where are they going to? (18:26)

I think currently the cap-rate for commercial properties is between 9% and 10% on average. For residential properties it is somehow lower, around 7%. But it really depends on the location, this is the average.

M.F.: When you do your first research on Tanzania, you will up come to reports like the Global Competitiveness Report which compares Tanzania and other countries. They state that infrastructure, access to finance and corruption are the biggest challenges for Tanzania. This is what investors fear. Would you agree on that statement? (19:54)

For interest rates, yes! If you try to borrow in TShs, the minimum 18% for companies. But if it is for individual, it can go up to 20%, it really depends. But for mortgages currently most of the banks are charging up 18% even it is individual, ok?

For corruption, let me tell you it is a problem in Africa. It is a problem in the world. You see what is happening in FIFA now? It is not Africa, it is not Tanzania! Corruption is everywhere! But what differ actually is the level. If you compare Tanzania with other East African countries, I think we are much better than Kenya. We are much better than Uganda. The only country in East Africa which has tried much is Rwanda where the level is very,very low. But in other countries it is a challenge, it is a problem! Does it really affect the real estate business? The Government has tried much. Where is the government official going to ask for corruption? Maybe when you are looking for land? I don't think so, because if you are buying land, it is based on the market price! When you are doing transfer, they are trying much at the ministry level nowadays ... just to put in proper procedures. In building permits ? Yes, there are some delays. Because of those delays, some of the investors might think that they have bright people to get

building permit on time. Yes, it is there for individuals. If I leave the building permit say within a day or two I have to do something, it is in motion of people. It is difficult to get rid of that. It will take time. But if you compare 1990s and now actually, in the 1990s it was worse. But, currently I can say, not, not much! I am not denying that there is corruption! There is corruption! But not much to 1990s!

INFRASTRUCTURE IS A CHALLENGE! And it really depends where is the investor going to invest. The selection of the land, one of the considerations is availability of infrastructure. If there is no infrastructure, waiting for the government to do that will take ages. But if it is a strategic investor. Let me give you a classic example of Mlimani City. The Government had to commit that they are constructing infrastructure in that area because of that investment, and they did it. If there is a strategic investor, and this strategic investor, and here we are talking of an investor who will invest more than 200 Million dollars, the government will put the infrastructure. But for 50 Million dollars I don't see that happening. But still there is improvement actually, like roads, government are putting roads nowadays everywhere. I am living in Mwinyi, some of the roads there is 35 kilometers from here, some of the roads are tarmac. Currently they are doing a project of clean water, and they are planning to put a central sewer. Those are in plans, because of the economy it has been difficult to put in infrastructure everywhere but they are trying.

H.A.: Which areas in Dar es Salaam are in your opinion the most promising when it comes to real estate investment? (26:20)

Masaki for example is not very lucrative anymore because of the new masterplan. You can find the land value in Masaki is higher than the development value. Then why should you put your money in an area where the land value is VERY, VERY HIGH then the development value? Unless you want to put your own house in that area for prestige reasons, that they can see Malissa is actually living in Masaki! But for investment? The areas which I can see is Kawe. This is the upcoming prime area. Along Ali Hassan Mwinyi and Bagamoyo Road is another area in which we are putting in big investments, actually at the corner of Ali Hassan Mwinyi, Morocco Square in the Kinondoni District. There is another project, which is coming up now. It will be done by a group called Maraco where the Oyster Bay police station is located. They are going to construct a fifty storey building with a shopping mall. National Housing is also doing the Victoria Place Building right now. Also next to the Mikocheni hospital Dar es Salaam we are going to construct a twenty-two storey building there. These are the upcoming areas, but also the government is going to change the masterplan along Ali Hassan Mwinyi Road. They will put a restriction that no body will develop a property less than twenty storey building. That will come soon. It will change actually the market of that area. But if the government will change the masterplan of Oyster Bay and Masaki then we can see a lot in that area. But it's a pity that this area was more residential, but now I can see a lot of changes from residential to commercial. From double storey to high raised buildings. Which is not good for that area, I thought we are supposed to maintain the beauty of that land. Because of the traffic jam, some of the people trying to get out of the city centre. So we will see rents in the city center going down and down while in other areas rent will start to increase. At the Sam Nujoma Road, where Mlimani City is located is another coming area. There is a number of upcoming projects in that area.

M.E.: Several Reports suggest a housing shortage of 3.2 Million units which grows at the rate of 200,000 additional units each year. What do you think is the contribution of Dar es Salaam and at what is the annual change Dar es Salaam adds to that? What do you think is the real demand for residential properties in Dar es Salaam?

H.A.: You mean the percentage which Dar es Salaam contributes? I think maybe 60% of that is Dar es Salaam, maybe 60%. Dar es Salaam is growing very fast compared to

other regions. Of course I have seen growth in Arusha and Mwanza, but you cannot compare with Dar es Salaam.

M.E.: National Housing was aiming to provide 15.000 affordable housing units within 5 years. While, as you said the annual demand is 60% of that 200,000 which are roughly 120,000 each year. Do you think 15.000 units are enough? (32:08)

H.A.: Do you mean if 15,000 is enough? No, it is not enough! The effective demand, you can have a demand, but the effective demand, how are the people going to afford it? If the unemployment level is very high, even with our salary levels. Let me tell you, more then 70% of employees earn less then one million TShs per month in the formal sector. They cannot afford even buying, even if you put those houses! Who is going to buy ? Yes, there is that deficit of three million, say if you put three million in the market now. Are there buyers in the market or even people who will afford to lease those properties?

M.F.: This brings me to a god question,because when you start research, you end up with enormous numbers like Dar es Salaam is the fastest growing city in Africa and about to double population in 15 years. If you just go a bit deeper in the research, you find out that around 80% of the people are considered to be in the low income level in the informal sector. Working in the informal sector leaves those people basically without any chance to afford an own home. What do you think needs to be done transfer all those people into buyers for you company? What do you think has to be done? (34:02)

H.A.: It is all about the economy actually, IT IS ALL ABOUT THE ECONOMY!

M.F.: But the economy is growing, in the last five years on average 6% to 7%. (34:10)

H. A.:Yes, they are saying 7%, but can you see that growth? Because for a normal Tanzanian citizen, when you are saying there is this growth.That need to be reflected in the real life actually. Do you really see it? You don't see it. People in the informal sector somehow earn more then people in the formal sector,can you imagine that? More then 70% of the people have an income of less then one million shilling a month. What will you do? And Tanzanians are very tired. You can find a family with ten people with one million shillings a month. It is not enough. But IF the economy will growth, of course of those people will earn more. More people will be employed, ok? Currently, actually how many students are graduating in the universities? More then 50,000 students are in the university. What do you think how many of them out of the 50,000 will be employed? Maybe 20%? MAYBE 20% With hope, if the economy will growth, not the 7% which we hear from politicians. I don't know if the economy grows by 7%. I AM NOT SURE ABOUT THAT, I am not sure. But these are the statistics issued by the Bank of Tanzania, but to a normal Tanzanian, when you will tell him 7%?

M.F.: I actually did that. I spoke to some Tanzanian citizen. They told me, they just feel that things are just getting more expensive, but they are not earning actually more. They told me that the price for „Ugali“ (Comment:Local Food in Tanzania) doubled in the last ten years, the same for electricity.They are really struggling. (36:50)

H. A.: The prices for electricity are very high. **(not understandable)** We don't have enough power, although the government is taking some initiatives to solve the problem. But currently we have a problem. Which affects the industrial sector, which affect even the normal Tanzanian citizens. So, we have a challenge, but still, if you compare the living standard now AND the living standard in the last 20 years. It is MUCH, MUCH

BETTER today, MUCH, MUCH BETTER today. We are not complaining actually. We can see some progress. But, there is much to be done.

M.F.: What do you think has to be done? If you could propose certain points? (38:08)

H. A.: Some in the policy making actually, they have to change some policies, ok? Like in real estate currently we are seeing. The government has to put infrastructure in areas where we have put land. We have nice beaches in Tanzania. If the government will put proper infrastructure, that will attract investors to come and invest. Have we done much on tourism? We have attractions I can say, I don't see any country in Africa with such attractions. I don't know if you have been to any National Parks? IT IS AMAZING, OK? The Numbers of tourists in Tanzania, we are talking of one million, two million? But if you go to turkey, would do they have there? And how many people they have each year? More then ten million! We are not doing much actually, we have to do much actually. The president has been pushing people in the tourism industry. But it is difficult, there is a lot if you go sector by sector, it is a lot, A LOT. Mining, we have all minerals in Tanzania, we have even uranium I don't know if you are aware of that! What are we doing? We have natural gas! WHAT ARE WE DOING?

M.F.: Ok, but if the government addresses those issues? Why doesn't it work, even if the president tries to push initiatives. What is sticking here? (40:50)

H.A.: Let my give a classical example. We had similar problems in NHC. We were just complaining,complaining and complaining. The President just had to do a structural thing at NHC. I need to put a new management. Which will come up with a good strategic plan,...and they did it! Actually most of the directors from National Housing are from the private sector. What will it actually cost to put some ambitions which attracted us to move from the private sector to NHC?... And in 2010 actually, we moved from the private sector...NHC was not performing. In my director direction, because I am responsible for all properties which were have leased. Our income per month, or I can say our billing per month in 2010 that was in November, was 2.6 Billion TShs and the collection was less then 50%. As we speak today, our billing per month is now 8.1 Billion with the same properties. Is 8.1 Billion per month and our collection is 98%. We have reasons for 2%, because the government is not paying on time and because we have some cases in court, ok? But we are performing very well. Condition of our buildings were worse, currently we have done a lot. We are doing major renovations of our buildings. We are doing redevelopment of those buildings, we are now undertaking major projects. Currently, we are undertaking projects is more then 600 Billion Tshs.

M.F.: You spoke about the quality of your portfolio. You have been to Europe or to America,you know western standards. Would you say it is comparable, when it comes to construction materials?(44:23)

H.A.:Yes, of course actually. I don't know if you have been into one of our buildings?

M.F.: No, I just had the impression when I walked for example through Mlimani City, which was built in 2006. When I just once walked into the toilet, there is actually nothing working properly. (44:55)

H.A.: Answer Really? Nothing?

M.F.: Yes, the dryer was not working, the water wasn't coming out of the water tap. This is supposed to be the most modern shopping centre in Tanzania. But this is just my perception (45:00)

H. A.: Actually this might be an issue of the in house management I think. There are not taking care of the property. OK, this was done by NHC. We are still doing some fit outs, but we have some good buildings. We are trying actually to renovate. Let me show you one of the projects. Of course the construction standards in Europe and Africa is not the same. I can say 95% of construction materials, finishing materials are coming from China. Only 5% are coming from Europe. Tiles, they re coming from China.I'am not saying every material coming from China are not of good quality. Because some of the materials in Europe are coming from China...But it is the quality. But when you go to China, it really depends on what you choose. You want good material, you will get good material. You want inferior material, you will get.

M.F.: But Tanzania is growing fast, you told me 95% of the construction materials are coming from China and just 5% from Europe. Do you think that maybe Tanzanian industry will also contribute quality materials in the future? Like you can just grow an industry here? You have just said, you have resources, a young population. (47:35)

H.A.: We have seen some investors are coming. Last week actually, one of the largest I can say cement factory....It was open by the President in Mtwara. There is a guy called Dangote, which is the richest guy in Africa. And he has invested \$600 million in Mtwara, ok? This is one of the factories.But the trigger actually, I think it is an investor from Germany, Twiga Cement. There are a numbers of factories coming up. The only problem which we have is power, we don't have enough power. So even if you attract investors to invest in the industry if there is no power. But with gas now actually, I can see more and more coming.

M.F: Why do you think the government is not simply privatizing the power sector? When prices are high, competition will usually press them down as we have seen with the telecommunication sector.Why don't you think they are not just opening the market? (49:11)

H.A.: What they have done actually, they have opened up for the private sector to invest in the generation parts. So there are power companies actually, like Songas. They are generating power and sell it to Tanesco. They don't sell power directly to individuals. There is a lot of changes, it is not like things are not happening. They are happening. Maybe the pace is not good enough. But we are moving.

M.F: When it comes to the average real estate sector in Tanzania. What would you say on average, how long does it take to construct a \$50 million property from the initial investment presentation to the competition of the construction process? How long does it take in Tanzania? (50:41)

H.A.: It really depends actually. Normally we give us from the land acquisition to the commitment of the construction, normally its above six months. You will do your land acquisition, you will do your structural drawings and you will do procurement as a constructor and you will start construction. For NHC actually we are normally taking six months. But for private you can go less then that.

M.F.: How long does it take until the property is finally constructed?

H.A.: It depends on the constructor.

M.F.: All right, lets say you (Note:NHC) do it. (51:53)

H. A.: For us actually like, we one we are doing is 110,000 square meters, we are doing 2,5 years to completion. This building was done in one year (Note: National Housing Headquarter). So, it really depends on the contractors and how you want them to use. Nowadays you have a technology which is very popular in turkey. They can cast one

floor within a week. So, for the structure they can do it very, very fast. So it really depends. But in Tanzania actually, most of the contractors, like the one which we are using, they cast one floor in 13 days, and they move to another level.

M.F.: Like you have just said, for you, it takes 2.5 years and you are in the market and the perception of the citizens is very positive. Would you be ready to partner up with a foreign real estate investor? Would you go in a joint venture? If an investor, lets say from Germany is coming to you and asks you to allocate an investment, would you be ready to partner up? (53:18)

H.A.: We can go for a joint venture. We have some, what we call Satellite-Cities whereby we sell land, ok? But for a foreigner to buy land they have through the TIC, ok? So, we have Satellite-Cities like Tanganika Packers. They can buy and develop themselves, but If they want to go for a joint venture, we are also doing joint venture with a good number of companies.

M.F.: I have just two questions remaining. What do you think a real estate investor, who has not been to Tanzania at all should be most aware of? (54:15)

H.A.: I think it is a Return on Investment. The investor will ask for the return on investment he is expecting. That is the most important thing. But, two is the construction and land acquisition and land costs. How do they access land? What is the construction costs in Tanzania? Is there any reputable contractors, ok? Because you can have contractors, but they are not reputable, ok? If they have any track record? You want to see what they have done. Because you cannot say this contractor is reputable and you ask which buildings have you? If you ask which actually buildings have you and they will take you to a double storey building while you want to do a twenty storey property, ok? The other issue is taxation. What the tax rate in the country? The other issue, of course it is covered in the return of the potential tenants or buyers. Of course that will affect in the returns. Otherwise you can have a white elephant project I can say. You have maybe 20,000 square meters of office space and only 20% of the space is occupied. So they want to see what is the market of the area, ok?

M.F. When we talk about Tanzania as a country, what do you think, what do you recognize in carrier is the most common misperception of Tanzania as a country by foreign people wherever they come from? (56:46)

H.A. One of them you have mentioned yourself: corruption. It is corruption. Of course the other issue, If I go in the history which has actually punished the human nature in the country was the nationalization. But I don't see that happen, I DON'T SEE THAT HAPPEN AGAIN.

M.E.:There is this issue, the concerns of you are getting subsidies from the government at NHC like, for instance lets say you have been given plots of lands from municipal counsels also. Also I think you got the exclusion of VAT for the selling of the houses. (57:49)

H.A.: Let me tell you: We are not getting any subsidy from the Government. Although it is owned by the government a 100%. But we don't get ANY subsidy from the government and we are paying ALL taxes, like last year actually we payed nearly 30 billion a year.

M.E. I was trying to see the comparable advantage National Housing could be having compared with any other investor who will come. Like you are getting lots of plots of land for free for doing this investment maybe. (58:25)

H.A. No, we are buying land for infrastructure. We are putting money in infrastructure. Actually, fine we are a governmental parastatal but we are not benefiting much

because it is a governmental parastatal and that's what we have been demanding to the government, that's why don't you give us some incentives. We are not.

M.F. The topic I would like to talk about is the real estate market cycle. Do you consider when you are investing and constructing properties here in Dar es Salaam the market cycle, a real estate market cycle? Like you are following the rents going up, going down or since everything is just growing you can simply invest? (51:19)

H.A.: NO, NO it is always like this.

M.E: Are you doing feasibility studies for your projects? (59:22)

H.A.: We do! For each project, especially for the substantial projects. You cannot start constructing without doing feasibility study. We are doing it. We have our own in-house team doing that. And in some ... we go for a joint venture where we do hire up professionals to do the feasibility study. It is not like we taking for granted that each and everything goes well, No.

M.F. Do you think you can access some of the data? (60:00)

H.A.: No, they are confidential.

M.E: There is a notion that some of the properties, actually many of them for the project that you are selling, they have been bought by the guys who are doing speculation.They are trying to speculate the market, they just but, maybe they are not buying for staying there, in expectation of maybe higher rents. (1:00:26)

H.A.: You can actually not avoid that in the market. And it is not our intention to control speculators. You are coming as a buyer, how can I know that you are a speculator or not? If you are coming to buy, say 15 units, I can start asking you some questions. Why do you need 15 units?

M.E: Do you have that kind of assessment? (1:00:55)

H.A. Currently I can say we don't have speculators.

M.F. So you think the one who are buying are targeted customers? (1:01:06)

H.A: Of course and we cannot limit you that if you are buying, you have to stay yourself. Some of the people are buying for investment, they buy and want to lease it...Being a governmental parastatal is not like we have now to start fighting for speculators. We are doing business, we are taking loans from the banks and how are we going to pay back to those loans? We need money from them. Our major concern is especially in the affordable housing, is just to see the target market,... is the one buying actually. Although it's a challenge because very few can afford even though they are affordable. I told you before that around 70% of the employees getting less than one million shilling per month. And I am not expecting, because they can't even get a loan from the bank. So, even if is affordable but you can't find middle income earners are staying in those properties because they can afford those properties. And if you have a project, which is you have targeted for middle income earners, you can find some of the higher income staying in those houses.That is our market. But generally actually our market is growing and if there is any investor, if think there MUCH to offer in the market.

M.E.: About the lack of real estate regulation, which regulates the real estate as a business...Like to regulate the agencies (1:03:25)

H.A. No, there is a bill,we were discussing two weeks back and you get a copy from the Commissioner.

M.E: Is it going to come soon? (1:03:50)

H.A.:Actually they are pushing for that law to be enacted maybe next year.So we are in the stakeholders meeting two weeks back.

M.F. You are talking about that Real Estate Regularly Authority which covers all transactions?

Yes.

Thank you very much!

Appendix XIII: Interview Dr. Fred M. Msemwa

Name of the interviewee:	Dr. Fred M. Msemwa (F.M)
Company:	Watumishi Housing Company
Position :	Chief Executive Officer (CEO)
Professional Experience in the Real Estate Industry:	>10 years
Location:	Golden Jubilee Towers P.O Box 5119 Dar es Salaam, Tanzania
Time and Date:	16 th of October 2015 , 9am.
Interviewer:	Malissa Elisonguo (E.G.) Marcus Franke (M.F.)

M.F.: Thank for the time you have taken for us today Dr. Msemwa! First, I would like to go quickly through a few general questions. Would you please briefly introduce yourself in terms of you're working experience especially in Dar es Salaam? (0:28)

F.M.: My name is Fred Msemwa. And I am the CEO of WHC. My background is accounting and audit. But I have worked for NHC for six years, coming from the university. I left NHC to pursue a career in the public service at the NGO after Ministry of Tourism for another six years. After I was appointed CEO for WHC. Here my role has been first to set up the systems for WHC that it can operate as a company. This is a brand new company. So, me and my colleges we did the work to put the institution working. In terms of WHC, this is a real estate developer, public owned and primary we are responsible for the developing housings for affordable homes, for the general public. But, as we start, we have forecast our market to the public housing scheme. All right? So, that is the core activity that we are doing and there are others things which

we are doing here, we are also funds managers in the sense that WHC works as a Real Estate Investment Trust (REIT) and this is the first REIT in East Africa in terms of establishment. As we speak, there is no any other REIT in East Africa. As you know, we have REITS in South Africa, Egypt, Nigeria and Tanzania. So, we are the fourth in terms of Africa. So, how does the REIT works?

The REIT is organized in the same manner other REITS are organized. First you have to have the unit holders, in this context need to have the we need people or institutions who bring their money to be invested, ok? In that case we have seven public entities which are pensions funds, which have come together to put up their resources and we manage it. So you have unit holders are pension funds plus the National Health Insurance Funds (NHIF) plus NHC. All pension funds, NHIF and NHC. This are the unit holders. You have the funds manager that is second part of any REIT, you have the funds manager. So, WHC is the funds manager, ok?

The last you have is the custody, the custody is the bank which helps us to manage or to keep the funds. So, the Tanzania Bank Limited is a custody. So, that is the structure. Initially we are operating as a closed REIT, in the sense that in the units which we manage are not traded at the stock exchange, ok? After the lapse of three years which will come next year, this REIT will be registered at the DSE. What does that mean? It means, the original unit holders may decide to exit in extent they want to sell their units to general public, ok? So, that is the term of the structure.

M.E.: How big is the funds right now? (4:58)

F.M.: Right now, the funds is around \$34 or \$35 million. But, this funds is growing incrementally, year after year, because the scheme which we are implementing is under five phases. So that funds will growth five times at the end of the first project. So, it will be like the end at \$180 million, close to \$200 million.

M.F.: In the first phase you have committed to construct 50,000 units for public servants, right? (5:45)

F.M.: No, that was the entire amount of houses that we will built under five phases. So, phase one is 2,500 units, ok? This is the time now we are implementing phase one.

M.E.: And phase one takes how long? (6:06)

F.M.: Phase one takes one to three years. Initially we thought EACH phase will take one year. But in practice we have realized that, for example you cannot built 10,000 homes for one year. That has never happened in any part of the world.

M.E.: So, phase one have you started constructing? (6:40)

F.M.: Yes, a 1,000 units are in construction and a 1,000 units by Tanzanian records, this is the HIGHEST numbers units under construction at a single time, you see?

M.F.: We would like to first focus to Dar es Salaam. We have seen on the website that you are doing several projects across Tanzania, and I have seen you are doing three projects here in Tanzania. You have the Watumishi Wagomi Flats, you are operating in Kigamboni and you are also in Bunto. What made you invest particular in those areas? (7:27)

F.M.: Ok, one is the availability of land, ok? Two is the customer preference and the third is the price of the land.

M.F.: And you're customers are mostly interested in affordable housing, right? (7:45)

F.M.: Yeah, we are aiming to do build affordable homes.

M.E.: Apart of those factors, do you conduct kind of feasibility maybe studies to decide to invest in those areas instead of the others? (8:06)

F.M.: Yes, we do conduct such a kind of studies. Also, we use previous studies which have been done by other people. So, for the sake of, and the demand for residential housing, there are some studies of even consultancies which have previously indicated that there is demand for homes and we used those kind of information to built the business case for implementing a project.

M.F.: Within your five phases, how many units in total are you going to construct in total Dar es Salaam? (8:55)

F.M.: In total in Dar es Salaam, it will be around 25,000 units.

M.F.: You will stay in those areas ?(9:11)

F.M.: No, it will be another. We have to spread this projects, otherwise you cannot have all the houses at one location.

M.F.: I would like to go through a few general question about your experience and about Dar es Salaam. When I ask you to briefly describe Dar es Salaam residential and commercial real estate market, how would you describe it? (9:41)

F.M.: Ok, starting with the residential segment. Dar es Salaam is the main capital city of Tanzania. It is a business hub or a commercial hub of the country. Given its position, Dar es Salaam attracts a lot new people who wish to stay in Dar es Salaam, especially the younger generation. Because they are looking for new opportunities, job opportunities, coming to study...MAYBE those two things. So, you find Dar es Salaam in terms of the population growth, grows faster then the rest of other regions. In that case, when the population of the entire country is growing at 2.8%, Dar es Salaam is growing at 5.6% and I think that has tended to yet a bigger demand for residential houses, compared to the rest of cities or towns or urban centers in the country. It is estimated that Dar es Salaam needs at least 400,000 housing units as we speak, ok? With that number, we can estimate that the demand for homes is higher and that can have an impact on even the prices of residential rents, which have to be paid by the people who need houses.

So, in terms of the demand for residential houses I would say Dar es Salaam has a deficit of that tune and given the fact that 70% of the city is unsurveyed, then it means another challenge in terms of quantity of even the houses which are already there. So if you take 400,000 this are new homes that are needed and you also analyze even those the homes which are already there, there is one statistic which is coming from the National Census 2012 which says Tanzania has about 9.2 million houses, or 9.2 million homes. That report from the census also says that out of the 9.2 million homes about three Million are built by construction materials which cannot not be explained. What does that mean?

It means, when they say the construction material which can't be explained, it means they can't the construction materials which we are used to see maybe iron sheets or blocks. So there have been those houses built by trees and mud. So if you take that three million and they want just to replace those homes which are mud built, then there is another level of demand. Part of that three million is also houses which are formed here. So apart from the 400,000 which is have said, there is this segment which is another type of homes which will need to be replaced, ok? So, generally to conclude the residential segment, I can say the demand is just too big and the challenge of residential housing in Dar es Salaam is compounded by the fact that two-third of the land has not been surveyed which translates into poor infrastructure for electricity and water and even sewage, that could have a connection to the quality of life for the people who are staying in those kind of places. So, that is the residential part.

If you go to the commercial, commercial space, in terms of the commercial market this is a better scenario in terms of the quality of office space which is available to the business community or other organizations which are interested to rent. In recent years there has been an impressive pace at which space has been supplied in the market. But yet, we are here to see a balance between and the supply. That is reflected by the type of rents which are charged, ok? If you compare the rent charged in Dar es Salaam compared the rest of the East African countries, especially Nairobi, our rents are a bit higher which means that the demand higher than what can be supplied. Although that scenario cannot be seen in the residential segment. What we are seeing is also that most of recent development are also happening outside the CBD which translates into the response for the developers to address the issue of infrastructure, especially roads and in the manner that people be able to get their offices earlier and get home earlier. But generally there is still a space in terms of offices which needs to be built.

M.E.: When are you planning to provide affordable housing? (17:34)

F.M.: As for Watumishi Housing, our forecasts are in the affordable housing space, because of our mandate,... as you know this is a public entity. It is the same government which also has other institutions which are addressing the rest of the market. We have NHC which is 53 years old and NHC is a developer, it develops residential properties for commercial costumers and industrial buildings as well as residential. Due to the transformation which has happened in recent years again, say 2010 to (not understandable), National Housing was acquired by the law to adopt a business model in a manner were it would not require to get assistance from the government. So, the direction for National Housing has been to operate commercially. Now, since that orientation, National Housing will has to price it's products in a manner that reflect the commercial principles. Now, the pursuit of that direction has a left a room where people with lower income segment can't afford to access houses built by National Housing. So, most of the times houses built by National Housing will be bought by middle and top class, the far end of the market. Now the fraction which tends to be left is the one we are addressing, although we are also expected to operate commercially. Commercially in the sense that the government will bring money, ok? So, our challenge here is to have a very stringent cost structure in a manner that the cost of running the company does not translate into higher prices for homes.

M.E.: So, you think your prices for affordable houses will be a bit lower than the NHC's affordable houses, if you take the similar kind of houses? (20:57)

F.M.: Yes, by far!

M.F.: Do you have some numbers like a price per square meter? (21:15)

F.M.:For now, we are building apartments at Kigamboni. An apartment with three bedrooms which NHC say sells at 300 million Tshs (Note: approximately \$136,000) we sell at a 125 million Tshs (Note: approximately \$57,000) which is less then half. Even for landed properties, the prices which we sell at, is the LOWEST in the market. You cant not get a house for 33 million TShs (Note: approximately \$15,000) anywhere. Because NHC sells high price homes, it's expected to be even lower than blocks and sands. Now we have reached the point where our houses for block and sand is lower than the hydro-foam. Ok, so what does that mean? It means two things. One,that our homes are cheaper not only for some Mahagoni sides to buy, but also in the long run it is cheaper to maintain a block and sand home than a hydro-foam, because with the hydro-foam, if anything happens to the wall you can't make that brick. But for our homes, this is the type of building materials which people are used to. So any fundi (Note: local craftsman) on the street can carry out the repair, in the long run this will be really affordable. Not only to buy but also to maintain.

M.F.: What is the average rent your customers have to pay per square meter? (23:34)

F.M.: We don't rent them. We sell them. But, for renting National Housing charges up to say 3,000 to 15,000 TShs (Note: \$1,40-\$ 6,81) per square meter for residential homes.

M.E.: Why did you decide to go public? (24:19)

F.M.:Ok, we have to go public because we want to increase the capital. You know, this an opportunity where people can make money, ok? Although that segment seems not be that attractive, the affordable segment. This is the way we are approaching the market, starting this the public servant housing scheme. However we know for sure that after we have managed this market, it will be easier for us to open up for any buyer. And they know, the money we are using is coming from all the entire working class it is not only public servants who are contributing to the pension funds even the private sector contributes. So after some time, this will it will just be a smaller scheme for public servants where the government can put some concessionary arrangement to support its group but the houses will sold to the general public. The prices will not be that much different from the individuals which have served to the public but lower than the rest of the developers. While we are doing that, sometimes we develop Satellite-Cities, we can build 400 houses with that development, then we will not only build the houses, we will also build other buildings such as malls or even offices to support the community. There will be a time when the commercial development subsidizes the residential development. It will not be this concept, or this model, will not continue to be less attractive as it might appear now.

M.F.: As you said, you want to construct affordable units first to public servants and later to the general public. And you do it on a way lower price than National Housing is doing that and in three year you want to access to DSE. As you know, the only thing investors actually care is the return and the risk. So, you said in there are four different REITs already in Africa operating. From this point you are in competition to them, as I am the investor It will have to choose between the REITs in Africa. Can forecast some financial ratios investors are interested in? For example when I go for shares, there are ratios like to Price / Earning, a dividend yield, an expected capital growth, there is a BETA. Did you do those measurements? Do you have any forecasts you have? (28:18)

F.M.: So far we are using the ROI, which is now at 15%.

M.F.: Expected or realized?

F.M.: realized.

M.F.: The nature of REITS is that they usually save taxes but for that distribute dividends to shareholders. What is your expected dividend yield? How much of your profit you want of distribute?

F.M.: 90 %.

M.F.: What do you think makes investors invest in your REIT and not in others? Do you think you have some benefits there?(29:27)

F.M.: For now because they do not have choices, because we do not have other REITS, ok? So, you cannot say anything why they decided to come to you. Maybe for now this is the only vehicle in the market which they can use to invest. Another thing with the REIT now, because they could use other traditional vehicles such as companies to invest. Maybe tax advantage that they enjoy could also be one of the reasons they use to come and invest. Another thing is, for example we have our with our unit holders, this is one way for them to show that they care for their employees because... employees would wish to get some benefits on the money they contribute in

the pension funds. Once they are able to get his kind of abilities, it is a marketing tool for them.

M.E.: Will the REIT solely invest in Watumishi Housing Projects or can it buy shares from other property companies?

F.M.: So far, we are, the investment policy for that Watumishi is to invest 75% of the resources in real estate and 25% in other securities. However, investment in other securities will only happen if there is no investment in real estate.

M.F.: And by investment in real estate you are only referring to Watumishi projects or also to NHC?(31:29)

F.M.: We don't invest elsewhere.

M.F.: So, you don't go for direct investment, there is not indirect investment? (31:39)

F.M.: Yeah

M.F.: Are you expecting to leverage your business? Are you expect to operate highly debt loaded or just with equity? Also I would like to know about the expected market capitalization at the stock exchange.(31:57)

F.M.: In terms of being levered, in the short run that may not be our preferred option because this fund, or this scheme is just one year old. So, we are still studying the market and even affecting some of the things which we wish to have. Even the regulator actually was also learning in terms of how REITS work. Because this has being a learning process to everybody.

M.E.: The regulator is the Capital Market Security Agency (CMSA)?

F.M.:Yeah, so in the near future we are expecting to being leveraged by taking some loans from the market. So that will be mostly used for the development of commercial properties where the return is commendable higher. Because the issue of interest-rates again is not very friendly in this country. If you borrow at 20%, people expect you to give them a return of 15%. So, it can't work.

M.E.: How did you make it possible to mobilize this funds by the big companies like National Housing and all of the Pension Funds ? (35:07)

F.M.: Watumishi Housing came out of the initiative from the government, it's not us who came here and started to talk to pension funds, ok?

M.E.: But so far, how is the arrangement going between the pension funds and Watumishi concerning the motive they may have? Because it might be that they injected their money and see WHC not going in the right direction (35:36)

F.M.: Ok, you know in real estate one year is a very short time. If you would have come here 15 months ago, there was no Watumishi Housing, NOTHING. If today we are talking a 1,000 units a being constructed then you can see the progress which has been made. And if we really build that 1,000 units per annum, than no other institution in this country which has managed even to built 500 units per annum. You know TBA! The Tanzania Buildings Agency have been doing that job over eleven year and over that period they have built a 1,000 units. Over eleven years, which are 90 properties per annum, ok? Even NHC, which has been there for 53 years and has built 14,000 units. So if you have a 1,000 units in TWELVE MONTHS...To me who have been to NHC, I know what is happening, even in the market we know who builds houses...

M.E.: I was trying to imagine how do you compete with these guys who are also doing real estate and they also have affordable housing like NHC is a shareholder here. So, maybe they can influence some decisions (37:39)

F.M.: Ah, you know for TBA. You know TBA, the core activity of TBA is not to built homes. It is to manage governmental properties. That is the job to which it was established. So, with the vacuum which is there in the market, they decided to also take that of the reasons to create that but from fundamentally TBA's job is to manage government buildings. NHC is a premium developer, ok? But given the demand of houses, you know this country is very big compared to Malaysia. And in Malaysia we have found three institutions like NHC. Imagine three institutions doing that job. Building or aiming building ONE MILLION homes per annum, you see?

M.E.: Basing on your knowledge and experience of the market would you recommend for foreigners to come and invest? (38:55)

F.M.: Here? Yes, they can come. I think this market is still virgin and undeveloped because sometimes you can create demand. Apart from the demand and the statistics which I was mentioning earlier there are things, when I am saying here we need 400 homes, typical homes which I have shown before. But there are other things which are apart of the real estate market which we don't even know. For example it is the retail space. If you talk of the malls, building hotels, this is part of real estate, ok? So given the burden and economic development, which is happening now, it means the demand for residential properties, homes, commercial, retail space, even industrial space, it will just be a march for some 10 to 20 years.

M.F.: You have stated you project the housing shortage at 400,000. If you just do a bit research as you are a foreign investor in the internet you will come along with a lot of reports. One report from the CAHF states that the current housing shortage in Dar es Salaam is already 3.8 million growing by 200,000 units a year. Other reports from the World Bank states that the population is about to be doubled in 10 to 15 year. Apart from research, if you drive once up from Posta to Mbezi Louis, you see all this people in the informal sector and they don't have any access to mortgage finance and they will never able to afford, even your houses. What do you think has to be done by politicians and anyway, what has to happen to transform those huge shortage into real demand. (41:23)

F.M.:Into real demand, yes. Actually the statistics which you have mentioned, because you ask for Dar es Salaam, thats why I have narrowed the figure just for Dar es Salaam. Most of the time in terms of demand for homes in Tanzania, here three million the demand is growing at 200,000 units per annum, ok? That is the general figure you will get for the whole country.

M.F.: The report states the 3.8 Million just for Dar es Salaam. This report also states many people living crowed in bungalows so the actual real shortage is much higher.(42:04)

F.M.: Yeah, if they have updated it to 3,5 Million, fine because of the development that happens on annual basis because the three million figure has been there for the past three past years. Even now they have updated it to 3.5 thats fine but that is the gross figure of demand but you can't just end there thats why we now go further, saying out of this the demand,what is the situation at the urban centers in Dar es Salaam, Mwanza, Arusha, Mbeya - urban centers, if you break that figure you will get 1.9 for urban centers in towns. If you break that 1.9 for Dar es Salaam only you will find it is actually 400,200 housing units, ok? That is the market for Dar es Salaam, you see? Now, translating or transforming that demand into effective demand, a number of things have to be done. One is the issue for the demand side. Demand side, first issue is the interest rate. If we are not able to adjust the interest rate to levels which can reduce the pain to be person who buys the home then it will be difficult for people to access the

homes, that's why at WHC we have addressed some of the demand side aspects for example the interest rate, we have negotiated with banks which are lending under this scheme at the lowest compared to the REST of the market by up to 5% difference. For example Tanzania has agreed to lend between 10 and 15%. If you borrow at that rate, you are saving 5% of the interest which is a bit more affordable compared to what is offered in the market. So that is the interest rate, another issue is the issue of title. Titles should not be a problem because for a mortgage loan to happen there must be a title. If it takes number of months or years to get a title then few people don't have access to such kinds of programs. Another thing is the issue of culture, awareness, public awareness, because Tanzania here people are used to building homes by their self or by fundies, ok? But in the end, they pay more compared if they would have bought houses by loan. Because when they build their homes on their own, it takes 1 to 15 years for someone to complete a house. One up to 15 years and then while the construction is in progress, the same person is paying rent, ok? For rent, which means rent is part of the costs of the house. If he would have bought the house then he would have saved that. So, if you are paying rent for 15 years, then the rent I pay is part of the construction costs, ok? And then they undertake supervisory work, supervise the houses, they don't pay the tax, if they would have put someone to supervise they would have payed, that is part of the costs, ok? And another thing is risk of shorting works. Short works by the works of fundies or the technicians. Even stealing some of the building materials which are still there, so in primary the houses which people build on their own could be even more expensive than what we sell at. But that is not known because people haven't been told. So public awareness on the relevance of mortgage acquiring houses through mortgage, those kind of things have to be done. And we are actually doing because otherwise it will be difficult.

M.F.: When you investigate the Tanzanian property market you will come along with reports like the Global Competitiveness Report which compares Tanzania to all other countries in the world, at a certain stage of development. It says that the biggest challenges in Tanzania overall are corruption, infrastructure and access to finance. We covered already the access to finance and we spoke a bit about infrastructure also corruption. Would you agree that those points are the biggest issues here? If you do, do you think that politicians doing the right things to meet this challenge? (48:08)

F.M.: Yeah, the government is, if you talk of politicians you are talking about the government. Government is trying its best to address some of the issues. But again, there are things which the government cannot do. Even if the government has very good intention to issue title without any bribery or without any officer taking a bribe. But you will find some of the things such as at the key level of some officers can push them to do things which are contrary to what the government could expect. In terms of the policy direction, it is perfect, even the Land Act in 1999 land policy, will have all the high level documents or policy direction in terms of what it takes to have a functioning housing market. We have the Mortgage-Finance rules, the unit title act which means you can get many titles under one block. So the government has tried its best to all what is required to make a real functioning housing market. But other things such as the demand side, such as the interest rates you know, you can do a lot to improve all the variables in a system. But one thing can just block it. The key to the housing market is the issue of finance. The demand side and even the supply side. For example establishment Watumishi Housing addresses the supply side, because one of the problems was that houses are not in the market. So what will you do? Even if you have a system for giving people titles if homes are not in the market, if they are not available. They law if self cannot bring houses So, initiatives like establishment of WHC, Unit Title Act, Land Act, now the government is working on the establishment of a regulator for the real estate sector. All these initiatives, but the issue of finance has been partially addressed because the links with a lot of other macroeconomic fundamental which could be beyond the government.

M.F.: Before you told us that the interest rates are simply high because the Governmental Bond yields at 18%. I assume it is issued in TShs. 18% is a lot when it comes to international comparison.

F.M.:It's not 18, it's actually 11%.

M.F.: But even eleven is a lot. Are there Banks or Investors who simply borrow US-Dollar and invest? Or why don't developer simply access US-Dollar Investments instead of going to local banks. (52:08)

F.M.: You know if you borrow in a foreign currency if you are receiving cash-flows in local currencies and they are borrowing in foreign currency than you are increasing the risk. Ok? Actually you can join the saving coming from the different interest rate if there is no chance in the macroeconomic fundamentals such as inflation or even interest rates parity. Now, if you look at what happened to the Tanzanian Shilling recently if you had borrowed in US-Dollar then you could close your business. Because just by waking up in the morning, the Shillings has lost 10%, ok? So, if you have borrowed massively then you close shops.

M.F.: But actually everything is sold in US-Dollar. Wherever I want to rent, like for example in Masaki it goes to \$2,000 or \$3,000. The Risk of hedging or currency hedging is actually not there. It might be if you go for affordable housing it would be different, but doing that you don't have that risk actually. (54:00)

F.M.: Yes, for some types of real estate such as hotel or even the office space is payed in dollar, in this case you would not suffer much because of that hedging mechanism but if you go for residential space and selling in Shillings then you brace for massively losses.

M.F: Thank you very much!

Appendix XIV: Interview Mr. Mathew Nhonge

Name of the interviewee: Mathew Nhonge (M.N)

Institution: Ministry of Lands, Housing and Human Settlement Development

Position : Assistant Commissioner for Lands
Dar es Salaam

Professional Experience in the Real Estate Industry: >10 years

Location: Kivukoni Front
Ardhi House
P. O. Box 9132
Dar es Salaam, Tanzania

Time and Date : 17 th October 2015 , 11 am.

Interviewer: Malissa Elisonguo (E.G.)
Marcus Franke (M.F.)

M.F.: Mr. Gombe, first, I would like to go quickly through a few general questions. Would you please briefly introduce yourself.

M.N.: Yeah, my name is Matthew Gombe, I am the Assistant Commissioner for Lands for Dar es Salaam-Zone. We have eight zones, Dar es Salaam is one of it and I am the Assistant Commissioner for it. I have been in the industry well because real estate in the groups itself with the properties. So, I have been in the industry for almost 11 years. I have been working at different levels from just an officer and now I am the Commissioner for Lands.

M.F.: For the first question, pretty general what is the authority you are currently working on doing? What is the purpose of the ministry you are working for? (1:47)

M.N.:Yeah, actually as the name sounds itself this is the Ministry for Lands Housing and Human Settlement Development. So, typically I am working with the Ministry but the Minister has quit a lot core departments. So, I am under the Commissioner for Lands Department which is the ministry, the department that deals with land and services. It includes issuing grant for land, it includes transactions for sanctioning transactions for land when the purpose is of land. It deals for quit a lot of things. It deals with the revocations in case there are breaches of condition for the Right of Occupancy, then we also dealing with general land administration in the country. Because the Commissioner for Lands is the Chief Government Adviser when it comes to the land administration and super-visioning the country. For those, for some of the areas that are key areas we are carrying out.

M.F.: What is the procedure if a foreign real estate investor comes to Tanzania and he wants to develop a plot? What is the procedure he has to go through? (2:00?!)

M.N.: If a foreign company is coming to Tanzania, well actually the procedures if you go through the Land Act that was enacted in 1999. It spells out clearly under section 19 and 20 that a foreigner is not allowed to own land in this country unless it is for investment purposes. That is through TIC because the TIC Act that appeals investor and came in 1997. Any Investor can acquire land through and get what we call a derivative right. That has to be typically for investment purposes. They understand that some investors also get land residential apartments because if there are uncertainties to the main activity they are doing in Tanzania, so that is the procedure. The procedures, the contracts, the arrangements they are clear. They have to do through TIC where we issue land to investor when they get the certificate of incentives. Because there are requirements that TIC has put in place to qualify to as an investor. So wherever there is that qualification for a grant of land, the first issue gives you, they give you what we call... it is like a consent letter that now you can acquire property in this country. That is number one. So, when we have that kind of letter a Certificate of Incentives of TIC. Now from there, if there is land available, because the problem what we have is that TIC doesn't have land of its own. Normally investor will procure land from different owners. Now if that happens, the procedure under the registration is that we, the Commissioner signs land from one that designates the land for investment purposes. From number one, we sign it, then we have done that, then the application for grant of that land goes into the National Land Acquisition Committee. That now on the behalf of the government now can issue that land to the investor. So, when that land is grant to the investor, what we do first is we give that land to TIC. Then TIC gives a derivative right to the investor. That is the simple procedure. But normally as I have said, is that Investor in most cases when they got the certificate of incentives, they go and procure for land anywhere in the market. When they get that, if it is under a grant, for example there is a title for that land. The procedures to sanction transaction to transfer that land, they are normally carried out to our municipalities. But then, we do not register the name of the foreign company because, we know by registering we shall be giving a right of occupancy which is against the legislation. So, what we normally do the current owner, surrenders the land to the President then follow the procedure that I am saying, ok? That is the simple procedure.

M.F.: Are these procedures are the same for local and foreign investors? (7:17)

M.N.: The derivative rights are just foreign investors. If we are talking of the derivative rights. Because a derivative right, the right of occupancy they are leases. But they are different from the right of occupancy. A lease can be a contract that maybe you want to lease my land for maybe for a specific period of maybe ten years. You go with the title, you go to register at the registrar of title as a lease. But it is not, it is of course the right of occupancy the reasons itself. But a lease is different from a right of occupancy also when it comes to legislation. You can have a lease in my land. Maybe you want to use one piece of my land as a lease. It is a contract that is signed.

M.F.: Ok, when we just skip that for a moment and think about rents. If local investor has the intention to rent a certain plot and goes through your ministry and there is foreign investor for the same plot and he goes to TIC. Are the rents they are supposed to pay the same or do they differ? (8:40)

M.N.: They don't differ because the procedure for assessing the rent are the same. What are the factors for assessing the rent? There are different forces that can be put in place if you want to assess rent. In most cases the value of the rent will depend on the locality, the location of the land may command a particular rent from the other location that is one. The second one would be the use of that land. The land that is designated for example for residential purposes would differ from an industrial plot or

land. Maybe the tenure of the grant. So, there are factors that actually can be put in place in order to assess the rent. But in most cases there is not variation that this is an investor then we charge him maybe far above over the rent that a citizen is supposed to pay. No, except that there are I think. The contract that TIC enters will afford an investor maybe some of the fees which do not go straight to the Government but goes to TIC. That can be a different contract all together, but when it comes to land rent assessment it is all the same.

M.F.: How long does it take on average either for a foreign or a local investor to register land at your ministry or with the TIC? (10:28)

M.N.: You see talking of registration it could be, maybe the registration is the final stage. Maybe the problem would be how long does it take from the time that you have purchased, you have bought the land maybe from somebody at Kariakoo or at Makongo who is a Tanzanian but you qualify in the case to own that land. How long does it take until you register? Yeah, it can take...normally, there are things you need to consider. Is the land registered? If it is registered it has a title that would be easier because it is just a contract between you and the owner and the municipally would sanction that process. When that is done, then the normal procedure would be now to sign the land that doesn't take time. The second thing would be the time that it takes to designate the land in the local gazette that now this land is for investment purposes. Then we have another requirement that the national lending committee normally sits quarterly if I am not mistaken. But sometimes it depends on the number of applications. So, I would suggest that it takes quit a long, maybe six months.

M.F.: What are the limitations of the Derivative Right of Occupancy compared to the Right of Occupancy? (12:33)

M.N.: Maybe as the name as it sounds derivate right. One of the limitations that are, because you see this derivate right they are mortgages of rights. An investor can mortgage it. He or she has that advantage of mortgaging. Like you are saying, because there has been a very big debate in this country. Why can't foreign investors access the Right of Occupancy? Why should they be given a derivate right? Because, this is our land, even if they want to go back home, they would simply leave it or sell it or give it someone. There is very big debate that is going on. But, maybe the disadvantage that people complain is that if you are in another procedure far from the normal procedure that is used in issuing rights of occupancy. Then you add some kind of bureaucracy that means it takes quit a long time. Maybe, for an investor to get that land because you have another procedure far different from the normal procedure. Maybe the other thing, I don't know what they are saying because you are making research. Maybe the cost, I don't know. Because if he has to buy his land, he has to go into contract with TIC. There is also another cost implication maybe. Maybe the other one would be upon expired time of the derivative right that right goes to TIC. But it is the same, because if I give you land and you are a normal citizen for 33 years or 66 years upon the expiry of the title it goes to the President because land is public. I don't see the difference in my side, but I think the procedures, the complications, that gives some kind of problems to investors when it comes to accessing land. And now because we are talking of land, we are also talking of real estate. Maybe we are talking of an apartment, why shouldn't you be given a chance to own an apartment? Because that is another implication. But of course we say as part of the division of the land in Tanzania, it covers the surface the entire area up the infinity in the sky. So, thats why maybe the provision would be if the investor just wants a simple apartment shouldn't we need to go so much so difficult complications just to acquire maybe an apartment. Actually we are looking at it.

M.F.: What are the tenure for the Derivate Right of Occupancy, is it like the Right of Occupancy? (16:14)

M.N.: If TIC is given 99 years. Then it would depend on the nature of the investment that you want to do.

M.F.: And when we speak of investment, for example TIC. Do they also include also real estate investment as one of investments? (16:34)

M.N.: They do! They do actually advice people to invest in land. Wherever they want to invest, even if it is for agriculture purposes and investor would need to have a, would like to have an essay on the land he could invest, you see? Whatever they actually do, it is based on the surface right of the land.

M.F.: Also, TIC has to qualify that you are a real investor? (17:10)

M.N.: It will have to qualify through the Investment-Act of 1997, here you have to qualify.

M.F.: They have evaluate it and see wherever it fits.(17:20)

M.N.: Yes, I think there is an initial cost that justifies you to be an investor. There is a particular amount of capital outlay that you need to shore to TIC for you to qualify to be called an investor, yeah sure.

M.F.: Ok, and what happens when the lease expires? (17:52)

M.N.: If you have a Derivative Right of Occupancy it goes to TIC. Because, like I have said. We have issued TIC a title with 99 years, you go into contract with the TIC, you get the derivative right. Normally they will give you maybe 95, lower than maximum amount of the tenure.

M.F.: Do I have contractual rights to extend? Can you renew it? (18:21)

M.N.: I think yes, you are (**not understandable**) to renew. Even If I issue the right of occupancy to citizen upon the expiring. Our legislation under section 32 it clear, it says if there is no breach of condition over the Right of Occupancy the Commissioner of Lands will give you a renewal. Even if you are a citizen. But is goes to say under subsection for that, if there is a breach for the Right of Occupancy, the commissioner shall not give you a renewal. So, the most important thing here is that if you are given for investment purposes maybe not breach the condition of the contract between you and the TIC. Because if it is contract, it is like a marriage contract, there is always you and the marriage. There are circumstances where you can terminate it, I think.

M.F.: And if it happens that the Ministry will not renew and you still investments, like for example you have put infrastructures, the developments, and you don't have the renewal of the Derivate Right of Occupancy. Will there be a compensation? (19:52)

M.N.: I don't know, maybe because we haven't.. Maybe because the legislation is very new. We haven't experienced the situation where a Derivative Right has come to an end due the expiration of time but I would suggest that if you are a citizen and it expires, the only thing that you are entitled to is compensation minus all the governmental (**not understandable**) minus if there are rents, outstanding rents. If there aren't the government owes you minus then you get reminders from the (**not understandable**)

M.F.: Probably that will work the same...(20:33)

M.N.: Yeah I think.

M.F.: Initially you spoke about the assessment of rents. Is it possible that after an investor has signed with TIC and got a derivative right for a plot that the rents will change? Or is it fixed for the whole period of time? (21:02)

M.N.: Yeah, you see the question is clear. It says the Commissioner for Lands may renew after every three years whenever he thinks that it fits actually. We have reviewed our rentals 2012, this year again we reviewed the rentals. The legislation is clear, the commissioner may according to the circumstances the rents.

M.F.: Are the rents for the Derivate Rights of Occupancy also review? (21:36)

M.N.: See, the problem is: If you are given a derivative right you don't pay any rental. It is TIC that pays. It is TIC who has the Right of Occupancy, but I am sure there are particular fees that the investors pay to TIC. There has to be some kind of compensation between TIC and the Investor. We don't charge the investors that pay our rentals. We charge the TIC to pay.

M.F.: So the process for a foreign investor who wants to make an investment here, he goes in negotiation with whoever owns that land or he to lease through you and then he goes TIC, right? So, he is not involved with this ministry. First, he has to find willing to lease the plot, then he goes to TIC.(22:39)

M.N.: I think the first thing would be, if you are an investor to qualify for that land. You have to start with the TIC, you get a certificate of incentives that you are an investor. But, yes you can also talk to Matthew: Matthew do you have land? I have it, give me the particulars, the plot number, the location name. Then you go to TIC, because you are registered as an investor and you wonder on who to get a certificate of incentives for this chunk of land because it is available. I think it can be both ways.

M.F.: so Matthew first has to surrender sufficient land...(23:22)

M.N.: Yeah, that is very important. But then, you see Matthew does not surrender automatically. What you do is that you go and sell a purchase agreement. You went into contract. When you are done with that, you take the documentation to the municipalizes and they will clearly see that the purchaser is a foreign investor. So, when he gives consent to the transfer, he brings a deed of surrender to the Commissioner for Lands that this is an investor and a foreign company. Then, you are right, Matthew will surrender the title and registrar clearly states that this particular land will be surrendered by Matthew because the purchaser is a foreign company. So, we surrender the title, the title comes free of in incomprehensive, then you go to TIC where they prepare you the form number one to designate the land for investment purposes.

M.F.: I have several times there is a so called „Real Estate Regular Authority“ coming. Can you briefly explain the aim of that? (24:53)

M.N. : Ah ok. You see it came as the result of a, there was a cry that so many people are going to the indigenious of this country and to different places of the country and big chunks of land and we are not sure which amount of land is summed, we are not clear, we don't have data. Because we are dealing with the land, the real estate and the land itself we are dealing with the properties on the land. So, I think the aim was to make sure we have the data as to the amount of the land under the investor or we come with the amount of land which investors need. Then we also need to know the local demand of the land itself. So I think it will also take the inventory of the amount of land for example under the investors because there was this national cry from the people that a lot of land has been taken by the investors but we may find that it is not true. So the deal is of that is that we can maybe see the amount of investment in terms the investors, in terms of the investors itself, in terms of available land for investment purposes, it has quit a lot of things. I think there is a lot of research that we need to be put in place to be sure of the amount of land that people are crying that is under investors and available land that actually can be put into investment.

M.F.: Ok, so whatever research you will do in your authority, it will available for the public? (27:14)

M.N.: Yeah it will be. It will be.

M.F.: Do you have any idea or any forecast when the first research will be available? (27:26)

M.N.: I think both in the town and the urban areas and then the rural areas. Because, like I can say, if you take the example of big investments in Mtwara. You see? Mtwara is not like Dar es Salaam, but initially you need to focus to Mtwara because lots of investments now are going to through corridor. Yeah, can you also think of other areas, which are very fit in the rural areas because thats where millions of people live. I think the forecast will be in the rural areas. We need to focus to that, for example we need to know how much amount for the example of the supply of investment for maybe house. That is required in the city of Dar es Salaam. Do you have available land to invest in the real estate to cater for the available demand maybe. Those are the issues need to be given the special attention both in the rural and urban areas.

M.F.: And, are there other upcoming bills who the land in Tanzania or affect real estate in any case?(28:44)

M.N.: Affect in terms of negativ or positiv?

M.F.: Whatever! Are there any bills going through the parliament soon who affect your ministry? (28:49)

M.N.: Our legislations?

M.F.: Yeah, for example. (28:55)

M.N.: Legislation that will affect what? Whatever?

M.F.: For example I have, the Commissioner told me there is somehow a bill coming which will change the Derivative Right of Occupancy. The told me when a foreign real estate developer comes to Tanzania, he gets the derivate right and he develops this land and divides it into different plots and sell it to local people, they won't buy it because it is still a derivative right. He told me there is something upcoming. (29:36)

M.N.: I understand. Thats what we are saying. I just actually started it, when we were trying to start our conversation here. I said, that most quit people invest here in Tanzania, but they are interested in buying and selling.They buy, they build, they sell, they push. If that is the situation with the derivative right, then there is a problem. How do they sell, if they have derivative rights? That is very important. Again, another thing...

M.F.: Just, is it allowed to sell a derivative right? (30:06)

M.N.: No, it is not! Under the institution it is not! But it is like you are saying, that we are trying to think positively to see the big picture. Because why shouldn't a person who is a foreigner, why shouldn't he be given a chance to own an apartments? What is the problem? Even if he is a foreigner, so we are thinking of that and we have just, we are in a very high stage to see how we can review. Maybe when it comes to land ownership, there would be a different thing from just owning an apartments. Because there are apartments built in the city, if you would think, that his market would be the locals maybe you are forgetting something. Because most people like me, I don't like, most people don't like to own the apartments, they own land, they want to build on their own. You see there is an application of building your own house. Some times for

africans, some other people not. Why should I build my own house, I want to buy an apartment from somebody. So we are thinking in those directions, to see where we can change the legislation.

M.F.: There has been skyrocketing of land prices in Dar es Salaam in different areas. For example when you go to Masaki land prices can be higher than the developments. Also, in other areas like when you go to Mbweni you find which was bought like five years, now the price has tripled. Do you think the prices are determined by the market forces of demand and supply or is there something extra? (31:53)

M.N.: I think the person of market, is the mechanism of supply and demand. Well, there are places where the market can be driven by supply and demand but in some other areas there are more other factors. Yeah, like people from foreign countries, I am sure would like to settle maybe in Oyster Bay, Masaki, because the nature of people who live in those areas, the neighborhood itself commands for high people, people with high income to settle in. Maybe for security reasons, like the indians, if you want to move them from Kariakoo to Upanga you would kill them, because they want to, actually it is like there is a family born that is attached around Upanga that the Indians have to settle even if you increase the rentals by threshold they don't mind to settle there. So, I think there are other factors and I think the supply for land maybe is to big.

M.F.: There is a notion that some guys are trying to speculate, buying maybe three plots and not even trying to develop them and wait for prices to go up and sell them. What can you speak about this? (33:25)

M.N.: Yes, landholding. It is a problem because maybe we sell people three or four plots, but in terms of size, those plots are very small, very insignificant. But you can find someone with just one piece of land but with a 10,000m². We are trying to debate to put in place the land ceiling, maybe people should be allowed to own a particular amount of plots in terms of numbers, in terms of seize, those are issues in which are in the legislation. People are holding land, maybe that is another part of the real estate market where. People maybe interested to partner with a lender and sell it to get money. I don't know how does that affect the real estate market when somebody is holding land. Does is it affect the real estate market when somebody is holding land?

M.F.: Yes, because when it comes to supply, it cuts the supply, it makes the plots which are available quote at higher prices. The supply is cut. Because if you are holding five plots at the same time and you are not developing them and there is someone who needs them but you are not willing to sell. He should go somewhere where he can get a plot at a much higher price. Now that comes to, I am aware that this development conditions that someone has to develop within 36 months. (35:12)

M.N.: Yeah we are trying to think, but maybe that is very little. How can you develop your own land if you don't have mortgages? How can you develop within three years? We are trying to think that is might be maybe to little. Maybe it should be, because, well I know that you are in the real estate market. How long does it take for example if you are an investor in the real estate ? How long does it take to, the capital if you are investing for example in the real estate market? I think it is more then 15 years where you can start getting something, a return from the investment. So maybe three years is to little, but I understand that, because that is the situation of the legislation. It is very important to revoke. Those people who don't want to develop we better give it some other people who are interested in developing the land.

M.F.:Ok, since you are the Commissioner for Lands in Dar es Salaam. How would you describe to a foreign investor, or to anyone who is interested the market Dar es Salaam market ? Where do you see dynamics? Where to you see movements from citizens ? Where do you expect future developments? (36:40)

M.N.: Yeah, there are currently some. You see the trend in the city, huge developments in Masaki and the Oyster Bay Areas. There big developments by the Chinese, like I have said the nature of the area makes people interested there, Masaki, Oyster Bay, Mbasani there are very big developments in Kariakoo because of the nature of the area. It is the commercial area. There are quit a lot of dynamics in terms of market, because initially those buildings were owned by traditional people, our citizens, they are not interested in selling, because this area commands quit a lot of money. One billion, more then one point five billion TShs. So, even if you go to Kariakoo now you will see the number of buildings that are coming up versa vice the nontraditional buildings in Kariakoo. They are almost **(not understandable)** Other areas, in terms of Dar es Salaam. If you tell me to rank between the municipalities: Kinondoni! The dynamics are very, very, very big. Temeke might be the last, expect along **(not understandable)** here, Chang'ombe area.

Ilala here, Kariakoo, but Temeke would be the last if you would telling me to rank between the three municipalities. But with the Kinondoni, we have a lot of problems in Kinondoni when it comes to land conflicts, a lot of business problems, and sometimes delegation to the court because of the nature of that area. There are a lot of cases when it comes to land, land whatever dealings in Kinondoni, particularly in those areas. There are differences but Kinondoni is up.

M.F.: When it comes to investment in real estate, we have different arrangements, say joint ventures like other arrangement of operating trusts. Even in some of the buildings in Kariakoo are under such arrangements, where you have someone on the plot is not the owner of the development. Now, for this case if a foreigner investor comes and want to collaborate with the local plot owners and maybe put up in place a structure, do they have to get something like a derivative right to any kind of documents, like that one from the minister? (39:37)

M.N.: When you are talking of joint ventures, when a local person goes into an arrangement of some sort, a joint venture thing with a foreign company, the shares of the local are higher than the one of the foreign person then you can get the Right of Occupancy. Like if the joint venture is 50:50, that is foreign, not local. When it goes to 51% than that is local and I give you the Right of Occupancy, no problem. The legislation clearly says the majority shareholder must be citizens. If you are a majority shareholder, why not? I will qualify for the Right of Occupancy. It happens at Kariakoo, you are right. I am sorry if you want to marry a German-Girl, I cannot give you the Right of Occupancy because there is that right of survivorship. I won't give it to you because, when

God takes you, under the current legislation, the right of survivorship is that we have two types of ownership: the joint tenancy that is of a husband and a wife. So, whenever one of them goes, the remaining will takes it all... So, when it comes to common ownership under common arrangements, **(not understandable)** When the majority of shareholders are citizens they will give you the Right of Occupancy but not with a joint tenancy.

M.F.: Ok, so the investor appears with a minority shareholder what happen in the document, derivative or right of occupancy? If you give this kind of occupancy if he is a local.(43:04)

M.N.: No, no we give it to both. Because this is an ownership on a share arrangement. So we give it to them, like Matthew and John and Suns Company Limited that hold 40% and I own only 50% under that kind of arrangement we give them the right of occupancy. Matthew is the majority shareholder....

M.F.:When it comes to Dar es Salaam and you do a bit research about Dar es Salaam you come up with along with a lot of reports suggesting infrastructure in Dar es Salaam is the biggest challenge. Would you agree on that statement?

M.N.: Infrastructure? What is that? Roads? Water?

M.F.: Roads, water, whatever. The whole infrastructure in Dar es Salaam when you take the entire city not just Posta or Masaki Area. This is what investors are afraid especially when it comes to power supply, infrastructure when you just see the traffic here in the morning. Would you agree on that or would you say you should see it in a different way? (44:35)

M.N.: Yeah, I see it in a different way. It tells us that we need to do something. Because my biggest problem is that: Are we thinking of like, the future of Dar es Salaam in terms of real estate development? Do you think people should continue building in the city centre? Because sometimes I think we need to actually, maybe a new thinking that investors have to invest outside the city. Because if we are thinking that all people are just coming to the centre, even the nature of the Dar es Salaam-City Area itself, because it is just surrounded by an ocean. So, you cannot have a real road like many, many cities have. You see? Maybe the biggest problem that I see is that most people like to come and shop or just life here in the city centre. Maybe they are just quit much more advantages of living in the city centre than in other areas outside the city. I think that could be the area where we would be supposed to invest, in early because in the morning, if you have ever tried coming to the city centre you can see quit a big (**not understandable**) but in the other direction — nothing! Similarly in the afternoon, when you are going back, oh you will cry, but see the opposite direction! So, I see it in a different perspective maybe! I know in the energy industry we are doing fine, maybe! We are doing fine! But I think in terms of infrastructure if you have gone to Kurasini, we are building a bridge there. Well, I think there are some things which are coming up that will attract quit a lot in terms of real estate development.

M.F.: I have three questions left. When you just do a bit research about Dar es Salaam and you come along with a lot of reports that show you for example for the Centre for Affordable Housing Africa suggest that the current housing shortage is around 3,8 Million units growing at a rate of 200,000 per year. Also the WorldBank states the population is about to be doubled in 10 to 15 year. (47:09)

M.N.: Yeah, exactly. Now we are six million, isn't it?

M.F.: Yes, so if you drive for example from Posta to Mbezi Louis and you see all this people working in the informal sector without access to proper finance. What do you think has to be done to transform those huge housing shortage into demand backed up by people? The local citizens, what has to be done? (47:37)

M.N.: Well I think, quit a number. Today we are talking with the people at the Bank of Tanzania. Where they got quit a big funding from the World Bank to deal with the housing issue, problems in this country and we see, I think it was a loan from the World Bank that is, I think the lending rate were almost at minimum. The aim of it was that the Bank of Tanzania should to start giving some little refinance mortgages to some other banks, at cheaper rates where now this banks can start issuing mortgage arrangements to individuals to maybe build their own houses or buy from NHC or Pension Funds, like 3,000 units will now come in Kigamboni from NSSF I think. National Housing also has a scheme that is coming up, maybe those kinds of arrangements are empowering the people getting mortgage arrangements maybe at the cheapest rates, maybe it can just help to improve the real estate market in the city because I think... Let me give you my own example. It started building my own house nine years ago, it has never been completed. So, this is because we...you can just your own funds to build those, it has got no value. So, I think these people who are saying, working in the informal sector, particularly the poor. Because you have raised another question about the affordable housing. What affordable is ready affordable for them? I remember that most people for example in Simbasi Valley, they were given big chunks of land, lots of plots there in Mabwepande, where are they? They sold the plots

and went back to the river. So, I think there quit a lot of things. Actually Mabwepande has water, it has electricity, surveyed plots with titles. The Government has purchased the land gave them titles, it build a very big police station over there. Just go and see, those people who are living there are not the intended owners. So I think there is something we really need to think, maybe because when it happened this year, you see what the administration in Dar es Salaam said? „No, we are not giving them back again, we don't have land to give“ Because they are not interested in what you think they are want. Maybe there are other issues that they want, maybe they just want to live in the Chaga Houses. Chaga houses, yeah. I don't know maybe because it is close to Kariakoo, it is cheaper maybe living there. And it is very easy for them to get jobs for them maybe, you see? So, I understand what you are saying, Mbezi Louis is quit a lot. The issue of affordable housing maybe people get mortgages at the cheapest rates that could really help them to build their houses or buy homes from the pension funds and the other companies.

M.F.: All right, the second question: Since Dar es Salaam is pretty much crowded, this is the feeling I have when I go trough the city. People are everywhere and there is no free space. So, if you just assume that numbers are correct, like the doubling of the population. Would you think that the area of Dar es Salaam will be extended in terms of size within the country or would you say it is a matter probably of reconstruction. We have a lot of bungalows where people life, do you think there will be redevelopment like higher buildings or do you think Dar es Salaam area will be simply extended? (52:41)

M.N.: No, no, no, NO EXTENSION my friend! Because land is always limited. Because if you extend, it means you are taking all over the costal region. Are we prepared for that? And when we are done with the costal region, are we are going to take Morogoro? It becomes part of Dar es Salaam? I think it does not work that way! I think the base here is like he said, maybe we start building vertical buildings. There is another way of saving the amount of land that we normally use horizontally. We are going so much horizontal, now like you are saying, there is no land in Dar es Salaam. But then if we maybe do some kind of redevelopment scheme like we are doing at Kariakoo. Now you can see people living there in apartments, how many land amount of land has been saved by just building those apartments at Kariakoo? Yeah, if we were to go that way. Thats one, but the second thing is, if you build those apartments whatever-you would save quit a lot of things in terms of service provision, the roads, electricity, you would clearly minimize service provisions in quit a number of ways. Because if you have 20 people living in Kariakoo in one apartment, if they were distributed horizontally you could have gone into cost of proving water, solid waster management, you see? Those kind of costs cold be minimized making the development schemes where now people can build anymore.

M.F.: Ok, last question. Where do you see the differences between Dar es Salaam an other big cities in Tanzania? Maybe Dodoma, Arusha, Mbeya? What would you say is something that makes Dar es Salaam really special? (54:06)

M.N.: Yeah, because I come from Mwanza at least I can tell you, because I have been in Mwanza two years ago. In terms of developments, in terms of real estate developments I don't see the difference because that kind of development is actually happening everywhere, Mwanza too. The difference is that this is almost a commercial centre, everybody lives here. Foreign embassies, everything is here. So, you can see Dar es Salaam infrastructure development is much better than the rest of the cities like Mwanza, where you can go ten kilometers away from Mwanza without seeing a tarmac road. But here at least in terms of infrastructure development is big, Dar es Salaam cannot be compared to any other city,I think maybe a little bit Arusha in town. Arusha again is a very small town if you compare it to you Mwanza. Yes, I understand their missions, there a quit a number, but then it just there,in town. In terms of development, in terms of the city, Mwanza is second to Dar es Salaam.

Appendix XV: Interview Mr. Oscar P. Mgaya

Name of the interviewee: Oscar P. Mgaya (O.M)

Company: Tanzania Mortgage Refinance Company (TMRC)

Professional Position : Chief Executive Officer (CEO)

Professional Experience in the Real Estate Industry: >10 years

Location: 15th Floor Golden Jubilee Towers
P.O Box 7539 Dar es Salaam
Tanzania

Time and Date : 19 th of October 2015 , 9 am.

Interviewer: Marcus Franke (M.F.)

M.F.: Mr. Mgaya, with your experience, how would you generally describe the mortgage market in Tanzania? (2:30)

O.M.: I think the only way fairly describe the market is, it is fairly new. There is some history in mortgage financing but if you look at the data which is really the most important thing to base this description. The size of the outstanding mortgage debt in Tanzania is less than 1% of the Tanzania GDP. That speaks to how small the market is, it is relative to GDP which is one way to measure the size of the market. So, it's fairly new but what I can say over the last few years, what we have seen is a consistent growth and we have also seen a good structures being put in space to support that growth. And I think the future at least from where I see it, seems to be very promising.

M.F.: At what rate on average would you expect the mortgage market to growth? (3:56)

O.M.: So, although we are not good at keeping data, something that we learning to do across the country. We have been able to do quit well in terms of maintaining the growth, specifically of the mortgage market because the banks are required by the central bank to report quarterly what there outstanding total mortgage debt is. So, we have been with the help of the central bank. We have been using the data of the central bank to at least measure how the market is growing. So, if we go to from 2012 to 2013, the market grew at 46% if you look at the outstanding mortgage debt. Now from 2013 to 2014 it grew by 59%. Again, all that starting from a very low base, less than 1% of the GDP. But I think it shows that we are heading in the right direction. We expect 2014 to 2015, which we will know by the end of this year, will be no different in terms of growth. We are looking at those types of growth numbers.

M.F.: There is an ongoing collaboration with the world bank, I have seen it with the ongoing housing finance project. You want to provide \$60 million through lenders of long term debt. Do you have yet any feedback of that program? Are the banks able to find creditable customers? But what I have heard so far, is that when I spoke to some retail bankers. They claim that there are some issues, they claim that the process of realization the collateral which takes long time when there is a credit default. They do complain that the morality of payment is quit low when it comes to new customers. Also there is a lack of data. They simply can't track them, whenever they move from town to town. It makes it hard yet to find suitable customers, even though in the formal sector, I think just 75% in the informal sector earn one million shilling a month. So, they told me it is a big issue to bring the money in the market. Do you have any feedback yet? How does it work? What do your lenders say? (7:08)

O.M.:So, broadly speaking, both the government and specifically the government agencies, the BOT have a done a really good job in creating a system and not just dealing with this issue on an ad-hoc basis. So, the housing finance project that you have just mentioned is a basically an initiative between the Government of Tanzania and the World Bank which the Central Bank is administering this program on behalf of the government. Trough that, the TMRC which I lead was started as one of the components. There are more than one component, specifically it relates to the TMRC as a way to deal with the issue of long term liquidity which the banks the in Tanzania did not have. Due to a lack of debt in our capital markets currently.

So, basically as a result of that, the mortgage market was sort of revived, if you will. And the World Bank agreed to support this program initially, TMRC was provided \$30 million to lend to its member banks in the long term so that they can also issue mortgage loans to their customers that are long term in nature, which is proper way of issuing mortgages, they are supposed to, or used to be in the market for five to seven years. So, as I am concerned, that is not a mortgage.

So, we have exhausted the \$30 million, we have issued loans to the tune of I think 44 billion TShs (note: approximately \$20 million) to date. So, the Program is working. It is not lend to all the banks but we lend to a number of banks and it's been successful. Due to the success of the initial funding recently the World Bank in collaboration with the government agreed to provide additional funding the \$60 million that you are referring to and \$40 million of that is coming to TMRC for again lending to member banks. We are also working on a bond issuance, a corporate bond issuance, which is essentially the way we are operating going for, because the World Bank support will come to an end at some point. Our way to continue raise funds for the member banks would be trough the bond issuance which we hope to do the first one next year though the capital markets. Which will also help to also answer the question of how can we raise capital on the local market. We are very lucky that the African Development Bank is willing to work with us, and we have been engaging with the past six months and they will support us in some way of bonds issuance next year. (10:32)

M.F.:You have just said that you are planning to access the financial market through issuing some corporate bonds next year. What is the average interest rate you are expecting to pay for this bonds? (10:52)

O.M.: At this point, it is hard to tell. The reason we have not done that for all this time is, we didn't feel the market condition conducive specifically as it relates to interest rates. We are interest rate sensitive, because we raise funds in bulks and then we on lend to our member banks for them to lend to their customers. While our margins are very small to the tune of 1%, because we have a small operation as a wholesaler we are still sensitive to what rates we are going to pay because at the end of the day we want the end rate the consumer to be reasonable, so we have not really put in any numbers. I can tell you today with the world bank funds we are able to lend to member banks at 11.5%. We hope we can raise funds along those lines so that we can have a continued in terms of what expectations are from our member banks. But when we get close to

the bond issuance we know exactly where the market stands, what kind of support we are able to get, to reach at least close to those numbers.

M.F.: When I speak to some local people here, the young generation from the university who are just applying for the first job, of course they are also looking for home ownership. They all tell me same: obviously the interest rates are to high. So I have started to ask a few persons about that. The reason is of the course that the lender banks can't of course go the risk free rate in Tanzania, which is the government bonds, right? It is currently around 11% ?

O.M.: Yeah, it depends on the tenure. The treasury bills are around, somewhere between 11 and 13 - 13.5%. But if you go to longer tenure bonds like 5, 10 or 15 years they go all the way to about 17%. So, you are right that's the benchmark rate, because the government is risk free, if you do any commercial lending where is a risk aspect weights, it becomes more expensive than that. I think that is a systematic issue that we know the government is working to try to manage. Inflation now is down to single digit, around to 6.4% but yet the benchmark lending rates is still high. Usually those numbers tend to move together in a perfect situation. We believe there are some factors like the coming election and things of that nature that contribute to that the need for funds for the government but I think, with time we hope that the rates will come down and more in line to where inflation is. If I can back to another question you have asked before, which I don't think I have answered completely. The issue of the credit risk, if you will call it credit risk, you way you described the banks don't have information on the customer to be able to track them. That is very true. In our market is has been the case for quit some time, but initiative was ahead but the government trough the BOT is the start of this credit bureaus, which is fairly new. So, we have not really seen the impact yet, but it will have an impact in terms of risk and being able to measure risk from on person to the other. Although there are two companies, DNB which is an international company, Dun & Bradstreet Credit Bureaus. And there is another called : creditinfo Tanzania. The two companies that have been registered and currently they are collecting information and they are working with banks to consolidate the data base that will help banks to be ask for credit reference and be able to get information on costumers. I think that will help at least to distinguish between good and not so good costumers and therefore hopefully price according this. People who maintain good credit hopefully will get better rates. And I think that's one of many initiatives in this market that will change the landscape of the market.

M.F.: Ok, when we see the interest rate consisting of the risk free and the risk premium, this will probably deal with the risk premium though transparency of the market. But I still somehow at the governmental bonds, as long as they yield that high, I think you can do whatever you want. So, what do you think has to done, where do you think the government will yield in lets say in next five to ten years? And do you think the politicians are undertaking the right measurements? (16:32)

O.M.:We are at a very, sort of a crossroad right now because we are in the middle of changing governments. One is heading out and a new government will come in. So, we suspect, I think all indications, there are some initiatives that had began with that administration we suspect will continue. For example: the rating of the government of Tanzania which will allow it to issue a eurobond. That is one of the initiatives that is being in the works for the past couple of years. We think it will happen in the next administration. That this will provide is some funding which will help the government not rely to much on the issuance of this treasury bonds and bills. I think though that another initiative we should see the interest rate and the government securities going down.

M.F.: Why do you think they are going for a eurobond instead of a dollar bond?

O.M.: I think, ...good question. I am not sure, it seems like most of the countries that are issuing bonds, like Rwanda did recently, I think some other countries in the region, that, forever reason I think they tend to go with the Euro. Maybe it is because it is the strongest currency, I am not an expert when it comes to that, I think they are all issued in Euro.

M.F.: Can you explain the volatility of the TShs? (18:46)

O.M.: I think first of all, the way I would describe it and the way I understand it, its less of the TShs Volatility and more of the strength of the US-Dollar, number one. Because it does not just happen to Tshs, it happened to many currencies including some in Europe. I think one, it was the strength of the US-Dollar and I think coupled with a time where our government through monetary and fiscal policy, was doing some thinks that probably did not help that situation. So, over a short period of time, called six months, we saw big volatility. I think over a short period of time, call it six months, we saw big volatility. I think some claim to be up to 20%. But what I would like to point out is, if you look at the volatility over the last, say four years, you would see that the volatility was more in line with what we expect. The movement was somewhere between 5% and 6%. So, if you take a longer view of it, you will see that it is not as bad as it looks like when you look at the shorter term view which is six months. If you ask the BOT, they will tell you the Shilling maybe was slightly overvalued and we have not seen it move as quickly as it has moved over the last six months. So, again I think it is a combination of the strength of the dollar and the economic condition at the time this happened, but again, it was a very short term volatility because if you look at historical, take a longer view, you will see that the movement has not been as drastic.

M.F.: One last question the mortgage market. This is just my general experience I got when I traveled through Dar es Salaam. You see most people, I think above 80% are employed in the informal sector. Whenever you speak to some people, they always ask me, keep on claiming that Tanzania shows the highest GDP growth rate in Sub-Saharan Africa and they simple do not feel it. They tell me price for Ugali (Note: local food) have doubled, everything becomes more expensive and affordable housing is the biggest issue for them. Since many reports suggest that the population will be doubled and you have the highest urbanization rate in Dar es Salaam. What do you think has to be done to transform those people from the informal sector, into real estate demand or the whole property market in Dar es Salaam? What are the long term issues, what has to be done? (22:28)

O.M.: I think the first thing as you rightly stated, our informal market is huge. Even compared to the formal market. I think the first steps to be able to have a system that supports majority is the way of formalizing the informal. The benefits are a lot and I know there are initiatives by the government. I think Mkukuta and Mkurabita. Those were some government initiatives to help formalization. Formalization is not a one way street, it is a two way street. I think it is beneficial for the government, because the government cant obviously collect more taxes and that helps to provide better services, it goes the other way as well for the beneficiaries. But also there are some products you have to formalize, you can't issue credit to somebody you don't know or tomorrow they will not be here. So, I think those are challenges, people can't access the credit because the market is been formalized, they don't have what it will take for those institution to be able to feel comfortable to issue credit to them. So, there are a lot of things like micro lending institutions that are in place helping to really deal with some of the population segments that are not reached by banks. There are things that are going like SACCOs, SACCOs is a group lending essentially so they from a group and that group is identified by institutions and that institutions can lend to the group and the group manages on how they lend to individual customers and how they track them and make sure they pay. There are different things that have been said to help for the time being to deal with the informality. But I think at the end of the day some of the bigger initiatives to go from informality to formality will be long lasting solutions in my mind.

M.F.: Some bankers told they have a feeling that there is a small bubble upcoming here in Dar es Salaam, not for the whole property market in Dar es Salaam but at least when it comes to the high end buildings. Because wherever you go, it is Victoria Place, all over you those high income-flats. I have noticed they charge up to 300 million Tshs for one apartment. When you check on affordable housing, you will end up with small initiatives like the WHC..Of course they are doing a lot, but there is a reports of the WorldBank which states there is a housing shortage of 3 million units, growing by 200.000 additional units a year. Do you think that the property market is really meeting the demand when you see all those high end properties coming up? (26:04)

O.M.: Of course, I agree. The property market is not meeting the demand but I think we need to look at this holistically. First of all, we really never had a mortgage system. We did have Tanzanian Housing Bank (THB) until 1993 when it died. The THB was the only institution proving loans mostly to public servants. But since then, we really did not have a mortgage market. So, for any developer, first thing before they built in any market they want to know are there buyers, where are those buyers getting to get there financing? And if the answer is NO OR MAYBE YES to the first question, but don't know in the second question as a developer will not build. Because I don't want to take the risk of building and not having buyers.

So, you have to realize that, for all this time, property development, at least massive property development was not there. People were building there only little houses incrementally. So, we never had sort of a developer market. NHC was there, but NHC you see today is a different NHC that they were five years ago. The one five years ago was just managing and collecting rents on the properties they owned. Up until we had a mortgage system in place, that brought confidence to not only banks in support we are proving to them but it also brought comfort to developers. So, if I build instead of no banks, there are 21 banks now that have a mortgage product. Based on that, you start to see that developments come up. Unfortunately, I agree with you, most of developments that have come up in the last five years are mostly high end and I think the motive there is profitability because there you can probably make more. Affordable models are not easy to crack, so when you hear there maybe a bubble, we do not have data to substantiate that, but I would not dispute it, because I don't based on the supply. As I sit here today, I don't know in terms of the supply. Based on the supply that's in the market visa vice people who can afford it, it is possible. But what I would insist it won't be a market bubble, it might be a segment, the high end segment bubble if there will be one, which again, I am not sure because when you talk of that kind of demand, you know, 3.8 million Units, I don't know if we have enough units in here to worry about a bubble. In terms of affordable housing I think clearly there is a huge opportunity, it's a challenge because across the world you can talk many housing practitioners who will tell you that the affordable model is tough because it typically the margins are very small, it is riskier in some aspects and therefor a lot of people who do affordable sometimes tend to mix affordable and middle income type of developments. But I think the bottom line is, we need to find a formula, we need to find a formula. I think NHC is doing their best, especially in the region of affordable. WHC is also working very hard, to figure out with maybe support from the government how they can also crack the formula for a sustainable, affordable housing. So, in the future I think we will start to see more of those types of developments. I think as you have heard, others also hearing about this high end bubble. So, I think it may lead more developers to think of affordable as they are supposed to include the supply of the high-end which now maybe in question the appetite of people who can afford it.

M.F.: You said before there is somehow a lack of debt in the capital market. But, you said access the capital market next year, WHC want to go public in three years. What are the challenges in the debt- and equity market right now and why do you think condition will improve within the next years? What makes you confident for that statement?(30:47)

O.M.: So, when you look at the capital markets on the equity side the already is huge improvements and continued improvements, this includes the number of listings increasing, and so on the equity side of have made quit a bid of headway and the DSE has done a really good job in doing that. They have also started the enterprise growth market which allow even companies that do not qualify, with the terms like how long they have been existent and profitable, so a newer company and newer venture can go to this enterprise growth market. We have seen a number of successful IPOs form bank and other institutions including oil and gas companies. That side I think is really progressing well, the side that has not done as well as is the corporate bonds market, the debt side of the equation. Again, primarily that has been because of how the interest rates have been in the market over the last few years. Part of what we hope to do, along with our core responsibility of existence which is to provide long term liquidity to mortgage lenders is to provide some contribution in reviving the capital markets because they way our model works is raising funds, locally though the capital markets. So, that in it self makes it important in terms of opening the doors for others who want to raise funds in the capital market in the way of corporate bonds. So, we in intend to play our part and hopefully by doing so we will able opening some doors for others to be able to do so and in cost of doing that, revive our capital market.

M.F.: For the mortgage and the capital market I am so for good, thank you very much! If you have some time left, I would like to shortly move to the property market. I have spoken to some investors back in Germany, which where about in invest in Dar es Salaam, there are a few funds which are targeting the Sub-Saharan markets. The main claim was actually that the market Dar es Salaam feels somehow very narrow, it is hard to access for a foreigner. They say they have the feelings there are few big players and they somehow dominate the market. Its about the accessibility for maybe not the highest investment, it is not that easy. So,since that they move Kenya even though they are aware that construction cost higher and rents are lower compared to Dar es Salaam. For that, I would like to ask you: Can you tell me who are main investors in Dar es Salaam? (34:16)

O.M.: On the property development side ?

M.F.:Yes and also property managers.(34:18)

O.M.: Ok, lets start with property development. Basically you have essentially the NHC, you have Pension Funds who have also ventured into real estate, specifically housing. And then you have nearly found WHC, TBA which was also supposed to be managing government buildings, but now they are doing a bit construction and selling to government officials. If you look at that list of none developers here, you see the majority are public entities. There is a huge opportunity for private developers, ok? Which is how really most developed markets have grown, it's not though public entities, its though private entities developing.

So that is an area that still HAS A LOT OF POTENTIAL and we have seen already some private companies, some Chinese companies, some local, some from South Africa and other places coming into the market. I think the best model for most of the companies that are coming or investors that are coming from outside,... is always to partner with some of the locals simply because it's difficult to come in and be able to get land, be able to navigate trough the system here, to able what to do until you get up to constructing your project. So, I think the best way for companies of investors which are coming from outside is to identify local partners, local developers who they can work with, maybe even constructing companies in some cases. If you that, it's easy to navigate though the system and succeed. Some frustration can come if you come as an investor from outside and you do not have anyone to help you navigate though the system. You are new, you don't know people, you don't know habits. It maybe come frustrating and you know we still have an improvements to make in terms of TIC to make sure it's easy for investors to come in and get information. It has been improving, but I think there is much improvement that are needed. So, some of the frustration you

hear is probably from someone going to three different offices, trying to get the right or quick answers in this side, so I go to Kenya, I go somewhere else, where maybe the system is slightly more efficient. But the opportunities are here, the investors, local investors are ready and willing to partner with foreign investors. People like NHC, WHC, some of the Pension Funds have lot of land, THEY HAVE A LOT OF LAND. They are all over lands, they can partner with others to develop. I know NHC have several massive projects here in Dar es Salaam, they are undertaking right now and I am sure that could use investors to help them, because they are huge.

M.F.: What would you say it the usual size of a commercial property development here in Dar es Salaam?

O.M.: When you are speak of commercial you are talking of office buildings...?

M.F.:Office, retail, whatever numbers you have in mind on average.(38:35)

On average I would say,...currently could be somewhere around 20,000 square meters. Thats a guess, take it as a guess.

M.F.:What do you think is the total investment for this 20,000 square meter building, another guess maybe? (39:25)

I am not qualified to guess on that, I mean would say, probably best people to talk to would be NHC. They have done those investments recently. I think it will be a better place to answer that.

M.F.: Another question you have already answered, I think so far the most important investor here are public entities, right? Not much private yet?(40:08)

Yeah, as far as housing development is concerned. There is not much private yet, there is some like the Chinese Company a 5,000 unit project in Kigamboni. There are some other doing much lesser numbers in term of units, but much of the bigger projects are public entity development.

M.F.: One of my feelings is that, there might be a huge opportunity for foreign investors to may partner up with WHC especially for affordable housing. Maybe not exactly around Masaki or Posta area but somewhere around Mwenge, if you would go for strategic investments in affordable housing because I have also heard that when you go for high end, you demand \$1000 and five years later there is another tower which offers the double quality so people will move there. If you would go 150,000 to 300,000 Tshs, I think there would be quite a lot demand for that. Would you agree on that? (41:20)

O.M.:Absolutely, I think whoever would crack the formula for that kind of development will own this market.

M.F.: I have maybe one or two questions left. You have been abroad, you seen the American Market. Now are you back in Tanzania, what would you say is most common misperception about Tanzania and the Tanzania's property market by foreigners? (42:55)

O.M.: By foreigners, Not to many people the Tanzania, Dar es Salaam property market. So, I do not even know, I cannot think of, maybe the only perception that I could sense maybe was people did no know that the property market, HERE, has developed to the level it has to all this size with all the rising buildings unless somebody has visited here and taken the trouble to look through the internet. I saw lot of them had probably worse picture, like it will not be possible to have a 21-floor building like the one we are sitting on today. Maybe the other, which is not really a misconception, but rather lack of knowledge of the opportunities that are here. When you not only talk to investors from

America, but everywhere around the world, when they come here actually look at the market and realize what is going on you can the „WOW - Factor“ and the expression in their face because before coming here, they never knew there is this market has changed and developed and there are still a lot of opportunities for development. I have seen that across the world, not only investors from the US.

M.F.: Whenever investors do research about Tanzania as the whole economy they will come along with reports from World Bank, you have heard about the Global Competitiveness Report with states Tanzania's biggest issue with infrastructure, access to finance but also corruption. These are the three main issues. The financial market we have covered already, what do you think infrastructure and corruption? Do you see that to change in the near future? (44:30)

O.M.:I hope it does change, because when you start with infrastructure, you cannot continue to build at the rate that we are building and not upgrade infrastructure, that dates back to maybe the days of the colonies. That is something that, there is some work that has been done and let us give credit when it is due. But I think the infrastructure development is not moving in the right or at the same pace as other developments like housing. So, it has to change, there is no, if it does not, there will be a DISASTER SOMEDAY. Corruption is one of the other issues, as you said, it has being mentioned in many reports, it is not unique to Tanzania, it is not unique to Africa for that matter. One of those issues that can really derail any progressive one country may want to achieve, because it goes against everything one would want in terms in the system in to be able to progress. So, I think those assessments are right and I think those are areas where are a lot of work needs to go into and I hope in our case in Tanzania hopefully those become a priority to whoever becomes president for the next government.

Thank you vey much!

Appendix XVI: Current Market Rent of the PSPF-Towers



PSPF TOWERS, A brand new office block in a prime area, has got layout that can accommodate different office layouts.

SPACES ARE AVAILABLE FOR SALE

PSPF TOWERS, has got both city view and the ocean view approximately two minutes walk to the Harbor. Spaces available from the 22nd floor to the 31st floor.

Ground Floor and Mezzanine floor reserved for banks, cafes/restaurant, shops etc.

Amenities includes:

- Luku/electric meter
- Paved driveway
- Ample car parking spaces from the basement, first floor to third floor.
- Stand-by generators
- Water reserve facilities
- 24-Hour security with CCTV cameras in the lobbies.

Space availability
From: 600-900 m2 /
Price: US\$2,200 per m2

Location information

Located along Sokoine Road, Mission Street, Dar es Salaam.

 [View Map](#)

 [Floor plan](#)

 [Brochure](#)

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Ref: TZPSPFA2

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List of Acts, Administrative Orders and Administrative Regulations

Acts

Land Act	Act No. 4 of 1999 [G.N. No 485 of 2001]
Village Land Act	Act No. 5 of 1999 [G.N. No 486 of 2001)
Tanzania Investment Act	Act No. 26 of 1997 [ISSN 0856-0331X]
Income Tax Act	Cap. 332 Revised Edition 2008
Value Added Tax Act	No.10 19th. December [ISSN 0856-0331X]
Stamp Duty Act	Chapter 189, Revised Edition 2006
Local Government Finance Act	Revised Edition 2000

Administrative Orders

The Finance Act 2014	Act No. 6 of 2014 [ISSN 0856 - 0331X]
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Statutory Declaration

I hereby declare that I have prepared the thesis

„Maturity of the Property Market Dar es Salaam in context of the requirements of International Investors“

myself. Materials and ideas directly or indirectly adopted from external sources are properly indicated. The paper has not been previously presented to an examination board and has also not been published.

Minden, 30th March 2016

Place, Date

(Signature)