
Black Entrepreneurship In The Real Estate Sector In Namibia

Constraints And Prospects

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ABSTRACT

Real estate offers a number of opportunities for entrepreneurial activity notably in the areas of estate agency, real estate development and consultancy services such as valuation. The real estate sector is particularly attractive to entrepreneurs because of relatively low start up capital requirements and the potential for huge returns in relatively short times. The world over is replete with examples of real estate tycoons.

Thirteen years after independence, a cursory examination of the real estate sector shows that Black Namibians have not taken advantage of the opportunities available in this sector in any significant way. This is most evident in the Estate Agency business, where historically White firms dominate, and in Valuation services. In fact Namibia has not even a single private real estate valuation firm operating in the country and has to rely on external consultants.

This paper examines the constraints which militates against increased Black participation in the real estate sector in Namibia. Focusing on Estate Agency and Property Valuation services, it shows that there are institutional, regulatory and other factors which work against Black participation in the real estate sector. The paper concludes by suggesting ways in which this state of affairs can be improved.

Key Words

Real estate, estate agency, valuation, Black Namibians

1. Introduction And Background

The real estate sector offers a number of opportunities for entrepreneurial activity. The main specializations that make up the real estate business and which provide good entrepreneurial opportunities include the following (Galaty et al 1988)

1.1 Agency Or Brokerage

This involves bringing together interested in making a real estate transaction. The agent negotiates the sale, purchase or rental of property on behalf of others for a fee or commission usually based on the amount involved in the transaction.

1.2 Valuation Or Appraisal

This is the process of estimating the value of real estate. Valuers need training in the areas of economics, law and construction.

1.3 Property Management

This involves operating property usually on behalf of an owner. The responsibilities involved including soliciting tenants, collecting rents, altering or constructing new space for tenants, ordering repairs and generally maintaining the property. The basic responsibility is to protect the owner's investment and maximize the owner's return on the investment.

1.4 Property Development

This is the process of advancing the usefulness of property through the expenditure of capital in order to release latent value. It involves the purchase of raw land and the speculative construction of various forms of real estate. It may also involve improvements in existing real estate.

It is important to point out that these activities, being essentially the provision of services, have relatively low capital requirements. Thus, barring regulatory and other artificial barriers, they should be an attractive option for many small entrepreneurs. The allure is increased by the fact that there is a reasonable potential for huge returns in relatively short time. Numerous examples abound of 'real estate' tycoons the world over.

2. Identification Of Problem

Thirteen years after independence, a cursory examination of the real estate sector shows that Black Namibians have not taken advantage of the opportunities available in this sector in any significant way. This is most evident in the Estate Agency business, where historically White firms dominate, and in Valuation services. For example less than 10 percent of the 107 members of the Institute of Estate Agents of Namibia are Black.

The situation with regard to valuation services is even more dire. Namibia distinguishes itself in this region with the fact that one is hard pressed to find even a single private real estate valuation firm operating. The country relies heavily on external consultants at enormous cost no doubt.

The reason for this state of affairs cannot be explained by the small size of the population or lack of demand for such services. For instance Botswana, which has roughly the same population, has a well established valuation profession. In addition and by all accounts the real estate market, at least in Windhoek, is buoyant. The Government for its part has been engaged in the valuation of commercial farmland for a new land tax and has had to engage Zimbabwean valuers to undertake this task.

3. Aim And Objectives

This paper represents "work in progress" towards a comprehensive study of Black participation in the real estate industry in Namibia. It must therefore be seen as illuminating only aspects of the research problem and generally setting the groundwork for a more substantive and rigorous inquiry.

The focus in this paper is on estate agency and valuation services. It aims at identifying factors that may be constraining on one hand the increased involvement of Black Namibians in estate agency on one hand, and factors inhibiting the evolution of a valuation services industry or profession on the other.

4. Method

The study took the form of a desk review of relevant legislation and other documents. This was augmented by unstructured interviews with three Black estate agents selected purposively. Other interviews were done with key figures involved in valuations for the Central Government and the City of Windhoek.

It must be stressed that the primary data obtained was essentially by way of case study. This paper therefore does not purport to make any inferences or generalizations beyond these cases to the wider population. The results must be seen on their own merits, even if they could be representative.

5. Organisation

The rest of the paper is organized as follows. Section 6 reviews the legislative framework regulating estate agency and valuation. This is followed by a presentation of findings and discussion in section 7. The Conclusions and recommendations follow thereafter in Section 8

6. Regulatory Framework

As a convenient starting point we examine the framework regulating estate agency and valuation in Namibia.

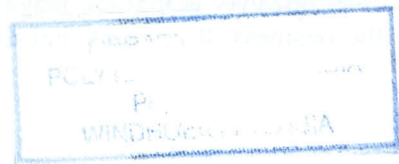
6.1 Estate Agency

The Estate Agents Act 112 of 1976 is the piece of legislation that provides the regulatory framework for estate agency in Namibia. The law is a carry over from the South African colonial era and must be understood in that context.

The main provisions relevant to this paper are:

- (1). It establishes the Namibian Estate Agents Board, with the at least seven members appointed by the Cabinet. Four of these members are nominated by the Namibian Institute of Estate Agents which is the leading professional body representing estate agents in the country.
- (2). It provides for the object of this Board as the maintenance and promotion of integrity of estate agents. In this regard the Board is conferred with the following key powers; to frame and publish a mandatory code of conduct for estate agents and to encourage and promote improvement of training and services rendered by estate agents.
- (3). It provides powers for the Board to, in essence, register or deregister estate agents. An estate agent could lose the right to practice for a wide variety of reasons.
- (4). It requires estate agents to keep account records. The nature of the business is such that the estate agent will be keeping large sums of clients' money. This creates an obvious 'moral hazard'. Therefore estate agents are required to keep such money in a separate trust account and conform with strict requirements with regard to record keeping and audit.

The Board therefore plays a very central role in the estate agency business. In practice it conducts qualification exams which must be passed before any one can be allowed to practice. The Institute of Estate Agents on the other hand is not a statutory body. Membership is therefore not mandatory. But as the leading professional body, it has considerable influence on the Board and the industry generally and confers on its members a certain degree of status in the market place.



6.2 Valuation

The Valuers Act no 23 of 1982 is the relevant legislation here. Unlike the Estate Agent's Act which has been 'Namibianised', the Valuers Act has not been touched since independence. In the meantime legislation regulating valuation services in South Africa has undergone major changes since 1982. Currently the Property Valuers Profession Act 2000 is the main legislation.

The main provisions relevant to this paper are as follows

- (1). It establishes the *South African Council of Valuers* (now called the SA Council for the Property Valuers Profession)
- (2). It confers the following key powers to the Council; registration (and deregistration of Valuers), maintenance of the integrity of valuers, and improvement of the training of valuers

Oddly, the Act vests Ministerial responsibility in the Minister of Community Development. But more significantly is the fact that no such council has ever been appointed in Namibia since independence.

An examination of subsequent legislation that touches on aspects of valuation is very instructive. For example the Government is confronted with the need to appoint valuers with regard to the determination of values for the new land tax. The Commencement of the Agricultural (Commercial) Land Reform Amendment Act 2001 defines a valuer as any 'fit and proper person'. The Act does not give any further guidance as to what this means in practice. This description also appears in the Local Authorities Act no 23 of 1992 with regard to the appointment of valuers for municipal property rates assessment.

In practice, it is safe to say that there is no regulation of valuers in the country, a veritable el dorado for any one interested in the field. In Namibia any one who can fit the description of 'fit and proper' can undertake valuations. And unlike the case for the Estate Agents, no professional body to represent valuers exists.

7. Findings And Discussion

Based on the (unstructured) interviews indicated above, the following findings emerged.

7.1 Estate Agency

The legislative framework does not in any significant way constrain Black entrepreneurs from entering the Estate Agency business. On paper, the process appears to be straightforward and simple. As long as one is able to pass the Board's examination, one can be allowed to set up a business.

However, there is a perception that an unusually high number of Black applicants fail this exam. It is seen as a mechanism by which the Institute of Estate Agents which is overwhelmingly White controls access to the profession. It must be remembered that the Institute nominates four out of the seven members of the Board and therefore effectively controls the latter. Charges of 'institutional capture' by the Institute of the Board cannot be dismissed lightly. There is certainly a conflict of interest here. The Board is meant to represent the interest of the public whereas the Institute represents the interest of estate agents and, by extension, the status quo.

It however has to be said that passing this exam may still be a considerable challenge for some, given the history of 'Bantu' education in the country. Unfortunately it has not been possible to obtain (comparative) failure rates from the Board and therefore one cannot conclude either way.

What is clear however is that the major problems are related not so much to entry barriers but to survival once in the business. It appears that there is a high failure rate in this business and that budding Black

entrepreneurs are singularly ill prepared for the challenges of the industry. The major problems identified are as follows:

- (1). Lack of skills and knowledge in keeping accounting records, especially the Trust Accounts. Respondents report major problems meeting with audit requirements. It appears that several Black Estate agents have had their licences withdrawn for this reason. It is reported that in certain cases results of audits could result in criminal charges.
- (2). Lack of general business management skills. Ease of entry belies the fact that this is a very competitive industry requiring the traditional skills in marketing, financial management and general business management. Respondents attribute the high failure rate to the fact that most estate agents lack these skills.

As can be expected, marketing plays a crucial role in the success of estate agency. Respondents describe the business as highly personal and heavily dependant on networking and interpersonal relationships - with clients, Home Loan consultants, valuers etc. The extent that these skills are lacking in Black Estate agents may explain part of some of the reasons for failure.

The respondents indicated that the business is profitable though highly competitive. With regard to the issue of whether race is a constraining factor or not, the results are inconclusive. It is widely known that wealth is still highly skewed along racial lines. *A priori*, and given the history of the country, one would expect that Black Estate agents would not easily get White commissions or clients.

The results from respondents are mixed. All report having mostly Black clients, but also varying amounts of White clients. At least one of the respondents does not perceive race to be an issue. The rest suggest that it indeed is an issue.

As already pointed out, estate agency is a highly personal business in which considerable amounts of money must be entrusted to agents who may in fact be total strangers. Trust is important. On balance, therefore, one must conclude that race is a factor.

7.2 Valuation Services

As shown above any one who is 'fit and proper' can offer valuation services in Namibia. There are no legislative or regulatory barriers to entry. It is therefore somewhat of a conundrum that there is no established valuation profession in the country. Respondents point to the following as reasons for the state of affairs.

- (1). Preference by the major consumers of valuation services to import external consultants, particularly from South Africa. The reasons for this are partly historical (most institutions are closely linked to, even headquartered in South Africa) and partly pragmatic. The latter is because in South Africa, there is a mechanism for registration and validating the credentials of valuers. This preference for South African consultants put local valuers at a distinct disadvantage.
- (2). Lack of popular awareness by the public of valuation as a distinct professional discipline or activity in the way of, say, estate agency. This particular problem is simultaneously both a cause as well as a consequence of lack of a valuation profession.

Valuation has tended to be subsumed into the Quantity Surveying Profession, which in turn reflects the South African legacy. In fact up to now there appears to be lack of clarity in South Africa itself as to what is the intellectual or disciplinary foundation of property valuation. Contrary to commonwealth practice, valuation in South Africa is considered as part of quantity surveying. It is therefore a challenge for valuation

to emerge from the shadows and establish itself as a distinct academic discipline and area of professional practice.

- (3). Lack of a critical mass of indigenous trained people. Valuation is after all a professional activity needing specialized training and experience. Until recently the country had no institutions providing the requisite tertiary level training. However the force of this argument is reduced when one considers that land surveyors, doctors and others are not trained locally but still have organized professions.

It must be said here that the Polytechnic of Namibia has been training valuers at technician level for a few years now

- (4). Deficiencies in the legislative and regulatory framework. This has already been pointed out. The environment, while open to entry, is not *supportive* for the emergence of a properly skilled and regulated profession. Experience from surrounding countries suggests that a certain degree of regulation is necessary in order to create the right conditions for the valuation profession to emerge and thrive.

8.0 Conclusions And Recommendations

From the foregoing, and bearing in mind the methodological caveat, the following conclusions can be drawn.

With regard to estate agency

- (1). There are no obvious institutional or regulatory barriers to increased black participation in the estate agency business. However the influence and role of the Institute of Estate Agents in the examination, licencing and regulation of estate agents raises conflict of interest questions which need to be addressed.
- (2). There appears to be a high failure rate of black estate agents due to lack of skills in general business management.
- (3). Black estate agents face considerable difficulties in preparing books of accounts, particularly with meeting audit requirements for trust accounts.

As has been pointed out before the estate agency business offers a low cost route to potentially highly profitable enterprise. Given the history of the country and the need to address the inequitable distribution of wealth, this sector offers excellent opportunities for advancing 'black economic empowerment'.

It is recommended therefore that intervention measures specifically targeting this sector be devised. The broad thrust of these measures should be to increase the survival rate of black estate agents. Training in accounting, marketing and general business management would be key components.

From an institutional point of view, the Estate Agent's Board should be given a specific mandate and resources to address these issues, in the context of the wider national policy of affirmative action and black economic empowerment. There is also a need to review the relationship between the Institute and the Board. The influence of the former on the latter is a matter of concern and should be reduced.

Prospects for the estate agency business in Namibia are good, at least in the short to medium term. With inflation and interest rates coming down, property prices are rising due to buoyant demand. Instructions from clients are therefore expected to increase and to remain so for the foreseeable future. This is therefore an excellent time to encourage black participation in the sector.

With regard to valuation, the following conclusions can be drawn

- (1). The legislative and regulatory framework is defective. The fact that there is no enforced mechanism for registration and regulation of valuers creates an environment that is not conducive for the emergence of the profession.
- (2). There is lack of awareness or public recognition of valuation as a distinct area of professional (and entrepreneurial) activity.
- (3). There is continued dependence on mostly South African valuers by many institutions in the country.

It is the considered view of this paper that all these problems stem from an inappropriate legislative/regulatory framework. It is therefore recommended that the Valuers Act be amended to Namibianise and modernize it. As a starting point it should be brought under the administrative control of a more appropriate ministry, say the Ministry of Lands. The amendment should create a mechanism for the registration and regulation of valuers in the country.

Regulation is always treated with suspicion by proponents of free enterprise but is necessary in this case for three basic reasons. Firstly it will create the necessary protective environment from which the profession can emerge. Secondly, regulation will put in place mechanisms by which consumers of valuation services can validate the credentials of valuers. This is crucial for confidence building. Thirdly, valuation is a profession and to ensure that the 'public interest' is protected, a degree of regulation is called for.

The importance of having a healthy local valuation services profession cannot be over emphasized. Beyond the obvious opportunities for profitable enterprise, property is the bedrock on which the financial system rests. Inappropriate valuation practices could for example distort asset values, with catastrophic effects on the health of the financial system and the economy in general.

The prospects for a profitable valuation services industry are good, both in the short and long term. Demand for such services from established existing consumers (financial institutions, parastatals, municipalities, corporates and private individuals) will almost certainly likely remain strong. Significantly for the medium and long term, the need to value commercial farmland for the new Land Tax will create sustained demand for local valuers.

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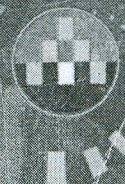


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