RETAILERS THINK AFRICA IS TOO HARD

Why would they invest in Africa when they can expand in Europe for the same cost and little risk?
THE GLOBAL ECONOMIC CYCLE
WHERE ARE WE?
THE CYCLE HAS LONGER TO RUN IN THE U.S..

Source: CBRE Econometric Advisors and Macrobond, CBRE Research.
THE RISE AND SLOWDOWN IN CHINA IS PART OF THE STORY

China GDP growth

Source: Oxford Economics, CBRE Research.

ANDREW PHIPPS | HEAD OF RETAIL RESEARCH CBRE UK & EMEA

API SUMMIT | 19 AUGUST 2015 | AFRICAN RETAIL REALITY CHECK
CHINA CONSUMES STAGGERING AMOUNTS OF RAW MATERIALS
SLOWING GROWTH = A BIG HEADACHE FOR COMMODITY PRODUCERS

Population
- 20%

Economy (GDP)
- 13%

Concrete 60%
Copper 48%
Coal 49%
Rice 30%

Aluminum 54%
Steel 46%
Uranium 13%
Corn 22%

Nickel 50%
Gold 23%
Oil 12%
Wheat 17%

Source: Visualcapitalist.com
THIS IS WHY IT MATTERS
LACK OF DIVERSIFICATION AND FALLING PRICES
GLOBAL COMMERCIAL REAL ESTATE INVESTMENT
BY REGION

$US Billion

Source: CBRE Research, Real Capital Analytics
GLOBAL CAPITAL FLOWS IN COMMERCIAL REAL ESTATE
H2 2015 AND Q1 2016

Buyer Origin Key
(w/ total outbound capital, USD)

- Asia $32.4B
- Africa $0.6B
- Europe $12.0B
- Middle East $15.1B
- North America $32.6B
- Pacific $1.9B
- South America $0.3B

Source: CBRE Research, Real Capital Analytics
* All commercial real estate and hotels, including multi-family sector in the North America

ANDREW PHIPPS | HEAD OF RETAIL RESEARCH CBRE UK & EMEA
GLOBAL INVESTOR INTENTIONS SURVEY

1,255 Respondents

39% AMERICAS

34% EMEA

27% ASIA PACIFIC

$1.1 Trillion Planned Expenditure

Source: International Monetary Fund, Oxford Economics, CBRE
U.S. AND WESTERN EUROPE THE MOST POPULAR REGIONS
2016 CROSS-BORDER INVESTOR PREFERENCES; AFRICA LOW PRIORITY STILL

Source: CBRE 2016 Global Investor Intentions Survey
ECONOMY THE MAIN CONCERN FOR INVESTORS

- Global economy: 30%
- Domestic economy: 20%
- Overbuilding/excess supply: 12%
- Faster than expected interest rate rises: 10%
- Global political instability: 5%
- Other economic shock: 4%
- Government policy measures relating to property: 4%
- Local political instability: 4%
- Rising cap rates: 3%
- Deflation: 2%
- Inability of investors to source new debt: 2%
- Other property market shock: 2%
- U.S. presidential election: 1%
- Higher than expected inflation: 1%
- Increased forced sales by banks or others: 0%

Source: CBRE 2016 Global Investor Intentions Survey
WHAT DOES THE CYCLE MEAN FOR DEVELOPING MARKETS? GREATER OR LESSER IMPACT?

CAUTION IS THE MANTRA

• At this point in the cycle there is an increased desire across the investor community for security and ‘certainty’

• The differential between prime and secondary retail increases

• Demand for good locations in key cities is followed closely by secondary locations in key cities
THE ‘PROMISED’ GROWTH OF THE BRICS
WHAT HAPPENED?

THE BRICS CLUB (BRAZIL, RUSSIA, INDIA, CHINA AND SOUTH AFRICA), USED TO BE KNOWN FOR ITS TREMENDOUS GROWTH POTENTIAL

• It is today in the midst of severe economic and political woes

• Federal rate increase has contributed to the mounting debt burden for these economies

• Falling global commodity prices have affected these emerging markets which rely heavily on export led growth
HOW ARE EMERGING MARKETS VIEWED?
ARE ALL EQUAL?

THERE ARE TOO MANY DIFFERENCES TO VIEW THEM AS ONE

• Each country is growing at its own pace and has a distinct set of challenges and opportunities

• There is doubt whether some ‘emerged’ countries are able to derive growth from structural reform

• Markets that are are ‘emerging’ are challenged by their lack of size, depth, liquidity and ability to attract foreign capital. The political risks and governance and ability to hit corporate compliance standards
HOW ACTIVE ARE RETAILERS GLOBALLY 2016
WHAT ARE RETAILERS CONCERNED ABOUT?

56% Real Estate Cost Escalation
22% Stiff Competition from Online Retailing
42% Uncertain Economic Prospects
17% Labour / Social Challenges
37% Lack of Quality Retail Space
13% Lack of Renewable Partners in Markets
31% Changes in Consumer Behaviour
5% Regulation or Legislation Changes
24% Currency Fluctuations
4% Insufficient Logistics Network
22% Competition from New Market Players

Only 22% of the brands are concerned about stiff competition from online retailing as a threat to the market in 2016.

Source: CBRE Research
HOW ACTIVE ARE RETAILERS GLOBALLY 2016
WHAT ARE THE TOP TARGET MARKETS IN 2016?
HOW ACTIVE ARE RETAILERS GLOBALLY 2016
WIDER EXPANSION ACROSS EUROPE IS KEY
TOO MUCH TOO SOON?
WHAT MADE/MAKES RETAIL ATTRACTIVE IN AFRICA?

IT’S THE SIZE OF THE OPPORTUNITY

• Fear of missing out
• Oversold the ‘growing middle class’ story
• Money from sales of commodities
• Developing shopping centre pipeline
CHALLENGES FOR OVERSEAS RETAILERS
SIGNIFICANCE OF INFORMAL RETAIL STRUCTURE

Source: Nielsen Retail Measurement

SALES % FROM TRADITIONAL TRADE

- SUB-SAHARAN AFRICA
- ASIA
- EASTERN EUROPE
- MIDDLE EAST

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales %</th>
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<tbody>
<tr>
<td>HUNGARY</td>
<td>20</td>
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<tr>
<td>UNITED ARAB EMIRATES</td>
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<td>CAMEROON</td>
<td>98</td>
</tr>
<tr>
<td>GHANA</td>
<td>98</td>
</tr>
</tbody>
</table>
IT’S NOT AS EASY AS PEOPLE WANT IT TO BE

- In the ‘World Bank Doing Business Report 2016’ economies in Sub-Saharan Africa scored an average ranking of 143 (on a scale of 1 to 189)

- Areas with scope for the most improvement – getting electricity (149), trading across borders (136), paying taxes (131)

- In cross-border trade completing border compliance procedures takes an exporter 108 hours and $542 on average (global average 64 hours, $389)
CHALLENGES FOR OVERSEAS RETAILERS DISTRIBUTION NETWORK

THE INFRASTRUCTURE ISN’T WHOLLY IN PLACE

• Road network – poor quality in many countries, highly congested

• Lack of A grade warehousing

• Efficiency of airports and ports
CHALLENGES FOR OVERSEAS RETAILERS
SHOPPING BEHAVIOUR

PEOPLE SHOP IN A DIFFERENT MANNER TO IN EUROPE AND USA

• Small and often – pack size challenge
• Local brands and local pricing
• High smartphone penetration – what about delivery?
• Very wealthy shoppers shop overseas
CHALLENGES FOR OVERSEAS RETAILERS
THE TRUTH ABOUT THE MIDDLE CLASS

“We thought this would be the next Asia. We have realized that the middle class is extremely small and not really growing”

CEO Nestle, Equatorial Africa
OPPORTUNITIES FOR OVERSEAS RETAILERS

URBANISATION – THE MOVE TO THE CITY

- Urban population growth analysis for different regions: World, Africa, Sub-Saharan Africa, Asia, Europe, Latin America and the Caribbean, North America, Oceania.
OPPORTUNITIES FOR OVERSEAS RETAILERS
ECONOMIC FACTORS

DEVELOPING INFRASTRUCTURE AND FASTEST GROWING ECONOMIES

• IMF forecast Africa will be the second fastest growing region in the world between 2016-2020 with an annual growth of 4.3%

• Africa well placed to benefit from rapid changes in technology, East Africa is already a leader in mobile payments

• Spending on infrastructure has doubled over the past 10 years, now standing at 3.5% of GDP
OPPORTUNITIES FOR OVERSEAS RETAILERS
EXPANSION OUT OF AFRICA

GLOBAL REACH OF AFRICAN MONEY

• David Jones in Australia
• Poundland in the UK
• New Look, Phase Eight, Office – UK and Europe
WHAT’S NEXT?
WHAT’S DIFFERENT THIS TIME?

- Increased level of knowledge
- Number of quality shopping centres
- Demographic analysis that supports the right sizing and tenant mix is a prerequisite
- The potential of the rising “middle class”, as defined, has not filtered through as expected

- Many developers are now looking to down size (new developments) with the possibility to expand on the back of retail growth
- Pressure now on developers to reduce building costs and likewise tenant rentals (often cited as being too high)

- Pressure to convert US$ based leases to local currency
- Currency risk is a big issue
- Tenants are more educated and more sensitive to rental levels
THANK YOU

In association with Broll Property Group, who are part of the CBRE Affiliate Network.