Nigeria Real Estate Market Review H1 2016

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Summary

How's the property market doing?

This has been one of the most asked questions in the last 18 months.

These days, the average Nigerian has a working knowledge of inflation and exchange rates, mainstream CBN policies, the ill fate of the nations' over-dependency on oil and other factors that have caused a decline in the economy. But the one question they inquire from each other and any real estate professional in the room is: "How is the property market really doing?

The frequency of this sincere question may be borne from the confusion of individuals and households experiencing rent increases despite the poor economy, or the fact that land prices are still rising in a lot of locations despite the purported illiquidity of the citizenry. People are more likely to hear tales of bargain sales than to experience it and advertised prices have declined more glaringly in the high-end markets than others.

So this H1 2016 report focuses on providing relevant details that may help the reader come to more accurate conclusions on how the Nigerian property market is 'factually' faring. Amongst others, we employ two factors in all sub-sectors to show this; vacancy rates and price variances. While other veritable parameters exist for such an endeavor, we elected to use these having considered carefully cultural relevance and simplicity of use. We believe price changes are the most basic indicators of property performance, while vacancy rates show in equally basic terms the demand rate of property thereby displaying an under or over supply.

In addition, considering the close relation of the Nigerian economy to the US Dollar, the growth in property prices (rental and sale prices) are also computed in dollars; effectively showing the impact of the Naira devaluation on property prices over time.

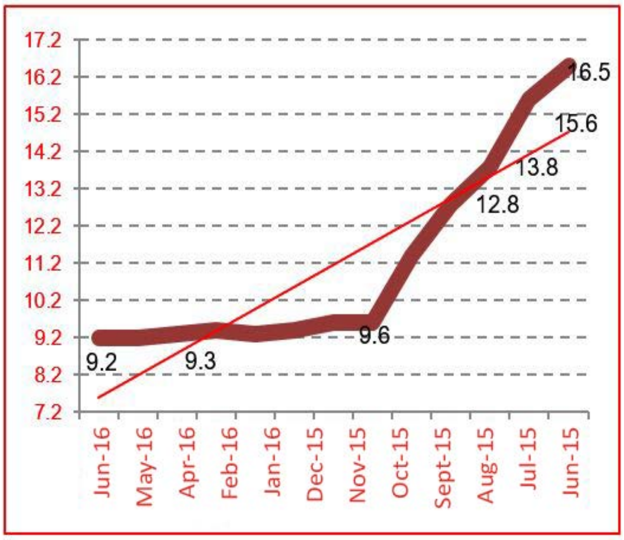
We trust you'll find this report as useful as we do in answering the daunting question of this season.

Tayo Odunsi
Director, Real Estate Advisory
Abuja – July 2016

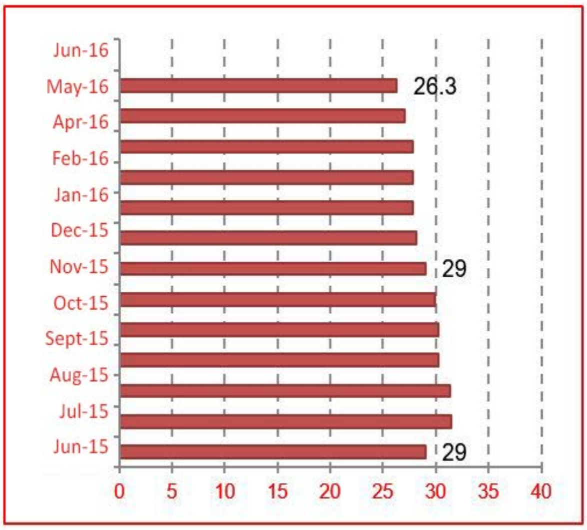
Macro-Economic Indicators

Most Nigerians welcomed 2016 with hopes and prayers that the year would turn with brighter and better times in comparison to the previous 12 months. A lot of these aspirations were hinged on pragmatic government policies and spending as well as a growing awareness to grow and patronise home-grown goods and organisations. Unfortunately the federal budget, which flags off public expenditure, was only passed days to the end of the first quarter to start with, leaving many worried as to how much can be achieved within nine months. A series of other factors such as increasing insecurity, power outages and price hikes, depreciation of the Naira, declining crude price and external reserves amongst others put both Nigerians and onlookers on notice that the good times were not yet in view.

Inflation (%)

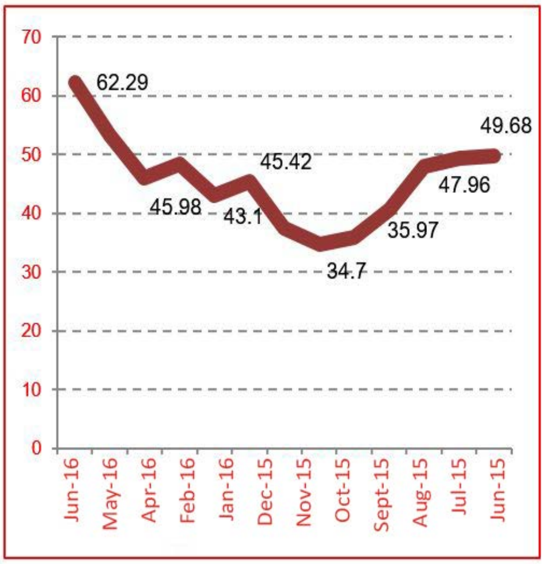


External Reserve



Exchange Rate (N to $)

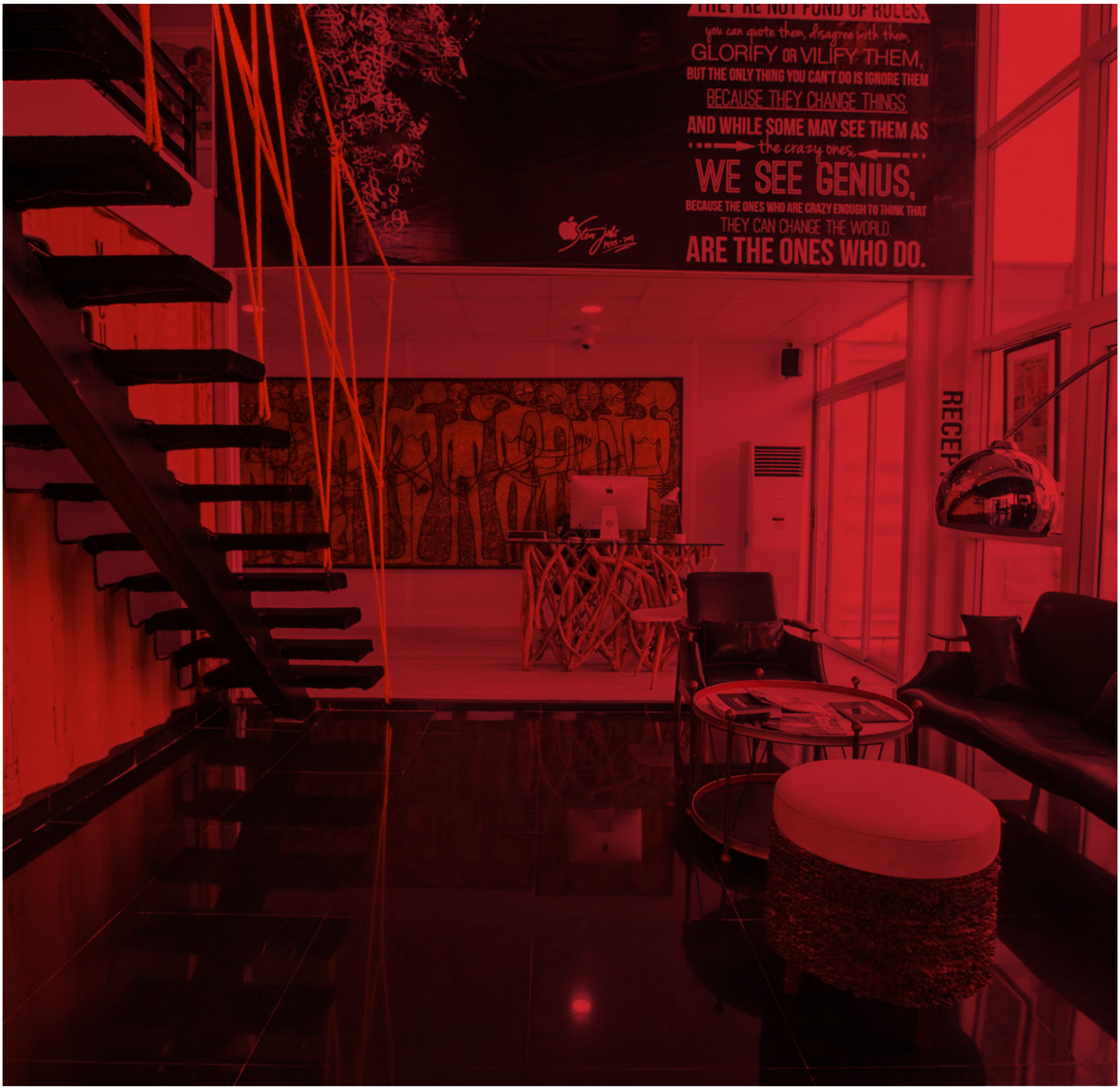
Price of Crude ($/b)



Sources: NBS, CBN, Business Day

The charts above provide empirical evidence as to the prevailing economic privation; the rising inflation rate in particular is an indication of the escalating cost of production in the nation. Inflation grew by a whooping 79% between H1 2015 and H1 2016 and the Naira depreciated by -56%. These numbers do not consider the declines already experienced in 2015. Consequently the economy shrunk by -0.36% in Q1 2016 and results of Q2 2016 are expected to be similar which will officially confirm that the nation was officially in a recession.

Depletion of the nations' foreign reserves by -9.3% between H1 2015 and H1 2016 partly demonstrates that government revenues were also not spared. While crude prices rebounded slightly from its lowest levels in recent times, the potential increase in revenue was cut short by the fall in production due to terrorist attacks on oil facilities. Therefore, the 2016 budget deficit keeps growing and many intended capital projects are yet to take off.



Topical Issues

Delayed Budget

The level of uncertainty created by the delayed budget amongst other negative factors, resulted in a fall in business confidence in most areas of the private sector. For a large part, government spending determines the direction investors and contractors follow. Hence the passing of the budget at the tail end of Q1 2016 meant that a lot of businesses didn't make capital expenses/ decisions for over 3 months. Although the question of whether the remainder of the year is adequate to implement the budget lingers, it is expected that the 2016 budget, which records a fair allocation for housing, complimented by fair allocations in some states should boost the market going forward into the year.

Nigeria – China Currency Swap

As Q2 2016 opened, Nigeria and China entered into a currency swap agreement meaning the Yuan can be held in local banks and a portion of the nations' foreign exchange reserves will be held in Yuan. For a country that is largely dependent on Chinese imports, the initiative directly means less dependence on the Dollar but can easily lead to a similar dependence on the Yuan since trade between the nations is skewed in favour of China. Whilst real estate developers who procure a good portion of construction materials from China may be delighted, the policy has the potential to further cement Nigeria's dependence of Chinese wares rather than stimulating local production.

Niger Delta Avengers

The dangers of running a mono-economy were made obvious by the recurrent bombing of oil blocks and pipelines by a group known as Niger Delta Avengers (NDA) who claimed to be fighting against the marginalization of the Niger Delta people. The internal bombs of the NDA coupled with the external ones of declining oil prices, created double barrel explosives that further blew up the already existing budget deficit. The government initially responded with military actions, but have resorted to dialogue to resolve the grievances of the group.

Partial Deregulation of Oil Downstream Sector

Nigerians had to endure what seemed an unending season of fuel scarcity for about 12 months. Delayed subsidy payments, exchange rate hikes, reduced access to lines of credit, workers' union protests etc. were amongst the many reasons fuel marketers gave at different instances for the fuel shortage. The government was finding it tough to afford the N13.70 paid on each litre of fuel, which translated to a total of N18.5bn monthly as subsidy. Most analysts rightly predicted that the long lasting solution would be the deregulation of the sub-sector and the government finally did so in May 2016. Though not a full deregulation as a price band for the different fuel types was advised by the relevant government agency, this action saw renewed confidence in the sector and most importantly dispersed the fuel queues.

Floating Foreign Exchange Policy

Towards the end of Q2 2016, the Central Bank announced a flexible exchange rate regime which effectively allowed the price of the Naira be determined by market forces. Under this new regime, the CBN then made a lot of Dollars available to clear backlogs of Dollar requests and in addition, created a futures market where the future price of the Naira can be guaranteed at a present value in a bid to prevent the speculation on the Dollar. This policy and actions met with mixed reactions, the most worrying being its inability to curb the depreciation of the Naira.

Power Shortage

The power shortage situation in Nigeria can be best likened to the anomaly of a fish dying of thirst in an ocean. The national grid currently has an installed electricity generation capacity of 12,522MW from 24 generating stations, however the maximum attained capacity was just a little above 5,000MW in H1 2016.

During the same period, power generation dropped to its lowest of 864MW in modern times due to insufficient gas to power turbines rendering the power stations useless. This period saw service charges in prime and mid-market real estate soar to unprecedented levels.

Cost of Building Materials

As the nations inflation rate rose for the 5th consecutive month in June 2016, headline building material prices had a commensurate reflection of these escalations. In stark contrast to this trend however was the price of cement, which is primarily determined by the Dangote brand. Dangote cement significantly reduced the price of cement from N1,800 per 50kg to N1400 in February 2016, made possible by the economies of scale enjoyed by the introduction of production lines in Okpella, Edo State and Itori in Ogun State. This pricing was later reviewed upward to its current price point of N1, 500 in April 2016.

Building material prices

	H1-2014 (₦)	H1-2015 (₦)	H1-2016 (₦)	% Change 2015/2016
Cement (50kg)	1,750	1,950	1,500	-18%
Sandcrete block (9 inch)	180	190	200	5.3%
Aluminium Roofing Sheet (0.55mm)	1,550	1,550	1,550	0%
Cables (6mm / Coil)	7,500	13,500	16,000	18.5%
Coloured Emulsion Paint	7,500	7,500	8,500	13.3%
Paving stone 60mm (Local)	1,300	1,400	1,750	25%
Harvey roof tiles	4,500	6,000	5,700	-5%
White Emulsion (Dulux)	22,000	22,000	26,000	18.2%
Twyford complete set WC	14,500	14,500	14,500	0%
Ariston water heater (Small)	17,500	17,500	28,000	60%
13A socket	900	900	950	5.6%
Distribution board	45,000	45,000	40,000	-11.1%

Sources: Castles Weekly, Northcourt

Real Estate Performance

Overview

As the Nigerian economy shrinks and sits at the edge of being officially diagnosed to be in recession, the eyes of investors and occupiers have actively shifted to the resultant impact on the real estate market. Stakeholders are expectedly keen to get clarity on real estate performance, as property markets are known to be closely tied to the macro economy. Unfortunately the crystal ball is not quite clear on this nor is there a verdict on the medium or long-term outlook of the sector.

Real estate service providers and developers while assenting to the general difficulty experienced in developing, selling or leasing property, they also acknowledge the existence of pockets of concluded transactions. It then becomes herculean to truly estimate the profitability, frequency and efficiency of such transactions in a bid to fully understand the average performance of property as an asset class within the review period.

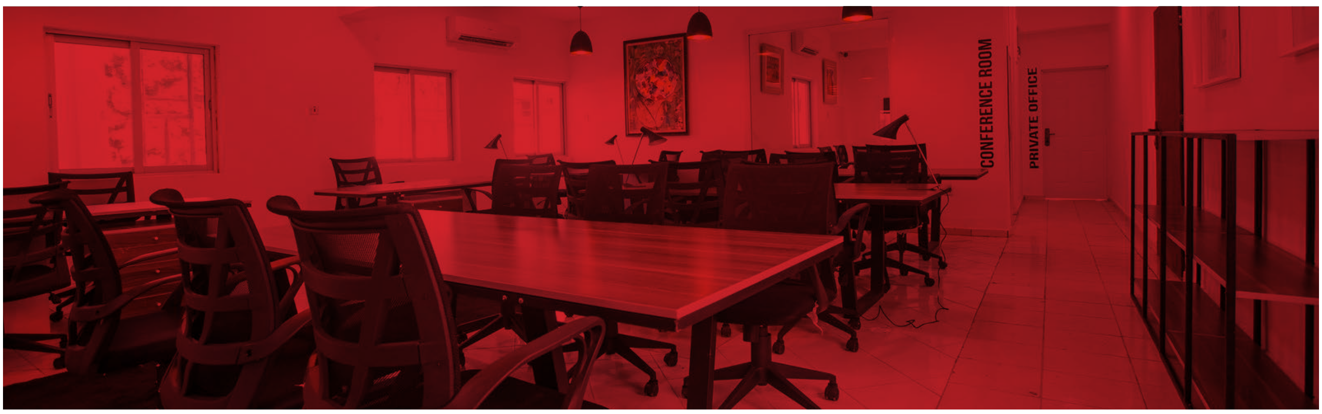
In this report, we have engaged predominantly primary data in determining how the real estate market has performed in the first half of 2016. Vacancy rates and price changes (growth or decline) were adopted to help the reader come to a logical conclusion on the strength of the figures rather than perception or one-off experiences. In addition, considering the close relation of the Nigerian economy to the US Dollar, the effective dollar figures of both historical and current property prices (rent and sale prices) were utilised in computing the percentage changes. This adds a lot of effectiveness to the growth figures.

Land

While supply of bare land typically diminishes over time due to development actions, the pricing may either rise or fall, thereby not obeying the basic law of demand and supply. Reclamations and improved access are two major factors that ostensibly help break this rule by increasing supply. However, with few on going reclamations (exception of Eko Atlantic City), land values across Lagos show a potpourri of activities dependent on location-specific factors.

The economic hitches currently experienced in Nigeria became apparent in 2014, however land values have continued to rise fairly steadily in Ikoyi, Lekki Phase 1, Agungi and Ikeja GRA between 2014 to 2016 (Half year figures). Land in Victoria Island on the other hand seems to have taken a major hit (30% decline) between 2015 and 2016. This may not be unrelated with the significant supply made available just across the road by Eko Atlantic City. As the success of the project becomes more apparent, it is reasonable that land bankers may prefer a better constructed and managed location, if the testimonial of Banana Island which was successfully developed by the same Promoter, is anything to go by.

A couple other locations which are tracked in the shortlist below stayed stagnant, however what swept away any capital appreciation a land owner may have earned is the foreign exchange factor. Across all locations, land lost up to 55% of its value, and a minimum of 28% between H1 2015 and H1 2016 if considered in Dollar terms. This is a more realistic way of viewing the true value of the asset assuming it were liquidated to procure other investments, goods or services in Nigeria.



Land Prices

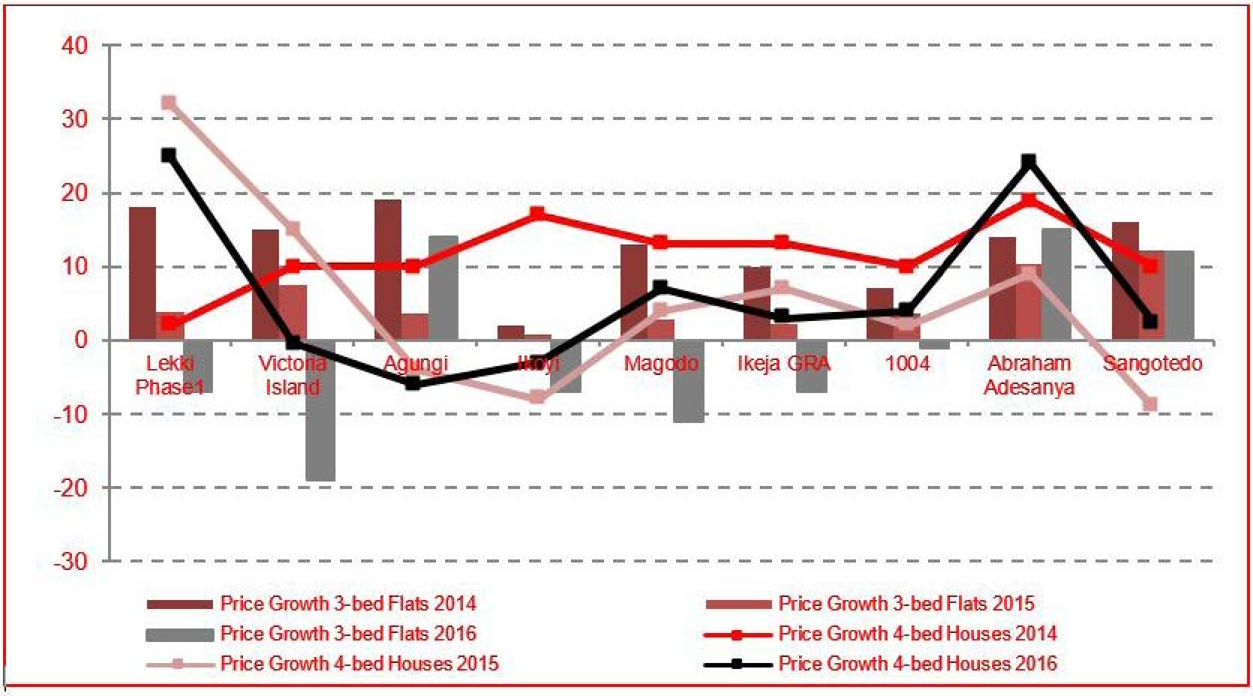
	Location	2014 Average (000)	2015 Average (000)	2016 Average (000)	2015-2016 % Change (₦)	2015-2016 % Change ($)
	Ikoyi	₦260 / $1.7	₦300 / $1.5	₦328 / $1.16	9%	-24%
	Lekki Phase 1	₦110 / $0.71	₦125 / $0.62	₦150 / $0.53	20%	-16%
	Victoria Island	₦400 / $2.5	₦430 / $2.18	₦300 / $1.06	-30%	-51%
	Sangotedo	₦30 / $0.19	₦35 / $0.18	₦35 / $0.12	0%	-30%
	Agungi	₦70 / $0.45	₦75 / $0.38	₦84 / $0.30	12%	-21%
	Abraham Adesanya	₦26 / $0.17	₦30 / $0.15	₦30.42/ $0.11	1.4%	-29%
	Magodo	₦100 / $0.65	₦105 / $0.53	₦100 / $0.35	-5%	-33%
	Ikeja GRA	₦160 / $1.04	₦175 / $0.89	₦185 / $0.66	6%	-26%

Residential

On the surface, residential real estate seems to cloud by news of forced sales, declining prices and rental defaults. This is true in a lot of locations and scenarios, however, the housing survey conducted showed a healthy vacancy level in most low and mid-market locations, especially in Lagos and Port Harcourt. It becomes apparent that the high-end locations in any part of the nation are the ones on the receiving end of the economic decline.

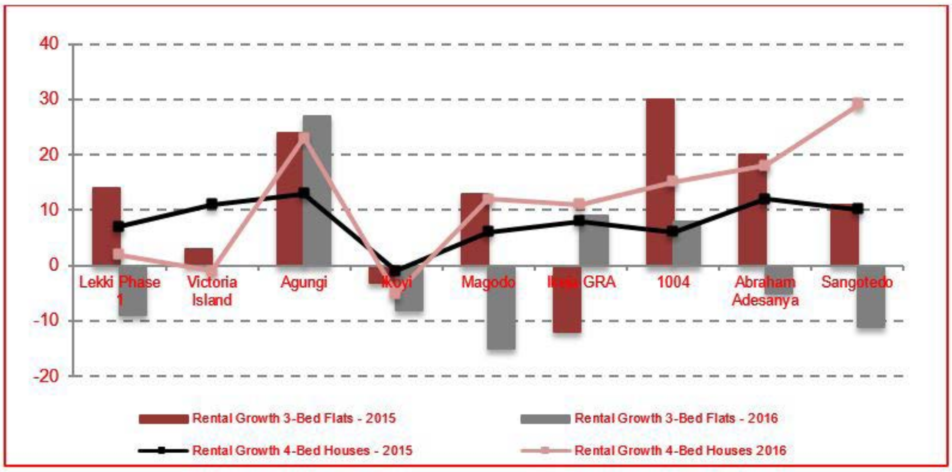
A cursory look at the growth in capital values in Lagos quite generally indicates that price of stand-alone houses appreciate faster than that of flats, pointing to a cultural preference. However, while prices of 3-bed apartments dropped in Lekki Phase 1, Magodo, 1004 Estate and Ikeja GRA, the prices of 4-bed houses grew in these locations. We believe these growths were occasioned by the rising cost of land in the locations and since 4-bed houses sit on dedicated land, it follows that the price of the houses may rise quite commensurately as against the case of apartments which have housing units stacked on a smaller land area.

Growth in Capital Values - Lagos (2014 to 2016)



The price appreciations seen in this survey does not however infer buoyancy of the market. Market players all chorus the dryness of the sector; reduced sale and lease transactions as well as a reduced development pipeline as fewer developers are still actively constructing new homes. Considering there are fewer buyers looking to buy homes, developers who offer superior quality, payment plans, unique house features and other inducements are more likely to sell faster than those offering plain vanilla. Off-plan sales have almost totally dried up; only the consistent and big developers are able to attract prepayments in a bearish period.

Growth in Rental Values - Lagos (2015 to 2016)



Office

Of all real estate sub-markets, the office segment has been perhaps the most impacted by the economic downturn as corporate users are less likely to take up new or more expensive space in a recession. Coupled with the pricing of prime office rents in Dollars at escalating exchange rates, the seeming over-supply of new A-grade office developments has left large organisations and blue chips with almost all the bargaining chips.

Recent completions that are not owner-occupied or built-on-order are joining the existing stock of empty office space which are now dotting the landscape of Ikoyi and Victoria Island in Lagos, Trans Amadi Layout and Olu Obasanjo Way in Port Harcourt and CBD, Abuja. To avoid this fate, some developers have opted to offer significantly reduced rents to large space takers, while letting smaller spaces at figures closer to headline prices. Port Harcourt in particular has experienced an enormous drought. The oil and gas sector which underpins most economic and commercial activity in the region has significantly weakened due to reduced oil prices, reduced production and increased insecurity. Consequently layoffs, shutdowns and most recently the instruction from the government agency that regulates joint ventures with private oil companies that all procurements/contract prices be reviewed downwards by at least 30 – 40% have meant reduced demand for office space or a downward rent review.

Hence with a rich bouquet of existing stock and increasing pipeline as shown in the table; tenants appear to have an edge at negotiations, constantly 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 limited prime space in these regions.

Prime Office Rents

	Location	2015 Average (000)	2016 Average (000)	2015-2016 % Change (₦)	2015-2016 % Change ($)
Abuja					
	CBD	₦60 / $0.30	₦80 / $0.28	33%	-7%
	Wuse 2	₦50 / $0.25	₦50 / $0.18	0%	-30%
	Garki Area	₦25 / $0.13	₦25 / $0.09	0%	-30%
Port Harcourt					
	Olu Obasanjo Way	₦22 / 0.11	₦20 / $0.07	-9%	-36%
	Trans Amadi Road	₦20 / $0.10	₦15 / $0.05	-25%	-47%
	Aba Road	₦15 / $0.08	₦12 / $0.04	-20%	-44%
Lagos					
	Lekki	₦35 / $0.18	₦40 / $0.14	14%	-20%
	Lagos Island	₦20 / $0.10	₦28 / $0.09	40%	-2%
	Ikeja	₦30 / $0.15	₦35 / $0.12	17%	-18%
	Yaba	₦18 / $0.09	₦15 / $0.03	-17%	-41%
	Ikoyi	₦197 / $1	₦239.7 / $0.85	33%	-15%
	Victoria Island	₦167.45 / $0.85	₦219.96 / $0.78	44%	-8%

Sources: Broll, Northcourt

Office Development Pipeline

	Name	Floors	Size	Location	Delivery Date
	Alliance Place	13	6,670	Ikoyi	2016
	The Bureau	6	-	Ikoyi	2016
	Lake Point Towers	12	13,400	Banana Island	2016
	World Trade Center	22	26,000	Abuja	2016
	Zekwes Office Complex	5	-	Lekki	2016
	Kingsway Towers	15	12,000	Ikoyi	2017
	Medina Towers	15	8,300	Victoria Island	2017
	Eko Towers II	27	-	Victoria Island	2017
	Tiamiyu Commercial	8	4,000	Victoria Island	2017
	Sogenal Tower	14	11,560	Ikoyi	2018
	Harbour Point	20	20,000	Victoria Island	2018
	Atlantic Resort	16	15,588	Oniru	2019
	Dangote Industry Head Quarters	18-24	-	Ikoyi	Not Specified
	Desiderata	9	4,654	Banana Island	Not Specified
	Trinity Towers	25	13,000	Victoria Island	Not Specified
	Greystone Tower	17	-	Victoria Island	Not Specified
	Corporate Towers II	34	-	Eko Atlantic	Not Specified
	Africa Tower	76	-	Abuja	Not Specified
	Federal Inland Revenue Service	17	-	Abuja	Not Specified
	Waves	13	44,000	Victoria Island	On Hold
	Bloomsbury	6	10,000	Victoria Island	On Hold

Retail

2016 was the year of mall completions; Circle Mall, Maryland Mall, Onitsha Mall, Asaba Mall and Owerri Mall were all completed and opened within the first six months of the year. As at the time of publishing this report, the Novare Lekki Mall is set to join this list within a couple of days. Based on this, it is evident that the retail space is finding a way around the foreign exchange and importation challenges it faced in 2015. One enabling factor for certain is the cooperation between developers/ mall owners and tenants. Rents have either been stayed or reduced to ensure malls remain occupied. Also, favourable foreign exchange rate trade-offs have been agreed upon in the face of fluctuations and scarcity. All to ensure micro factors don’t beat on the cow producing the milk as much as uncontrollable macro factors hit heavily.

Average Retail Rents

	Location	2015 Average Monthly Rental (Psm)	2016 Average Monthly Rental (Psm)	% Change $	% Change ₦
	Lagos	$68 / ₦13,396	$68 / ₦19,176	0%	43%
	Abuja	$55 / ₦10,835	$55 / ₦15,510	0%	43%
	Port Harcourt	$50 / ₦9,850	$50 / ₦14,100	0%	43%
	Enugu	$38 / ₦7,486	$38 / ₦10,716	0%	43%
	Warri	$37 / ₦7,289	$37 / ₦10,434	0%	43%
	Kano	$35 / ₦6,895	$35 / ₦9,870	0%	43%

Vacancy Rates Of Major Malls In Nigeria – H1 2016

	Name	Locations	Vacancy Rate
	Adeniran Ogunsanya mall	Lagos	17%
	Silverbird Galleria	Lagos	31%
	The Palms	Lagos	2%
	Ikeja City Mall	Lagos	5%
	City Mall	Lagos	55%
	E-Centre	Lagos	21%
	Circle Mall	Lagos	40%
	Apapa Mall	Lagos	40%
	Festival Mall	Lagos	16%
	Ceddi Plaza	Abuja	9%
	Silverbird Entertainment Centre	Abuja	15%
	Grand Tower	Abuja	14%
	Jabi Lake	Abuja	65%
	Port Harcourt Mall	Part Harcourt	0%
	Silverbird Mall	Port Harcourt	0%
	Genesis Place	Port Harcourt	8%
	Happy Bite	Port Harcourt	15%

However, these aides were not sufficient enough to prevent some retailers from surrendering their leases, which is fairly easier to do in the retail sub-sector considering that rents are paid quarterly or even monthly. Consequently it became necessary for some developers introducing new space to reduce the sizes of their malls with plans to expand as the malls truly prove successful and the economy improves. For example, the Asaba and Onitsha malls both developed by Resilient Africa were reduced from their proposed 13,000sqm to 9,000sqm.

Retail Development Pipeline

	Name	Location	Size	Delivery Date
	Abia Mall	Umuahia, Abia	11,000	2016
	Asokoro City Mall	Asokoro, Abuja	28,000	2016
	Benin Mall	Benin City, Edo	13,300	2016
	Capital Mall	CBD, Abuja	21,500	2016
	Gateway Mall	Lugbe, Abuja	15,000	2017
	Oasis Centre	Ikeja, Lagos	6.100	2016
	Novare Lekki Mall	Sangotedo, Lagos	22,000	2016

Despite having stronger economic drivers, vacancy rates are higher in Lagos and Abuja than in second tier cities. Jabi Lake in particular, though having a decent footfall showed a staggering 65% vacancy rate. In spite of this, the retail development pipeline is strong and buoyant with most malls set to deliver within 6 to 18 months.

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Featured Property – Ventures Park, Aso Drive – Abuja

Ventures Park is a fusion of the finest elements of Nigerian contemporary art, sustainable design and an enabling environment to enhance creativity. Shipping containers were fused with brick, mortar and glass as primarily elements of its architecture. This was deliberately done to promote eco-friendly structures and achieve sustainability in design. The cool and functional design of the interiors evoke a belief that aesthetics plays a crucial role in creating an enabling environment that spurs creativity and fosters collaboration.

Ventures Park also features several art installations by internationally renowned visual artist Victor Ehikhamenor. His signature mural in white, yellow and black colours, can be seen on the exterior of the shipping containers, while notable paintings and sculptural works can be found on the inside.

The campus provides an enabling work environment that provides high-speed internet, training and meeting rooms, copying services, audio-visual equipment, kitchen facilities, a gym and residential facilities for both startups and workspace members.

The campus showcases a remarkable view of Aso Rock and greenery that complements its design.

To book a tour of VP Hub or lease space contact Osagie Alfred - 0803 819 7104 / osagie.alfred@northcourtrealestate.com

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