Nigeria Real Estate Market Review

H1 2017

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SUMMARY

If Nigeria is truly the Giant of Africa it must have been in a deep sleep and is just beginning to wake up. With the President away on medical leave, the technocrat Vice-President twice took the reins and has made decisive actions leading to a rebound of the Naira, facilitating ease of doing business for foreigners and locals alike and calming nerves in the Niger Delta, which led to the much-needed increase in the nations crude oil output, amongst others. It wasn't long before the World Bank predicted an exit from recession in 2017 and economic growth of 1%, later reviewed to 1.2% by mid-year.

But it was not all rosy in the first half of the year as there's more than one boiling pot of social instability in different pockets of the country. Boko Haram, Fulani herdsmen, and now a Biafra and Arewa faceoff have further made more than 50% of the country's land area undesirable for commercial real estate activities or significant investments.

This further cuts out work for federal and state governments to provide leadership but even the active Acting-President and his team couldn't get the national budget assed earlier than Q2 2017. This impaired on capital expenditure and other initiatives poised to truly stimulate the country out of a recession sooner.

Resultant to these, built property prices either stayed constant or declined in most locations, only rising in select areas where quality and location induced growth. Land prices on the other hand continued to rise in most regions, seemingly being the best form of real estate investment considering the high cost of developing property in a country where over 50% of construction materials are imported even in the face of a weakened local currency,

The zealous implementation of the whistleblowing act also had far reaching consequences on the real estate sector and sadly they are not positive. Two corporate real estate players sought public funding/investment for their real estate developments. Mixta Nigeria was success while the other was not so successful. The Government equally demonstrated some commitment towards financing housing delivery and accessed a World Bank loan of $300M for that purpose.

In all, the winds of private capital seem to be blowing in the country's favour as shown by an over-subscribed diaspora bond and signals from the national and some state governments suggest a willingness to do what is necessary to support this. We trust you would find this an interesting and informative guide to the performance of real estate activities in the first half of 2017 and in directing your real estate decisions in the next half.

Tayo Odunsi
CEO, Northcourt Real Estate
Abuja – July 2017

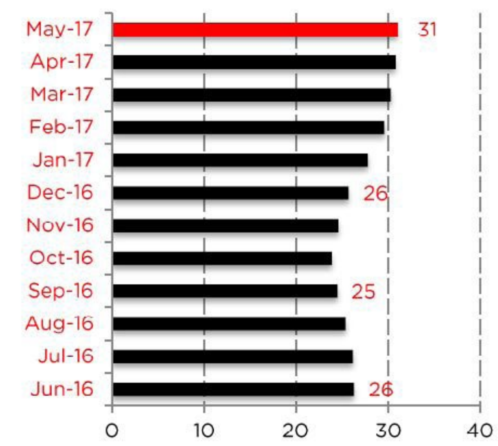
THE ECONOMY

The government started the year under a mountain of pressure to show clear signs of progress. The cabinet had been given more than enough time to settle into their various portfolios and it was time to deliver. The Central Bank got the ball rolling by taking delayed but decisive steps to strengthening the Naira. By June, critical FX windows had been opened and over $4.5Bn had been injected into the economy.

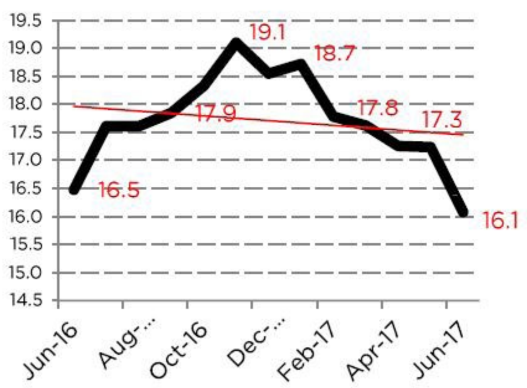
Repairs and maintenance of oil infrastructure, reconciliatory talks with militants in the Niger Delta and a 12.77% drop in downstream pipeline vandalisation saw crude production rise from 1.4 mbpd to 1.8 mbpd by June. While it helps that Nigeria is not on the OPEC quota list, prices are however moving in the opposite direction beaten by the growing influence of Shale as about 70 countries have shown capacity to adopt this lower cost method in harvesting crude.

By many considerations, the exchange rate caused the most controversy in the Nigerian economy. Critical policy missteps by the CBN had all but handed over the FX market to speculators who simply moved up the exchange value as far as they could take it. It was not until the exchange rate hit ₦495 to the Dollar (February) that it became clear – something had to be done, and quickly too. The CBNs response to this was to unleash an array of measures, which have proved effective to date. There is however, the question of the sustainability of such currency injections.

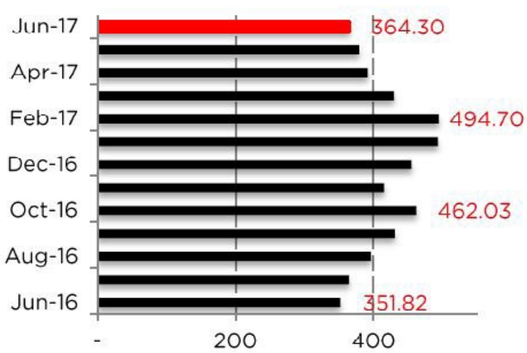
EXTERNAL RESERVE ($BN)



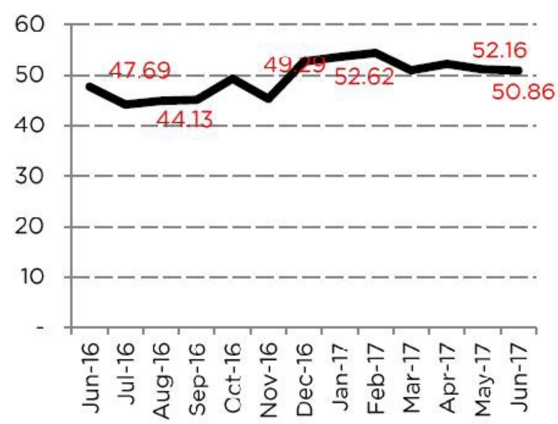
INFLATION (%)



EXCHANGE RATE (₦ TO $)



PRICE OF CRUDE ($/B)



The country's external reserves started the year at $27.2Bn, largely funded by crude oil sales. FDIs overall showed instability while remittances on the other hand showed more permanence - despite remittance costs to Africa (9.98%) being higher than the global average (7.45%). By April, efforts aimed at managing the nation's pocket book were more co-ordinated as the Ministry of Finance reported a return to the savings culture and funds were being lodged in the National savings account. This saw foreign reserves close the first half of the year at circa $30.4bn.

These amongst others have led to a steady decline in the nations NBS inflation figures from 18.72% in January of 2017 down to a 4 month low of 16.5% in May. GDP numbers equally show improved performance even though activity remains concentrated on a few sectors of the economy. The IMF joined the conversation, predicting a 1.2% economic growth (and exit from recession), not too far from the World Bank's 1% rate. However, lending rates still remain high and absent funds for development have ground many projects to a halt.

The US Federal Reserves raised interest rates mid June and are likely to tighten more. This will translate to a stronger dollar, which does not necessarily create the best scenario for import dependent Nigeria thereby likely affecting the dynamics of capital inflows to Nigeria.

In all, local experts opine that the worst days of the recession are over, even as inflation rates slowly but steadily decline month on month.

TOPICAL ISSUES

EASE OF DOING BUSINESS

The Federal Government signed 3 executive orders in May to improve business conditions. The Apapa port, Nigeria's leading port is to commence 24hr operations within 30 days. This, according to analysts automatically adds $1Trn to the economy. Agencies are to approve applications to trade within a certain timeframe once requirements are met or reject with reasons clearly communicated. What is new here is that applicants automatically have the right to trade if the subject agency does not revert within a certain timeframe. Government parastatals are also to purchase a minimum 40% of their assets and consumables from local manufacturers. This adds force to the verbally communicated "Made in Nigeria" campaign.

WHISTLEBLOWING

From December 2016 when the whistleblowing programme came into effect, 62 convictions have been recorded. 522M, $53M, £122,890 and €547,730 have also been recovered - asides exotic cars and luxury property. An effect of this is an increased level of caution on spending by moneybags. Again, willing partners to such transactions are harder to find. Real estate market players are now picky in the kind of clients they do business with and potential tenants now insist on knowing the Landlords of space being considered for lease. Whistleblowing also reduced both the frequency and value of investments. In the words of Nigeria's Minister for Finance, Kemi Adeosun: "Whistleblowing has made every Nigerian a detective".

THE DANGOTE REFINERY – 2018?

The Dangote oil refinery is being constructed on the north-side outskirt of the country's commercial capital – Lagos. $9Bn is being invested in the complex, which will have the ability to refine different grades of crude and is expected to produce 650,000 b/d when completed in 2018. As this amounts to 150% of the country's total demand, the excess will be exported. The larger plan includes the production of petrochemicals and fertilizers. It is projected to become Africa's largest exporter of urea and ammonia. The project is expected to create 300,000 jobs and $7.5Bn dollars in Forex savings from importation. Slight FX challenges may however call for an extension in the completion date.

REITS

With each attempt at structuring a REIT in Nigeria, there are lessons learned. REITs were introduced in 2007 with the modest 2Bn Skye Shelter Fund. Union Homes and Sun Trust followed with 12Bn and 20Bn offerings respectively. UPDC's 2013 offering of 30Bn (declining to a May 2017 market cap of 26.7Bn) would be the largest and most successful offering so far. The most recent, Top Services' 20Bn REIT is yet to list and unlikely. This seeming inability to impress has been the case with REITS in Nigeria. There are evidently issues regarding the quality of assets available and concerns around the tax implications, amongst others. To reach performance levels of national economic significance, adjustments need to be made. To this end, the NSE organised an event showcasing the opportunities and challenges of a successful REIT and pledged to take on the mandate to promote the vehicle.

THE NMRC

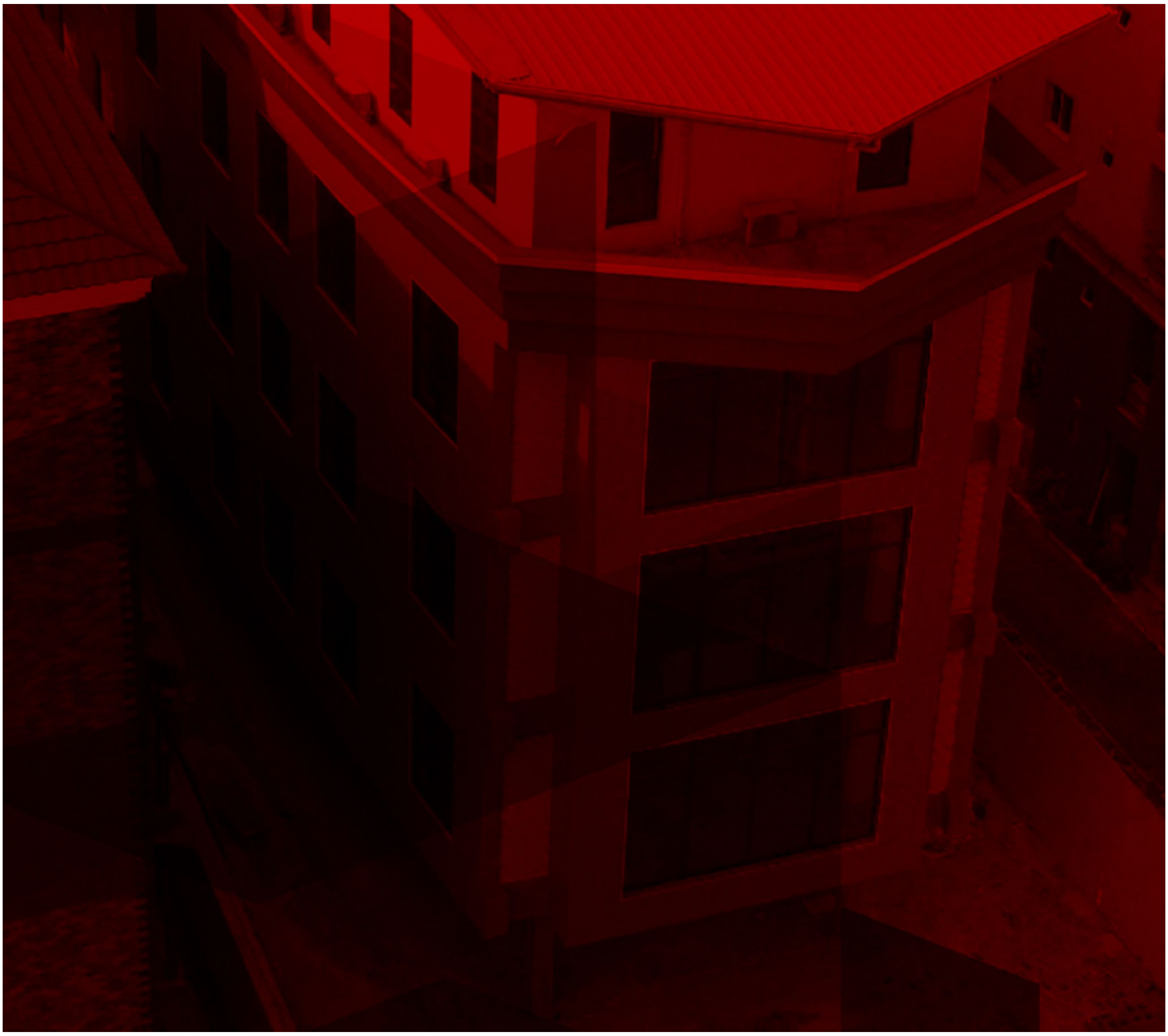
Founded in June 2013, the Nigeria Mortgage Refinance Company (NMRC) was designed to ease access to affordable housing. This was to be achieved by acting as a middleman between the capital market (where it raised funds) and mortgage lenders (by providing financing). $300M received from the World Bank at .75% for 40 years was expected to reduce the interest rates on mortgage loans. This has not been the case with loans being issued at 18%. By 2015, only 577 mortgages had been refinanced in part by a 10Bn bond sale; many expected the NMRC to have been farther ahead in achieving its mandate.

RISING DEBT PROFILE

It is almost inconceivable, executing national infrastructure projects without debt. Extensive road networks, IT infrastructure, defence spending, education and health care initiatives are among Nigeria's critical needs. However, the rate of borrowing and funds utilisation have been hitherto been directed towards recurrent expenditure and short term projects. Nigeria's Debt Management Office (DMO) records a $63Bn debt figure as of Q1 2017 rising steadily from $21Bn in 2009 figure.

HEALTHCARE

According to WHO, life expectancy of the average Nigerian improved from 44.74 years in 1980 to 54.07 years today. This ranks as 216th in the world and 16th in Africa, coming from 58th in the world and 21st in Africa. It is expected to reach 59.20 years by 2030. However, this would only rank Nigeria as 212th in the world. That Nigerians have little confidence in their healthcare system is not news. The estimated annual spend of $1Bn on medical tourism serves as evidence. Investors have taken note of this gap and started positioning. AXA Mansard is developing an $82M, 20,000sqm medical centre in the nation's capital.



INVESTMENT ASSETS PERFORMANCE

EQUITIES

For the fist time in the NSE's history, the number of stocks valued at over $1Trn Naira increased to 3. Dangote Cement (₦3.2Trn) was joined by beverages conglomerate, Nigerian Breweries (₦1.25Trn) and leading banking concern, GTB (₦1Trn). This was driven by strong business fundamentals, market performance and value delivery. Changes in FX regulations helped improve stock market performance. The Investors & Exporters window calmed the nerves of global investors seeking to repatriate their dividends.

When the CBN opened the window (April 21st), the value of listed equities was ₦8.716Trn. Within 3 weeks, this had moved up to ₦9.52Trn. A stabilised currency not only encouraged investments, the MSCI retained Nigeria on its frontier index, going on to increase her weighting from 6.5% to 7.9%. June also saw Nigeria's stock market hit a near 2-year high. The market index rose by 4.01% to 32,000 points due to a strong showing by cement, banking and oil downstream sectors. And the future looks bright.

New pension guidelines have increased the limit that pension funds can invest in the equities market from 25% to 30%. The Pension funds market is valued at ₦6.5Trn. Analysts expect that more shares would be bought as the environment has improved. There seems to be an eagerness to invest, as long as the target entities have the right structures in place.

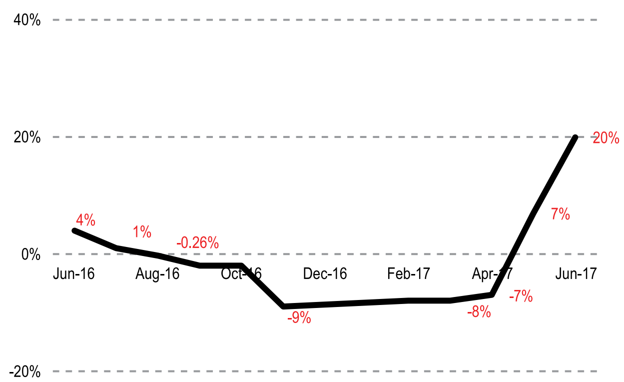
FIXED INCOME & MONEY MARKETS

In unstable times, guaranteed returns shine brighter and the demand for fixed income instruments was high for much of the year. Strong businesses, leveraging strong Q1 numbers took to the market. Quite a number of signs pointed to a global liquidity glut and confident players chose to come to market.

Zenith Bank put forward a $500M Eurobond, priced at 7.375%, which was oversubscribed by 300%. UBA placed its debut $500M Eurobond, priced at 7.875%. It too was oversubscribed - by 240%. The government also joined the party, offering its first ever Diaspora Bond - ₦300M at 5.625% was oversubscribed by 130%. It even offered a local 13% Savings bond where investments could be made with as low as $13, making secure investments more attractive than commercial bank offerings.

Treasury bills saw increased deployment by the Apex bank and commensurate increase in patronage due to attractive yields, which were north of 15%. A total of ₦1.086Bn in Treasury bills matured in Q2 2017, a 1% increase on the ₦1.071Bn of Q2 2016. This increase is likely to be the trend at least until the end of the current budget cycle.

NSE ASI RETURNS



WEST Africa Property Investment Summit

29-30 NOVEMBER 2017

Eko Hotels & Suites, Victoria Island, Lagos, Nigeria.

FORGE NEW PARTNERSHIPS AND JOINT VENTURES WITH LEADING LOCAL & REGIONAL PROPERTY STAKEHOLDERS

The West Africa Property Investment Summit is a high-calibre 2-day real estate focused conference. Leveraging off a global network and strategic local partners; the forum provides an unmatched platform for discussion and deal making between top local private and public sector property stakeholders, global investors and property developers. The summit focuses on overcoming current obstacles in the West African Property Market whilst uncovering the countless market opportunities across Nigeria and the broader West African region.

The 2017 Summit will be hosted in Lagos, giving the local market the internationally recognised real estate event it deserves. The conference will include participation from over 350 delegates and 175 companies and will offer insights, thought-leadership and solution-focused tools ultimately driving further development and investment in the local and regional real estate market.

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REAL ESTATE PERFORMANCE

OVERVIEW

Nigeria's housing market size is currently estimated at $179.2Bn, a deft pointer to potential of the market. However, the real estate market remained strongly influenced by Macroeconomic forces, which continued to put pressure on real estate prices. The anticorruption fight, enhanced by the whistleblowing programme also reduced the willingness and ability of erstwhile big property investors to spend. Investors largely worried that despite the much-vaunted Economic Recovery and Growth Plan (ERGP) the Government was still playing too much a role in the economy.

The TSL REIT was introduced into the market with the hopes of raising investment. The success of this venture is yet to be reported. The Nigeria Stock Exchange, sensing investor uneasiness made a few critical changes to improve performance and reporting. First, REITs are now mandated to submit quarterly financials and audited full year financials to the Exchange. On a weekly basis, REITs are also expected to submit key performance metrics (E.g. NAV, property type, occupancy rates, average property age, etc.). REITS would also be transferred from the main trading board to a dedicated trading board.

COST OF BUILDING MATERIALS

Description	H1-2014 (₦)	H1-2015 (₦)	H1-2016 (₦)	H1-2017 (₦)	% Change 2016/2017
Cement (50kg)	1,750	1,950	1,500	2,800	87%
Sandcrete block (9 inch)	180	190	200	220	10%
Aluminium Roofing Sheet (0.55mm)	1,550	1,550	1,550	2,500	61%
Cables (6mm / Coil)	7,500	13,500	16,000	38,000	138%
Coloured Emulsion Paint	7,500	7,500	8,500	12,000	41%
Paving stone 60mm (Local)	1,300	1,400	1,750	2,100	20%
Harvey roof tiles	4,500	6,000	5,700	11,000	93%
White Emulsion (Dulux)	22,000	22,000	26,000	28,000	8%
Tyford complete set WC	14,500	14,500	14,500	14,000	-3%
Ariston water heater (Small)	17,500	17,500	28,000	28,000	0%
13A socket	900	900	950	1,200	26%
Distribution board	45,000	45,000	40,000	45,000	13%

Source: Castles, Northcourt

The Lagos State government puts the state housing deficit at 2.5M units. In partnership with the private developers the state will be constructing 20,000 housing units in the next five years under the Lagos Affordable Public Housing scheme (LAPH). There are Rent-to-own schemes which could be more effective where they more easily accessible.

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Lagos state also completed a series of developments as part of its urban renewal project; the 11-floor Isale Gangan towers and Gardens luxury apartments for example. The State officially joined the list of 100 most resilient cities, an indication that its infrastructure development efforts were not going unnoticed.

While Abuja was found to have a housing deficit of 600,000 units, developers were however circumspect in starting projects, as effective demand was seen to be far less prevalent than housing deficit statistics suggest.

LAND

Unlike the previous seasons of gradual growth, land values appreciated sharper than before. So much so that land prices in Lagos along the Ikate – Agungi – Abraham Adesanya – Sangotedo axis, is widely regarded as overpriced; pushed up by speculators with an eye on the Lekki Free Trade Zone, the Dangote refinery project amongst other anchor projects as they near completion.

The much anticipated 38km Fourth Mainland Bridge, expected to further raise the demand for property suffered a setback and is back to the drawing board. That leaves just one way in and one way out of the 'new Lagos' for the next 3 years at least. Experts are concerned that Land values in this region might go the way of the once prime Apapa which, being close to the port and having one a major access route ended up a nightmare.

The centrality of land to the development of real estate remained immovable and unchallenged for the first half of the year. The Lagos state government, eager to increase its revenue, promised a 15% discount on all Land Use charges paid before the 14th of April. Based on the controversial Land use decree, the State Government sought to encourage payment of the charges as a means of funding its proposed developments. Land grabbing was taken to a whole new level as 1,200 cases were recorded in the 9 months ending March 2017 further underscoring the place of land as an investment asset.

Location	2015 Average	2016 Average	2017 Average	2016-2017 % Change (₦)	2016-2017 % Change ($)
Ikoyi	₦260 / $1.7	₦300 / $1.5	₦435 / $1.20	45%	-20%
Lekki Phase 1	₦110 / $0.71	₦125 / $0.62	₦140 / $0.39	12%	-61%
Victoria Island	₦400 / $2.5	₦430 / $2.18	₦312 / $0.86	-27%	-14%
Sangotedo	₦30 / $0.19	₦35 / $0.18	₦26 / $0.07	-26%	-61%
Agungi	₦70 / $0.45	₦75 / $0.38	₦84 / $0.23	12%	-39%
Abraham Adesanya	₦26 / $0.17	₦30 / $0.15	₦34 / $0.09	13%	-40%
Magodo	₦100 / $0.65	₦105 / $0.53	₦86 / $0.24	-18%	-55%
Ikeja GRA	₦160 / $1.04	₦175 / $0.89	₦260 / $0.72	49%	-19%

RESIDENTIAL

While land values seem to be soaring in most locations, developed property doesn't show the same positive narrative. According to the Nigerian Bureau Statistics; Lagos, Abuja and Port Harcourt accounted for 65% of real estate investments in 2016 and a sizeable portion of this is strictly residential. The Central Bank has directed financial institutions to report on transactions over certain thresholds on a daily basis. This has partially discouraged some real estate investment by players who prefer anonymity in their dealings.

Similarly, the Governments anticorruption campaign and whistleblowing policy led to the evacuation, locking up and labelling of several properties as taken over very legibly by the anticorruption agency. This created significant paranoia in highbrow locations were such was prevalent and cannot not be disconnected to higher vacancies and lowered prices. The few prospecting buyers or renters now carryout longer and more elaborate due diligence on properties before transacting and demand a discount for the risk.

In the mid market areas, vacancy rates were not quite as high and this even dropped further in lower priced locations. On the surface, this shows there is a big affordability problem with housing and a mismatch between available supply and available demand. Further enquiry shows that this mis-match is not only limited to locations but also house types. Smaller houses such as one or two-bed apartments are less likely to stay vacant in comparison to a four-bed detached house.

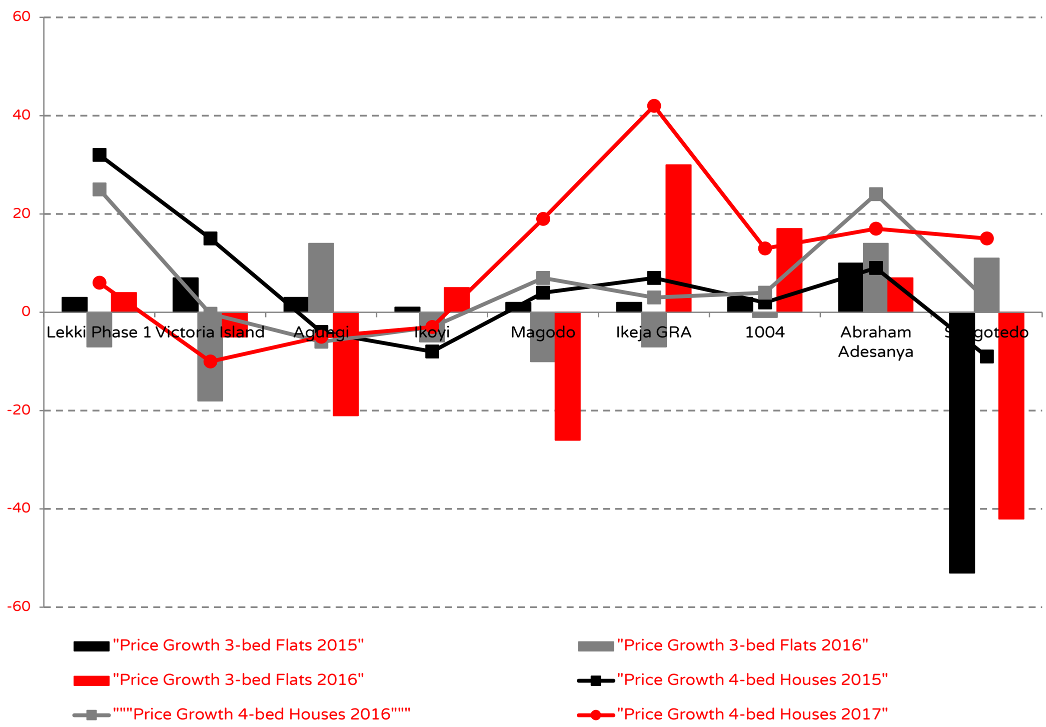
In areas where new developments and fresher construction specs were available or rapidly increasing, this resulted in reduction of values of existing builds by making them seem out of fashion. This brought the old builds in direct competition with the new developments, which were forced to reduce prices to attract buyers.

Not to be seen as uninvolved, the Federal Mortgage Bank of Nigeria took early steps to deploy ₦9Bn. This was to provide 1,244 mortgage loans across the country. The Kaduna state government also made available housing by putting up for public auction excess state property.

RESIDENTIAL VACANCY RATES– H1 2017

Region	Location	Vacancy Rate
Lagos	Ikeja GRA	27%
Lagos	Ikoyi	34%
Lagos	Lekki Phase 1	21%
Lagos	Magodo GRA	7%
Lagos	Oniru	11%
Lagos	Surulere	4%
Lagos	Victoria Island	16%
Lagos	Yaba	6%
Port Harcourt	Elenlewo	17%
Port Harcourt	Old GRA	11%
Port Harcourt	Peter Odili	18%
Port Harcourt	Woji	9%
Abuja	Apo	13%
Abuja	Gwarimpa	3%
Abuja	Jabi	13%
Abuja	Katampe	25%
Abuja	Lugbe	4%
Abuja	Maitama	4%
Abuja	Utako	10%
Abuja	Wuse 2	4%

GROWTH IN CAPITAL VALUES - LAGOS (2015 TO 2017)

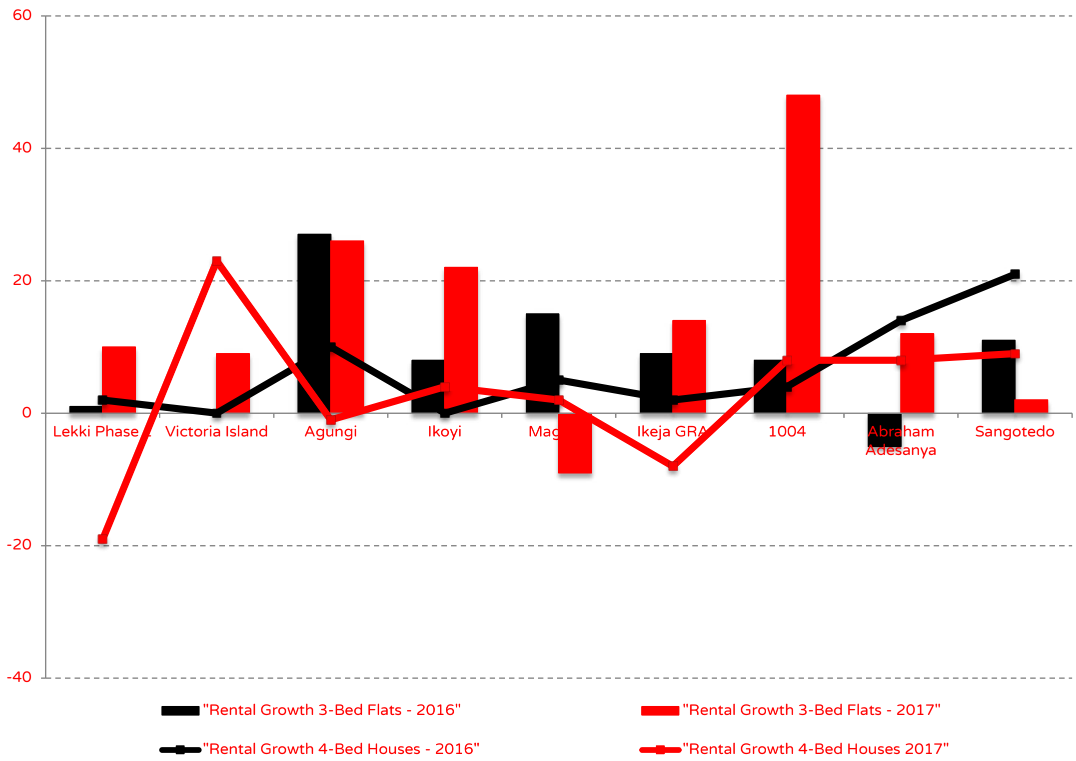


But in all house values were on the decline, pushed down by the tag team of oversupply and reduced consumer-spending power. Owners with no pressing need for funds rejected prices lower than their imagined price point but others accepted the new reality as the negotiating power has stayed with the buyer for some time now.

In Abuja, all hearts await sustainable economic recovery strong enough to improve consumer spending and dignified living. Most property professionals complain that transaction numbers are not yet picking up as expected. As with Lagos, the luxury band in Abuja is under significant political and anti-corruption scrutiny, and remains the most affected segment with almost no new developments and few transactions taking place.

Apo saw a few renovations with modifications for starter homes. Similarly, Gwarimpa experienced few new buildings/renovations while some existing residences were converted to offices and shops. Several new developments in Utako are expected to be concluded by Q4 2017. In all, developers without well-heeled legacy clients remained incapacitated by the combined effects of high building materials prices and reduced consumer spending.

RENTAL VALUES - LAGOS (2016 TO 2017)



OFFICE

After contending with a fall in demand for almost two years, grade-A office space continued to see increased supply, albeit at a slower rate. The forces of demand and supply would subsequently force not only rents to go down, but several other terms and payment structures for office space had to be relaxed and rejigged in the face of a slowly recovering economy. Landlords in prime locations were willing to accept quarterly payments, giving moratoria of up to 6 months for very large spaces or to attract certain tenants. Some were also willing to accept rent in arrears and offered to pay the transaction fees on behalf of the tenant in a bid to reduce the barriers to entry.

Occupiers in Grade B buildings seized the opportunity of reduced rents/rent conditions to move into A-grade buildings. This trend is expected to continue, as market conditions are not recovering fast enough to encourage otherwise. The decline in prime office space rent may not end soon as approximately 30,000sqm of grade-A space is expected to join the jostle for occupiers before the close of 2017 in the form of Alliance Place (Q2, 2017), Madina Towers (Q3, 2017) and Kingsway Tower (Q4, 2017) amongst others.

PRIME OFFICE RENTS

Location	2016 Average (000)	2017 Average (000)	2016-2017 % change ₦	2016-2017 % change $
Abuja				
CBD	₦80 / $0.28	₦57 / $0.16	-29%	-27%
Wuse 2	₦50 / $0.18	₦53 / $0.15	6%	7%
Garki 11	₦25 / $0.09	₦21 / $0.06	-30%	-25%
Port Harcourt				
Olu Obasanjo Way	₦20 / $0.07	₦16 / $0.04	-20%	-43%
Trans Amadi Road	₦15 / $0.05	₦17 / $0.05	-15%	0%
Aba Road	₦12 / $0.04	₦16 / $0.04	33%	33%
Lagos				
Lekki Phase 1	₦40 / $0.11	₦38 / $0.10	-5%	-9%
Lagos Island	₦28 / $0.08	₦21 / $0.06	-25%	-33%
Ikeja	₦35 / $0.10	₦26 / $0.07	-26%	-43%
Yaba	₦15 / $0.04	₦25 / $0.07	67%	75%
Ikoyi	₦239.7 / $0.85	₦309 / $0.85	29%	0%
Victoria Island	₦219.96 / $0.78	₦246.84 / $0.68	12%	-15%

Broll, Northcourt

OFFICE PIPELINE

Name	Floors	Size (m^2)	Location	Delivery date
Africa Tower	76	-	Abuja	Not Specified
Alliance Place	13	6,670	Ikoyi	2017
Atlantic Resort	16	15,588	Oniru	2019
Bloomsbury	6	10,000	Victoria Island	On Hold
BUA office building	10	-	Victoria Island	Not specified
Cornerstone Head Office	12	10,000	Victoria Island	Not specified
Corporate Towers II	34	-	Eko Atlantic	Not Specified
Dangote Head Office	18	-	Ikoyi	On Hold
Desiderata	9	4,654	Banana Island	Not Specified
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
Jenkin's Place	8	1,350	Victoria Island	2018
Kingsway Towers	15	12,000	Ikoyi	2017
Madina Towers	15	8,300	Victoria Island	2017
Novare Central Office Park	3	12500	Abuja	2018
Ogun House	5	1,000	Ikoyi	2017
One Zero Five Place	14	11,000	Oniru	Not Specified
Providus Commercial Bank	5	-	Victoria Island	2017
Raymond House	7	-	Lagos Island	Not specified
Sogenal Tower	15	11,560	Ikoyi	2018

OFFICE PIPELINE

The Waves	13	44,000	Victoria Island	On Hold
Trinity Towers	25	13,000	Victoria Island	Not Specified
World Trade Center	22	26,000	Abuja	2017
Zekwes Office Complex	5	2,200	Lekki	2017

But structured office blocks only tell half the story. Many organisations, blue chips inclusive, have opted for self-managed conversions (Residential detached houses converted to office buildings) as a cheaper or at least more manageable option to house their enterprise. Along the same lines, co-working spaces have become a major phenomenon pushing down the upfront cost small and medium sized companies need to spend on space. The co-working hub sub-market has grown so big increasing by 21% (from 34 to 41) within the last 6 months in Lagos alone. The first co-working conference in Nigeria is billed to take place in Q3 2017.

RETAIL

While employed consumers were still under pressure from shrinking purchasing power of their salaries, recent figures from the NBS showed that unemployment had risen to 14.2%. This would be the 8th straight quarterly rise from Q2 2015 (6.4%). As of today, retail contributes 7% in employment to Nigeria, lower than the 17% global average. Corporates battled increased costs and had to execute layoffs. The Banking sector, a major employer of the middle working class cut staff by an estimated 4,000 from December 2016. In effect, consumer spending reduced and the outlook for the near to mid term wasn't upbeat

AVERAGE RETAIL RENTS

Location	2016 Average Monthly Rental (Psm)	2017 Average Monthly Rental (Psm)	% Change $	% Change ₦
Lagos	$68 / ₦19,176	$53 / ₦18,876	-22%	-2%
Abuja	$55 / ₦15,510	$60 / ₦21,780	9%	40%
Port Harcourt	$50 / ₦14,100	$35 / ₦12,705	-30%	-10%
Enugu	$38 / ₦10,716	$32 / ₦11,616	-16%	8%
Warri	$37 / ₦10,434	$35 / ₦12,705	-5%	22%
Kano	$35 / ₦9,870	$30 / ₦10,890	-14%	10%

Broll, Northcourt

In line with these, the country's leading retailer – Shoprite, reduced its projected new store openings from 13 to 2, citing economic instability as the reason for this seemingly drastic step. Reduced footfall as a result of the economy translated to a reduced demand for large sized retail outlets, landlords had to reduce rents to avoid voids. Some tenants successfully negotiated an unprecedented reduction in annual rentals and payable in local currency. This is in contrast to the a few Landlords' who insisted on the 2016 payment preference, USD. Analysts tend to see malls in Nigeria as overpriced and the recession made substitute locations a preferable option. This was especially the case for large corporates watching their bottom lines.

Should the economy ease up and basic food and retail prices drop, the retailers are expected to see reduced vacancies, but more importantly, sustained footfall. Still, some savvy Landlords/developers hedged their rent risk by going into long lease arrangements with their tenants. These tenants either used the space or sub let to third-party occupiers. These long-term leases ranged from 5 to 25 years, which meant that a cash flow was available to keep the malls in business and good repair. A previous edition of this report had stated that malls needed to get smaller and the case for this remains as the current level of footfall is insufficient to justify some existing large sizes.

To another emerging situation, the global trend is that brick and mortar malls are losing ground to online retailers. This could be the trend when the economy does improve. The Central Bank of Nigeria figures show that that the value e-payment transactions in 2016 rose by 82% to ₦71Trn with a total of 942M transactions. The country's online market is estimated to be $10Bn and online retailers now average 400,000 orders every 24hrs. Not to be left behind, Nigeria's leading mall – the Palms, spiced up its online presence towards the end of the first half of the year. This was also in recognition of the growth experienced by core retailers Jumia and Konga.

Novare led the Lagos malls with a 57% vacancy rate, slightly reduced from the 63% figure recorded in December 2016. The Palms continued its 0% vacancy streak with a combination of client friendly pricing and welcomed global clothiers, Tommy Hilfiger. As expected, malls in Port Harcourt saw increased vacancies, a reflection of the consumer's reduced financial position and the waning influence of oil. The increase vacancy rates for Abuja was more pronounced, suggesting that the shock from the implementation of the government's whistleblowing policy may have had unexpected consequences.

RETAIL VACANCY RATES

Mall Name	Location	Vacancy Rate
Adeniran Ogunsanya Mall	Lagos	12%
Apapa Mall	Lagos	35%
Circle Mall	Lagos	27%
Festival Mall	Lagos	21%
Ikeja City Mall	Lagos	11%
Leisure Mall	Lagos	8%
Maryland Mall	Lagos	8%
Novare Mall	Lagos	57%
Ozone	Lagos	5%
Silverbird Mall	Lagos	31%
The Lagoon Shopping Centre	Lagos	23%
The Palms	Lagos	0%
Big Treat	Port Harcourt	14%
Genesis Centre	Port Harcourt	6%
Port Harcourt	Port Harcourt	8%
Ceddi Plaza	Abuja	27%
Grand Towers	Abuja	22%
Jabbi Lake	Abuja	56%
Silverbird Entertainment Centre	Abuja	32%

CW REAL ESTATE

CW Real estate is a modern fully integrated real estate services company that embraces research & innovative technology to streamline our entire offerings from Advisory , brokerage and property management solutions to both individual and institutional clients.

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Our philosophy is simple, we apply Local knowledge, unrivaled understanding of our communities with international best practices in making your real estate experience DIFFERENT & BETTER!

A MESSAGE FROM THE CEO :

REAL ESTATE DIFFERENT AND BETTER!

I am proud to lead, represent and be a part of the highly innovative enterprise that CWRE is today.

Tried and true practices that worked in the past have required an overhaul in order to address new realities, in our ever dynamic real estate market.

CWRE is built on a solid framework for the realities of today and the future by establishing a research approach and technology base that creates and maintain our competitive edge.

There are two ingredients that are essential to us and reflects at all levels of the organization, these are passion and experience. CWRE has accumulated and developed a passionate group of professionals, and I believe our clients recognize this. This is a people's business. Experience is non negotiable in a business characterized by high capital requirements, a broad spectrum of risks and deep emotional involvement where failure is never an option.

If you look at the industry today and compare it to a few years ago, it has come a long way. Even as the economy is in a recession so many opportunities present themselves, the advances made in the legal framework, regulatory infrastructure, REITS and overall governance typifies a market that is rapidly heading towards the right direction, and the type of sustainable profitable growth that all stakeholders in the industry have been seeking.

Our philosophy is simple, we apply Local knowledge, unrivaled understanding of our communities with international best practices in making your real estate experience DIFFERENT & BETTER !

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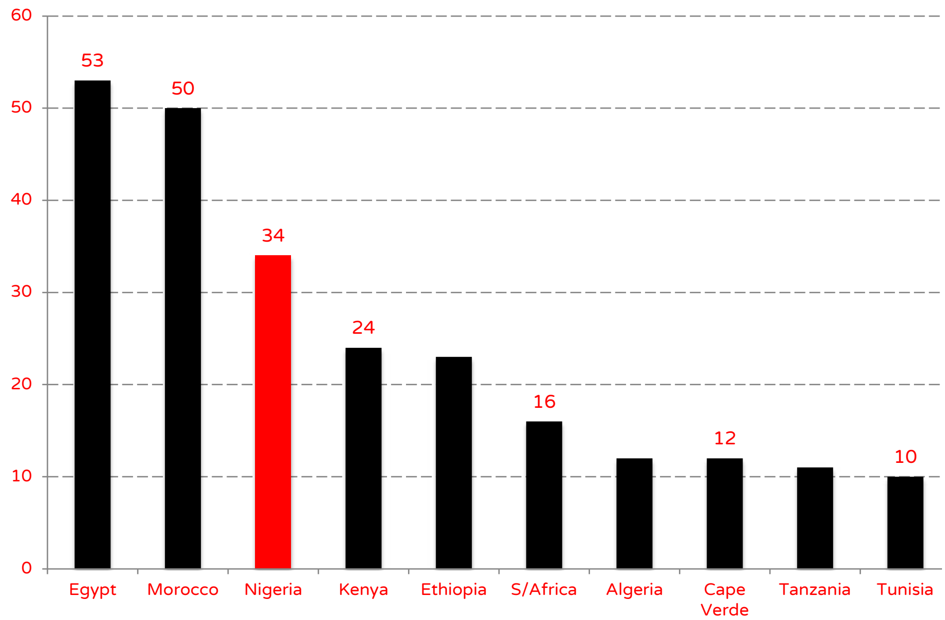
HOSPITALITY

Nigeria's lowered hotel development ranking for H1 2017 could be attributed to the reduced appetite for travel to the country. For instance, in 2016, records show 4.26M international travellers in comparison to 4.46M in 2015. To start with, the development pipeline was impaired by rising construction costs due to exchange rate hikes and fluctuations. Many developers were forced to halt projects as project financials became hard to reconcile. A wait and see strategy still seems to be in adoption even though government policy has became more pro business in recent time.

On the other spectrum, a few hoteliers were able to increase their chain within Nigeria in the period under review. BON Hotels International West Africa launched the Bon Hotel Grand Pela in the Durumi, Abuja in Q1 2017 while Swiss International opened its 154 Swiss Spirit Hotel in Port Harcourt. BON announced plans to conclude ongoing Apo, Ekiti and Owerri projects in 2018. This will increase their hotel count to 10, adding to the 444 hotel rooms currently being operated in Nigeria.

HOTELS DEVELOPMENT IN AFRICA (2017)



Source: CIOB

International interest in Africa is rising with Asia increasing its business dealings. Analysts suggest that over 65M international passengers may be expected on the continent by year-end. This is up from 55M in 2016 and represents a 6 to 8% year-on-year growth.

Nigeria's situation is somewhat different. Poor infrastructure aggravated by increased business costs reduced year-on-year international travel by 146,900 to 627,406 passengers. With fewer travellers came lower demand for temporary accommodation (hotels), although there were spikes in requests for short let apartments, which are a more cost effective alternative. Nigeria also missed out on the ₦30Bn African markets expansion plan by City Lodge Hotels Group owing to the currently uninspiring business environment in Nigeria. The sector's ₦85.8Bn revenue is expected to fall by over 7% if decisive steps are not taken to address the economic and security challenges in the country.

The 2017 budget has also earmarked ₦10Bn for the construction of a second runway. Lagos is also starting expansion works on its international airport road; being responsible for 76.5% of inbound international flights (as of Q1 2017). Key eastern hub, Anambra state, joined forces with Orient Petroleum Resources and Elite International Investments to complete a $2Bn International Airport City by 2020. Spring Fountain has partnered with Boeing to invest $20Bn in aircraft, flight equipment, infrastructure and spare parts supply. Niche hotel groups looking to maximise the new demand for lower cost accommodation made slight inroads too.

Analysts however consider hotels in Nigeria overpriced especially when compared to the international markets. This is possibly because of the cost of doing business and the absence of strong competitors per cadre. Hotel developers largely fall into two categories – those waiting for the recession to blow over and those who have moved on irrespective of the economy. The expectation is that more ambitious projects would kick off as soon as the recession officially comes to an end.

INDUSTRIAL

Nigeria Purchasing Manager's Index (PMI) contracted from 48.2% in January to 44.6% in February after expanding in December 2016 by 52%. Transportation equipment, paper products and electrical equipment topped the decline list in the month of February. Business activities declined from 50.6% in January to 45.4% in February with the construction sub-sector leading the decline list. Figures for real estate rental and leasing were amongst the top 10 decliners and it wasn't until April where the expansionary 51.1% was recorded. This was due to the improved FX supply in the intervening months. As of May 2017 the index reached 52.5%, showing further expansion of the sector.

Gradually, investors were beginning to reconsider investing in Nigeria's industrial space. These indices revealed the need for private capital and opportunities for local manufacturers willing and able to do business under the current circumstances. But efforts were made to improve the environment as the Government created the Investors and Exporters FX window and allocated quarterly FX limits to SMEs. Manufacturers were now better positioned to invest in new sites.

The Ease of doing Business further opened up hitherto moated sectors, mandating that 40% of Federal government procurement be sourced locally in the hopes of stimulating demand. State governments such as Ogun state facilitated the expansion of P&G's factory at the Agbara Industrial area. Hayat Kimya also invested $100M in land and equipment for their production facility. Taking a stab at a $2Bn industry, Akwa Ibom began the production of pencils & toothpicks, with expansion plans in the offing. Calabar became home to GE's $250M Power Services Repair and Maintenance facility projected to open in 2018.

Vehicle production reached 45,000 units, up from 25, 000 in 2015, and while this is far below the annual demand of 200,000 – 250,000, a 2017 PwC report predicts an annual production of 4 Million cars by 2050. These would naturally require more land and machinery to execute.

A rise in demand for locally manufactured items, especially oil palm, was a silver lining in the 41 items ban. Shoprite launched a made in Nigeria initiative to further encourage local production. Local manufacturers now had a major brand with the right reach willing to take on their output – as long as set standards were met.

Nigeria's industrial sector has been able to attract some foreign companies who want to expand into Africa or more specifically West Africa. But sadly, a few others have also been lost, perhaps temporarily. For instance, a global glass manufacturing company opted for neighbouring Benin republic to set up its West African manufacturing plant primarily because it requires uninterrupted power supply all year round, despite that it's biggest target market in the region is Nigeria.

In all, demand is up for quality spaces with modern infrastructure and access to the city centre. For space, parking and zoning parameters, industrial space users are willing to go to the outskirts of major towns in search for this. On the contrary, existing industrial locations have recorded increased vacancies. This is because there seems to be a misconception amongst landlords that industrial spaces do not require maintenance of improvements over time. Tenants are in search of quality spaces that offer more than the proverbial cool and dry. As e-commerce, ICT, manufacturing, agriculture and agro-allied industries progress in line with economic activities, varied warehouse types may become the toast of real estate investment and development.

Cover Page Building - BU Place
BU Place is prime office development on Admiralty Way, Lekki Phase 1 marketed by Northcourt.
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