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Risks ahead for DRC’s booming real estate market

By **DAOUR DIAWARA**

In the Democratic Republic of Congo (DRC), real estate is booming.

Whereas in the past the DRC’s economy relied on revenues from natural resources, this is shifting. Real estate is becoming a primary industry, albeit one that lives in the shadow of a looming election in which president Joseph Kabila may controversially seek a third term in office.

DRC has long been associated with its wealth of mineral resources, and the conflicts these can help fuel. With improved security, times are changing. Real estate, together with financial and business services, accounted for 6.8 percent of total GDP in 2014, higher than that of mining at 4.9 percent.

According to the 2015 African Economic Outlook, on the back of private property reforms and ballooning demand for housing from a fast growing population “the real estate sector offers big business opportunities” for investors. Development so far has been focused in the urban centres of Lubumbashi, Kissangani and Kinshasa, the capital.

Kinshasa has seen the most new developments. The majority are concentrated in the Gombe district, where the office property market has seen marked growth. Offices now rent for $30 per square metre and can reach $40 per square metre per month for good quality small spaces. Yields have risen to 12.5 percent, increasing from a 11 percent in 2013.

Gombe’s major tenants include embassies, NGOs, private companies, financial institutions and major hotels. Most of the expatriate population also resides here.

Kinshasa’s growth is not limited to real estate. The Congolese government has made an effort to fix roads and make larger driving lanes to improve traffic circulation. This commitment to infrastructure sends positive signals to investors to start building in Kinshasa.

Despite these improvements, the market remains at a very early stage. The majority of properties are zoned as residential, yet it is common practice for these units to be permitted for office use. Additionally, buildings are typically not to Western standards.

The influx of foreign investors is changing this. Their presence has increased the demands placed on landlords. In contrast to the limits of Kinshasa’s traditional office settings, many new builds enjoy greater amenities. Creative spaces, high ceilings, open plans and build-to-suit options are becoming more common.

These new demands have spurred a recent trend of landlords building high-rise buildings, as opposed to Kinshasa’s traditional single or two-storey buildings. Moreover, the proximity of the Congo River has seen high builds incorporate rooftops that offer views, adding value.

Positive signs

Real GDP growth in the DRC remains well above the average in sub-Saharan Africa despite tumbling commodity prices. Growth was at 8 percent in 2015, and is estimated to be 8.5 percent in 2016. In 2014 it had the second highest growth rate in sub-Saharan Africa, behind Ethiopia.

Prices have increased over the years, with inflation rates rising from 0.7 percent in 2013 to 1.3 percent in 2014. Though inflation almost doubled year on year, the rate remains low compared to in other commodities exporters in the region.

These positive trends can be attributed to prudent monetary and fiscal policy in recent years. The current government, led by president Joseph Kabila and prime minister Augustin Matata Ponyo, is keen to facilitate the flow of investment.

Measures taken include reducing bureaucracy when starting a business, the creation of anti-corruption programmes, and the privatisation of key sectors including oil, banking, telecommunications and utilities.

Election uncertainty

Despite these positive developments, a cloud of uncertainty remains. Landlords and investors in Kinshasa expressed their nervousness during a recent visit. They share the view that the aftermath of the next elections, coming up in November 2016, will be telling.

The DRC has a history of electoral violence. President Kabila has given signals that he may change the constitution in order to stand in the next election and extend his tenure to a third term.

This has been unpopular among many Congolese and could provide fuel for the destabilisation of a country that remains very fragile politically. The administration has tried to quash the rumours, but a sense of distrust remains among the public.

As a result of this political uncertainty, investors are now largely sitting on their hands. Investors’ confidence has gained some momentum, but next year’s election will determine the fate of Kinshasa’s real estate market and the country’s investment potential more broadly.

The promise is huge – but, for now, so is the risk.

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