Complexities of obtaining development funding

Obtaining funding for development in African countries can be a monumental task, especially in the property development market. Political instability, foreign currency exchange controls between banks and governments and a lack of strong legal structures in certain regions makes it tough for property developers to get projects off the ground. Even when all the necessary legislative documentation is in place, projects can be delayed for years due to a lack of access to funding.

DuRaan Conradie, member of the Association of Quantity Surveyors of South Africa (ASAQS), says that two of the major hurdles that property developers face are obtaining funding from banks and raising the prerequisite capital deposit – the equity contribution – for their projects.

"Banks need security to be confident that they will get a return on the money they loan to a developer. Most banks require an equity contribution on average of 30% from the developers before they will consider granting a loan for the remaining 70%," says Conradie.

Large equity contribution keeps smaller developers out of the market

After the global financial crisis, property developers in Africa find it increasingly hard to raise the required equity. While equity partners are often willing to loan developers the amount, they do so at high interest rates.

"This dilemma keeps many smaller developers out of the market. Even if the envisioned project or development is financially viable and has a bulletproof tenancy and occupancy programme or sales scheme, getting a loan from a bank means that you must prove that you have considered a number of factors and have received the professional input you need to move forward," says Conradie.

Feasibility studies can give banks the reassurance they need to fund projects

Feasibility studies by specialised quantity surveyors can give property developers in Africa the negotiating power they need to not only obtain equity funding, but to get access to the debt funding from banks or other financial institutions.

After a developer approves a feasibility study, the quantity surveyor is responsible for making sure that building costs and professional fees don't go over budgeted allowances (which is a common problem with property and infrastructure projects in Africa) and that tenant installation contracts are in place.

"Financial institutions require viability studies as part of the loan application; they want to see evidence that the entire capital cost has been carefully considered and calculated. They also want to make sure that the developer is managing his risks where possible by appointing, for example, credible professional teams and building contractors.

"While larger development companies do viability studies themselves, many smaller developers should invest in the services of a professional. The fees related to having this study done on your project is minimal and it can help you secure the funding you need since it is a document that banks trust," says Conradie.

Developers are strongly advised to take advantage of the services of quantity surveyors for feasibility studies. "The red tape is there for a reason, but the guidance of a professional can make sure that all your commercial bases are covered, that your cost calculations are transparent, and that banks and donors see the value of partnering with you to bring your dream to life," concludes Conradie.