Nigerian real estate market outlook 2013

2012 was a period of mixed experiences in the Nigerian real estate market. This was not one-sided as the economy as a whole had a blend of ups and downs. In all, Nigeria had it better than a lot of developed economies would testify. This report gives a concise account of the market in 2012 and attempts to forecast how this as well as other factors will shape the performance of real estate as an asset class in 2013.

Economic Fundamentals

In 2012, the Naira was relatively stable all through the year, while fixed income and money market instruments remained significantly attractive to local and international Investors. Nigerian bonds were included in two international bond indexes. There were good improvements in capital market conditions culminating in a rally in the third quarter of the year, However there were just with a few listings of stocks on both primary and secondary bourse

The Central Bank enforced the cashless policy for a period and later reviewed to a ‘cashlite’ policy. Privatization of the power sector made good headway with the successful bidding for power generation and distribution companies. Expectations are high on the completion of the process and commencement of operations by the bidders.

Escalating terrorist activities of the Boko Haram sect has almost crippled what ever existed of real estate investments in the northern parts of the country and even the Federal capital territory – Abuja. A host conferences and gatherings which were scheduled to hold in Abuja were relocated to Lagos and Port Harcourt. Flooding in 12 states of the Nation resulted in reduced production; especially in farming and food production forming part of rationale for a rise in inflation in the latter part of 2012.

Economic Indicators

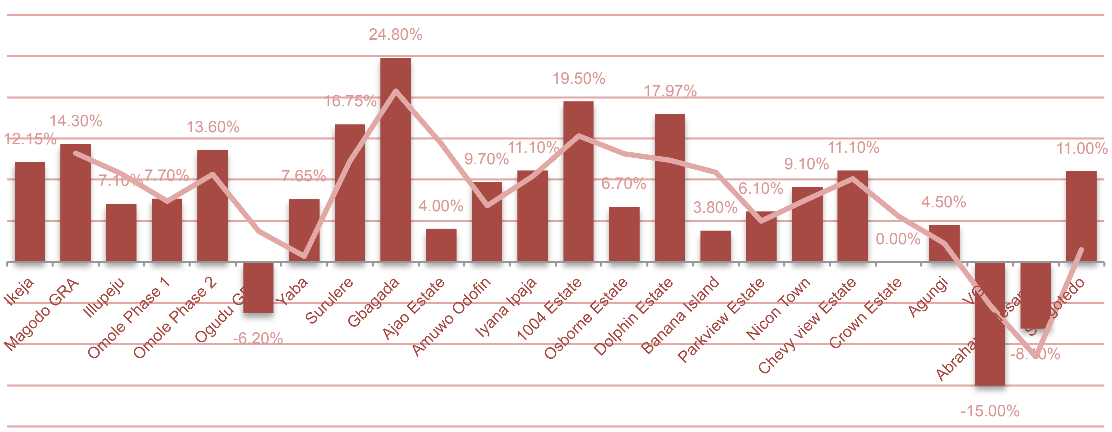
Indicator	Jan 2012	Dec 2012	% Change
Bonny spot price	113.08	110.85	1.97%
Oil production (mbpd)	2.05	1.85	-9.76%
MPR	12.00%	12.00%	0.00%
CPI	12.60%	12.02%*	-4.60%
91 Day T-Bill	14.80%	11.95%	-19.26%
Exchange Rate (official) N -$	157.05	155.77	-0.82%
Exchange Rate (Inter-bank) N/$	161.60	157.87	-2.32%
Exchange Rate (Parallel) N/$	164.00	159.00	-3.05%
External Reserves ($’bn)	34.41	44.54	29.54%

Source: FDC, EIA, FMDA, OPEC, CBN (- FDC estimate)*

Demand for Property

In 2012, there were divergent experiences in property demand across various locations. In Lagos for instance, some areas experienced capital appreciation, some remained stagnant while some even depreciated. There were various reasons. Some areas recorded appreciation due to infrastructure improvements, proximity to the CBDs (Lagos, Ikeja and Victoria Island) and affordability. While other areas depreciated or remained stagnant in value due to security issues, flooding and ocean-surge forecasts, depreciating / lack of infrastructure, high price amongst other reasons.

Average Change in Property Capital Values between 2011 and 2012



Source: Castles Weekly, Northcourt

Expectations are that demand for property in Lagos will continue to rise (on the average) as population forecasts show that Lagos will overtake Cairo as the most populous African City. This infers continued migration of businesses and families to the region which will require space for business and living.

2013 Population Forecasts for African Cities

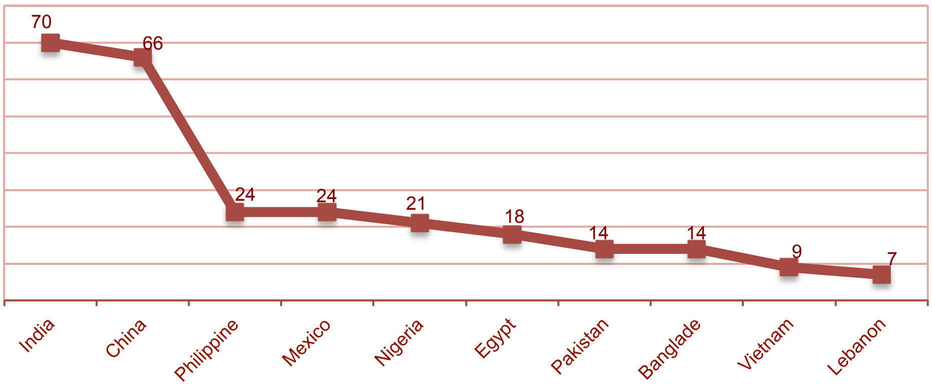
Location	January 2012
1. Lagos, Nigeria	11.7Million
2. Cairo, Egypt	11.4Million
3. Kinshasa, Angola	9.9Million
4. Khartoum, Sudan	5.7Million
5. Luanda, Angola	5.5Million
6. Alexandria, Egypt	4.6Million
7. Abidjan, Cote D'Ivoire	4.5Million
8. Nairobi, Kenya	4.0Million
9. Johannesburg, South Africa	3.8Million
10. Cape Town, South Africa	3.5Million

Source: UN-Habitat, The Economist

Investment climate

Remittance is money sent home by a foreign worker and this constitutes the second largest financial inflow to many developing countries. Nigeria enjoyed the fifth largest chunk of remittances in the world and is a major recipient of foreign direct investments globally. This confirms the growing confidence of Nigerians in diaspora in the Nigerian economy and indicates the increasing flow of investment funds. International investors are major players in the fixed income and money markets as well as the equity markets and the flow of funds is slowly being directed to real estate. The establishment of indirect real estate vehicles / market will further fast track this process.

Top Recipients of Remittances among Developing Countries
US$ Billion, 2012 Estimates



Source: World Bank

Hospitality Sub-Sector

The hospitality sub-sector of Nigeria is a major gold mine with enormous opportunities to be exploited. The W Hospitality Group Report shows that Nigeria has the largest hotel development pipeline by number of rooms but comes in second when considering developments that are already under construction. This is because most Nigerian deals where only signed recently.

Hotel Developments in Africa 2012 – Pipeline Status

Country	Hotels	Rooms		
		Total	On site Construction	
1. Egypt	19	5,923	4,310	73%
2. Nigeria	43	6,808	2,644	39%
3. Morocco	35	5,809	2,346	40%
4. Tunisia	8	2,096	2,096	100%
5. Algeria	14	2,537	1,845	73%
6. Ghana	11	1,752	1,092	62%
7. Gabon	8	1,260	792	63%
8. Cote D'Ivoire	3	858	678	79%
9. Kenya	5	771	571	74%
10. Rwanda	2	498	498	100%

Source: W Hospitality Group

Retail Sub-Sector
The success of existing large in-door shopping malls such as The Palms, Ikeja Mall and Adeniran Ogunsanya Shopping Centre has sparked an increased focus on retail developments. Retail rental yields are the highest when compared to office and residential uses reaching up to 12% and 13%. There is currently a significant pipeline of retail developments underway and more are expected to follow in the coming years.

Current Retail Development Pipeline in Nigeria

Project	Location	Retail Space	Delivery Date	Developer
Ado Bayero Mall	Kano	24,000 sqm	2013	Beverly Developments
Ibadan Mall	Ibadan	18,500 sqm	2014	Persianas Properties
Heritage Mall	Ibadan	18,640 sqm	2013	Odua Investments
Palms 2	Lagos	40,000 sqm	2014	Persianas Properties

Residential property
According to the 2013 Lagos residential rents report by RAC, In 2012, asking rents rose significantly up by 28.4% and 17.7% for single dwelling and multi-family units respectively. A number of housing and site &service projects were also delivered and have experienced good take-up. More strategic projects such as Lekki Gardens 1 & 2, Bourdillon Courts, Milverton Flats have been over-subscribed due to their attractive location, facilities provided, compact size and installment payment plans. In all, the most crucial factor influencing demand remains location.

Infrastructure improvements have created good fortunes for Landlords in Ikate, Osapa, Igo-efon, Agungi, Chevron drive, and even locations beyond Ajah. As the new Lekki road progresses and diffuses traffic congestion, it is inherent that the surrounding localities will become more attractive and command higher rental and capital values. On the other hand, this gives Island-based Occupiers more options against VI, Oniru and Lekki Phase 1, thereby reducing the craze for these locations and forcing residential prices to be more competitive.

The upcoming Lagos free trade zone, influx of industries, and new Lekki airport constructions are other factors that are influencing demand of property and speculative purchases further down the Lekki corridor.

Indirect Real Estate
There are increased prospects for indirect real estate in Nigeria. The Securities and Exchange Commission has effected 3 amendments to rules on real estate investment schemes which provides a clearer definition of real estate investments, real estate related assets, ensures the schemes enjoy tax benefits like government bonds and also makes it possible to transfer properties to the scheme via a declaration of trust thereby saving a lot of transfer and transaction costs. As it is, a UPDC REIT has been launched to the market, which will soon join the Sky shelter fund and the Union Homes REIT on the bourse.

Sources
FDC – Financial Derivatives Company
FMDA – Financial Markets Dealers Association
OPEC – Organization of Petroleum Exporting Countries
CBN – Central Bank of Nigeria
RAC – Residential Auctions Company
UN - Habitat – United Nations Habitat
Castles Weekly
The Economist
Ward Hospitality Group
The World Bank

Contact
Tayo Odunsi – Head, Real Estate Advisory
tayo.odunsi@northcourtrealestate.com
+234 802 325 0289
5B Adewale Kolawole Crescent
Off T.F Kuboye Street
Lekki Phase 1 – Lagos