African Private Equity and Venture Capital Association

NOVARE EQUITY PARTNERS

MEMBER PROFILE

Derrick Roper
Chief Executive Officer

Ola Leepile
Deputy Chief Executive Officer

Novare was founded in South Africa in October 2000 as an independent investment advisory business. In 2006, the management of Novare took a strategic decision to expand beyond the borders of South Africa. Novare Equity Partners was established as a private equity firm investing exclusively in sub-Saharan Africa outside of South Africa. Since then, the group has built an extensive network and gained valuable experience and insight into investing on the African continent.

AVCA speaks to Derrick Roper, *Chief Executive Officer* and Ola Leepile, *Deputy Chief Executive Officer*, about real estate investing in Africa and the firm's outlook on the sector.

Q: Tell us about the history of Novare Equity Partners (Novare).

A: Novare was founded in South Africa in 2000 as an investment advisory business for South African pension funds. As the firm grew, we launched a South African fund of hedge funds in 2003. In 2008, we expanded into Botswana and established an office in Gaborone. In 2009, we established Novare Equity Partners and focused our attention on real estate development as an investment opportunity for South African pension funds. That year was an exciting time for us as we raised US$81mn for the Novare Africa Property Fund I and built a specialist real estate team. As we built this capacity and reputation during that period, we were able to make investments into 4 projects.

By 2016, the business was able to raise US$350mn in capital for a second fund – Novare Africa Property Fund II. Although our original investment strategy for the Novare group had been focused primarily on South Africa, we are now able to offer a pan-African platform given the vast range of compelling opportunities opening up across the continent. It helps that Regulation 28 of the Pension Funds Act also allows pension funds to direct 5% of their assets allocation to other African countries outside South Africa (not including the offshore allocation).

Q: African real estate is an increasingly attractive asset class – what differentiates Novare's approach from its peers?

A: Novare is now extremely integrated as a business with in-house project managers and leasing teams. As a result, we are able to bring down the cost of development to around 70% of the costs incurred by our peers. Our integrated model, focused on cost reduction along the development value chain and quality management, allows us to enhance returns for the funds and the investors. We also have a deep understanding of the needs of pension fund investors, and we have structured our funds specifically to meet their investment goals.

Real estate can form part of a diversified investment portfolio with development funds and yielding funds being part of the mix. We recognise that South African pension funds have a history of investing in real estate in the country and thus have confidence investing in real estate developments across the rest of the continent. However, it must be said that other pension funds are still somewhat reluctant about investing in real estate. We maintain that real estate assets offer sustainable return potential to investors given the level of risk. This varies from country to country and is dependent on the investment vehicles available in a particular country. For example, Botswana, Kenya, and Nigeria have introduced Real Estate Investment Trusts (REITs).

Q: Novare develops shopping centres with the top South African and international brands across Africa – how do you lead your partners into new geographies?

A: It is really a combination of demand-led and Novare-led initiative. Retailers are always on the lookout for long-term potential growth and untapped markets. They do their own market sizing through research on different countries and cities, while we lead by bringing retail opportunities to them – specific pieces of land in cities they have already identified as attractive. Occasionally, we would suggest prospects they might not initially be keen on; however, the Novare team is full of development and retail experts who understand the needs of the partners and are confident that only the best attractive deals are presented. We do this with consideration for partners' vision of expansion within a 10-15-year period.

Q: The Novare Africa Property Fund I made its first investment in the development of the Novare Apo Mall in Abuja, Nigeria. You also invested in the Novare Lekki Mall, which opened in August 2016, and other shopping malls in Zambia and Mozambique. Tell us more about Novare's outlook on the sector.

A: Our operating assets are performing quite well in Nigeria in spite of the current economic environment. We are very involved in the leasing and management process, including cost management, and we are therefore able to respond to problems quickly. We see the malls as a destination for entertainment over and above being retail destinations. Movies, restaurants and entertainment for kids work well, and this is the case even in tough environments.

Mozambique and Zambia are new to us, although the uptake by tenants has been particularly good. The common theme here is entertainment – providing a space where families can go during the week or the weekend to shop for groceries and for entertainment amongst other activities.

Q: Do you see new business models such as e-commerce disrupting the traditional shopping mall value proposition?

A: No, we are yet to see this happen. Since our malls are a destination for entertainment, e-commerce does not necessarily threaten our model. Entertainment is our future-proofing strategy. It is worth noting that logistics in Africa is still somewhat challenging, which means that the e-commerce industry is yet to scale significantly. Additionally, we do not see security concerns or home entertainment as threats. Security is a global issue, and the people remain resilient – they want to go about their lives as usual. We have a strong security focus at all our premises, and the kind of entertainment we provide cannot be replicated at home.

Q: Another flagship investment is the Novare Central Office Park in Abuja – what is your outlook on the demand for office space across Africa?

A: Offices are of course very different compared to retail, and we have identified a huge opportunity to create grade A office space for international tenants across Africa. They would typically look for amenities, green energy, parking, and efficiency. In general, we believe that there will be long-term growth in the sector despite a short-term slowdown. We remain focused on the premium segment of the market.

Q: Looking ahead, what does the future hold for Novare?

A: We have completed fundraising for Fund II and it will have more geographic diversification than Fund I. We are now focused on sourcing good investment opportunities and deploying the capital. We will also be focused on exits for both funds, which will create opportunities for local pension funds to invest in operating assets possibly via a REIT structure.

In terms of new opportunities, we have a major transaction underway for Novare Holdings, which will bring subsequent prospects for the group. There are also real estate initiatives in South Africa and across sub-Saharan Africa which we think will be attractive to our investors. Ultimately, we are a growing company with big ambitions for Africa. Our malls are branded Novare and we are positioning the brand as a major player on the African continent.

We believe it is better to exit in the form of a REIT, listed on the Johannesburg Stock Exchange and dual-listed where assets are domiciled, although the legislation is not fully developed in all markets. We are constantly asking ourselves what instruments we can create to enable greater local pension fund participation, and we are confident that we can deliver stronger returns on a portfolio of assets rather than selling single assets.

Underlining all of this is the challenge of timing. We are fortunate to have a large team with people on the ground on a full-time basis. This creates a strong level of accountability so Novare can continue to seek out new investment opportunities while also managing our existing investments.

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