NIGERIAN REAL ESTATE **MARKET REVIEW**

H1 2015

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Summary

The fall in oil prices from Q3 2014 was the more visible commencement of a string of economic difficulties Nigerians would begin to experience. Stressed and depleted from defending the Naira with its savings, the central bank has had to devalue the Naira on two different occasions and then added a myriad of regulations on one hand to curb foreign exchange demand but also ensure the Dollar price doesn't go out of the roof.

However, the CBNs recent monetary tightening policies as well as other topical issues such as 2015 elections, fuel scarcity, rising inflation and political uncertainties left the nation in gloom for the most part of H1 2015. As institutional and foreign portfolio investors exited, the equities market closed at a loss of -3.5% and a market capitalization at ₦11.4trn as against ₦14.03trn same time last year. While fixed income instruments continued to enjoy patronage, the nations bonds are being threatened by the consideration of JPMorgan's intentions of removing Nigerian bonds from its SSA bond index should the illiquidity in the foreign exchange market persist till year end.

Following this, real estate activity was not as intense as previous periods. These economic and political upheavals were too consecutive and far-reaching for business to continue as usual. Land prices either stayed the same or improved only slightly. In some isolated cases they reduced. A lot of planned developments have been halted while on-going constructions continued at a slower pace as either materials and labour costs needed to be re-priced or factors such as feared political uprisings and fuel scarcity kept workers away from the construction site.

Fascinatingly, the news of a new government in Q2 helped stimulate the sector for the first time in 2015; the unexpected peace and calm rekindled new demand.

This is a concise review of the performance of the Nigerian real estate market in the first half of 2015; one of the toughest times the Nation has seen in over a decade.

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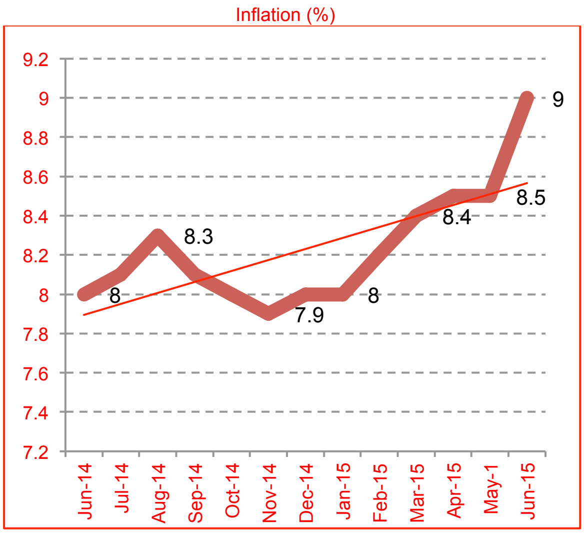
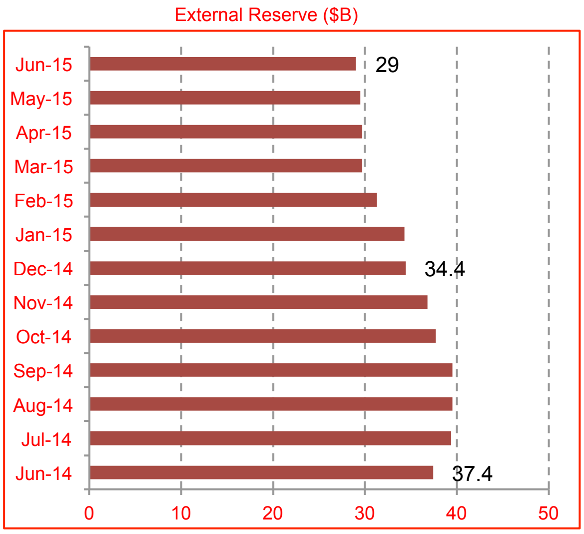
July 2015, Lagos – Nigeria

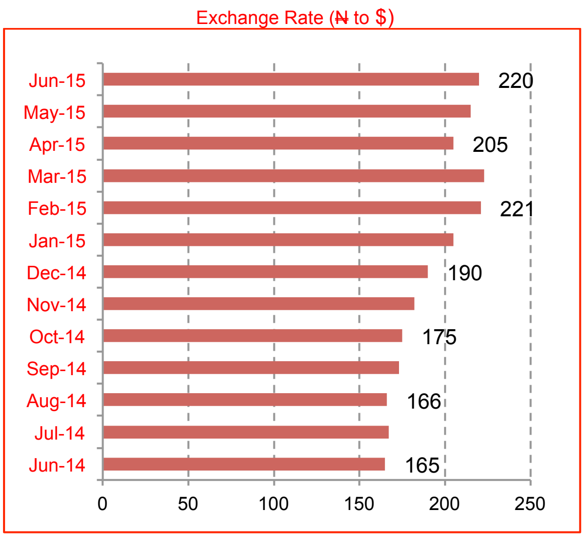
Macro-Economic Indicators

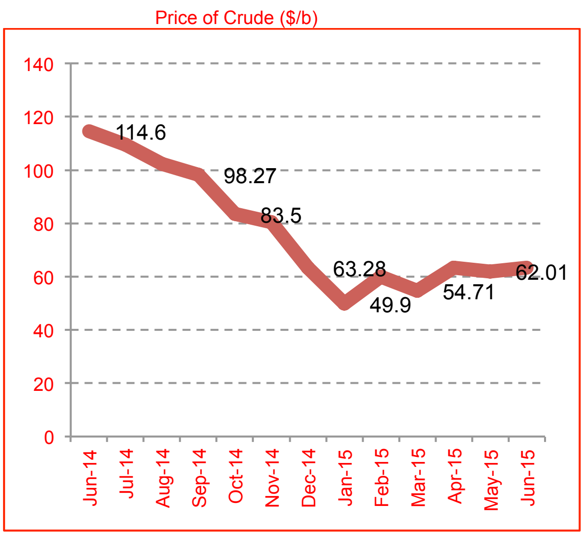
Since the first recent devaluation of the Naira and continuous fall in oil prices, the headline inflation rate has been on a slow but steady rise.

In Q2 2015 dual concerns of inability to raise operating capital from banks and fears of non-payment of outstanding subsidy payments, forced oil marketers to turn on their fellow citizens throwing the nation to what many term the nations' worst fuel crisis ever. This sent prices of transportation, services and food northwards; and considering its direct correlation with these items, inflation again went north.









In preparing for a very expensive 2015 elections, the nations' foreign reserves were depleted to sub-30 levels partly in defending the Naira and funding approved dollar requirements.

All these alongside other social and political issues go to distract a struggling government from capital projects such as infrastructure development and real estate development. Sadly the same factors make it more expensive for even the private sector to take up the challenge, and where they do, higher rewards are sought in form of increased prices.

Topical Issues

Ebola
The Ebola virus (EVD) took its toll on the Nigerian economy between Q3 and Q4 of 2014, having an impact mostly on the aviation, hospitality, trade, medical and agriculture sectors of the economy. It was estimated that the country could lose as much as $2 billion if the situation wasn't contained, however it was indeed contained as the nation was declared EVD free in October of last year.

The country has maintained its Ebola free status and this has not only removed the scourge on the industries affected by the news of the virus, but also enhanced the Nations reputation as having capacity to clamp down on such severe occurrence.

Boko Haram
The Boko Haram insurgency was such a menace that the 2015 general elections had to be postponed by 6 weeks on its account. That didn't change much, the insurgents remained very much around even though they were quiet during the election period. With the emergence of a new President, it was expected that the insurgency issue would be tackled head on very early in the new administration; but sadly this has not been the case. A few more bombings have occurred taking more lives, driving fear into citizens and further crippling economic and real estate activity in the north.

Falling Oil Prices
Nigeria's unhealthy dependence on oil hasn't been more apparent than in the first half of 2015. Delayed oil revenue allocations from the federal government has made states unable to meet up with recurring and capital expenditure. Government has had to constantly draw from its reserves to augment the budget, the Central bank has come up with different policies to keep the country's economy afloat. The only positive of this very gory situation is the amplification of the fact that oil cannot fuel the economy as it used to; diversification is the only way forward.

Elections
The uncertainty of the polity post-elections, irrespective of the outcome, is a major factor that induced most sectors into a coma for most part of H1 2015. Individuals and organisations emerged with many permutations as to what would become of the nation should one candidate or the other emerge as winner. Either way the narrative wasn't positive and this resulted in capital flight, hoarding and scarcity from the investment scene. However, the elections proved all the dooms-day prophecies wrong and turned out to be the nations' most peaceful elections yet. This eased up the tension and economic activities began to take pace in April. By June tensions began to grow and are yet to subside as to the economic direction the new government will take.

Devaluation of the Naira
Barely three months after moving the official exchange rate from ₦155 to ₦168 to the dollar, the Naira saw a second devaluation in recent times when the CBN announced the Naira will officially trade at ₦198 to the green back. The central bank also made bold policy changes including closure of the subsidised official FX window, culminating to a 22% depreciation of the Naira.

While developed nations seldom devalue their currency to attract patronage as investors and visitors will see their products as cheaper, in this case, since Nigeria is a net-importer of commodities, Nigerians will have to shelve out more capital for fewer goods and services. However, institutional investors still see the Naira as overpriced and are calling for a third devaluation.

Monetary Tightening / Reduced access to foreign exchange
In a bid to curb the depletion of the nations foreign reserves the CBN has come up with a series of regulations including barring banks from holding its funds in dollars by close of each business day and reducing the spend of individuals and organisations via debit cards by over 65%.

The CBN has also been actively controlling market liquidity by increasing the CRR on public and then private funds. This alongside other factors significantly impaired lending activities. However, with threats of removing Nigerian bonds from the JPMorgan bond index, that has induced the apex banks' perspective on liquidity by May 2015.

		Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
	MPR	12%	12%	12%	12%	12%	13%	13%	13%	13%	13%	13%	13%	13%
	CRR Private	12%	12%	12%	15%	15%	15%	15%	12%	20%	20%	20%	31%	31%
	CRR Public	12%	12%	50%	50%	50%	50%	50%	75%	75%	75%	75%	31%	31%

Source: CBN

Other Asset Classes
The equities market saw a last minute rally at the close of H1 2015 most likely driven by mid-year portfolio reassessment by investors in a bid to wrap-up their half-year performance. This moderated the YTD loss on the NSE to -3.5% and leaving market capitalization at ₦11.4trn as against ₦14.03trn same time last year.

The hypothetical risk free nature of fixed income instruments and the dismal performance of equities in 2015 have continued to make them attractive. However, the illiquidity of the Nigerian foreign exchange market continues to threaten the patronage of bonds by foreign investors. Already there have been high foreign portfolio withdrawals from all investment sectors following the restrictions to foreign exchange flow by CBN.

Real Estate Performance

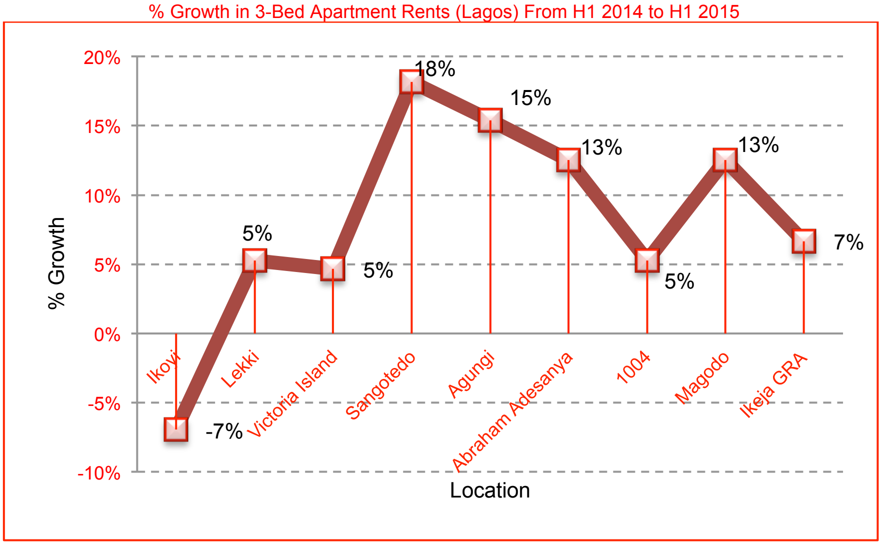
Activity in the real estate market during H1 2015 was less vigorous in comparison to previous periods as the macro-economic and socio-political events in the nation took some toll on the sector. These saw a number of planned developments halt while rents either grew only slightly or remained unchanged. In most cases, on-going constructions continued at a slower pace as either materials and labour costs needed to be re-priced or factors such as feared political uprisings and fuel scarcity kept workers away from the construction site.

Fascinatingly, the news of a new government in Q2 helped positively stimulate the sector for the first time in 2015; the unexpected peace and calm rekindled new demand especially for residential property.

Residential

Despite a reported lull in sales activity in the sector, the first quarter of 2015 represented Lamudi's busiest since its launch. The online portal reports that visits to its real estate trade platform were up almost 43% in comparison to the previous quarter (Q4 2014). Lamudi further shows an interesting mismatch in Lagos residential real estate; While 41% of available supply by sellers are houses for sale, 58% of the demand is for apartments to rent.

% Growth in 3-Bed Apartment Rents (Lagos) From H1 2014 to H1 2015



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Land values continued to soar in H1 2015 in comparison to H1 2014, understandably, considering terra-firma's relative indestructibility. On the other hand, built up property experienced a decline in prices in some nodes. Particularly, in the high-end markets demand is visibly low, tenants are much more price-sensitive and determined to ensure each Naira or Dollar goes much further. Recent legislation by CBN that no goods or services in the Federal Republic of Nigeria should be Dollar denominated sent panic to developers and landlords in that space (high-end).

In everyday conversations, Lagos real estate is often broadly classified location-wise as island and mainland. In recent times, property on the mainland has enjoyed faster take-up when compared to the island. This may be fuelled by fewer new builds, proximity to seat of government and relative ease of constructing on the mainland in comparison to the island due to lower foundation costs, cheaper labour and better amenities (roads, water and power supply).

Lagos Land Prices

	Location	*2014 (₦/m^2)*	*2015 (₦/m^2)*	*% Change*
	Ikoyi	260,000	300,000	15.3%
	Lekki Phase 1	110,000	125,000	13.6%
	Victoria Island	400,000	430,000	7.5%
	Sangotedo	30,000	35,000	16.6%
	Agungi	70,000	75,000	7%
	Abraham Adesanya	26,000	30,000	16%
	Magodo	100,000	105,000	5%
	Ikeja	160,000	175,000	9%

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This does not belittle the extent of development seen on the island. If at all, development has been too rapid and now results in unbearable traffic congestion, higher living costs, gentrification of major high streets and sadly the emergence of slums. Significant demand is pushing residential owners out of streets like Admiralty way, Fola Osibo, T.F Kuboye and Agungi road to make way for retail and office uses which are willing and able to pay more.

In Port Harcourt, practitioners recant the good old days when prime rents were as high as $120,000 for a 3-bed apartment in high-end areas such as old GRA. The despicable acts of kidnapping which became rampant in 2007 almost destroyed the market as a lot of organisations relocated to Lagos and Abuja.

However, with the inhumane acts now significantly on the decrease, seemingly maximum security estates with very good infrastructure and amenities have sprung up. Estates such as Heliconia Park Estate and Intels Camp are examples of such high end developments which have enjoyed good demand. However prices and occupancy rates are still not as high as the pre-militancy days. A lot of workers and expats still prefer to commute by air to the oil city for a few days each week, lodging in short stay apartments or hotels during their stay.

Grading of Various Locational Nodes in Port Harcourt

	High	*Mid*	*Low*
	Old GRA	Agip Estate, Rumueme	Rumuola
	GRA Phase 1	Stadium Road (Rumumasi)	Rumuokoro
	GRA Phase 2	Elekehia	Rumuokuta
	GRA Phase 3	Peter Odili Road	Rumudara
	Intels Camp, Aba Road	Trans Amadi	Elelewon
	Heliconia Park Estate	Eagle Island	Abuloma
	Shell Residential Area	Air Force Are	Diobu
	Amadi Flats	Eliozu	Ogunabali
		Rumuibekwe	Eneka
		Woji	Borokiri

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A number of mid-market estates are also under development in Port Harcourt. These include Rainbow Town, Rivtaf Golf Estate, BICS suites and Lekki Gardens PH. Land values in the oil city have been on the rise following the improving socio-economic stability and a new demand for site and service schemes being offered by a number of small and mid-sized development companies.

In general, the outlook and development pipeline for residential real estate looks good. Also, the quality of build is significantly improving. With the Nigerian Mortgage Refinance Corporation (NMRC) closing in on its much needed additional capital via bond issuances, it is expected that the primary mortgage sector will be revitalised and then intending homebuyers will find home acquisition more affordable through mortgages.

Office

Over the past 12 months, the narrative for the prime office market in Lagos has changed significantly as large additions to the total stock has put pressure on rentals. Recent and imminent completions such as NIPOST Towers, 100 Pier Point, Civic Center Tower, Heritage Place, Landmark Tower and Temple Tower have added over 60,000sqm to the office space market in Victoria Island and Ikoyi.

Reports show a slight fall in rentals of 3% and 4% for Victoria Island and Ikoyi respectively. Increasing supply appears to be giving tenants an edge at negotiations, placing negative pressure on rents as landlords clamour to secure occupiers for their large investments. Other regions like Lagos Island, Yaba and Ikeja have not felt such pressure as there is only limited prime space in these regions.

For Ikeja, this has resulted in the construction of many speculative (relatively) prime developments coming in at rentals of ₦45,000 per sqm which are slightly above the market (₦30,000). One recent completion is the Landmark Place, which has Procter and Gamble, Bosch and Nielsen as the main tenants.

Prime Office Rents

		H1 2014 ($)	*H1 2015 ($)*	*% Change*
	Ikoyi	1,000	965	-3.5%
	Victoria Island	850	825	2.9%
	Lekki	240	240	0
	Lagos Island	187	187	0
	Yaba	122	122	0
	Ikeja	180	180	0
	Abuja	450	450	0

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Oil price volatility in recent quarters has also meant that previously strong office space demand from Nigeria's largest industry is also falling. Oil companies, which have been noted as key occupiers in Lagos are reducing their demand leading to reduction in the take up of new properties.

The Port Harcourt office sub-sector can be best described as informal. The growing A-grade blocks that now dot the Abuja and Lagos skylines are not commonplace in the oil city. The best spaces are found on Olu Obasanjo road, Stadium road, Aba road and the lower end of Trans Amadi road. The tallest office blocks are about 3 to 4 storey tall; such as BICS Mall, Admiralty House, F.H Jumbo House and Lansar House.

Outlook and Development Pipeline
Looking over the next 12 months, economic activity would need to increase rapidly to ensure there is not a surge of prime office space vacancies in Lagos. With oil prices staying constant at $60 levels, new fields may go into production and lower production costs/barrel, thereby causing a rebound for the sector which is Nigeria's biggest real estate patron yet.

Office Development Pipeline

	Name	*Floors*	*Size*	*Location*	*Delivery Date*
	Civic Centre Tower	16	8,096	Victoria Island	2015
	NIPOST Tower	15,15	30,000	Victoria Island	2014
	Alliance Place	12	22,034	Ikoyi	2016
	Kingsway Tower	15	6,670	Ikoyi	2017
	Temple Tower	15	12,000	Ikoyi	2015
	Eko Tower II	27	15,000	Victoria Island	2016
	The Wings Towers	12	27,000	Victoria Island	2016
	Nest Oil/Victoria Tower	15	7,500	Victoria Island	2015
	Madina Tower	15	8,300	Victoria Island	2016
	The Corporate Tower	37	-	Eko Atlantic	Not Specified
	Sogenal Tower	13	7,500	Ikoyi	Not Specified
	World Trade Centre	23	>20,000	Abuja	2016

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Retail
Nigeria's retail property market is still receiving strong interest from investors inside and outside Sub-Saharan Africa, as a large deficit in the amount of formal retail space appears attractive. In the past 12 months, four malls including Port Harcourt Mall, Ado Bayero Mall, Ibadan Mall and Delta Mall have opened providing what is regarded as the first formal retail space in most of these regions. Being the key cities in Nigeria, Lagos, Abuja and Port Harcourt are receiving the most attention. However cities in the South Eastern region of the country like Asaba, Warri and Onitsha are seeing flagship malls in close proximity.

Retail rents have remained stable in all regions from H1 2014 to H1 2015. However as supply rises this may begin to change.

H1 2015 Retail Rents

	Location	*Rent psm*
	Lagos	$65
	Abuja	$55
	Port Harcourt	$50
	Oyo	$35
	Enugu	$38
	Kano	$40
	Delta	$37

Source: Broll Nigeria

Lagos, Abuja and Port Harcourt typically have the largest and most number of malls. While previous malls were smaller, solely anchored and less professionally managed, the new builds have better parking, central HVAC systems and attract both international and national retailers.

Port Harcourt Mall and The Palms Ibadan have been very good testimonials. The tenant take-up appears to be optimal and retail footprints are high almost at every time of the day, having a good mix local and international retailers.

Major Malls in Lagos, Port Harcourt and Abuja

	Location	*Location*
	Adeniran Ogunsanya Mall	Lagos
	Silverbird Galleria	Lagos
	The Palms	Lagos
	Spar, Lekki	Lagos
	Ikeja Mall	Lagos
	City Mall	Lagos
	The E-centre	Lagos
	Port Harcourt Mall	Port Harcourt
	Park n Shop	Port Harcourt
	Silverbird Galleria	Port Harcourt
	Genesis Place	Port Harcourt
	Happy Bite Mall	Port Harcourt
	Silverbird Galleria	Abuja
	Ceddi Plaza	Abuja
	Grand Towers	Abuja

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The outlook and current development pipeline for retail space is significantly rich across the nation. Over 220,000sqm of gross lettable space is expected to come on the market within the next 48 to 56 months.

Retail Development Pipeline

	Name	Location	Size	Delivery Date
	Owerri Mall	Imo	13,000	2015
	Asaba Mall	Delta	13,000	2016
	Onitsha Mall	Anambra	15,000	2017
	Royal Gardens Mall	Lagos	30,000	2017
	Osapa Mall	Lagos	11,000	2015
	Festival Mall	Lagos	13,000	2015
	Benin Mall	Edo	13,300	2016
	Maryland Mall	Lagos	7,000	2015
	Lekki Mall	Lagos	22,000	2017
	The Palms Extension	Lagos	20,000	2016
	Jabi Lake Mall	Abuja	26,000	2015
	Asokoro Mall	Abuja	30,000	2017
	Capital Mall	Abuja	21,500	2017
	Abeokuta Mall	Ogun	15,600	2016

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Yet more developments are expected across Nigeria as the current offering for retail is still much lower than smaller African economies. Momentum is expected to conclude capital raising for a $250m sub Saharan Africa fund that is targeted at retail and office property developments. On the rental side, high figures in Lagos may top out as new shopping centres are delivered, though current rates may be sustained as international brands influx the nation while indigenous brands such as Twice as nice, Ruff n Tumble, Healthplus and Fusion get stronger.

Total Retail Space in Africa's Major Economies

	Country	Total Size (2015)	Total Size (2016)*	% Growth
	Egypt	1,200,000	2,100,000	75
	South Africa	750,000	1,000,000	33
	Nigeria	165,650	382,550	130
	Ghana	89,277	132,277	48
	Angola	50,000	200,000	300

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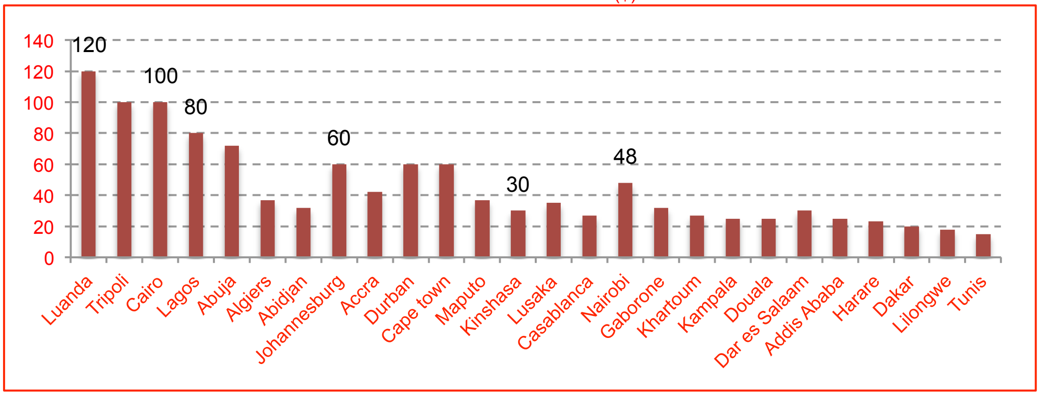
2015 Prime Retail Rents in Africa ($)



Source: Knight Frank

Disclaimer

The H1 2015 Nigerian Real Estate Market Review was prepared by Northcourt.

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