Kigali Heights and the Great Exit

Delivering Real Estate Exits in the Difficult Sub-Saharan Market

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Rooted in the African growth story

Success or Just Promises?

Daniel Kamau looked steadily out of the window of the office boardroom on the 8th Floor at Kigali Heights. Below, he could see the hustle and bustle of its busy car park, eager customers jostling for position, so that they could go shopping in the iconic Kigali Heights mall. Everything looked good: Kigali Heights had become a landmark building, and a sign of Rwanda's economic coming-of-age. Situated on the Kimihurura Roundabout, opposite the International Conference Centre, the building hosted not only one of the best shopping experiences in the city of Kigali, but also provided Grade A office accommodation to some of its most successful companies.

What a success - And yet Daniel had a problem. The building had been developed with money from a swathe of international investors, who together with Bank of Kigali had put up the very considerable amount of cash needed to create the development. They had been very happy as the building had been delivered - a little late and opened by his Excellency Paul Kagame, the President of Rwanda, in December of 2016. They were still happier when it filled up with tenants. But this kind of international investor requires an out, where they get the money back, plus the profit they have made. In financial jargon this is known as the 'Exit', and it's an essential component of a successful investment. There is a cycle of fund-raising, for the people who manage these funds, and the investors want to know this: when will I get my exit? When will the profit you assure me you have made arrive in my wallet? Until then it's all promises and dreams.

Optimizing Performance of Real Estate

Fusion Capital where Daniel Kamau serves as the Group Chief Executive officer had bought out a big chunk of the equity in Kigali Heights from a group of weary investors in 2019. The idea was to optimize the performance of the development and then sell - providing an 'Exit' to Fusion and to the other investors.

Hopes and Good Intentions

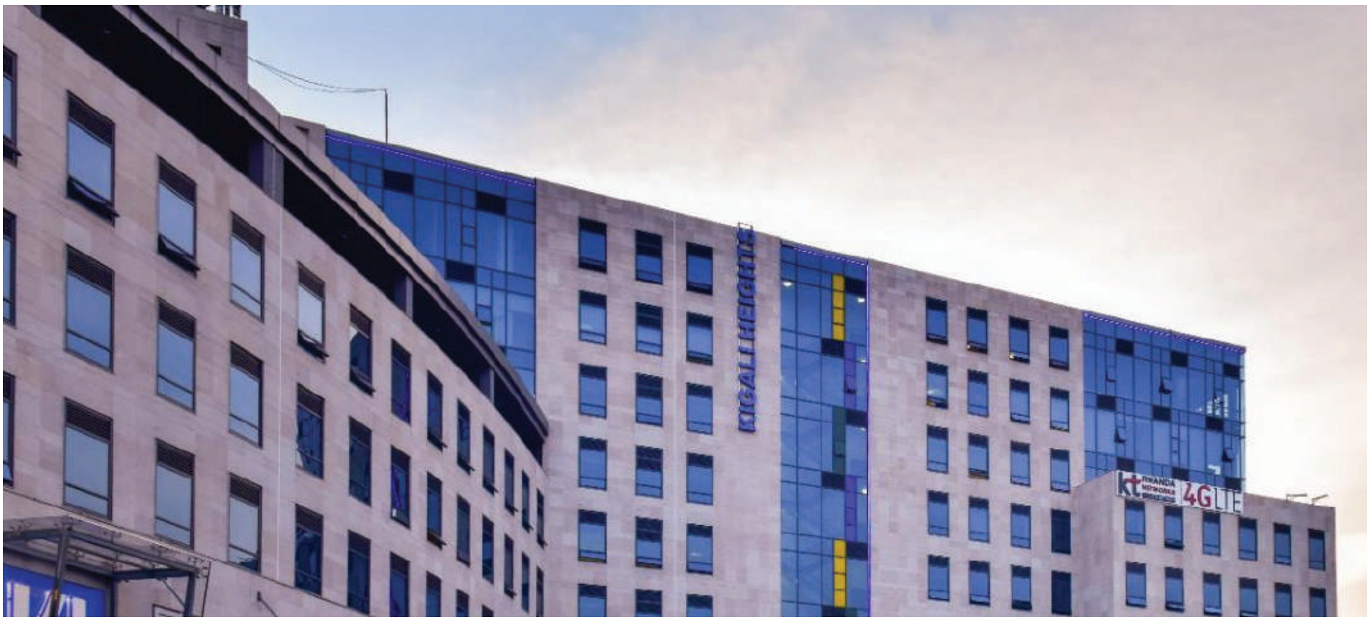
Exits are a particular problem in African Real Estate. Daniel had seen it time and time again: Investors arrive, often during a phase of economic optimism, full of high hopes and good intentions. They deploy their money, they build something good - often very good - an office block, a shopping mall, or a big residential development. As the project comes on stream they sit back and wait for their 'Exit' for their return, the rightful reward for their hard work and risk-taking. And it doesn't come, despite their best efforts. For some reason, there aren't buyers, or aren't enough buyers. Efforts to market the property become more and more intense, and still nothing happens. Discounting sets in, and the asked-for price drops and drops, still with no tangible results. Eventually, everyone gets disheartened and either sells out for an ultra-low price, or in the worst cases, writes off the investment and walks away with nothing.

Why are there few to no EXITS in Sub Saharan Africa Real Estate?

In short, there is no or very little 'secondary market' for SSA African real estate, meaning that buildings get built, but they don't get sold. The reasons for this are many, but amongst them are:

- Lack of appetite
- Rapidly changing real estate markets
- Policies of Development Finance Institutions, who often have a mandate to create real new developments only, and aren't allowed to buy secondary assets
- Suspicion of buyers regarding the quality of any asset put up for sale
- Currency and financing problems
- Lack of knowledge and information, creating uncertainty and risk for buyers
- Uncertainty about legal processes and lack of transparency
- Lack of buying and selling expertise
- Unaligned local partners
- Lack of qualified local purchasers

The reason Daniel had a frown on his face was that, with Kigali Heights, he faced all these problems, yet he was under pressure to provide that desired exit for his investors.



Who would want to buy, in these circumstances?

Fusion's approach to Real Estate Exits

- **Financial Due Diligence**
  First, Daniel and his team who involved his Director of Real Estate Mr. James Maclean and His Director of Asset Management Mr. Michael Kimondo under the guidance of their Group Chairman Dr. Phil Goodwin set about really getting on top of the business operations - which meant having virtually a full-time team on it. The operational team reviewed rents, pricing, utilities, service providers; Were the company's commercial policies fit for purpose? Had the team adapted to changes in the Kigali market since the original business plan? Accountants focused on the numbers: Was the business performing as well as it could? Had the financial impropriety masked the true performance? Was it better or worse than it looked from the outside? Where was the company leaking cash? Were the controls as good as they could be? over a sustained period, his team got on top of all the issues, and discovered a business underneath: one which had challenges but was solid and viable.

- **Legal Strategy**
  Second, the Fusion action group deployed a legal team. The team reviewed the company's legal set-up. Was it in a good shape to be sold? What form and structure should the envisaged sale take? What was the best tax structure? How would the bank be dealt with, in any exit event? Could warranties and indemnities be given, on the sale, and if so, who would give them? How would all the expenses of sale be dealt with. Another team was set up to deal with any legal cases that would arise during the sale and the said team dealt with various cases as they happened.

- **Finding a Golden purchaser and the tick boxes**
  Third, Daniel's team began quietly to work on finding a buyer. Corporate Finance advisers were mandated to scour the world, to see if a qualified international buyer could be found. Despite doing excellent work, and despite their persistence, this proved elusive although there were many conversations, none of them resulted in an offer - not even a cheeky low-ball offer. When this happens, Daniel knew from experience, you know you are not going to find an international purchaser. That left the local market - one which needs to be tackled very differently. As anyone who has tried to sell a real estate asset in Africa knows,

if you put your asset up for sale plainly and openly, the first thing which happens is that you receive a plethora of approaches from 'phantom buyers'. For a variety of reasons, it plays to the interests of certain kinds of players to pretend to be bona-fide buyers, and these have to be worked through, first. Daniel knew from his experience that perhaps one in ten or twenty of these might be real, and so it was always worth checking them out. He knew the important 'tells' though, and the team could quickly get to the bottom of whether any given purchaser was real. A real purchaser for a major asset like Kigali Heights must have plausible motivation, genuine management capacity, provable financial capacity, and must show the intention and ability to manage the complex process involved in executing such a purchase. Above all he must show he understands the value of the asset. To these pre-qualifiers must be added the regulatory one: The purchaser must pass the rigorous anti-money laundering tests which the law requires and which are mandatory when international institutions are the sellers.

Such a purchaser is more likely to be found through networking than through a formal process, and so it proved in this case. Daniel met someone informally at the UK- Rwanda Business Forum, and gradually began to establish a relationship. Over time, this contact emerged as a credible purchaser for the business. He was already a serious owner of Kigali property - tick. He had a team around him who knew what they were doing - tick. He had a great relationship with Bank of Kigali and allowed us to independently verify his financial capacity - tick. He had proper advisors and a clear idea of how he wanted to execute the transaction - tick. (It wasn't exactly a text-book route, but it made sense). He negotiated hard but his valuation of the asset made sense and was rational. Daniel didn't like it at first, but in the process of to and from an acceptable valuation was reached. Finally, this purchaser had bought from a major international institution quite recently, so that Daniel was almost sure that he would pass the Anti-Money-Laundering review.

'The Gut factor'

There was also that intangible but so important feeling, around this purchaser. He could be trusted. He would strike a hard bargain, but he would stick with that bargain and deliver. This feeling was confirmed by talking with others who knew him.

Finally, Daniel had his 'Golden Purchaser, and as history has shown, it was Yussa Group, the highly successful logistics business owned by Yusuf Kalinginare and his family.

It took 6 months to execute the transaction. Everything had to be agreed and documented. At its essence the deal was simple - but the devil is in the details, and they all had to be agreed. A number of things made it difficult to consummate the transfer. The value of the building was agreed in US dollars, but the Rwandan Franc kept falling and falling, making it challenging. The global economic outlook was at best uncertain, interest rates jumped up and down. There was a dollar shortage. There were technical legal difficulties around registering the title transfer. But finally, it was done.

In the investment business, the exit event is always a good feeling. In this case, especially, Daniel and his team felt that a good outcome for all had been delivered: the bank was happy; the investors were out, finally. The building was in good hands. The management and employees would be dealt with properly. Finally, with this successful exit, the frown disappeared from Daniel's brow.