The Case for Africa – The Real Estate Angle - Knowledge is King

By Nick Lambert

Many companies are being attracted to Africa by relatively low labour costs, burgeoning economies, growing populations and untapped markets. Below, Nick Lambert, Senior Director in CBRE's Global Corporate Services Division suggests that with the barriers to entry continuing to erode and a positive economic outlook, the growth of corporate occupiers expanding into Africa is likely to continue.

The broad commercial real estate trend for multinational occupiers across the more developed markets of the world remains one of consolidation, cost savings and streamlining of operations. This approach is driven largely by the tumultuous economic times we are living through, with organisations seeking out cost reductions and higher returns on investment. This move must not be seen as a negative as it is in the most part a simple realignment following several years of growth, which has in many instances proven to be unsustainable. However, this real estate contraction does have a flip side: it is creating a number of interesting opportunities beyond the more established global markets and is proving to be real fillip for several growth economies, as well as those organisations that have the ability and the appetite to forage into more challenging markets. So where are these opportunities; what are the main challenges; what needs to be done to overcome them; and what are the potential returns?

The BRICS nations of Brazil, Russia, India, China, and latterly South Africa, can no longer truly be classified as 'emerging'. These major global economies are now far more mature and sophisticated than many of the more traditional markets of Europe, Asia and North America. A prime example is China where the success of the economy has led to rapid urbanisation and an influx of swathes of people into towns and cities from the countryside seeking employment. This migration has, along with other factors, had the effect of driving up the cost of living and making the traditional value products of Chinese industry more expensive and less competitive on the global markets. The transformation of the mass workforce into a more educated and demanding group has led to unprecedented growth of the middle classes. China is witnessing greater levels of disposable income and increases in spending power which are leading to higher demand for more quality goods and services which is in turn driving costs still higher.

What China is experiencing is not unique amongst the BRICS and the knock-on-effect is a mad scramble to get quality products into these markets. However, the once reliable bedrock of low labour costs and inexpensive real estate that attracted organisations to these markets in the first place is no longer a certainty and many companies are seeking alternative bases in new frontier markets.

Interestingly, in many ways Africa is now where China was 30 years ago, and many companies are being attracted south by exactly those factors that took them east in the first place; relatively low labour costs, burgeoning economies, growing populations and untapped markets.

However, the image of Africa as a single market is erroneous. Africa is recognised as being 54 different countries (there's an argument that it's actually 55) all with different economic drivers, politics, complexities and idiosyncrasies. Africa is hugely diverse and a 'one size fits all' approach simply doesn't work, meaning that Africa needs to be broken down and each economy analysed to weigh up the individual risks and rewards.

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Robust Economic Growth in Africa

In May 2000 The Economist referred to Africa as 'the hopeless continent'. Since then Africa has definitely been on the move and is experiencing robust economic growth across many of its nation states. It is worth touching on a few statistics:

- Africa has a rapidly growing population, estimated to be 2 billion by 2050 with 1.4 billion within the working age, a doubling since 2010.
- Over 300m people are now categorised as 'middle class', up 27% from 2000. 200m Africans will enter the market for consumer goods in the next five years.
- A third of Africa's population lives in cities but accounts for 80% of GDP; by 2040, half will be living in cities.
- During the 1990's average inflation across Africa stood at around 22%; during the 2000's it's been around 8%.
- Between 2000-2010 Annual Output across Africa grew 5.5%, faster than the global average of 3.5%. Over the same period FDI has increased from $10bn to $88bn pa.
- Africa has 10% of the world's oil reserves, 40% of gold reserves, 80-90% of chromium and platinum group metals, and 60% of the world's arable land yet to be cultivated.

A few key markets in Africa are experiencing a minor economic boom. If we consider Nigeria, Angola and Kenya, for example, each has experienced huge GDP growth, is keeping inflation in relative check and is, on the whole, making it easier to do business. From a real estate perspective there are obviously issues to overcome with alleged higher than average levels of corruption, concerns over title, tax, poor infrastructure, the ability or otherwise to own property and how to get funds into or more importantly out of the country.

By 2050, it is forecasted that Nigeria will proudly sit within the world's top 15 countries by GDP (currently circa 6.3%), and is currently the world's fastest growing economy. Its population sits at 170 million (2012 figures), the largest in Africa, and its main cities, specifically Lagos, Abuja and Port Harcourt, have become key targets for scalable opportunities. This has led to demand for prime commercial real estate far outstripping supply, keeping prices comparatively high. For example prime commercial space in Lagos is renting at up to $1,000/sqm/pa, down from a peak in 1998. Rentals should continue to decrease as more high quality stock comes to the market. Despite this, the comparatively high levels of corruption and security issues ascribed to Nigeria make it a relatively high-risk destination.

Luanda, the capital of Angola, can be bracketed in many ways alongside Lagos. Its real estate costs are not only the highest in Africa but are one of the priciest in the world, as cited by Luanda's prime commercial real estate being the second most expensive in the world behind Hong Kong, at $2,100/sqm/pa. This is fuelled not only by the low levels of supply (there is currently only some 500,000 sqft of office space in Luanda, increasing to 1.4M sqft by the end of 2015) but also high demand from, principally, the oil & gas sector, and high levels of taxation.

Kenya has come through the recent elections relatively unscathed. There is a new confidence in the economy that is witnessing an increase in inward investment and an upturn in infrastructure and real estate construction and upgrading. Although supply is still low there has been a dramatic increase in the number of developments underway with corporations looking outside the traditional Central Business District into outlying areas around Nairobi. Rents are comparatively low when considering Nigeria and Angola, with prime space attracting up to $210/sqm/pa.

Not far behind this leading pack, another cluster of growth economies within Africa emerge, principally, Ghana, Mozambique, Tanzania, Uganda, and Zambia. The main drivers for these markets still tend to be oil & gas, finance and telecoms. Where oil & gas goes the others seem to follow.

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Africa and its History

To understand what is driving such growth within these countries, it's important to examine Africa's history. It is well documented that many nations have had a troubled political past and with red-tape, bribery, corruption and skilled labour shortages also flagged as key concerns, it has seen the continent lag behind on the international business stage.

Given this backdrop, it is not surprising that only a few multi-national corporations historically looked at Africa. Traditionally, those that did were largely oil and gas companies, driven by the continent's rich reserve of natural resources, particularly in East and West Africa. It meant this sector dominated the early corporate occupier landscape, it still does to a degree but the difference now is that Africa is more than just a pure commodity player.

The Transformative Effect of Technology

Technology, for example, is having a transformative effect, just as it has done across developed markets. 70% of Africans own a mobile phone, yet only 7% has access to the internet. This spells opportunity for all business sectors as increased access to the internet will create a far wider and deeper consumer market place; improved farming practices; logistics and transportation; advertising and marketing; sales; intelligence; knowledge sharing; etc. It is also why the Technology, Media and Telecommunications (TMT) sector is continuing to expand operations across Africa. One of the fundamental differences between the rise of China and the opportunities facing Africa is that China went through its growth spurt without the advantages of technology.

Such opportunity as with TMT is mirrored by the levels of increased foreign direct investment into African economies, particularly from China and Europe. This is causing a surge in infrastructure development, increasing employment opportunities, and creating better operating environments for businesses. Furthermore, concerns about bribery and corruption have been somewhat diluted with new more robust international and local legislation on such matters helping to create a more transparent business environment. This continues to be trumpeted by Africa's governments wanting to demonstrate to the International Monetary Fund (IMF) and the World Bank that they are creating a more hospitable marketplace.

Things are also changing politically too. Even those countries with the most deep-rooted issues, including Angola, which recently emerged from a catastrophic civil war lasting some 30 years, and the Ivory Coast and Democratic Republic of Congo, are in the process of establishing new democratic regimes. This is extremely encouraging and further demonstrates that these fledgling democratic economies are gearing up to take advantage of the influx of international commerce. The recent elections in Kenya are a good example as they went off relatively smoothly despite pre-election hype and rhetoric. The regime seems to be stabilising and is certainly making all the right noises.

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Understanding the Cultural and Economic Landscapes

Things are not all rosy and there are still some fundamental barriers to getting things done, not least the poor quality of infrastructure across the continent; the low resilience of all utilities, particularly power and water; roadways and transport in general and the time it takes to get to and from anywhere; and the fledgling communication and IT networks. There are serious issues with land title across many countries and proving ownership can be a very time consuming and costly exercise; deals can get bogged down in seemingly endless bureaucracy and corruption does still exist. However, things are definitely improving and business is getting done on all fronts. An understanding of the particular cultural and economic nuances of each market, the ability to manage and mitigate the inherent risks, and a working knowledge of how to get things done is key.

Real estate investment markets are however a long way behind the more mature capital markets of the world. There simply hasn't been an established market place for real estate, with freehold ownerships being limited to a few individuals and those who have developed their own property, or properties are state owned. This is beginning to change with the creation of a few isolated REITS in the more established markets of South Africa and Nigeria and these are springing up elsewhere as well. The main issue is that there isn't a robust secondary market, let alone a tertiary market. Despite high yields (up to 22% in Angola and Nigeria) if you can't realise the value there is limited appeal. There are also issues around getting money into and out of certain countries, and the question of secure title again raises its head. Nevertheless, investors are moving into the markets of Sub-Saharan Africa, mainly South African property funds but also Chinese, Middle Eastern and European investors willing to take a long term position or whose profile enables them to diversify into more risky investments.

With the barriers to entry continuing to erode and a positive economic outlook, the growth of corporate occupiers expanding into Africa is very likely to continue.

About the Author

CBRE is the world's leading real estate services company providing advice to owners, occupiers and developers of real estate across the globe. **Nick Lambert** is a Senior Director in CBRE's Global Corporate Services Division based in London with responsibility for the development and implementation of a platform of integrated real estate services across all global emerging markets and complex environments. Operating across some of the world's most challenging markets in Sub-Saharan Africa, Latin America and Asia, Nick has built a unique proposition amongst CBRE's peer group that brings together the global reach and real estate expertise of CBRE with the specialist skills of emerging markets consultants to provide a fully risk managed project delivery solution.

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