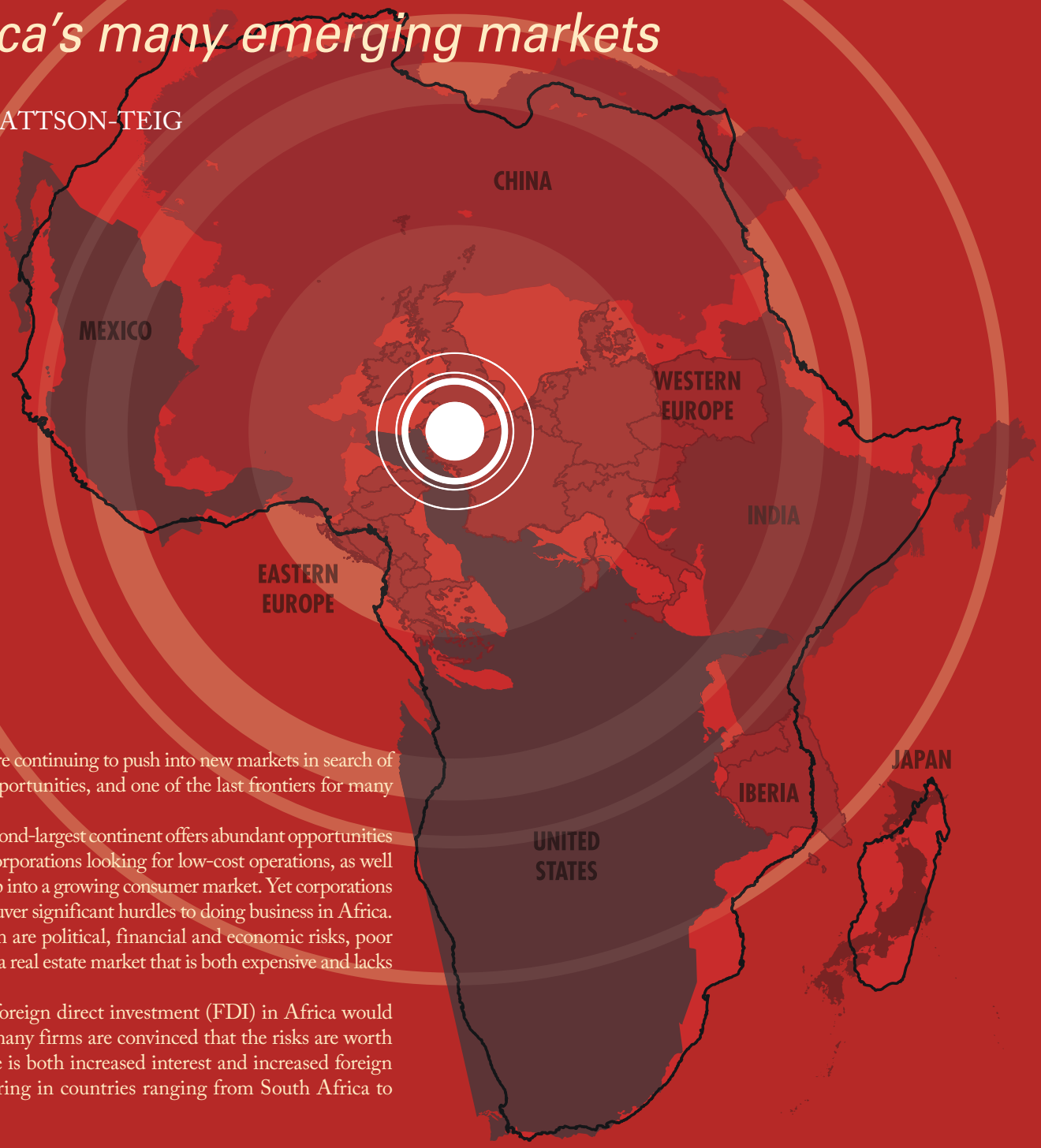
AFRICA: the Next Location Target

Corporations explore expansion opportunities in Africa's many emerging markets

BY BETH MATTSON-TEIG

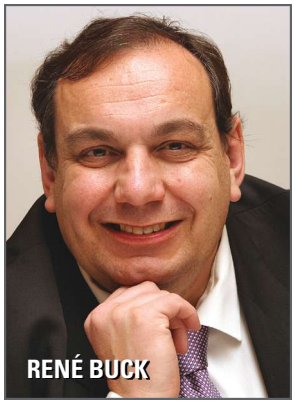


Corporations are continuing to push into new markets in search of expansion opportunities, and one of the last frontiers for many firms is Africa.

The world's second-largest continent offers abundant opportunities for international corporations looking for low-cost operations, as well as the chance to tap into a growing consumer market. Yet corporations first need to maneuver significant hurdles to doing business in Africa. Chief among them are political, financial and economic risks, poor infrastructure and a real estate market that is both expensive and lacks transparency.

The growing foreign direct investment (FDI) in Africa would seem to indicate many firms are convinced that the risks are worth the reward. There is both increased interest and increased foreign investment occurring in countries ranging from South Africa to

Tanzania. Real GDP growth between 2000 and 2013 has averaged about five percent per year, according to the **International Monetary Fund** (IMF). "The economic growth has not come to everyone, but the economic growth over the last 13 years has been substantial," says **René Buck**, CEO of **Buck Consultants International** in the Netherlands.


RENÉ BUCK

According to **EY**'s 2014 "Africa Attractiveness Survey," respondents are increasingly bullish on investing in Africa. When respondents were asked to rate the continent as an investment destination, the region jumped to the number two spot in the world—tied with China and trailing only North America. In 2011, Africa ranked eighth in the EY survey, lagging behind most other regions in the world, such as North and South America, Europe, Asia and the Middle East, and coming in ahead of only Central America and the Commonwealth of Independent States (the alliance of republics from the former Soviet Union).


CRAIG SCHAFER

"The interest shown in Africa has increased every year, as there is a growing recognition of Africa's potential," says **Craig Schafer**, Head of Commercial Property at **Bowman Gilfillan** in Johannesburg, South Africa. "More and more global firms are formulating specific Africa strategies. Those firms that have not already formulated strategies are aware that they may be lagging behind and are trying to make up lost ground."

In particular, international firms are targeting sub-Saharan countries such as Nigeria, Kenya and Uganda. In July, the IMF estimated that sub-Saharan Africa's economies will grow 5.4 percent this year and 5.8 percent in 2015, which is well ahead of projections for the U.S. during the same period at 1.7 percent and 3 percent for the same two years, respectively. In fact, Africa's growth is only slightly behind the pace of projected Chinese growth, which stands at 7.4 percent this year and 7.1 percent in 2015.

Some of the American companies that have opened manufacturing plants in Africa over the last seven years include **Coca Cola**, **DuPont**, **Mars**, **Chrysler**, **Procter & Gamble** and **GE**. The countries that are the most actively expanding in Africa include the U.S. with an 11.6 percent share of FDI projects, followed by the U.K. at 11.0 percent and France at 8.5 percent, according to **FDI Intelligence**. Although China ranked tenth with a 2.8 percent share of FDI projects, Chinese firms have been actively expanding in Africa.

Drivers for Growth

The three big drivers for international companies locating in Africa are resources, the consumer market and low-cost labor, notes Buck. Some countries also have abundant natural resources in terms of oil, gold, silver and diamonds. Manufactured products being exported are still very limited. In fact, Africa is home to only one percent of the world's total manufacturing, notes Buck. For the most part, companies are taking the natural resources out of Africa without establishing processing or manufacturing facilities there. That imbalance is an indication of the early stage of development of the region, adds Buck.

Africa also is attractive for its very low labor costs. Buck says that in Germany, for example, a company would pay some $42,970 USD per year for a production worker. In comparison, annual salaries for production workers in most African countries are much lower. South Africa has the highest salaries, at $7,470 USD, while examples of wages in other countries include Morocco at $4,989 USD and Nigeria and $3,360 USD. Those labor costs are at or even below labor costs in some of the lower-cost European countries, such as Poland ($7,970 USD) or Bosnia ($5,540 USD), according to Buck Consultants.

In terms of off-shoring or near-shoring, North African countries such as Morocco and Tunisia become attractive alternatives to European companies, because they are closer than other options such as India or China. Africa also has a strong legacy of languages, as many countries on the continent are former French, Spanish, Portuguese or British colonies, says Buck. He adds that those countries that have very good multi-language skills are viewed as a good option for call centers and back office operations.

Overcoming Challenges

Companies that want to do business in Africa face a number of challenges. "One of the big mistakes people make is looking at Africa as one region," says Buck. However, the individual countries are very different in terms of their economies, stability, political situation, infrastructure, languages, culture, and risks. It is called the "Rainbow Region," because of the number and diversity of countries and histories—as well as the more than 2,000 languages that are spoken there.

The continent is home to 54 countries and the economic growth that has occurred has been largely disproportionate. For example, there are big oil exporting countries such as Nigeria, Algeria and Libya. Those countries that have diversified economies include the likes of South Africa, Egypt and Morocco. The countries in transition include Kenya, Zambia and Cameroon, while pre-transition countries include Ethiopia, Mali and Sierra Leone.

The key challenges for companies considering investing in Africa include managing numerous risks, such as lack of infrastructure, limited supply of real estate facilities and hurdles associated with ease of doing business. Added to that are numerous risks related to economic and political stability, inflation, business transparency, corruption, natural disasters, and health risks, such as Ebola.

To date, the Ebola outbreak has largely been concentrated in the West African countries of Guinea, Liberia and Sierra Leone. Despite extensive media coverage of the epidemic, Buck emphasizes that it's important to put the disease's impact into context. As of press time, there were roughly 10,000 people affected and more than 7,000 dead. While those numbers are substantial, Buck notes that more people die each year from malaria or even the flu. Nevertheless, the economies of those countries most impacted by Ebola have suffered a significant setback due to the crisis.

"One of the big mistakes people make is looking at Africa as one region," says Buck. However, the individual countries are very different in terms of their economies, stability, political situation, infrastructure, languages, culture, and risks.

Finding Real Estate Opportunities

For companies that must set up operations in Africa, real estate options can be both limited and expensive. For example, rents from prime office space in cities such as Luanda in Angola and Lagos in Nigeria are either comparable to, or even above, office rents in New York and Paris, according to data from **Source8**, a London-based advisory firm that assists clients with the implementation of real estate, technology and risk management.

The types of office buildings companies can find to lease or purchase varies widely from modern high-rise office buildings to simple, single-level storefronts. It is important to note that the real estate environment is maturing and there is positive change taking place in terms of better transparency and greater ease in purchasing and leasing property. The quality of buildings is rising to international standards, and locally sourced fixtures and equipment are more readily available, notes **Jean-Damien Lury**, Director and Head of Transaction Management at Source8.


JEAN-DAMIEN LURY

One Continent, 54 Countries, Untold Misconceptions: Ignorance About Africa Prevails

For most of history, Africa was known as "the dark continent," a far-off place mired in mystery. Today, even with the real-time proliferation of news and information made possible by the Internet, many people around the world still regard Africa not as the second-largest land mass on earth—one that is comprised of 54 countries—but as one country. The consequences of such misinformation are far-reaching. Case in point: the recent Ebola outbreak in West Africa.

According to an article published in November on Economist.com, bookings for tours in Africa's most tourism-dependent countries—Botswana, Kenya, South Africa and Tanzania—have dropped between 20 and 70 percent since September 2014.

Those four countries are located in the far Southeastern corridor of Africa, while the Ebola outbreak, which had killed at least 7,000 people as of press time, is concentrated clear across the continent in West Africa—specifically, in the countries of Guinea, Sierra Leone and Liberia. Still, fear and panic brought on by the Ebola epidemic have ripped through Africa, even to the far, Northwestern country of Morocco, which retracted its offer to host the African Cup of Nations, the premier football event on the continent, due to start on January 17th.

The transparency of buying property in Africa is a challenge. Kenya is one country that has come a long way in terms of transparency. "It is very easy to get information on what you're buying and if you are buying property from the right person," says Lury. That is not the case everywhere. In Mozambique, for example, the land registry is in its infancy. Fraudulent title certificates are widespread and people often get conned by people selling a piece of land that they don't own, he says.

The legal challenges related to leasing or purchasing property in Africa vary from jurisdiction to jurisdiction. "As a general proposition, a thorough understanding of the local property regime in each jurisdiction is required to ensure that clear title to the land in question is secured; any leasing arrangements concluded with landowners are legally enforceable; and all appropriate permits are obtained at the appropriate times," says Schafer.

Yet these challenges are not insurmountable. A thorough due diligence process can, to a large extent, ensure that any risks posed in a particular jurisdiction are identified and the appropriate remedial action to mitigate such risks is taken, notes Schafer. However, one of the biggest mistakes multinationals make is placing too much reliance on local partners without carrying out independent verification exercises, he adds.

Because there are so many differences between, and even within, countries, it's important to be very focused on where in Africa you want to locate, says Lury. Another piece of advice is to reset your timing expectations. There will be times when a company has to speed up and move very quickly, and also times when a company has to slow down and spend three hours drinking tea with the local villagers, he says. Finally, Lury advises, ask others for help. "There are lots of people who are there and have experience, so you don't have to go in alone."

Beth Mattson-Teig is a Minneapolis, Minn.-based writer and editor. She specializes in commercial real estate and finance topics and writes both articles and white papers for several U.S.-based trade and business journals.

Want more information on this topic? Visit CoreNet Global's Knowledge Center (www.corenetglobal.org/KCO) and search for the following titles:

- Sub-Saharan Africa: A Region with Opportunities and Transparency Challenges
- Jones Lang LaSalle World Winning Cities: South Africa Makes the BRICS