



Nigeria Real Estate Market Review H1 2018

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SUMMARY

CAUTIOUS PROGRESS

Weary from having to manage underperforming assets, players in Nigeria's real estate market started the year with plans to maximise the economy's announced recovery. The country had recently exited a 5-quarter long recession, external reserves continued to rise and oil prices were inspiring. The Federal government was upbeat on its plans for the economy at different forums including the World Economic Forum – quickly adding that preparations for the 2019 elections were secondary. Everything seemed set for a progressive year for real estate, but what many did not envision was that the progress might be cautious.

Presumably jet-lagged from the erstwhile recession; occupiers, developers and investors were not rushing into new leases, developments and investments in property. Consequently, property prices and development pipelines did not rise significantly within the 6-month period under review. That said, the improvements were fairly visible, howbeit, cautious.

Retail and residential uses were the most improved sub-sectors. Developments which were put on hold a year prior were revived and uptake for completed units is on a balmy rise. Following the improvements in the local economy, vacancy rates have

declined in major malls and high street shopping still remains the toast. Online retail continues to struggle with logistics amongst other impediments. Consequently, Konga teamed up with Yudala to stem the tides while Jumia posted pre-tax losses of €80.7M in the first nine months of 2017 even though revenues moved up to €57.3M. This is all in the wake of rising online purchases.

The office market in Lagos, Abuja and Port Harcourt continued to struggle in the review period. Rents either stayed or declined to remain competitive. The security risks and environmental hazards in Port Harcourt sent office rents to its lowest in over five years. Grade-A office vacancies in particular remained high and it appears the economy would need to strengthen much more to reverse this trend. Performance of Industrial and Hospitality sub-sectors stayed highly correlated to the economy as government makes a number of infrastructure and policy changes to support stellar performance of these sectors in future.

The Lagos State Government increased its Land Use Charge quite astronomically, but backed down upon coordinated resistance from civic groups and thought leaders; exemplifying the dividends of democratic governance. However, revised water fees escaped largely undetected.

Nigeria moved up 16 places on JLL's Global



Transparency Index from the last release in 2016, identifying continued progress in market data availability, improved transaction processing and a stronger alignment between local and international of valuation standards – setting the stage for sector growth. This is a national victory for the real estate investment class indicating the market is gaining more transparency over the years.

As with our half-year reviews over the years, this report gives a concise but adept analysis of the performance of Nigeria’s real

estate market in the last six months, looking at the opportunities taken and missed while proposing lines of action for the reader’s consideration. We are excited to have featured healthcare for the first time, as we find it invaluable to document strides in this sub-sector and anticipate investments in healthcare-focused brick and mortar in coming seasons.

Ayo Ibaru

Director – Real Estate Research & Advisory
Lagos, Nigeria





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MACROECONOMIC INDICATORS

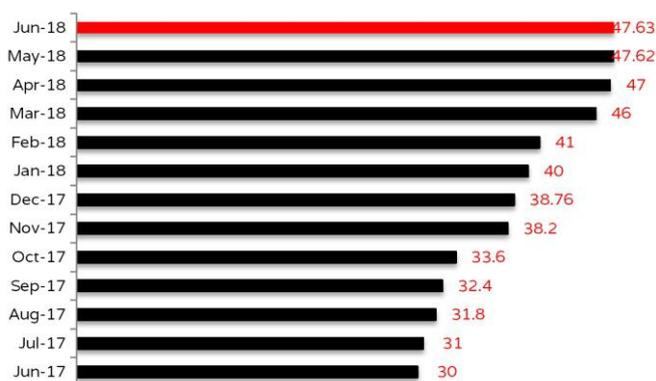
In pre-election years, Governments of frontier and developing nations often make spending decisions with a view to gaining public support at the polls. For the period under review, most decisions made by the government have had strong points for and against. National debt has increased – justified by the need to invest in infrastructure, security and strengthening the economy.

Q1 2018 saw the fourth consecutive quarterly increase in capital importation that started in Q2 2017. Total value of capital imported in the quarter stood at \$6.3Bn, a 594.03% increase YoY and a 17.11% growth over Q4 2017, reflecting an appetite for Nigeria’s debt. Even the nation’s capital - Abuja recorded the highest foreign capital inflows in Q4 of 2017

(\$2.68Bn) and Q1 of 2018 (\$3.54Bn), ahead of commercial nerve centre Lagos with \$2.55Bn and \$2.67Bn for the respective quarters.

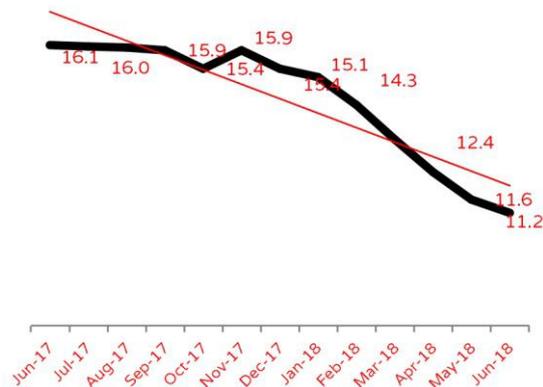
Nigeria’s external reserves have continued to rise from \$38.76Bn in January to \$48Bn in May, fuelled by improved oil prices and the Eurobond offering. This is the highest the reserves have been in 5 years. With improved international creditworthiness comes an ease of obtaining further external debt and the wherewithal for economic stabilisation activity. However, some argue that rising external reserves could be put to better use as idle funds represent lost opportunities as well as social costs and may be better used to fund the gaping infrastructure deficit.

EXTERNAL RESERVE (\$BN)



Source: Central Bank of Nigeria

INFLATION (%)



Source: National Bureau of Statistics



EXCHANGE RATE (₦ TO \$)



Source: Central Bank of Nigeria

PRICE OF CRUDE (\$/B)



Source: Central Bank of Nigeria

Headline inflation dipped for the 17th consecutive month to 11.23% in June, down from 11.61% in May and 12.48% in April. This continued lowered levels of inflation are expected to translate to long-run benefits for the real estate sector, having created room for more consumption, investment and allocation of resources.

The FX Window introduced by the CBN in April 2017 to ease the supply of FX averaged of a weekly turnover of \$1Bn and would attract \$25Bn by April 2018 with a \$47.14Bn total turnover. To keep the FX market fluid, the Central Bank of Nigeria also lifted the retail Secondary Market Intervention Sales (SMIS) of the inter-bank Foreign Exchange Market with \$321.4M in February and \$335.4M in March. In June 2018, the CBN approved a ₦3 trading margin per dollar sold for BDC operators in the hopes of further facilitating trade and investment transactions.

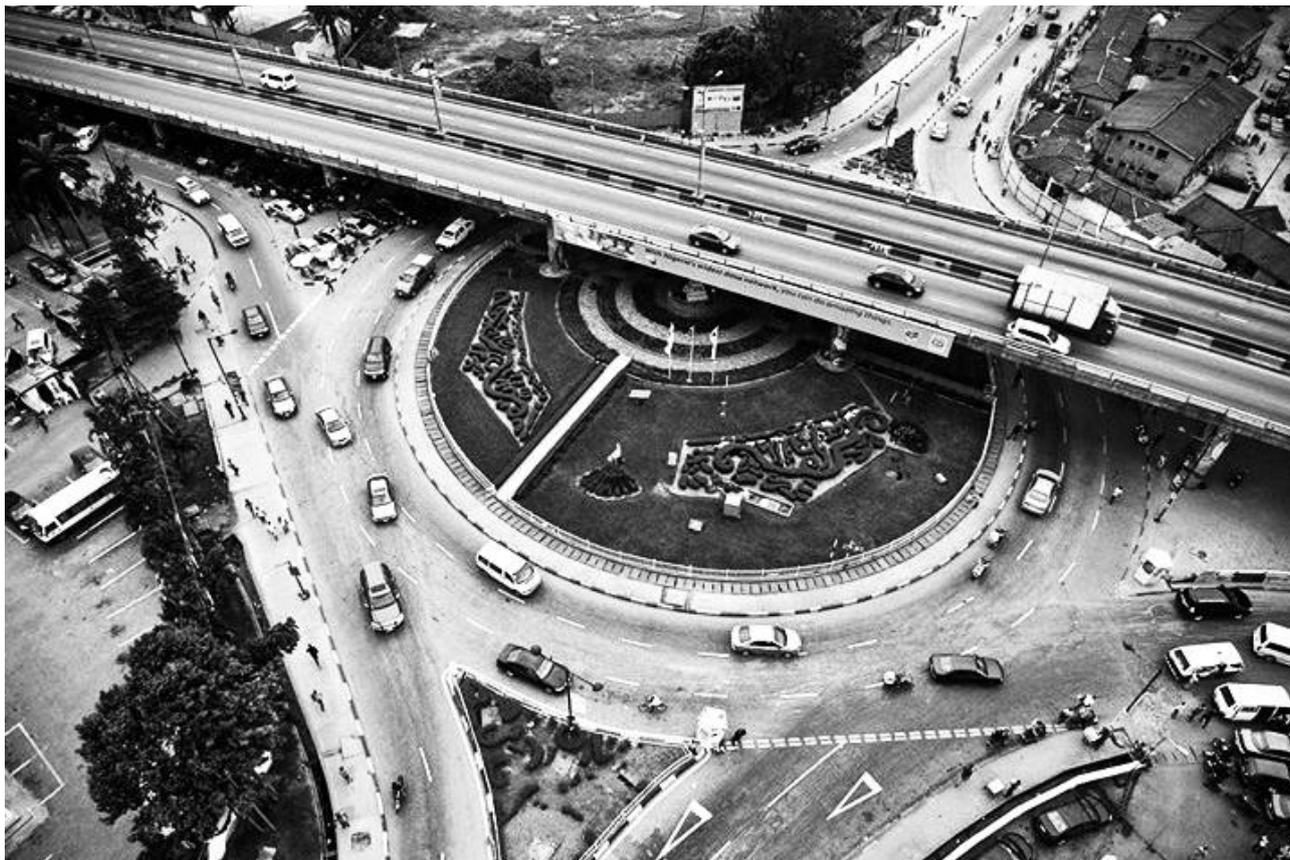
The OPEC continued to lead the orchestra of 14 countries in ensuring that production quotas were maintained. The cartel (OPEC) also secured the commitment of Russia, the world's largest producer in restricting its production levels which would push up prices to around \$80/barrel. A tweet from the US President questioning the per barrel price (and the robust response from the Cartel's leadership) and the withdrawal of the US from the Iran nuclear deal further contributed to this rise, at least until the Cartel indicated the possibility of ending current price control measures.

Nigeria's crude oil production, including condensate reached 2.05mbpd in December 2017, higher than the 1.93 mbpd recorded at the end of the Q3 2017, thereby surpassing Angola as the top oil and gas producer in Africa. This would partly motivate the purchase of over 1,000 hectares by the Independent Petroleum



Marketers Association of Nigeria (IPMAN) for the construction of two refineries in Kogi and Bayelsa states. At a total cost of \$3Bn, both refineries would produce 200,000

bpd. The cost of refining crude oil continued its fall that started from \$78 per barrel in August 2015 to \$20 in March 2018.





TOPICAL ISSUES

2018 BUDGET

The Ministry of Power, Works and Housing (PW&H) received the largest share of the upwardly reviewed ₦9.12Trn national budget passed by the legislature and signed by the President. The signing occurred six months after the Presidency put it forward and would mark a new record for the longest delay the budget had stayed with the House committee before passage. For a post-recession budget of a developing country, the signing-approval fiasco only solidifies the nation's growing reputation for lacking a sense of urgency. At ₦683Bn, the PW&H budget is numerically larger than the 2017 figure of ₦555.88Bn. Sister Ministries of Transportation and Environment received ₦251.42Bn and ₦17.49Bn respectively. The budget comes down to \$0.33 per capita per day, as opposed to UK's \$44 and \$36 in the US.

2019 ELECTIONS

As the 2019 general elections approach, the President signed the "Not Too Young to Run" bill to open the doors for younger Nigerians to run for office. This is as both political veterans and neophytes throw their hat into the ring. Polls showed that the general perception of the current administration was poor – faulted for mishandling the economy, foot-dragging

on security and woeful in tackling unemployment. As preparations kick into high gear, political commentary, realignment of parties, castigation from former Heads of State and comedic actions by lawmakers have become the order of the day - having the effect of reducing investor confidence for equities and real estate investments alike. On the other hand, government spending in frontier and developing countries is known to increase in pre-election years, as was the case with Brazil, Argentina and South Africa. This is expected to cushion any investors' apathy mopping up cash from circulation.

LAGOS LAND USE CHARGE

On the 29th of January 2018, Lagosians woke up to a Bill that revised the Land Use Charge 2011, harmonising the Land Rates Law, Neighbourhood Improvement Charge Law and the Tenement Rates Law in the process. This is as the state seeks for new ways to balance its books including its \$50Bn infrastructure deficit. And while the old rates were long overdue for a review, the announcement of the new rates was considered too sudden and the penalty for non-compliance (increased from \$278 to \$694 or 3 months' imprisonment) too steep. The consensus is that consultations should have been more extensive prior to the passage of the Bill. The tax base also



changed, as properties would now be taxed based on market values as against fair values in the past. After continuous protests from individuals and the organised private sector, the authorities reduced the rates and waived the penalties. Only properties owned by religious bodies and used exclusively for religious worship were exempt. Landlords are expected to pass at least a portion of the increase to their tenants, but this may be tough in a recovering market.

NIGERIA-CHINA \$2.5BN CURRENCY SWAP

The middle kingdom ranks second on Nigeria's list of trading partners. With trade totalling \$9.2Bn in 2017, Nigeria runs a \$7.6Bn deficit in machines, textiles, raw materials and spare parts amongst others while exporting \$1.6Bn – largely in oil and gas. After two years of negotiations aimed at providing local currency liquidity to Nigerian and Chinese businesses, both countries decided on a swap deal to improve the speed, convenience and volume of transactions. Under the arrangement, requests for credit facilities from accredited banks to execute contracts are processed under terms and conditions spelt out in the swap guidelines. This is expected to ease pressure on the nation's FX reserves and exchange rate by reducing the demand for the US Dollar.

THE AfCFTA AGREEMENT

The African Continental Free Trade Area (AfCFTA) was conceptualised as part of the African Union's 2063 Agenda to expand intra-Africa trade and sought to create a \$2Trn trade bloc and commits member countries to removing tariffs on 90% of goods and services. 16% of African countries trade between themselves, unlike Europe and Asia where trade between countries on the same continent is 70% and 51% respectively. African countries export 84% of their output to developed countries that refine and resell to the continent at a premium which leads to higher prices made higher by import tariffs. Nigeria can now look forward to a broader export market, fewer trade and talent barriers as well as reduced tariffs in intra-African trade. But Nigeria's request for more time to deliberate on the agreement before ratification was seen as another show of tardiness as against 44 African countries who wasted little time in signing the agreement with a few abstaining – South Africa, Botswana, Lesotho, Namibia, Zambia, Burundi, Eritrea, Benin, Sierra Leone and Guinea Bissau. The African Continental Free Trade Area (AfCFTA) is expected to increase intra-African trade by up to 52.3% by 2022.



BLACK SKIES

Residents in the Niger Delta area have lived with various environmental hazards not unconnected to crude oil exploitation that have included oil spills, acid rains, soil and water pollution and most recently, soot. The National Oil Spill Detection and Response Agency (NOSDRA) confirmed that the black skies currently being experienced in Port Harcourt and its environs was caused by activities of illegal oil refiners, bunkers and burning of tyres. Over seven million people living in Rivers State and beyond are already threatened. Combined with the increased health consciousness, this has contributed

to a shift in the demand for real estate in Port Harcourt, the foremost city in the region. Local professionals and businessmen have relocated their families to other cities as Lagos and Abuja, while staying back in Port Harcourt for work. Expatriates have updated their employment contracts, agreeing to stay in the area for a limited period only. Some businesses have closed down altogether, contributing to the decline in demand for office space and unless the soot emission is curtailed, it may have even more adverse impact on the real estate market than rampant kidnapping had in the early 2000's.





INVESTMENT MARKETS

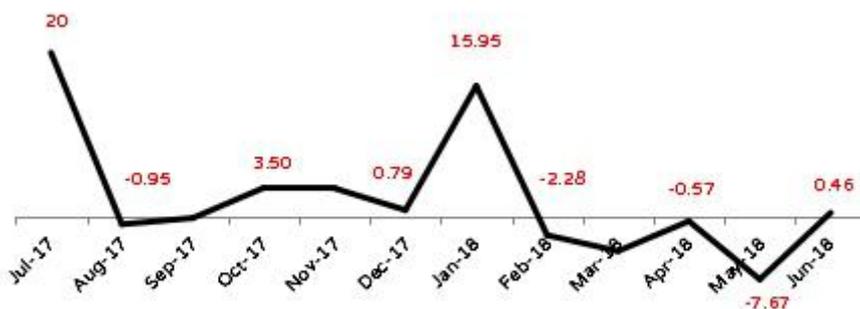
EQUITIES

Nigeria’s stock market closed 2017 as the 3rd best performing globally, driven by the Investors’ and Exporters’ (I&E) window, rising oil prices, stable output volumes and Nigeria’s relatively inexpensive equity market. Total value of shares traded in the 2nd week of January was ₦16.15Trn - the highest in the Exchange’s 57-year history. The NSE launched a Corporate Governance Index aimed at increasing transparency while providing investors with data for decision-making. Governance from the Securities and Exchanges Commission was instrumental in resolving the suspension of leading indigenous energy firm - Oando Plc, whose shares spent 6 months on the bench thanks to allegations of insider trading.

The Central Bank introduced a dividend payout rule that barred Commercial Banks and Discount Houses from paying out dividend if they did not meet the minimum Capital Adequacy Ratio (CAR). Those with high Non-Performing Loan (NPL) ratios were also barred from paying dividend. In the end, only six banks made the cut - Access Bank, First City Monument Bank, Guaranty Trust Bank, United Bank for Africa, Wema Bank and Zenith Bank.

After much debate, MTN’s \$400M IPO was shifted from mid-year to August and leading stockbroking houses have estimated a ₦159 – ₦195 price per share. On the trading end, Barclays Africa outlined plans to join the Nigerian Stock Exchange as a broker in July to create a contact point for foreign investors looking to access Nigeria market

NSE ASI RETURN (%)



Source: NSE



FIXED INCOME

One of the key drivers of Nigeria's exit from recession was the sustained effort of the Debt Management Office (DMO). And the world recognised this at the 2018 EMEA Finance awards as Nigeria bagged 4 awards. The DMO issued a \$2.5Bn Eurobond, split into two tranches of \$1.25Bn each attracting funds majorly from the US and Europe. Both halves were oversubscribed by 432% (\$5.4Bn) and 472% (\$5.9Bn) respectively. Encouraged by this, Union Bank of Nigeria kicked off discussions with Citigroup and Renaissance Capital on going

to market with its own Eurobond. Seplat also launched a \$350M Eurobond at 9.25%.

The oversubscriptions that characterised listings in 2017 continued in 2018 as First City Asset Management's \$2.5M IPO was oversubscribed by 144%. Nigeria Mortgage Refinance Company's ₦11Bn Series 2 Bond was over subscribed by 200% while Legacy Bond Fund's \$2.5M IPO was also oversubscribed by 144.4%, attracting \$6.11M. Commercial paper issuances, which saw little interest at inception in 2013, rose to ₦1.06Trn in 2018 as investors saw new opportunities to access Nigeria's market for short-term capital.



VICTORIA CREST HOMES *Presents*

VICTORIA BAY

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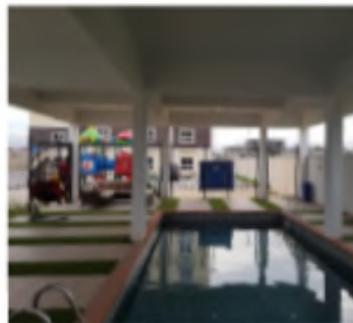
PROJECT TYPE

- 3 & 4 BEDROOM TERRACE DUPLEXES
- 4 BEDROOM SEMI & FULLY DETACHED DUPLEXES + BQ

PROJECT FEATURES

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REAL ESTATE PERFORMANCE



OVERVIEW

In the last 6 months, the Nigerian economy as a whole has experienced significant improvements and this has also been the fate of the real estate sector. The various sub-sectors (residential, retail, office, hospitality and industrial) experienced stabilisation of rents, revival of some suspended projects and the commencement of new ones, in stark contrast to H1 2017. Prices of building materials have also dipped or remained constant when compared year-on-year. This

is expected and understandable, seeing that foreign exchange rates have stayed fairly stable for about 12 months now and is also readily available.

The Federal Ministry of Finance introduced exemptions for residential properties, leases on rentals to remove the tax burden and clarify obsolete and ambiguous areas of tax. The Lagos State Building Control Agency, (LASBCA), began a post construction audit exercise on all buildings within the State to determine the validity of development permits to improve the integrity of buildings constructed and reduce the risks of building collapse.

COST OF BUILDING MATERIALS (₦)

Description	H1-2015 (₦)	H1-2016 (₦)	H1-2017 (₦)	H1-2018 (₦)	% Change 2017/2018
Cement (50kg)	1,950	1,500	2,800	2,700	-4
Sandcrete block (9 inch)	190	200	220	210	-5
Aluminium Roofing Sheet (0.55mm)	1,550	1,550	2,500	2,700	7
Cables (6mm / Coil)	13,500	16,000	38,000	35,000	-9
Coloured Emulsion Paint	7,500	8,500	12,000	5,500	118
Paving stone 60mm (Local)	1,400	1,750	2,100	1,800	-17
Harvey roof tiles	6,000	5,700	11,000	4,500	-144
White Emulsion (Dulux)	22,000	26,000	28,000	30,370	8
Twyford complete set WC	14,500	14,500	14,000	14,500	3
Ariston water heater (Small)	17,500	28,000	28,000	25,000	-10
13A socket	900	950	1,200	1,500	20
Distribution board	45,000	40,000	45,000	48,000	6

Source: Castles , Northcourt



As part of efforts to boost the country's economy and create direct and indirect job opportunities for Nigerians through the patronage of made in Nigeria goods and services, the Ogun State Property and Investment Corporation (OPIC) is now offering prospective buyers of all its housing units spread across the three senatorial districts of the State, houses constructed with 80% locally sourced inputs. The Federal Ministry of Environment in collaboration with the Nigeria Erosion and Watershed Management Project (NEWMAP), also installed Automated Flood

Early Warning Systems (AFEWS) in 10 states to mitigate the effects of floods.

Every two years, JLL publishes its Global Transparency Index categorising nations based on the transparency of their real estate markets. Nigeria ranked 96th in 2012 but by 2018, its rankings improved to 67th position, powered by the increased availability of market data, alignment of valuation standards with global practices and an improvement in transaction processing.





LAND

Perhaps the most debated issue of H1 2018 was Lagos state's revised Land Use charge. The review, while long overdue came off as autocratic and included a penalty for non-compliance – \$700 or 3 months imprisonment. The Government later reduced the rates and waived the penalties after much public outcry and properties owned by religious bodies and used

exclusively for religious worship were exempt. Another less highlighted levy was the revised tax on water by the Lagos State Water Regulatory Commission that introduced multiple charges ranging from ₦5,000 - ₦0.5M to wastewater treatment plant permits with a ₦5M cap.

The Federal government outlined plans to issue 2,000 land titles to investors across the country to ease the process of raising

LAND PRICES

Location	2016 Average	2017 Average	2018 Average	2017-2018 % Change ₦
Ikoyi	₦300,000	₦435,000	₦363,000	-20
Lekki Phase 1	₦125,000	₦140,000	₦196,000	28.5
Victoria Island	₦430,000	₦312,000	₦300,000	-4
Sangotedo	₦35,000	₦26,000	₦28,000	7
Agungi	₦75,000	₦84,000	₦95,000	12
Abraham Adesanya	₦30,000	₦34,000	₦24,000	-41
Magodo	₦105,000	₦86,000	₦110,000	22
Ikeja GRA	₦175,000	₦260,000	₦261,000	0.4

Source: Castles, Northcourt

funds for new and existing businesses. This is in addition to a framework for an Integrated Depository of the country's Land Assets. The Federal Capital Territory Administration (FCTA) also made the National Identification Number (NIN) mandatory for land allocation within the Federal Capital Territory (FCT).

Partnering with the United Nations Human

Settlements Programme (UN-Habitat) and the Government of South Korea, Niger state was host to the \$1.92M urban redevelopment initiative – Niger State Urban Support Programme (NSUSP) aimed at producing an urban development policy. The policy includes integrated development plans to host a pilot smart city. NNPC Properties Ltd (NPL), the property



management company of the Nation's oil firm – the NNPC, recovered 92 hectares to Chevron Drive, Lekki – Lagos and assets in Royal Grove Estate – Port Harcourt, amongst others and made out plans to invest same.

Land values dipped mildly in most locations in Lagos, with exception of Magodo, Lekki Phase 1 and Sangotedo, which grew by 22%, 28.5% and 7% respectively.

RESIDENTIAL

Residential markets showed improved price stability and levels of activity in comparison to H1 2017, though fairly high but reducing vacancies exist in the high to mid income locations. As land prices and other construction costs soar, developers continue to stay competitive by intensifying land use, reducing plot sizes, car parks and built-up areas in a bid to supplement the decline in profitability caused by weakened prices since 2016/17.

There is a general improvement in design and finishing features provided in recent developments, however, the quality of materials and workmanship can be improved on and remains a major differentiator. However, residential developments in close proximity to high streets and areas with high traffic continue

to be gentrified i.e. converted to other use classes that attract higher rents such as retail and office use.

To foster housing provision, the Central Bank selected 34 mortgage banks and 4 commercial banks to increase access to housing finance for low-income earners. The banks will benefit from a \$15M Housing Micro-finance Fund and a \$10M Technical Assistance Fund. Furthermore, the CBN engaged the Mortgage Bankers Association of Nigeria (MBAN), the Nigeria Mortgage Refinancing Company (NMRC), Federal Mortgage Bank of Nigeria and Nigeria Deposit Insurance Corporation (NDIC) to launch the Uniform Mortgage Underwriting Standards for the informal sector.

In another public-private partnership effort, the Kaduna state government entered a partnership with Sterling Bank to launch a ₦5Bn fund aimed at providing mortgages at single-digit interest rates. Beneficiaries are required to make security deposits of between 15 to 30% of the value of the houses but would be expected to liquidate mortgages within 10 years. This is in addition to the foundation laying for 600 housing units, a five-star hotel and two shopping malls in the state.

The United Nations Development Programme (UNDP) also completed 608 housing units in Borno State as its



contribution towards rebuilding areas destroyed by Boko-Haram. This is as a 72-unit housing project under the National Housing Programme in Jigawa state attained 80% completion. The MPW&H would also engage 20 local contractors in Sokoto to construct an 80-unit housing estate worth N1.3Bn. The Edo State Government started the construction of 1,800 housing units in partnership with MIXTA Africa - a property development company with projects spread across Africa. Completion is expected by Q4 2019.

Property values remained linked to location, infrastructure availability, perceived levels of security and historical antecedents. This was evidently the case in the 'Garden City' of Port Harcourt. Still, Federal Government-owned Trans Amadi Gardens was in fair demand. High-end rents for 3-beds went between ₦4 – ₦6M per annum as sale prices averaged ₦45 – ₦60M. Peter Odili, NAF Harmony estate, Trans Amadi Garden, Old GRA, and GRA Phases 1 – 3 ranked highest on the most desired places to live.

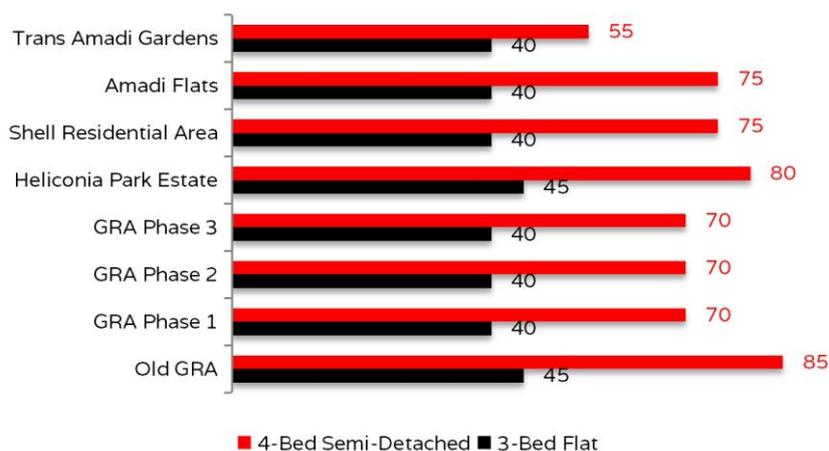
PORT HARCOURT: RENTAL PRICE PER ANNUM (₦'M)



Source: Northcourt



PORT HARCOURT: RESIDENTIAL SALES PRICE (N'M)



Source: Northcourt

Vacancy rates in Lagos showed slight improvements with Mainland strongholds - Yaba (3%) Surulere (4%) and Magodo Phase II (5%) recording the lowest vacancies of the nodes considered. The more cosmopolitan areas of Victoria Island (35%), Oniru (37%), Lekki (39%) and Ikoyi (40%) had higher vacancies, as affordability remained a central consideration. Flexibility also featured in many residential areas with some Landlords willing to offer monthly or quarterly rents.

VACANCY RATES

Area	Vacancy Rate
Abuja	
Apo	13%
Gwarimpa	4%
Jabi	10%
Katampe	28%
Lugbe	4%
Maitama	3%
Utako	13%
Wuse 2	8%

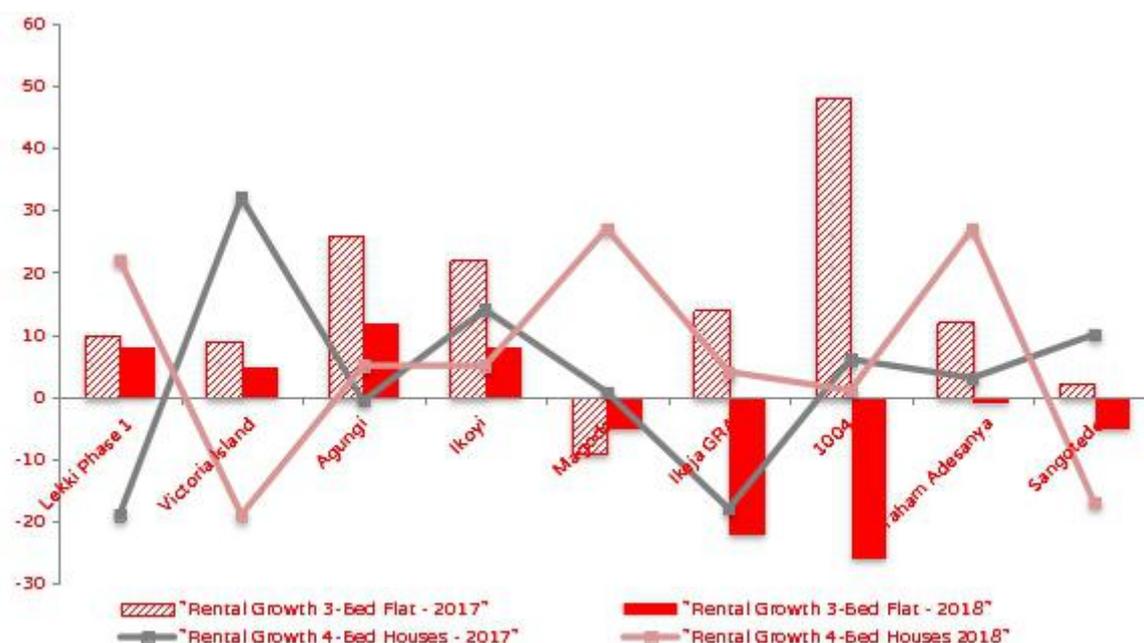
Area	Vacancy Rate
Lagos	
Ikeja GRA	10%
Ikoyi	40%
Lekki	39%
Magodo Phase II	5%
Oniru	37%
Surulere	4%
Victoria Island	35%
Yaba	3%



Port Harcourt	Vacancy Rate
Old GRA	6%
GRA Ph 1	14%
GRA Ph 2	7%
GRA Ph 3	9%
Elenlewo	10%
Peter Odili	13%
Rumuogba	11%

Source: Northcourt

GROWTH IN RENTAL VALUE - LAGOS (2017 TO 2018)



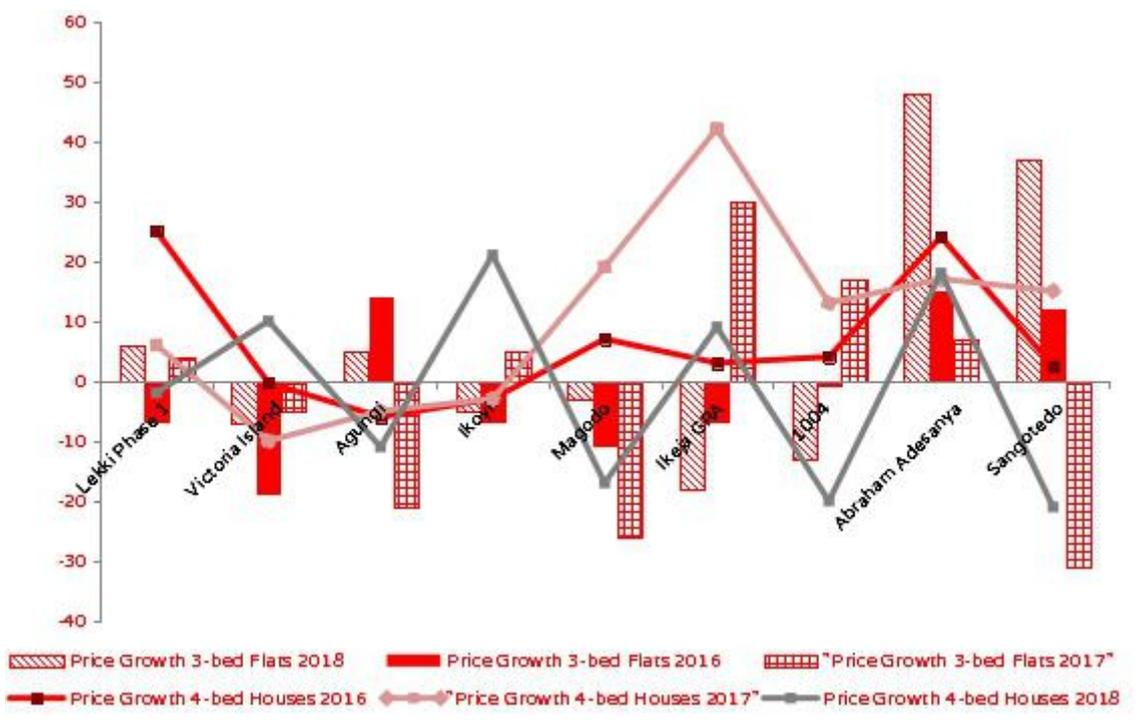
Source: Northcourt

Abuja's city centre saw high demand for low cost 1 and 2-Bed apartments while that of 3 to 4-Bed houses saw a drop in demand due to the weakened purchasing power of the average resident. High tenement rates, waste management and water bills contributed to the reduced interest. To increase the housing supply in the FCT, the

Federal Government would partner Zvecan Consulting and a Chinese firm, Wengfu Company Limited to build 5,000 housing units under the Federal Integrated Staff Housing (FISH), programme. Vacancy rates in Abuja ranged from 3% (Maitama) to 28% (Katampe)



GROWTH IN CAPITAL VALUE - LAGOS (2017 TO 2018)



Source: Northcourt

OFFICE

The office market in Lagos, Abuja and Port Harcourt continued to struggle in the review period. Rents either stayed or declined to remain competitive. The security risks and environmental hazards in Port Harcourt sent office rents to its lowest in over five

years. Grade-A office vacancies in particular remained high and it appears the economy would need to strengthen much more to reverse this trend. The wait for the global brands looking to open up shop in Grade-A signature addresses worthy of their presence may be taking too long.



PRIME OFFICE RENTS

Location	2017 Average (000)	2018 Average (000)	2017-2018 % Change (₦)	2017-2018 % Change (\$)
Abuja				
CBD	₦57/\$0.16	₦40/\$0.11	-30	-30
Wuse 2	₦53/\$0.15	₦61/\$0.17	15	14
Garki 11	₦21/\$0.06	₦33/\$0.09	57	56
Port Harcourt				
Olu Obasanjo Way	₦16/\$0.04	₦12.5/\$0.03	-22	-23
Trans Amadi Road	₦17/\$0.05	₦13.5/\$0.04	-21	-21
Aba Road	₦16/\$0.04	₦10.5/\$0.03	-34	-35
Lagos				
Lekki Phase 1	₦38/\$0.10	₦60/\$0.17	58	65
Lagos Island	₦21/\$0.06	₦16/\$0.04	-24	-27
Ikeja	₦26/\$0.07	₦34/\$0.09	31	30
Yaba	₦25/\$0.07	₦18/\$0.05	-28	-29
Ikoyi	₦309/\$0.85	₦207/\$0.57	-33	-33
Victoria Island	₦246/\$0.68	₦252/\$0.69	2	2

Source: Northcourt

Demand for grade B and smaller office spaces remained stable when compared with last year and co-working spaces continue to grow in popularity with a few service providers opening more locations. With increased flexibility in pricing and terms, a renewed focus on volume, partnerships and programs that drive profitability.

The development pipeline remains rich and is much more active in comparison to H1 2017. With over 100,000sqm of office currently available for lease on the market, completions scheduled for 2018 already have significant competition for the few

multinationals and big brands that can afford grade-A space, not accounting for the brands that are willing to settle for the more flexible and affordable co-work option.

4TH



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THEME: RE-CALIBRATING SUPPLY & DEMAND FOR SUSTAINABLE GROWTH



OFFICE PIPELINE

Name	Floors	Size (m ²)	Location	Delivery date
Africa Tower	46	-	Abuja	Not Specified
Alliance Place	13	6,670	Ikoyi	Ongoing
Atlantic Resort	16	15,588	Oniru	2019
Bloomsbury	6	10,000	Victoria Island	On Hold
Cornerstone Head Office	12	10,000	Victoria Island	Ongoing
Corporate Towers II	34	-	Eko Atlantic	Not Specified
Dangote Head Office	18	-	Ikoyi	On Hold
Desiderata	9	4,654	Banana Island	Ongoing
Diamond Bank Head Office	13	-	Victoria Island	2018
FIRS Head Office	17	81,000	Abuja	Not Specified
Greystone Tower	17	-	Victoria Island	Not Specified
Harbour Point	20	20,000	Victoria Island	On Hold
IMB Plaza (renovation)	5	-	Victoria Island	Ongoing
Jenkin's Place	8	1,350	Victoria Island	2018
Kingsway Tower	15	12,000	Ikoyi	Ongoing
Komilard Global / Bago Nigeria	6	-	Lekki	Ongoing
Madina Towers	15	8,300	Victoria Island	Ongoing
NBCC Building	3	-	Lekki Phase	Ongoing
Novare Central Office Park	3	12500	Abuja	2018
Ogun House	5	1,000	Ikoyi	On Hold
Raymond House	7	-	Lagos Island	Not specified
Sogenal Tower	15	11,560	Ikoyi	2018
The Waves	13	44,000	Victoria Island	On Hold
World Trade Center	22	26,000	Abuja	On Hold

Source: Northcourt

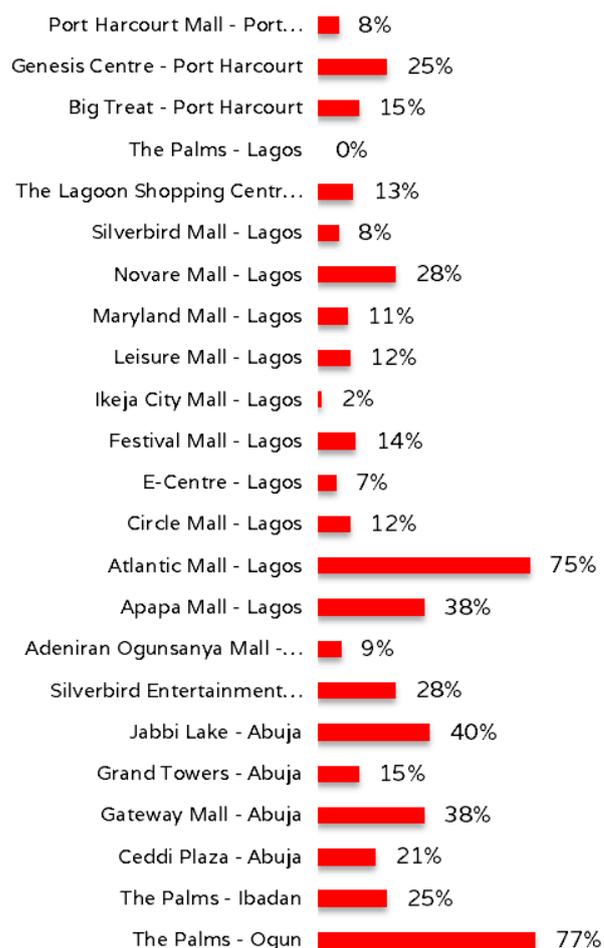


RETAIL

Retail continued to struggle with the shrinking middle class and the dwindling purchasing power of the customer. However, with the exchange rate stabilisation, planning around operational costs and profit projections is much more feasible for retailers. Local investors, emboldened to make further investments, softly opened the Next Mall in Port Harcourt and The Atlantic in Lagos.

Vacancy rates largely reduced across the Grade-A malls. The Palms and Ikeja City Mall had the lowest vacancies at 0% and 2% respectively. Novare Mall came in at 28%, down from 47% at the end of 2017. Artee's Port Harcourt Mall, Big Treat and Genesis Centre had 8%, 15% and 25% respectively. Ceddi Plaza and Gateway Mall in Abuja recorded 21% and 38% respectively. Abuja's largest mall – Jabi Lake (20,000sqm) recorded the highest vacancy rate in city – 40% due to a number of stores that closed down in Q1 and high rentals. While some international investors find business conditions less favorable and are instead pursuing retail interests in Eastern Europe and Eastern Africa, local HNI's (High Net-worth Individuals) who are not disturbed by currency risks amongst others, are moving into the retail space to make large-scale investments.

VACANCY RATES



Source: Northcourt

Outside purpose-built and A-grade malls, high street retail within central locations continue to experience high demand. Larger malls, though more appealing to international retailers due to better infrastructure, are less attractive to local brands due to higher rents and service charge costs. Events, entertainment and leisure features continue to be a traffic pull for large malls with car park payments



remaining a key income stream and a counterweight to the pain of declined rents in major malls.

Payment channel transactions data from the NBS reached an all-time high of ₦86.1Trn in 2017 - a 32% increase from ₦65.1Trn recorded in 2016. Online web transactions rose by 39.5% from ₦132Bn in 2016 to ₦185Bn a year later. As such, it was only reasonable that online retailer – Konga join forces with Yudala, an e-commerce company to become one of the largest online/ecommerce firms in Africa. Jumia, a prominent player in Nigeria’s online retail space saw its adjusted loss before interest, tax, depreciation and amortisation widen to €80.7M in the first nine months of 2017 even though revenues moved up to €57.3M.

It wasn’t all good news as South African retail giant, Shoprite Checkers Limited and business partner, Retail Supermarkets Nigeria would have \$10M in damages awarded against them by a Lagos High Court for breach of contract relating to Nigerian firm, AIC Limited.

Lagos, Abuja and Port Harcourt led the top 100 biggest markets in Africa ranking 3rd, 17th and 22nd respectively when capital, consumer size and connectivity were considered. Combining this with the now accepted retail model – small is the new big, indigenous retailer, Hubmart stores partnered with Lenox Mall to open a new outlet in Lagos. Also, 80-year Doughnut brand, Krispy Kreme Corporation launched 2 locations in Lagos. With an investment portfolio of \$7M, the firm plans 18 more stores in the country over the next 5 years.

AVERAGE RETAIL RENTS

Location	2017 Average Monthly Rental (Psm)	2018 Average Monthly Rental (Psm)	% Change \$	% Change ₦
Lagos	\$53 / ₦18,876	\$46 / ₦16,560	-13	-12
Abuja	\$60 / ₦21,780	\$39 / ₦14,040	-35	-35
Port Harcourt	\$35 / ₦12,705	\$41 / ₦15,000	17	18
Enugu	\$32 / ₦11,616	\$46 / ₦16,560	43	42
Warri	\$35 / ₦12,705	\$25 / ₦9,000	-28	-29
Kano	\$30 / ₦10,890	35 / ₦12,600	14	13

Source: Northcourt

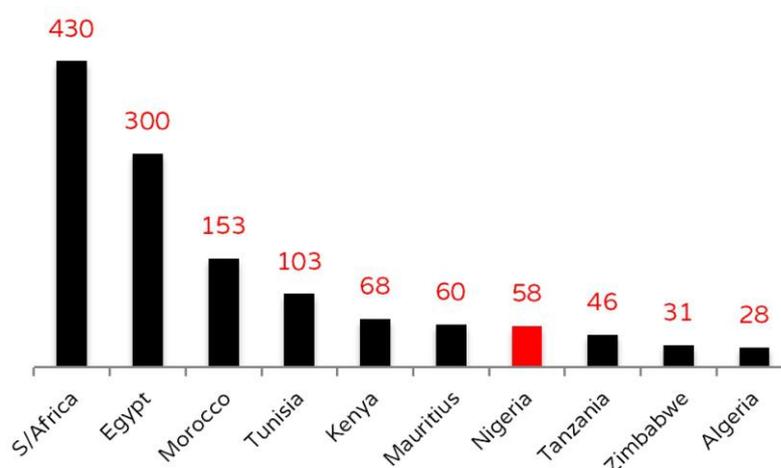


HOSPITALITY

The global hospitality industry is one of the world's largest, estimated to be in excess of \$7.6Trn in 2016 and is expected to reach \$11.5Trn by 2027. 32% of projects under development in Africa are in the Western countries, currently home to just 7% of the existing supply. Most of these projects are in

Nigeria, primarily in Lagos and Abuja, where projects spend longer in the pipeline phase than in most other African countries. The economic recovery in Nigeria saw the number of room nights sold in Lagos increase by 17.6% with the tourism sector contributing \$2.2Bn to the state's GDP in 2017.

NUMBER OF BRANDED HOTELS IN AFRICA - TOP 10 COUNTRIES



Source: Knight Frank

About 15 new airlines have applied to fly in the Lagos and Abuja airspace. Members of the National Association of Nigerian Travel Agents (NANTA) sold tickets valued at over half a trillion naira in 2017. Global airlines are also shaping up to match the growing demand. Air France brought in Boeing 777 and Airbus 340 planes to upgrade its fleet for Nigerian routes – a welcome turn of

events from its decision to close down these same routes. Local carriers are also acquiring Boeing 777 aircraft for international operations.

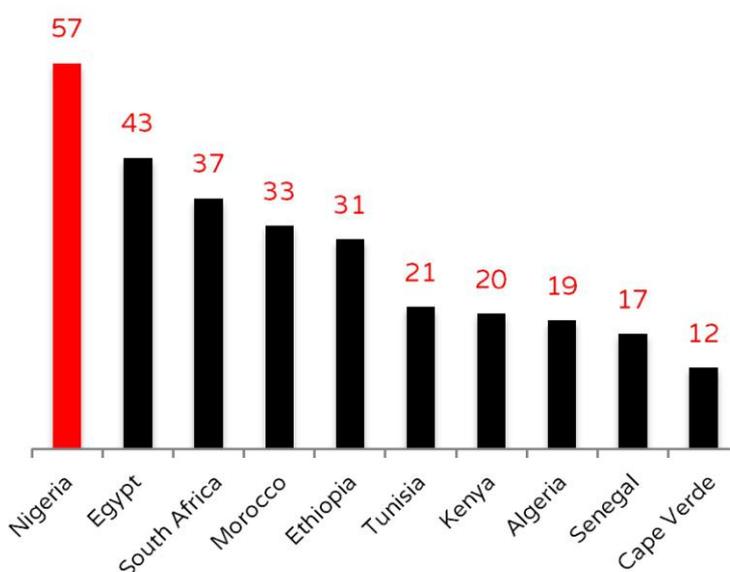
There are also moves to improve airport infrastructure and efficiency to better manage the growth in patronage. The Federal Airports Authority of Nigeria



(FAAN) completed rehabilitation works on the International Airport runway in Enugu state in Eastern Nigeria, while ensuring the

adoption of digital payment systems at all airports. American airline – Delta Airlines also projected to invest \$10Bn in Nigeria’s

2018 AFRICA HOTEL DEVELOPMENT PIPELINE BY COUNTRY



Source: W-Hospitality Group

Despite the security challenges in many quarters, hoteliers continue to consider Nigeria an important market for the West Africa region, seeing that supply remains grossly unrepresentative in comparison to population and perceived demand. Across the nation, more infrastructure projects were awarded to Asians firms, increasing the number of Chinese consultants, workers and family members who need to shuttle between home and Nigeria. This also increased the demand for hotel

accommodation, guesthouses and relaxation spots.

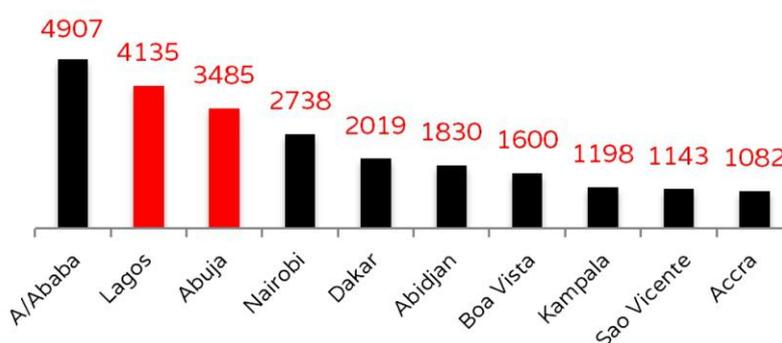
To increase hotel supply in Nigeria, Transcorp Hotels began construction of a 25-storey hotel in Lagos. A 59-room luxury hotel – The Envoy also opened in Abuja as the first hotel in Nigeria to secure Level 2 Global Lighthouse Certification in Hotel Security. BON hotels opened Grand Pela Hotel and outlined plans to launch another



11 as Carlson Rezidor opened its 3rd hotel in Nigeria. But it wasn't all good news as Intercontinental Hotels exited Nigeria and

was subsequently rechristened the Lagos Continental Hotels.

2018 SUB SAHARAN AFRICA HOTEL PIPELINE - NUMBER OF PLANNED ROOMS



Source: W-Hospitality Group

INFRASTRUCTURE

The global demand for infrastructure investment is estimated at \$3.7Trn annually, and according to the Africa Finance Corporation, Nigeria needs \$3Trn to plug its infrastructure deficit. With infrastructure critical to the success of the nation's ERGP and the Ease of Doing Business agenda, the Federal Government provided \$650M in seed funding for establishing the Presidential Infrastructure Development Fund (PIDF).

In addition to a laundry list of project approvals, the Government would engage the private sector and international agencies, signing up a \$6.68Bn rail contract

with the China Civil Engineering Construction Company (CCECC) to connect Lagos and Kano states. The Ministry of Transport gave a nod to the Nigerian narrow-gauge railway concession by GE, SinoHydro, Transnet and APM Terminals as Lagos state achieved 95% completion of its Blue Line rail construction, delayed for 7 years due to funding shortfalls.

Nigeria currently has a 200,000km national road network comprising 18% of federal roads, 15% state and 67% local (most of which is untarred). Road transport accounts for 90% of all freight and passenger movements in the country with federal roads accounting for 70% of all road



transport activity. To improve this, ₦16.6Bn of the ₦100Bn Sukuk bond raised in 2017 was directed towards the reconstruction of 84.31km in major roads in the South Eastern part of the country. The Ondo state government and the Niger Delta Development Commission NDDC flagged off a 50km, ₦19.2Bn Araromi-Akodo/Ibeju-Lekki road to connect Lagos and Ondo states.

In similar fashion, the Federal Ministry of Agriculture, the World Bank and the AFD partnered to construct 300km roads in Osun State. Work also started on the 44km Obajana-Kabba road, arguably the longest concrete road project in Nigeria, also construction of the ₦4.3Bn Apapa road rehabilitation project jointly financed by Dangote Industries, Nigeria Ports Authority and Flour Mills of Nigeria. Funds were also approved for the rehabilitation of the 3rd Mainland Bridge. The Lagos 4th Mainland Bridge is yet to get a new development team and so remains suspended.

The Nigerian economy's elixir of life – power, slightly improved but remained insufficient overall. Average on-grid power generated was below 3,000MWh/h in June, the lowest since January 2018 - a result of the shutdown of 6 gas generating power plants due to a rupture of the Nigerian Gas Company (NGC) pipeline. The shutdown of Afam VI power station, also contributed to

the reduction in output. The sector suffers from revenue collection challenges with the distribution companies (DISCOs) unable to collect revenue due to metering issues. This in return stifles payments due to the generation companies (GENCOs).

Nigeria and Morocco would agree to extend the 5,660km West African Gas Pipeline (WAGP) from Nigeria to Morocco and then Europe. The 25-year construction project aims to improve global investment in the connected countries. Dangote Group acquired land for a 100MW \$150M power project in Kano and expects completion in 2 years, while raising \$1.1Bn for a 540MW power plant in Akwa Ibom state. Nigeria's generation capacity caters to 25% of national demand and if improvement targets are met, it would have a multiplier effect on the economy and real estate markets.

INDUSTRIAL

Increased labour productivity in a nation's manufacturing sector often leads to a rise in manufacturing output, not only because of increased economies of scale, but also the spread of productivity-enhancing innovations. Output in the manufacturing sector would reach ₦4.67Trn in the first six months of 2017 growing to ₦5.02Trn by the end of the year and continuing this upward



trend into 2018.

Ogun state, taking advantage of the new and higher tax regime of the Lagos state government, led the charge in attracting manufacturing investment. By Q2, local and foreign firms had either established new plants or expanded existing ones investing a total of \$12Bn. The list of investors include Dangote Cement, Western Metal Products

Company Limited, Procter and Gamble, Unilever PLC, Nestle Nigeria PLC, Lafarge Africa PLC, Nampak Bevcan Packaging, May and Baker and International Breweries. However, better supporting infrastructure and residential accommodation is still required to fully maximise this demand for industrial space.

PURCHASING MANAGERS' INDEX - 1YR TREND



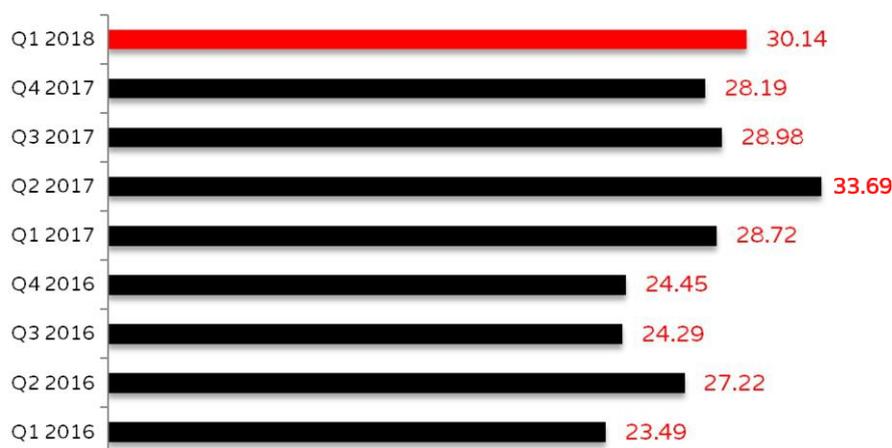
Source: National Bureau of Statistics



The Kellogg’s-Tolaram Nigeria Limited JV established in 2016 to produce and deliver breakfast cereal and noodles across the West African region continued to consolidate on the ₦6Bn factory established in Q4 of 2017. Kellogg’s also acquired a 50% stake in Multipro - the largest distributor of food products in West Africa.

Flour Mills of Nigeria made a ₦50Bn investment in a 100,000MT per annum sugar production facility in Niger state. AB InBev’s \$250M brewery in Ogun state is nearing completion and expects to begin operations by mid-year. In the not-too-distant horizon however is the excise duty on tobacco and alcohol likely to increase sale prices by 12% to 20% (for spirits) and 6% to 10% (for malt, beer and stout).

VAT RECEIPTS FROM THE INDUSTRIAL SECTOR (₦BN)



Source: National Bureau of Statistics

Work also started on the \$450M Tomaro Industrial Park in Lagos, which was granted Free Trade Zone status in 2017 and includes a ship fabrication yard, a modular refinery and oil storage tank farms. Tata Africa Services Nigeria Limited also indicated plans to open a plant for the manufacture of

40% of its trucks by 2019. The African Development Bank approved a \$100M credit facility for Nigeria’s Indorama Eleme Fertilizer & Chemicals for increased fertilizer production with investors signing up as co-developers of the ₦200Bn Benin Industrial Park in Edo State. Peugeot



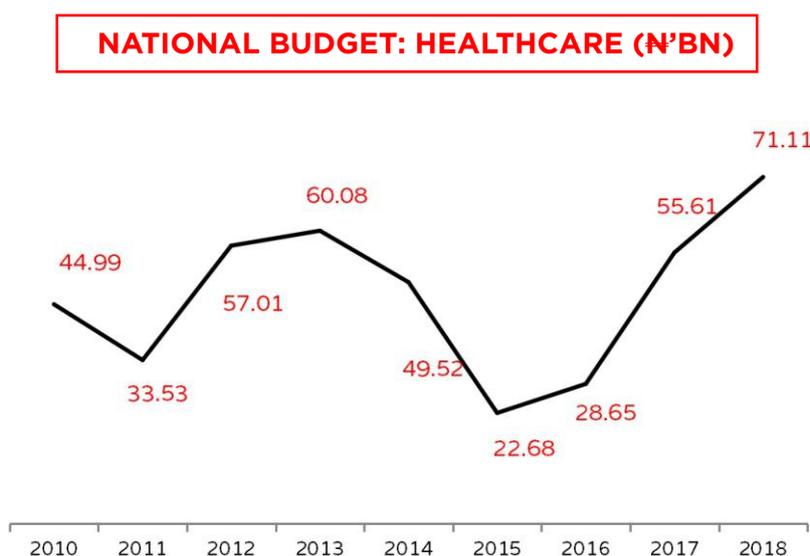
projects to start a car assembly plant in Kaduna by Q1 2019. The demand for industrial space in Lagos remains largely for warehousing and not for manufacturing purposes as firms require space to store imported goods.

HEALTHCARE

The Economist opines that confidence about health makes people more likely to set up their own businesses. But the cost of quality healthcare in Nigeria remains high. 60% of health spending in Nigeria is out-of-pocket and 34-39% of Nigerians get their healthcare from informal private providers such as drug salesmen or unqualified practitioners. The Healthcare industry's

estimated size is in excess of ₦350Bn.

With over 40,000 registered doctors, Nigeria's Medical Association is the largest in West Africa. However, 19,000 members prefer work in the diaspora. The World Health Organisation prescribes one doctor for every 600 persons and working with a population of 198M, Nigeria needs about 300,000 medical doctors. Work by the AfDB show that about 700 to 1,000 beds exist for a population of over 21 million people – a major reason why 30,000 Nigerians spend between \$1Bn to \$2.5Bn on medical tourism. 10,000 new Nigerian pharmacies are required to match SA or Ghana's healthcare penetration levels.



Source: National Bureau of Statistics



With Universal Health Coverage (the condition that people and communities can use preventive, curative, rehabilitative and palliative health services without financial hardship) at 4%, (and Ghana's at 40%), Nigeria's healthcare infrastructure is inadequate and confined to major cities. The African Development Bank (AfDB) approved \$20M to the AXA Mansard-Africa Capital Alliance-IFC-Healthshare backed Santa Clara Medical Limited's development of a hospital and referral clinics in Lagos. This is projected to be completed in 2020. PE firm, Alta Semper Capital LLP also

invested \$18M in HealthPlus – local pharmacy chain to expand its current nationwide store count of 80. The Afe Babalola University (ABUAD) opened its 400-bed Multi System Hospital in Ekiti state. While investment funds continue to search for strategic entries to the Nigerian healthcare sector it is clear that business models have to be adjusted to suit the local environment. state. While investment funds continue to search for strategic entries to the Nigerian healthcare sector it is clear that business models have to be adjust to suit the local environment.

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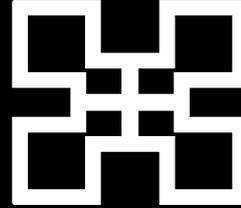
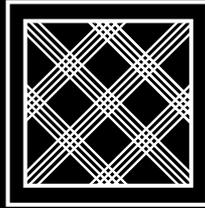


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