NIGERIAN REAL ESTATE **MARKET OUTLOOK** 2015

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Summary

The Nigerian macroeconomic landscape closed out low in 2014 with falling oil prices, declining value of the Naira and other factors over shadowing Nigeria's latest title as the largest economy in Africa. The rebasing of the Nigerian economy revealed that the real estate sector's contribution to GDP is larger than was previously estimated, as the current real size is 30-40% larger. The sector is now the 6th largest sector in the economy and is growing faster than average GDP growth. Real Estate grew 8.7% in 2013 compared with GDP growth of 7.4%.

In fixed income, 2014 was a very tight year even though no benchmark or interest rate was increased until the tail end. The NSE All share Index fell over -20% YTD[1], as a result of a host of factors including mixed responses to declining or stagnant corporate earning results and political instability.

Despite the dismal performance of other asset classes in 2014, activity in the real estate sector remained robust. As Lagos is the commercial capital of the Nigeria, most of Nigeria's economic and financial activity concentrated within this growing megacity. This consistently acts as a driver for the on-going property activity noted in this region. A renewed interest from international companies expanding or making a first entry has meant that the interest and demand in the office sector remained consistent.

Like Gauteng in South Africa, Lagos is Nigeria's smallest and most densely populated state with a population size of 9.2 million (NBS, RenCap). Lagos is also the nations biggest spender on food, fuel, transport and rent; it accounts for about one-fifth of the Nations rent expenditure. The state also has the largest distribution of working age population and conversely also has the highest unemployment rate.

Developers in the hospitality and leisure space are taking an aggressive stance, based on strong economic fundamentals and impressive growth prospects. On the retail front, Nigeria has a significant pipeline of shopping malls and still growing. The largest concentration is in Lagos, which will aid in decongesting the tonnes of shoppers seen on any given day in the existing malls. In the residential sector, despite various austerity measures the government has explained that initiatives like the NMRC should have the green light for the considerable future.

This report offers a compendium of Specialists' commentaries, statistics and analysis that will guide any Investor or Operators' outlook for Nigeria's real estate sector in 2015.

Tayo Odunsi
Director, Real Estate Advisory
Lagos – Nigeria

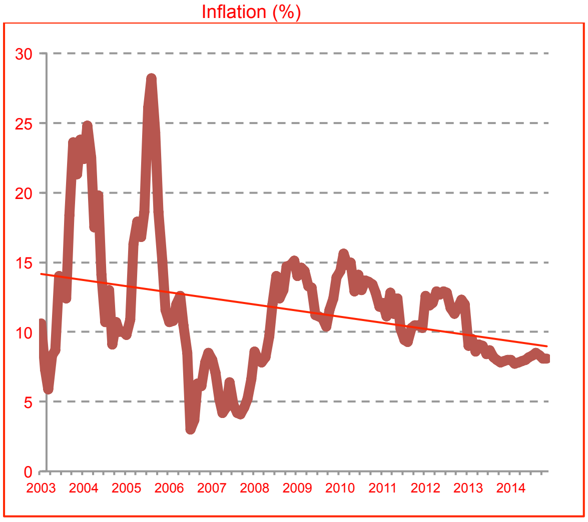
[1] YTD equities returns were as at 12th December 2014.

The Nigerian Economy in 2014

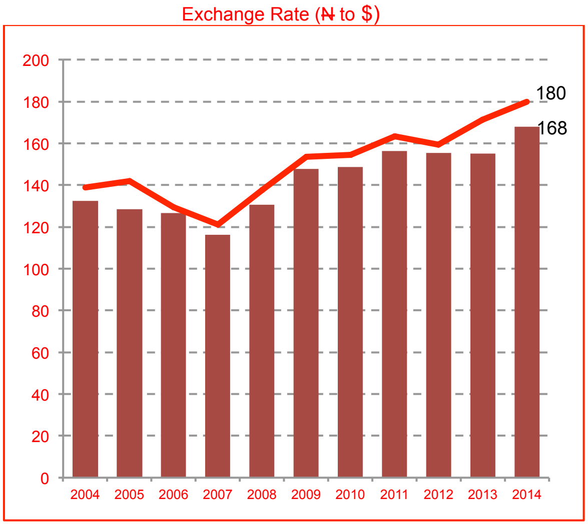
Macro-economic Indicators

Throughout 2014, inflation remained stable hovering around 8%, slightly moving to sub 8 levels later into the year. The price of crude also fell below the 2014 budget benchmark of $77.5/barrel, and due to this decline the 2015 budget benchmark was downward adjusted twice, remaining at $65/barrel. This serves a big blow to the Nigerian government as oil accounts for up to 75% of government revenue. In December 2014, the Naira – Dollar exchange rate stood at ₦185, record levels when compared to the ₦145 just 5 years earlier. Despite the rebasing of the Nations GDP, the economic situation of the Country closed significantly less than desired.

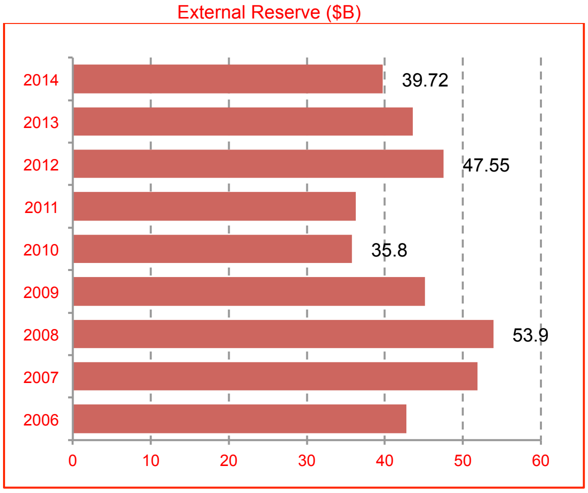
Inflation (%)



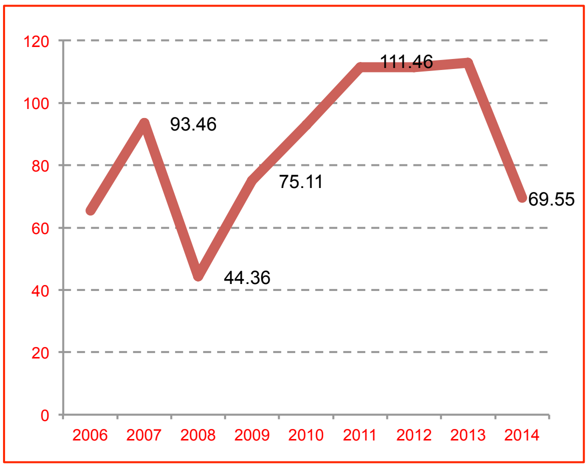
Exchange Rate (₦ to $)



External Reserve ($B)



Price of Crude ($)



Topical Issues

Ebola

The Ebola scourge brought with it some lashes on the Nigerian economy primarily in the months of August and September. Asides from further declines on the NSE and FDI, it affected the hospitality, hotel and travel markets. However one major positive of the EVD entry and exit from Nigeria is realization that problems in Nigeria can be solved easily if every class of society is affected.

Boko Haram

The insurgency affected almost, if not, everything, from business to hospitality, perception, consumer goods, airlines and even companies having expansion plans somewhere in the offing. It has crippled whatever existed of the Northern real estate and commodities markets.

Rebasing of GDP

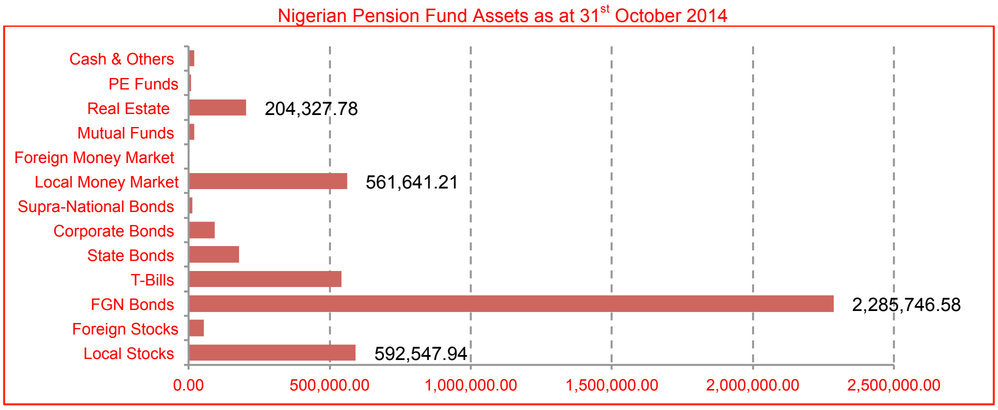
This drew attention to the country and showed that the nation is larger than was previously portrayed. It also meant that 13 sectors not previously considered in the GDP computations are now included amounting to a total of 46. However this makes development indices such as the poverty index and spending on education, look worse.

2014 Asset Performance Summary

Fixed Income and Money Market

2014 was a very tight year even though no benchmark or interest rate was increased until the tail end. The suspension of the former CBN governor Lamido Sanusi in March led to a volatile period leading to interest rates as high as 15%. There was also a period of extremes as treasury bills reached single digits. In all, fixed income instruments generally outperformed other traditional asset classes. This does not come as a surprise considering large institutional investors such as PFAs with a total size of assets in excess of ₦4.6 trillion are generally risk averse thereby making this asset class their favourite. However, this unwillingness to further invest in other classes is partly due to a lack of a regulatory cover to protect PFA's from potential losses in riskier investments.

Nigerian Pension Fund Assets as at 31st October 2014

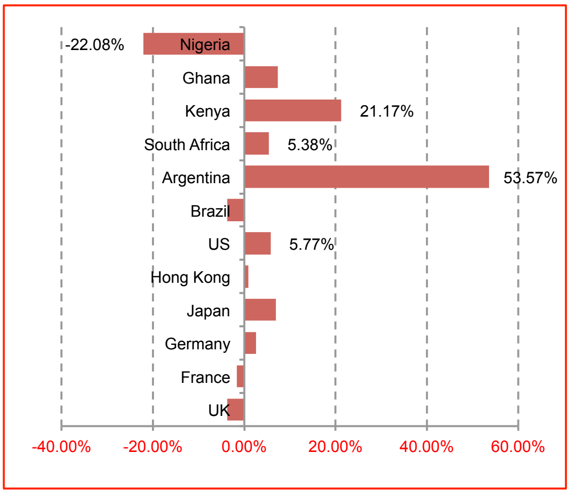


Source: PenCom

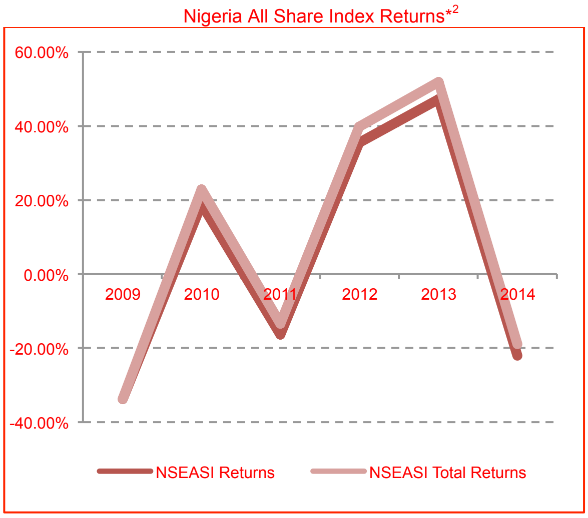
Equities

The equities market may be seen by some as the worst hit in 2014. Coming off the back of stellar returns and growth in excess of 40% in 2013, many may not have expected the market to close at approximately -20% YTD*. This cannot be unrelated to the poor macroeconomic factors already discussed, in addition to that the unfavourable climate goes further to impact the underlying corporate entities listed on the bourse hence dealing a second hit on dividend income.

2014 Global Equities Returns*



Nigeria All Share Index Returns*[2]



Foreign Exchange

2014 saw three independently threatening events on the currency: Oil prices crashing by 30%, foreign reserves dropping to sub-40 billion levels and thirdly, soaring election spending. The CBN setting the mid-point of ₦168 to the Dollar outside the market may have set a panic to the economy and took market confidence to low levels. This confidence level was further pushed downward when governing bank decided not to receive bids on 5 classifications previously entertained at the CBN window.

Oil & Gas

Nigeria's failure to hedge its oil prices for as low as $0.60/barrel (To hedge at $90pb) as at July 2014 left the Nation susceptible to loss of income due to possible decline in oil prices, which have now crystallized. This has forced reductions in benchmark prices and consequently the Nations income, which may cripple development activities or reduce funds available for recurrent expenses in coming seasons.

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*All equities returns were as at 12th December 2014.

2014 Real Estate Performance

Despite the dismal performance of other asset classes in 2014, activity in the real estate sector remained robust. Nigeria's local real estate market across all segments is typically driven by rising incomes, increasing urbanisation and population growth. In the previous year, Nigerian ultra high net worth individuals had 25% of their assets in real estate[3], with equities and other instruments following at 18% and less. A clear demonstration of the confidence the population has in this asset class.

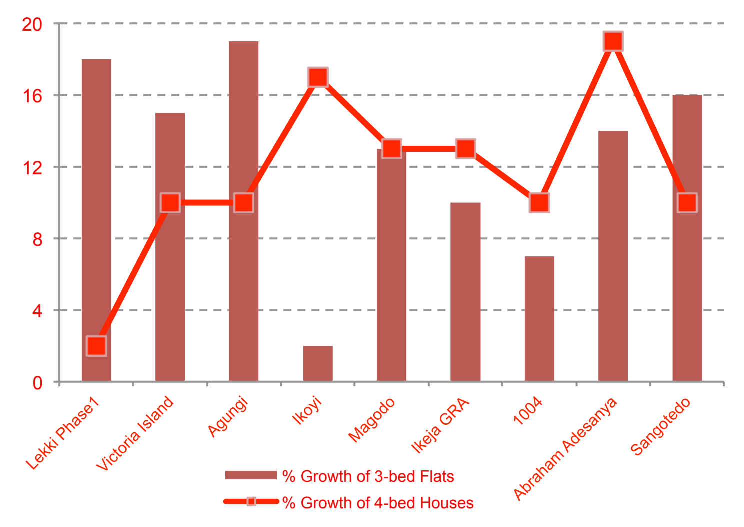
As Lagos is the commercial capital of Nigeria, most of Nigeria's economic and financial activity is concentrated within this growing megacity. This consistently acts as a driver for the on-going property activity noted in this region. A renewed interest from international companies expanding or making a first entry has meant that the interest and demand in the office sector remained consistent. Private sector players typically take the lead with multiple yield producing opportunities in the residential and commercial property market, especially in Lagos. The mega city shoulders up to 65%[4] of the country's business activity, contributing up to 15%[2] to National GDP. The commercial property market in Abuja is driven by governmental activity, while Port Harcourt's is driven by its rich resource base.

Residential

One peculiarity of residential markets in any nation is the diversity and complexities of experiences depending on myriad of factors ranging from reasonable features such as location to subjective perceptions such as neighbourhood-wide superstitions. This is no different in Nigeria, however economic and physical dynamics such as nearness to CBDs/major nodes, security, availability of relatively acceptable infrastructure amongst others most often trump less-rational explanations to demand and supply.

As with other uses, the Lagos market is the most dominant residential market in Nigeria. Most locations saw some growth as shown in the chart below. In most locations, there was significant disparity in the demand for flats (typically 3-beds) and houses (4-beds used in survey).

% Growth of Prime Locations in Lagos



Office

Growing domestic and international companies have helped to drive the office market primarily in Lagos and Abuja. Over the past few years the stock of A-grade commercial property has typically been very low, however a development pipeline of almost 300,000sqm across Nigeria in the next 24 months means that the supply of A-Grade space will be more than adequate to cater to the existing effective demand.

2014 Office Prime Rents

		Office Annual ($) psm
	Lagos	
	Ikoyi	1,000
	Victoria Island	850
	Lekki	240
	Lagos Island	187
	Ikeja	180
	Yaba	122
	Other Cities	
	Abuja	450

Source: Broll Nigeria

[3] Wealth Insight,
[4] http://services.gov.ng/states

2014 saw a number of office completions including Standard Chartered building (14 floors, 18,500sqm), CBN Lagos office (19 floors, Avenue Towers (10 floors, circa 7,500sqm) and others like NIPOST Towers, Kanti Tower and Civic Center Tower nearing completion. The ability of the market to sustain the development pipeline will be based on the growth/expansion or relocation of existing companies or interest from internationals.

2014 Office Development Pipeline

	Floors	Size (sqm)	Location	Delivery Date
Heritage Place	14	15000	Ikoyi	2016
Civic Centre Towers	13	9,172	Victoria Island	2015
Nestoil	16	15,000	Victoria Island	2015
Africa Tower	65+	40,000[5]	Abuja	2016
Rising Sun	13	8,000[3]	Ikoyi	2015
Wapic House	6	4,500	Ikoyi	2015
Afren Tower	15	12,000[3]	Eko Atlantic	2015
Lakepoint Towers	12	13,400	Banana Island	2015
Kanti Tower	13	5,517	Victoria Island	2015
The Wings	15	27,000	Victoria Island	2016
Landmark Tower	9	6,750	Victoria Island	2015
Waves	12	22,000	Victoria Island	2016
Kingstower	16	10,000	Ikoyi	2017
World Trade Centre	19	26,400	Abuja	2015
Bloomsbury Waterfront	6	10,000	Victoria Island	2016
Nipost Towers	14	22,000	Victoria Island	2015
Rose of Sharon	16	1,798	Victoria Island	2014

Retail

Strong demographics and a growing middle class are encouraging retailers across the globe to make an entrance into the retail space within Nigeria. Retail projects in Lagos are taking location, size and tenant dynamics into a lot more consideration. While some are keen on developing typical shopping malls for the larger market, others are interested in providing smaller luxury retail offerings for the upper class.

Rentals for malls across Nigeria have also remained stable. The rapid expansion of malls and increase in supply of retail space in Nigeria begs the question of sustainability with current high rent figures.

2014 Retail Rents

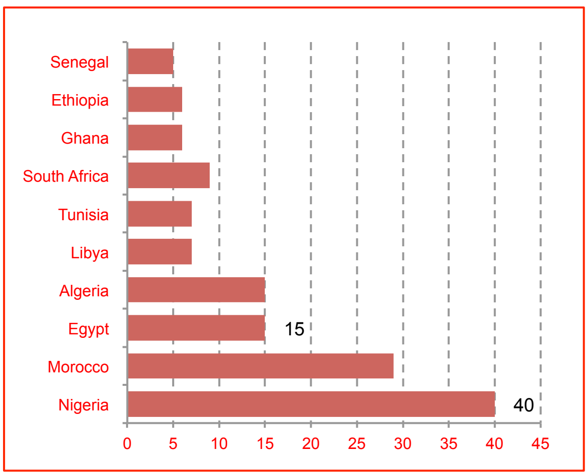
	Retail Monthly ($) psm
Lagos	65
Abuja	55
Port Harcourt	50
Enugu	38
Warri	37
Kano	35

Source: Broll Nigeria

Hospitality

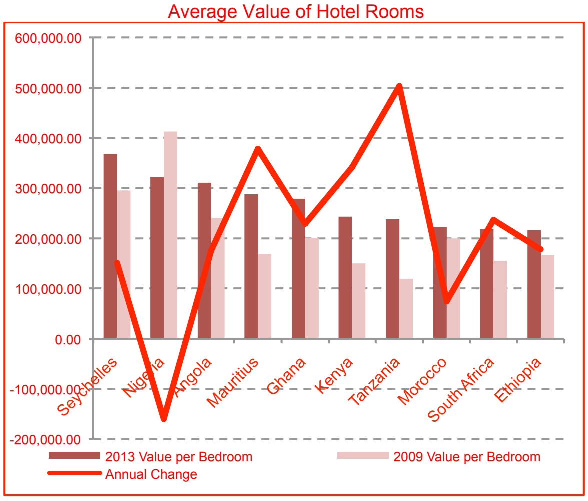
Back in 2010 and 2011, the hotel pipeline in the five North African countries significantly exceeded that of the 48 countries of sub-Saharan Africa. That gap was first reduced to almost nil, but in 2014, the sub-Saharan Africa pipeline is now over 40% greater than North Africa. The Nigerian hotel market supply in particular has been on increase; having the most number of hotel rooms planned for development in all of Africa.

2014 Hotel Development Pipeline



Source: W Hospitality Group

Average Value of Hotel Rooms



Source: Hotel Partners Africa

[5] Estimated Size

2014 Real Estate Topical Issues

NMRC – Nigerian Mortgage Refinance Corporation

The Nigerian Mortgage Refinance Company was established to bridge the funding gap/cost of residential mortgages and promote the availability as well as the affordability of good housing to Nigerians by providing increased liquidity in the mortgage market through the mortgage and commercial banks. Asides from funding contributions from its owners, NMRC will sell bonds on capital markets to provide long-term financing to lenders that which will onward result in availing more home loans. The company will help extend maturities for Nigerian home-buyers to as much as 20 years, encouraging the building of 75,000 new homes a year and creating at least 300,000 jobs.

The viability of the scheme has been debated by many industry professionals but the clear upside is that more mortgages at cheaper rates will be available to a larger percentage of the population.

Affordable housing

A new report by the McKinsey Global Institute (MGI) has revealed that the affordable housing gap in Lagos amounts to as much as 15% of the GDP at $5bn per year. Globally, it was reported that the affordability gap was estimated at $650 billion per year, approaching 1% of global GDP.

According to the report, Lagos is on track to add 1.3 million low-income households. However, a majority of these households will not be able to afford housing at market rates and will likely make their homes in sprawling slums with poor and unsafe living conditions. About 60% of global substandard housing is concentrated in 10 nations, where Lagos is 3rd with 11 million units. China and India were the only countries that were worse off at 62 and 28 million housing units respectively.

Affordable housing is fundamental to the health and well being of people as well as the smooth functioning of economies. This is because with families lacking decent affordable housing; health outcomes are poorer, children do less well in school and tend to drop out earlier, unemployment and under-employment rates are higher, and financial inclusion is lower. This lays emphasis on how crucial the housing problem we have in Nigeria.

While affordable housing may not fully come on scene without some subsidisation or review of the entire home construction value chain to aid its affordability, some private and public sector developers have sought creative ways of delivering relatively affordable homes in 2014. This is achieved primarily through providing little/no frills homes, compact designs, staggered payment plans and low down payments. It is believed that the majority of homes in Nigeria are still being built in piecemeal or turnkey fashion by individual homeowners or by small to mid-sized development companies.

2014 Relatively Affordable Homes

		Location(s)	*Number of Units**
	Lagos HOMS	Surulere, Ilupeju, Igando, igbogbo, Shogunro, Magodo, Omole, Lekki Phase 1, Ilupeju, Mushin, Odo-Onasa, agbowa – Lagos	3,384
	Essential Homes	Lekki, Festac, Ogudu – Lagos	1,770
	Lekki Gardens	Lekki, Ikoyi, Sangotedo – Lagos	2,000
	Locke Homes	Ayobo, Lekki – Lagos Akure – Ondo	514
	Rivtaf	Port-Harcourt – Rivers	608
	OPIC – Orange Valley & Agbara Housing Estate	Abeokuta & Agbara – Ogun	220

Institutional investors

Institutional investors have taken an aggressive stance in Africa in the past few months. Exciting forecasts of 20% net annual returns from investing in shopping malls, office blocks or industrial complexes in countries from Zambia to Kenya is drawing in new investors, despite more immediate concerns in some countries about ebola, terrorism or political stability. Investors have already taken a liking to sub-Saharan African Dollar debt, encouraging a record $10 billion in sovereign and corporate issuance last year and $5 billion so far this year, according to Thomson Reuters data.

Actis and RMB West Port are among the institutional investors that are investing aggressively in commercial property in Lagos. Previous investments from Actis include the Palms and Ikeja City Mall. However, looking forward, larger investments including The Wings Offices, Jabi Lake Mall, Osapa Mall, Heritage Place and many other are being made.

Nigerian Investment Managers including Investment One, Purple Capital Partners, Quantum Luxury Properties, Cardinal Stone, FBN Capital, ACA, Sterling Asset Management, Mansard Insurance and Suru Group have taken the hunt for yield into the real estate sector by investing in prime commercial property. While these investments may not be as large, they are spread across a wider range of sectors like residential and low-mid tier hospitality aside typical office and retail.

2015 Outlook

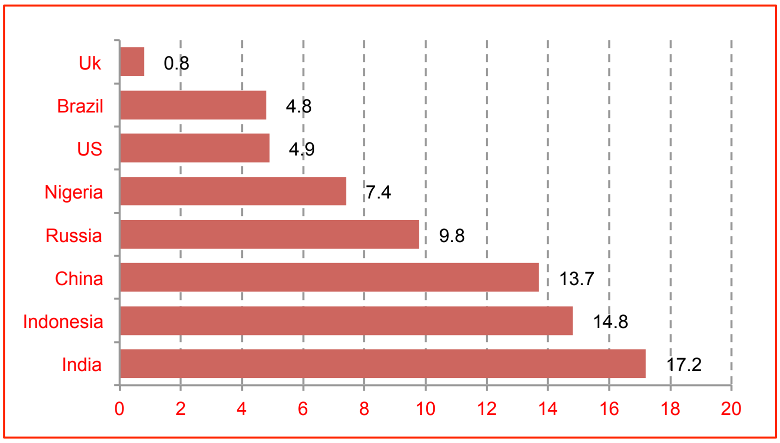
Some of the challenges (Falling oil prices, political instability and terrorism) may be heightened in Q1 and Q2, 2015. Introduced austerity measures are intended to create a 6% reduction in expenditure by imposing additional taxes on luxury items including private jets, alcoholic beverages such as champagne, yachts, and exotic cars. However, the government intends to continue to drive growth efforts in sectors like agriculture and housing. This means that key housing initiatives like the NMRC will receive further boosts for the foreseeable future. The Finance minister stressed that infrastructure projects would not be affected since they are key to economic growth and job creation, explaining that the austerity measures should not be felt by the common Nigerian.

Expected volatility in the economy will cause Investors to seek safer instruments such as bonds, treasury bills etc. which will drag down yields. Sovereign bonds may be issued by the Government to curb revenue gaps if oil prices continue to decline. There may be more domestic and lower foreign participation in a low interest rate environment to drive consumption and spending. In all, fixed income is expected to continue to outperform other traditional asset classes (excluding property).

Most office developments that are currently taking pace would be completed within the same time period; mid-2015. This surplus supply will open Tenants to more options and lead to increased competition among Landlords. It wouldn't be uncommon to see property owners offer tenants friendly incentives and creatively inserting amiable differentiation terms in order to attract prime tenants and avoid prolonged vacancy periods.

On the other hand, consumer spending would fall off the back of increasing price of goods and reduced Government expenditure, thereby reducing the revenue of retail outlets. However, larger retailers like Shoprite and indigenous chains like Medplus that have long term dominance plans would still be pushing strong. Transactions will remain fairly stable due to the large population size and spending patterns, which is not expected to hit diminishing point just yet.

% Change in Retail Sales



Source: The Economist

Nigeria has a significant pipeline of shopping malls and still growing. The largest concentration is in Lagos which will gladly aid in decongesting the tonnes of shoppers seen on any given day in the existing malls; The Palms, Ikeja Mall, Spar, Adeniran Ogunsanya and Apapa Mall. While saturation would be reached at some point, the existing pipeline is fairly well spaced geographically to cater to myriads of Lagosians and visitors residing within its immediate locality.

Retail Development Pipeline

		GLA	Location	Delivery Date
	Osapa Mall	10,500	Lekki, Lagos	2015
	Lekki Peninsula Mall	20,000	Sangotedo, Lagos	2017
	Maryland Mall	8,000	Maryland, Lagos	2015
	Festival Mall	11,000	Festac, Lagos	2015
	Airport Mall	16,520	Ikeja, Lagos	2016
	Falomo Shopping Centre	16,675	Ikoyi, Lagos	2016
	Asaba Mall	12,000	Asaba, Delta	2016
	Jabi Lake Mall	22,000	Jabi, Abuja	2015
	Sunrise Hills Mall	29,500	Asokoro, Abuja	2016
	Abia Mall	11,000	Umuahia, Abia	2015
	Onitsha Mall	11,000	Onitsha, Anambra	2016
	Benin Mall	12,3000	Benin City, Edo	2016

The aggressive stance developers in the hospitality and leisure space are taking is based on strong economic fundamentals and impressive growth prospects over longer seasons rather than short 12-month views. Many hotel groups are keen on establishing a presence within Africa's largest economy, which explains Nigeria having the largest pipeline of hotel rooms in Africa. High occupancy rates in excess of 60% have long been a motivating factor, but high average room rates are a greater driver. A report by HRG noted that Lagos had the 5th highest average room rate in the world at £215, sitting with the likes of Paris, Zurich, Geneva and New York.

Abuja and Lagos Branded Hotel Development Pipeline

	Number of Rooms	*Location*	*Delivery Date*
The Jasper	28	Abuja	2015
Grand Pela	48	Abuja	2015
Radisson Blu	240	Abuja	2017
Park Inn	125	Abuja	2017
Airport Business Hotel	200	Abuja	2017
Corinthia Hotel	150	Abuja	2017
The Address, Hotel	200	Abuja	2017
Mantis The George, Ikoyi	62	Ikoyi	2015
Ramada Lekki	164	Lekki	2016
African Pride Ikeja	158	Ikeja	2016
Mantis Ikeja GRA	65	Ikeja	2016
Chelsea Ikoyi	164	Ikoyi	2017
Marriott Victoria Island	150	Victoria Island	2017
Emerald Lekki	284	Lekki	2018
Marriott Ikeja	251	Ikeja	2018

Source: W Hospitality Group, HVS

Though the government is commencing austerity measures, they have ensured that sectors like agriculture and housing will be exempt from measures. This means that government initiatives like the NMRC should have the green light for the considerable future. The current economic backdrop may hinder only a handful of projects in the development pipeline across the Nation as such a relatively robust outlook for the residential sector in 2015 is maintained.

2015 Real Estate Outlook - Specialists' Comments

The real estate sector is getting more dynamic. This will generate more interest in the sector from both local and foreign investors. I expect that more developments will spring up to add to the grade A office buildings and shopping malls.

I also look forward to other areas like tourism, which is grossly underdeveloped. Aside hotels, we can generate interest in other areas of tourism; visits to the London tower bridge generate revenue in the region of six figures annually. It is very possible in Nigeria too, because we have several sites that could be explored.

- *Mr. Stephen Jagun*
  Managing Partner Jagun Associates
  Chairman Nigerian Institution of Estate Surveyors and Valuers – Lagos Chapter

The 2014 Nigerian economic quagmire brought about by the plummeting global oil prices, the contractionary monetary and fiscal policy measures adopted by the CBN to defend the Naira against the Dollar, and much more significantly the mopping up of excess liquidity in the financial industry has presented a bleak outlook for the first quarter of 2015 both in the real estate and financial sectors in Nigeria.

However, by the 2nd quarter, the real estate sector is expected to experience an uplift with the commencement of operations of the Nigerian Mortgage Refinance Company (NMRC), which would create an avenue for affordable interest rates to end buyers of real estate. The fallout of these would increase housing stocks by real estate developers, a higher demand for housing units and the liquidity to finance purchases.

- *Mrs. Linda Tobi - Isiekwena*
  Company Secretary Imperial Homes Mortgage Bank

Sources
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The World Bank
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