

INTRODUCTION

In this edition of the SSNIT Investments Series, our focus is on the Trust's real estate investments, jointly implemented by the Projects Development and the Properties Departments. The Projects Development Departments handle the construction of real estate projects and manage the Trust's land banks, while the Properties Departments take up the management and maintenance function; post construction.

OVERVIEW OF REAL ESTATE INVESTMENTS

Real estate investments cover the acquisition or ownership and management of properties such as land or buildings, and the natural resources therein, with the view of preserving or increasing value to earn profit. They are usually long-term investments and based on their intended use, can be categorized into three main groups; namely, residential, commercial and industrial. Residential real estate are developments designed for live-in (non-business) purposes and include all forms of housing, e.g. condominiums, duplex and flats whereas Commercial real estate are intended for business purposes and provide facilities or workspaces to support service-based business or commercial ventures such as banking halls, retail stores, hotels, restaurants, among others. Industrial real estate on the other hand, are facilities designed to support production, manufacturing and assembling of goods and include facilities such as factories, warehouses and mines.

Developers of these property types that is, investors or landlords seek to profit from the rent, lease or sale value of the properties. The investor must however find someone who needs the property, known as a tenant, and enter into an agreement (tenancy agreement) to grant the tenant access to the property under certain terms and conditions in exchange for payments (rental/lease income) from the tenant. Income from real estate investments are usually determined by investors/landlords at rates that provide satisfactory rate of return taking cognizance of prevailing market rates.

Real estate investments are however less liquid compared to other investment types. They are also capital intensive and highly dependent on sustainable cash inflows to complete or acquire. The high construction costs, reflected by the high selling prices, has resulted in the use of mortgage financing to acquire real estate properties. Mortgage financing refers to a loan secured by collateral, usually the underlying property, which the borrower is obliged to pay back in predetermined sets of instalments. The loan is usually long term and for the purchase or construction of housing estates by individuals or companies.

Management and maintenance of real estate properties are shared responsibilities of both the owner and the tenant but these functions may be outsourced to third party property management companies.

The real estate markets in most jurisdictions are not as organized or efficient as markets for traditional investment instruments, presenting a challenge to buyers and sellers alike. The financial muscle required to undertake such projects also deter most people from investing in this sector. The structuring or modelling of the derivative 'Real Estate Investment Trusts (REITs)', however, seeks to open up investment in the asset class.

The REIT Concept

Real Estate Investment Trust (REIT) is a form of collective scheme that provides members (investors) the opportunity to buy into real estate assets to make a financial gain. Companies that operate as REITs typically own and operate (manage and maintain) the underlying real estate properties with the aim of generating income and providing diversification opportunities for investors. These companies issue securities on the underlying real estate properties, to enable investors pool their money to invest in the collection of assets. Some income-generating assets that are considered by REITs are office buildings, shopping malls, hotels, flats, warehouses, self-storage facilities and telecommunication facilities.

REITs may be listed on an Exchange, in which case they are publicly traded and provide investors with a higher degree of liquidity than those that are not publicly traded or are privately held. The companies must however meet regulatory requirements, be they listed or not, in order to protect the investing public.

The two distinct types of REITs are Equity REITs and Mortgage REITs, but there are hybrids that combine the features of the two main types. Equity REITs invest directly in the underlying realty either through own-build or through acquisition. Gains from this investment are dividends from rental receipts and capital appreciation from increase in the property value. Mortgage REITs on the other hand invest in mortgage-backed securities. The companies use pooled funds and borrowings at low interest to buy off higher paying mortgages from primary dealers or invest directly in mortgage arrangements in order to benefit from the interest spread or interest payments. The underlying property serves as collateral with ownership residing with the company until the debtor fully discharges all mortgage liabilities. Gains from this investment type are the interest income from the mortgage facilities; the property value accrues to the title holder upon the eventual settlement of the loan. Hybrids invest in mortgages and also, develop or acquire own properties for rent. Investors therefore benefit from dividends, capital gains and interest income.

Key characteristics of REITs are:

- The Trust should have invested at least 75% of its total assets in real estate.
- Should receive at minimum, 75% of its gross income from real estate property rent, interest on mortgages financing real property or from sale of real property.
- Be managed by a board of directors or trustees.

SSNIT considered REIT in 2011 to make its real estate portfolio more liquid while limiting its exposure by offloading some of its stake in the properties to investors. SSNIT could not adopt the REIT concept due to the following:

- SSNIT as a pension fund administrator raising capital from the public may be difficult for our regulator and key stakeholders to accept or agree with.
- The Trust is the largest institutional investor in the country and companies from various sectors target SSNIT for funds. A SSNIT REIT was therefore thought to be misplaced with limited number of investors envisaged.
- REIT was not a fully developed investment vehicle in the country for an Institutional investor like SSNIT. Therefore, funds to be raised from the REIT may not be adequate for the purpose for which it is intended.
- SSNIT would have to comply with the rules of regulators of the industry with respect to reporting and monitoring which entails a lot of time and cost.

The Trust's Real Estate portfolio is made up of commercial properties, residential properties and ongoing residential and joint venture projects.

Commercial Properties

SSNIT's commercial properties are located nationwide. Due to the numerous economic activities in the capital city, Accra boasts of the most properties compared to other cities in the country. The various commercial properties and their locations are presented in Table 1.

Table 1 – SSNIT Commercial Properties

PROPERTY NAME	LOCATION
SSNIT Emporium	Accra
World Trade Centre	Accra
Ridge Tower	Accra
Heritage Tower	Accra
Premier Tower	Accra
Trust Tower	Accra
Okofoh House	Accra
Round House	Accra
Multi-storey Toll Car Parks	Accra
Adenta Shopping Mall	Accra
Pension Tower	Tamale
Office Complexes	Accra Industrial Area, Cape Coast, Kumasi, Sunyani, Koforidua, Bolgatanga, Hohoe, Tamale, Takoradi
Ghana Hostels Limited	Accra, Winneba, Cape Coast, Kumasi, Nyankpala and Navrongo

Residential Properties

The Trust's residential properties refer to residential estates and units built purposely for sale or rent to Ghanaian workers. About 98% of the Trust's residential properties at Adenta Workers Housing and SSNIT Flats at Dansoman, Tema, Sakumono, Koforidua and Asuoeyeboah have been sold to salaried workers. The sale of flats at Borteyman is currently ongoing.

Work-in-Progress and Joint Venture Projects

All Real Estate investments under construction are classified as Work-in-Progress, and include the Affordable housing project at Asokore Mampong and Borteyman, Corporate Social Responsibility projects such as The Trust Children's Library and Police Posts. Branch offices and staff residential accommodation are classified as administrative properties.

The Trust also partners real estate developers and individuals to form joint venture companies to develop residential and commercial properties. Ongoing joint venture projects which are classified under the Unlisted Equities Portfolio include Meridian Gardens (Klagon), Trust F-Line (Sakumono), West Hills Ridge (Dunkonah) and Adinkra Heights by Switchback Developers Ltd. (Cantonments).

Industrial Properties

The Trust invested in Ghana Industrial and Commercial Estates Limited (GICEL), a wholly owned subsidiary of SSNIT established in 1999 to provide an industrial and commercial enclave to support the infrastructural needs of small and medium scale enterprises (SMEs). GICEL's main business is to rent out its facilities/structures, manage tenants and keep the Estate in good state. The focus on SMEs was intended to create a more organized network of informal sector workers for integration into the SSNIT scheme.

MANAGEMENT OF SSNIT'S REAL ESTATE INVESTMENTS

The Projects Development Departments (Northern & Southern Sectors) provide technical support to the Investment & Development Division on real estate related issues, particularly, on construction and land management. The Team comprises architects, draftsmen, quantity surveyors, as well as electrical, mechanical and structural engineers. The Departments are currently involved in the construction of projects such as the Affordable Housing Project at Borteyman and Asokore Mampong, Police Posts, a number of administrative buildings and major rehabilitation works such as Trust Tower and Pension House.

The Properties Departments (Clusters A, B and C) manage SSNIT's residential, commercial and administrative properties. However, given the size of the portfolio, most of the commercial properties have been outsourced to third party property management companies to enable the departments focus on the Trust's administrative properties. The Clusters also handle renovation and rehabilitation of commercial, administrative and residential properties. The team is made up of valuers, quantity surveyors, electricians, plumbers, and other technicians. The Department also relies on service providers for the maintenance and repair of plants and equipment.

SSNIT REAL ESTATE PORTFOLIO VALUE AND PERFORMANCE

The value of the SSNIT real estate portfolio was GH¢1,735.90 million as at December 2017, constituting 18.8% of the total investment portfolio. This comprised 79.4% of commercial properties, 20.4% of work-in-progress and 0.2% of residential housing stock.

When SSNIT's joint venture projects under the unlisted equities portfolio are added on to the real estate value, the Trust's real estate portfolio constitute about 33% of the total investment portfolio as at December 2017.

Over the past 5-year period (2013-2017) sale and rental income have on average, contributed about 6.1% to the Trust's gross investment income.