

RESEARCH

## European brands turn to South Africa, Nigeria for expansion: CBRE

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*Lagos, Nigeria in 2010*

By FORREST CARDAMENIS

The South African market is a top priority among European brands planning entrance into Africa, according to a survey by real estate advisor CBRE.

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CBRE asked 115 brands and retailers for their expansion plans over the next five years, with 28 percent saying South Africa is a top-3 priority in that time frame. As Africa's middle class continues to grow, proper timing will allow brands to capitalize on the new consumer segment.

"Many retailers want to enter but are also keen to mitigate the risk so the requirement for a strong franchise partner is high," said Andrew Phipps, head of retail research and consulting, CBRE EMEA. "Africa will be as populous as Asia in a decade or so and brands want to ensure they are in front of the consumers; as consumers' living standards increase they will want more of the brands they recognize via social media, traditional media and from the experience of their friends and peers."

### Looking to Lagos

The recent slowdown in China has helped bring into focus the significance of understanding the global market and reaching out to new consumers. Meanwhile, China's investments in Africa have led to a growing middle class and an influx of UHNW individuals who have begun to spread a taste for luxury in various African markets.

The two in tandem have led many to see the MINT countries (Mexico, Indonesia, Nigeria, and Turkey) and Africa in general as the next big market. Nonetheless, questions linger over the infrastructure of the new markets, and timing of entry is uncertain.



*Johannesburg neighbourgoods market, image courtesy Four Seasons*

After South Africa, Egypt was the most attractive African market with 19 percent, followed by Nigeria (16 percent), Morocco (13 percent) and Kenya (9 percent). Among respondents, 64 percent say that franchise stores are the preferred method, but infrastructure is delaying or turning away 22 percent and 21 percent see other markets as easier to enter.

Across Africa, retail space is expanding. April will see the opening of the 115,000-square-foot Mall of Africa in Midrand, South Africa, about 17 miles away from Johannesburg; Palms Shopping Mall in Lagos, Nigeria is twice that size, the even-larger Lekki Mall and the Circle Mall, about half as large as Palms, are in progress and the recently opened Festival Mall adds another 50,000+ square feet.



*Cradle of Humankind, Johannesburg; image courtesy Four Seasons*

Nigeria and South Africa are vastly different markets. Wealth in Nigeria is concentrated in Lagos, where the population now exceeds 17 million, leaving barely 10 square feet of retail space per 200 people. By contrast, Johannesburg has the same retail area per person, and wealth in South Africa is spread more evenly across numerous cities.

"South Africa is likely to remain the number one choice of destination due to the presence of the elements retailers want to see: the infrastructure, number of quality shopping malls and the existing presence of brands being the strong indicators new entrants will look for," Mr. Phipps said in a statement. "There is certainly appetite for international retailers to enter the market. The challenge is finding the right partner that understands the market as well as the retail brand."

Lagos, by contrast, is an emerging market in part because high-end consumers have already brought desirable luxury brands to the country after shopping overseas.

"There is a belief in the future of Lagos - the sheer scale of the population and the growth in the affluence of some," Mr. Phipps said. "The Nigerian consumer is very savvy and those with high levels of income are used to buying branded product from overseas. As this continues, and people see the brands that people bring back from overseas, the desire and interest in owning similar product increases."



*Palms Shopping Mall, Lagos, Nigeria*

Other markets chosen by respondents include Ghana and Gabon (3 percent each) and Ethiopia and Tanzania (1 percent).

"Ethiopia should have been recognized by more people," Mr. Phipps said. "There is a view held by many that Ethiopia is the same country it was 20 years ago when in fact it has changed greatly.

"Addis Ababa will be one of the big success stories of Africa as a whole," he said. "The market will develop and is ranked by the IMF as being in the top five fastest growing economies in the world, [with] decade of continuous expansion with real GDP growth averaging 10.8 percent per annum."

#### All-in Africa

Recent CBRE reports have also shown how spurred growth in China is leading to the emergence of new markets.

Lagos, Nigeria and Mumbai, India are poised to become major players in the luxury world, according to a November report by the real estate advisor.

Although nobody should expect another China, the residents of the Nigerian and Indian cities are already beginning to make their presence known to luxury brands. Continuing globalization ensures that the economy will remain a major factor in the luxury market, so brands must be attuned to economic patterns and shifts to stay ahead ([see story](#)).

Other research shows that the high-end of luxury consumers will experience rapid growth throughout Africa.

The global ultra-high-net-worth population is larger than ever and will continue to grow, according to a recent new report by Wealth-X and UBS.

While North America and Europe continue to perform well for UHNW individuals, the slowdown in Asia has had an effect at the top of the market. India continues to grow, but Japan and China underperformed compared to expectations, and China's real estate market is slowing. Meanwhile, the Middle East and Africa were the fastest growing regions, although instability in particular countries or areas raises questions about the sustainability of such growth ([see story](#)).

Although many brands expressed a desire to enter the continent within the next five years, that instability may push those projections back a few more years.

"I still feel it is a market whose maturity is still to be reached, the timing of which might be in terms of a decade or more as opposed to in single years," Mr. Phipps said. "It will require investment, confidence and patience to get the best out of the market.

"It also requires retailers to understand how consumers from these countries shop when they are overseas (a large proportion of spend on luxury in London comes from residents in Nigeria, for example). How do they shop, what do they buy and why?

"One area where they really are looking to expand is in the development of African manufacturing plants (the import duties being high for product made outside Africa). The option to engage with low cost labor and not avoid punitive tax levels is one area of high interest."

#### Final Take

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