# Emerging Opportunities in Industrial, Healthcare & Young Professional Housing

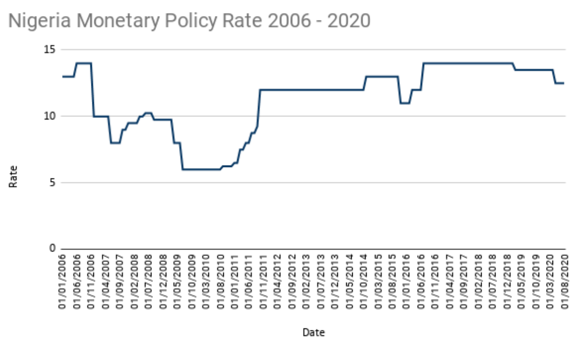
** Nigeria's evolving macro-economic story and low rate environment are slowly altering asset allocation strategies for multiple institutional investors and encouraging them to strongly consider investment opportunities in real estate. Similarly, weak performance from traditional property sectors including office, retail and hospitality has pushed real estate investors to explore new territory when deploying capital. The result is rapid traction for non-conventional or historically overlooked property sectors including Industrial, Housing for young professionals and Healthcare, where there are many exciting opportunities.

NOVEMBER 2020

estateintel

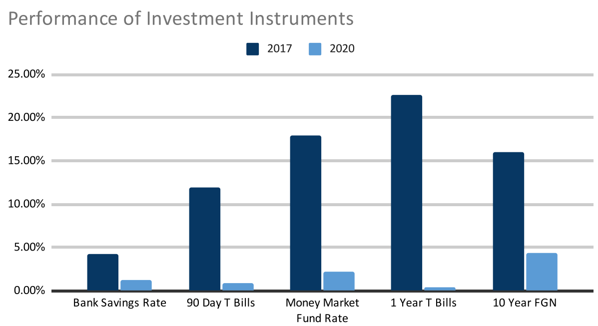
# The low rate environment is making real estate more compelling

## THE CBN IS REDUCING RATES TO ENCOURAGE BANKS TO JUMPSTART THE ECONOMY




**SOURCE: CENTRAL BANK OF NIGERIA**

## RETURNS FROM BONDS AND TREASURY BILLS ARE TRENDING LOWER




**SOURCE: BLOOMBERG, FMDQ**

## AS OTHER ASSET CLASSES UNDERPERFORM, REAL ESTATE IS APPEARING ATTRACTIVE

# 6% - 10% property yields have greater allure

**SOURCE: ESTATE INTEL**

The Central Bank of Nigeria (CBN) has chosen to deviate from their previously hawkish monetary policy strategy, which was largely created to attract foreign portfolio investors (FPIs), keep foreign reserves at healthy levels and reduce pressure on the local currency.

Now in another oil priced linked recession, there is little confidence from FPIs to sustain this strategy. As a result, the CBN's new ultra-dovish stance hopes to use lower interest rates to force banks out of government debt securities so they can lend to the real sector, and jumpstart growth through targeted stimulus to critical sectors.

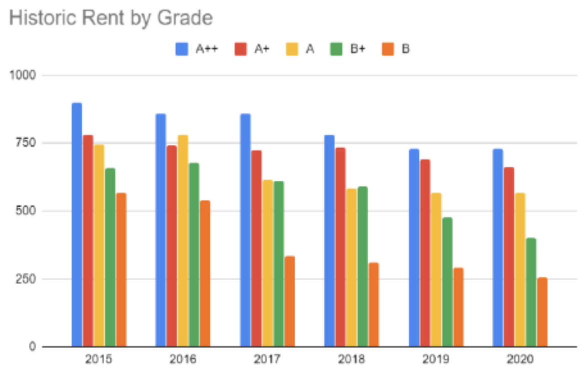
Chief among the CBN's tools for reducing rates was their decision to restrict access to the supply of historically high yielding debt securities. This has left a large void in the supply of investment instruments available for domestic players, with little change to demand. Now with limited investment options, pension funds, insurance companies and other institutionals with excess liquidity are investing in what is left, driving demand up and crashing rates to the ground. As the data above shows, 1 year Treasury Bills and the 10 year Bond have fallen from 18% and 16% in 2017, to 0.39% and 4.35% in early Nov' 2020.

Depending on the sector and quality of asset, average yields from property can range between 6% and 10% and this has remained relatively constant for the last few years.

Though institutional investors with existing real estate positions appreciate the stability in value and yield from the asset class noted during 2020; the new found allure for property does not sit with the underlying fundamentals. Instead, it relates more to the weak performance from other asset classes, and an expectation that those return levels are here to stay.

# Conventional property sectors have not fared so well recently

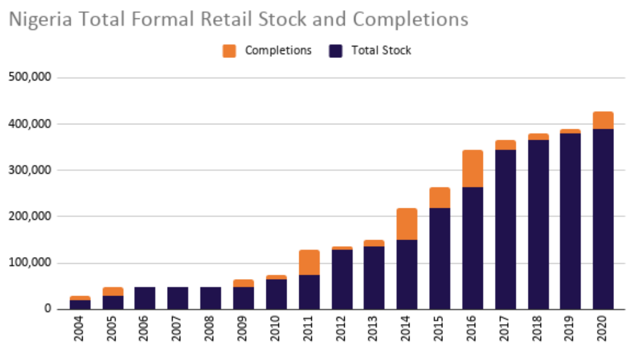
### MORE RELOCATIONS AND DOWNWARD RENTAL PRESSURES IN THE OFFICE SECTOR




SOURCE: ESTATE INTEL

The office market in Lagos is yet to fully recover from the large deliveries noted over the past 5 years. In 2016, new supply as a percentage to total stock rose to 25%, at the heart of a recession that was right after an election year. Though a few buildings have pushed towards strong occupancy rates, market rents across board have fallen 26%, while market occupancy rates for A Grade Properties currently stand at 56%. The shallow tenant pool has meant that most transactions are relocations, and only small amounts of new space are truly taken up.

### INVESTORS AND RETAILERS ARE LOSING CONFIDENCE IN THE RETAIL SECTOR



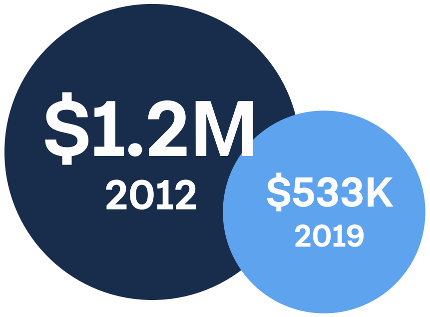

SOURCE: ESTATE INTEL

Similarly, the Dollar reliant Nigerian shopping centre and formal retail market is still suffering from the effect of two recessions and multiple Naira devaluations.

Less than 5 years ago, retail investors had planned bold 25,000m$^2$ projects leading to average annual completions of c. 45,000m$^2$, but these plans have been suspended or terminated leaving average completions at c. 14,000m$^2$ in recent years.

### CURRENCY DEVALUATION AND THE SUPPLY-DEMAND MISMATCH IS PLACING THE LUXURY RESIDENTIAL SECTOR IN DISTRESS

THE SAME LUXURY APARTMENT IN IKOYI




SOURCE: ESTATE INTEL

Luxury multi-family residential units have been stressed by poor occupancies and low rental yields. Properties that are less than 5 years old, which sold for USD $1 million+ when they were launched are currently unable to achieve a similar or higher resale values. The delivery of newer competing buildings that are yet to achieve full occupancy and the loss of value in Naira have placed this segment in jeopardy. As a result, residential investors are evaluating other sub-segments of the space, where there is largely and more consistent demand.

# New property sectors are gaining traction

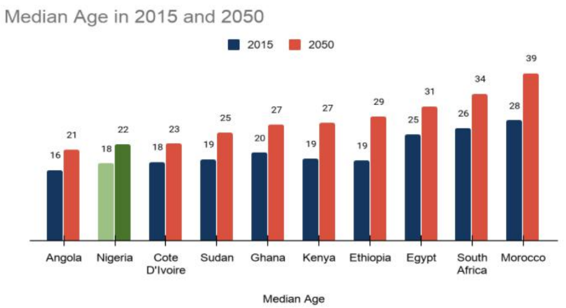
As investors become more creative and look further afield, they are now paying greater attention to the longstanding undersupply and latent demand in less mainstream sectors, which have been typically ignored in the past. In this report, three of them are profiled. The common theme among these sectors is the insufficient formal supply and surging demand. Two decades ago, office properties were largely owner-occupied, retail was largely serviced informally through plaza's and there were only a handful of international hotel brands. However, interests in these sectors grew overtime due to market fundamentals accredited to Nigeria's exciting macroeconomic growth story, surging demand and insufficient supply. Nigeria's macroeconomic growth story might have slowed down but there are investors still in search of market segments to deploy capital and we suspect alternative sectors which are in the same state conventional sectors were 10 - 15 years ago could come to the rescue.

**Housing for the young demographic:** By 2050, Nigeria will have the 2nd lowest median age among Africa's largest economies, with a whopping working population of 61%. At this time, Nigeria will also be the 3rd largest country in the world, after India and China. In Lagos, young professionals are increasingly demanding for studios and single/multiple bed hostels.

**Industrial:** Nigeria still lags behind when compared to other emerging markets. Nigeria has less than $0.02m^2$ industrial stock per capita, which is similar to India but far behind $0.08m^2$ and $0.07m^2$ seen in Russia and Brazil.

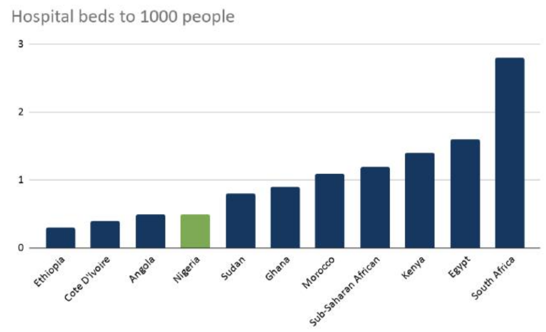
**Healthcare:** The hospital bed ratio of 0.5 hospital beds to 1,000 of of Nigeria's population is 900% lower than the WHO recommended ratio of 5 hospital beds to 1,000 people and 58% lower than the sub-Saharan African average of 1.2 beds to 1,000 of its population.

## Nigeria will have the 2nd Lowest Median Age by 2050




SOURCE: UNITED NATIONS

## Limited supply of hospital beds per 1,000 Nigerians




SOURCE: WORLD HEALTH ORGANISATION IN 2004

# Key Projects Map

Here a few interesting projects in the selected sectors that we are tracking.

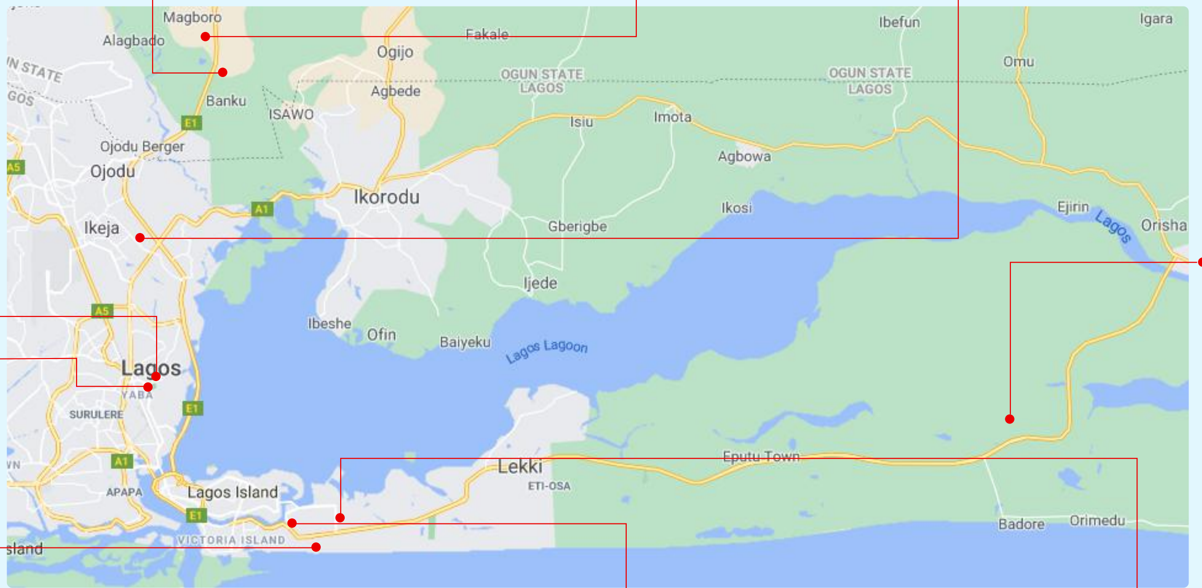
**Name: Wakanda Hostel.**
**Location**: Yaba.
**Developer**: Private Individual.
**Sector:** Housing for the young demographic.
**Type**: Residential.
**Size**: 33 rooms.

**Name: Karameh Industrial City**
**Location**: Lagos-Ogun Border.
**Developer**: Mikano Intl.
**Sector**: Industrial.
**Type**: Warehouse.
**Size:** 57,600m$^2$.

**Name: Agility Warehouse.**
**Location**: Lagos-Ogun Border.
**Developer**: Agility.
**Sector**: Industrial.
**Type**: Warehouse.
**Size**: 50,000m$^2$.

**Name: Rack Centre.**
**Location**: Ikeja.
**Developer**: Jagal + Rack Centre + Actis.
**Sector:** Industrial.
**Type**: Data Centre.
**Size**: 6,000m$^2$.

**Name: Pine House.**
**Location**: Yaba.
**Developer**: Student Accommod8.
**Sector**: Housing for the young demographic.
**Type**: Residential.
**Size**: 18 rooms.




SOURCE: GOOGLE MAP, EI RESEARCH

**Name: Pearl Hostel.**
**Location**: Sangotedo.
**Developer**: UPDC REIT
**Sector**: Housing for the young demographic.
**Type**: Residential.

**Name: Blue Water Residences.**
**Location**: Lekki Phase 1.
**Developer**: African Capital Alliance (ACA).
**Sector**: Housing for the young demographic.
**Type**: Residential.
**Size**: 124 apartments. (Phase 1).

**Name: Evercare Hospital**
**Location**: Lekki Phase 1.
**Developer**: Evercare.
**Sector**: Healthcare.
**Type**: Hospital.
**Size:** 165 beds.

**Name: Purple Lekki.**
**Location**: Lekki Phase 1.
**Developer**: Purple Group.
**Sector**: Housing for the young demographic.
**Type**: Residential.
**Size**: 155 Studios.

# Overview - Student and Young Professional Housing

**Overview:**

Nigeria currently has and will continue to have a young and vibrant population. According to the United Nations, Nigeria's young demographic between 15 - 34 years account for 33.05% of its total population as at 2020. This age range ranks second in its population pyramid after its much younger population of 0 - 14 years accounting for 43.49%. By 2050, the population between 15 - 34 years and 0 - 14 years will account for 33.56% and 42.43% of Nigeria's population respectively. At this time, Nigeria will also have the 2nd lowest median age among Africa's largest economies and will also be the 3rd largest country in the world, after India and China.

**Student Housing:**

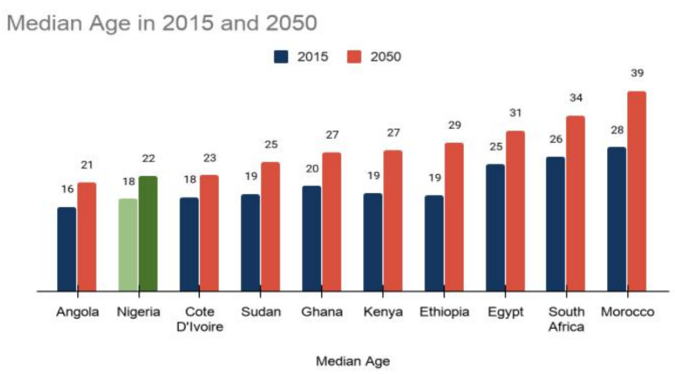
The Yaba region is a hotbed for purpose built student accommodation (PBSA) due to the presence of 8 tertiary institutions. The Vice Chancellor of University of Lagos in 2017 explained that there were c. 8,000 bed spaces available for a student population of 58,000, indicating a supply gap of 86%. Similarly, Yabatech, with a student population of over 20,000 in 2016, has 6 halls of residence providing accommodation to less than 10%, indicating a supply gap of up to 90%. Currently, demand is largely satisfied through a handful of PBSA facilities and low quality residential conversions.

Though students are particularly price sensititive, most of these residential conversions fail to offer standard facilities and amenities that some are willing to pay a premium for. A few examples include well organised shared and single room options with common areas, study rooms, welfare facilities including a laundromat and more. For success in this space, it is important for projects to be modularly and flexibly built in order to successfully adjust to demand from shared and single room tenant prospects.

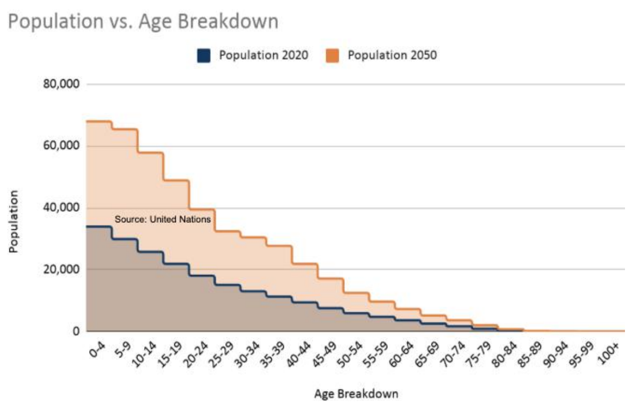
**Housing for Young Professionals:**

Our research consistently validates that the most important factor that young professionals are after when seeking a place to live is quality facility management and proximity to their workplace or commercial hubs. As a result, they will trade size for proximity and opt for converted 'self contained apartments', studios or 1 bedroom apartments closer to town.

Despite this opportunity, most residential projects have historically opted for 3 and 4 bedroom typologies, which appeal to the slightly older demographic.




SOURCE: UNITED NATIONS




SOURCE: UNITED NATIONS

**Opportunity in Student Housing from UNILAG & YABATECH**

Supply Gap: 87%

Current Supply: 13%

SOURCE: ESTATE INTEL

# Highlights - Student and Young Professional Housing

## Recent Activity

- In 2018, UPDC REIT completed its student housing property, Pearl Hostel 1, which was the second best-performing asset in their portfolio during 2019 with a yield of 6.65%.
- In 2019, Student Accommod8 raised debt funding of about USD $3 million from Chapel Hill Denham's Nigeria Infrastructure Debt Fund (NIDF).
- In 2020, Purple Capital sought to raise equity capital of ₦3.6 billion to finance the construction of a mixed use centre named Purple Lekki which will include 155 Studios.

**Key Players:**

Student Accommod8 – Developer

ACA – Developer

Purple – Developer

Chapel Hill Denham – Funder

## New Development Profile

**Sapphire Tower, Blue Water, Lekki**

| | |
|---|---|
| **Units** | 500+ |
| **Developer** | African Capital Alliance (ACA) |
| **Unit Cost** | ₦41,000,000 - ₦250,000,000 |
| **Absorption Rate (August 2020)** | 75.00% |
| **Investment Horizon** | Full exit by June 2021 (Phase 1) |

Blue Water Lagos is a contemporary mixed-use development comprising of five 17 to 20 storey residential buildings of 1, 2 and 3 bedroom apartments being offered for sale off-plan. The first phase of this luxury mixed-use development is the Sapphire Tower, which is 17 floors high and consists of c. 124 apartments with a mixture of 1, 2 and 3 bedroom units as well as four penthouses on topmost floor. The building is one of the first residential buildings to receive the IFC EDGE certification and will be one of the largest residential developments in Lagos State since 1004 Housing Estate. Upon completion, income yield for buyers is expected to be between 4%-5%.

**"In 2019, we noticed the 2 beds were selling faster than the 1 and 3 beds, driven by competitive pricing and demand from smaller family units or even retired Nigerians. ...Because of the creativity in the architectural design of Bluewater, even while construction was ongoing, we could play around with the unit mix to respond to demand."**

Dolapo Salawu, Investment Professional, African Capital Alliance (ACA).

# Case Study: Student Accomod8

**Student Accommod8 is focused on solving the inadequate student hostel accommodation in Nigeria. They intend to provide 5,000 bed spaces within 5 years.**

| | |
|---|---|
| **Completed Projects** | 4 |
| **Proposed Projects** | 4 |
| **Average Occupancy Rate** | 98.10% |
| **Average Yield** | 9%-20% (depending on product type) |

**Student Housing Product Type**

**Basic Product Type:** Typically in locations outside of Lagos such as Ogun, Ondo etc. It includes fans, metal bunk beds, 4 occupants in a room among other basic features. Yields range between 9 - 10%.

**Standard Product Type:** Typically in middle income locations within Lagos such as Yaba, Ojo etc. It includes air conditioners, single beds, 2-3 occupants in a room among other features. Yield is approximately 15%.

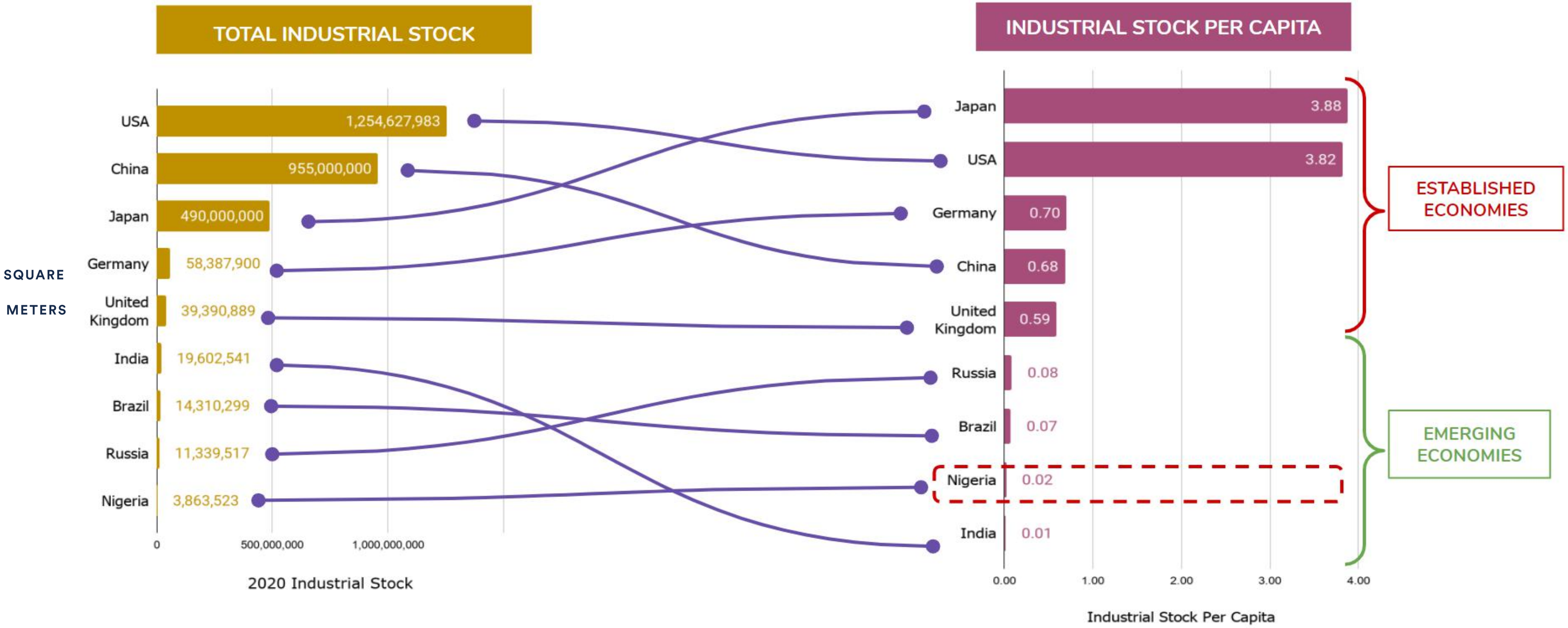
**Premium Product Type:** Typically in high income locations where there are private universities such as Sangotedo, Lekki. It includes air conditioners, water heaters, single beds, 2 or 4 occupants in a room among other features. Yields range between 19 - 20%.

**"Student Housing has tremendous opportunities ahead. As financing becomes a lot easier and universities become a bit more realistic about the intricacies of delivering a development by considering the requirements of a funding partner in the terms of agreements, we expect to see more more players in the market."**

Abayomi Onasanya, Founder/CEO, Student Accommod8.

# Overview - Industrial Property

As we noted earlier, Nigeria still lags behind when compared to other emerging markets. Nigeria has less than 0.02m industrial stock per capita, which is similar to India but far behind $0.08m^2$ and $0.07m^2$ seen in Russia and Brazil respectively. By sector, consumer staples, consumer discretionary and industrial conglomerates are the major forces behind industrial demand due to the country's large population. Demand is currently satisfied through low quality stock, which can be classified as B or C Grade at best. International or large scale industrial occupiers who need higher quality space usually build to suit. The impact of the COVID-19 pandemic has induced interest of market participants in this segment due to the increase in demand for warehousing spaces from manufacturers looking to adopt E-commerce strategies.




**SOURCE: ESTATE INTEL, WORLD BANK, JLL, CUSHMAN & WAKEFIELD, CBRE AND COLLIERS.**

TOTAL NIGERIA INDUSTRIAL STOCK TRACKS UP TO 10 STATES WITH THE LARGEST INDUSTRIAL ACTIVITY.

# Highlights - Industrial Property

## Recent Activity

- In 2018, Schneider Electric and 21st Century entered into a strategic partnership to launch a Tier IV data centre in Nigeria.
- In 2019, the African Continental Free Trade Agreement (AfCFTA) was signed. The agreement seeks to transform Africa's defragmented markets by bringing a host of opportunities to facilitate inter-regional trade and deepen economic integration for participating countries.
- In 2020, Actis acquired majority stake in Rack Centre, the first on the Continent to be Tier III Constructed Facility Certified in April 2017.
- In 2020, Rack Centre announced a USD $100 million expansion to create West Africa's largest data centre.

### Key Players:

actis – Investor

Jagal – Investor

Agility – Investor and Developer

MainOne – Owner Occupier

RACKCENTRE – Owner Occupier

flux Logistix Limited – 3PL Operator & Developer

## New Development Profile

### Rack Centre, Data Centre - Ikeja

| | |
|---|---|
| **Tier** | Tier III Data Centre |
| **Lagos Operations Commenced** | 2013 |
| **Current Installed IT Power Capacity** | 750KW (in Lagos Facility) |
| **IT Power Capacity after initial expansion completes in 2021** | 1.5KW (in Lagos Facility) |
| **IT Power Capacity after overall expansion** | 13KW (in Lagos Facility) |
| **Total net lettable white space after initial expansion completes in 2021** | 1,200$m^2$ |
| **Total net lettable white space after overall expansion** | 6,000$m^2$ |

Rack Centre is a carrier neutral Tier III Constructed Facility Certified data centre in Africa offering colocation, content distribution, interconnect and Cloud services. They recently announced a USD $100 million expansion in a bid to create West Africa's largest data centre. The Actis-backed company outlined a programme that will increase capacity to a total net lettable white space of 6,000$m^2$ and allow for 13MW of IT power capacity in its Lagos campus. This will be in addition to the current expansion already underway to double existing capacity to 1.5MW and 1,200$m^2$ of white space in early 2021.

**"We are proud of the quality and scale bar we have set in the region and are scaling to be the de-facto digital data hub for West Africa."**

Dr. Ayotunde Coker, Managing Director of Rack Centre in a press release on Rack Centre's website.

# Case Study: Agility Logistics Parks - Nigeria Facility

Agility is a world leading warehouse developer with a global warehouse park portfolio of over 21,000,000$m^2$. The Agility team is developing a pan-African network of world class warehouse parks. To date the company has funded, developed and opened international standard warehouse parks in Ghana, Cote D'Ivoire and Mozambique with each park representing an individual investment of USD $150 million.

## FLAGSHIP NIGERIA PROJECT

### PROJECT SUMMARY

| | |
|---|---|
| **Location** | Lagos/Ogun State Border, Nigeria |
| **Size of Park** | 270,000$m^2$ |
| **Leaseable Area** | 50,000$m^2$ (Phase 1) |
| **Status** | Implementation |
| **Target Completion** | 2022 |

## OTHER AFRICAN PROJECTS

**Location:** Tema, Ghana **Status:** Phase 1 - 5 Completed
**Size of Park:** 160,000$m^2$ **Leaseable Area:** 60,000$m^2$

**Location:** Abidjan, Cote d'Ivoire **Status:** Completed
**Size of Park:** 500,000$m^2$ **Leaseable Area:** 16,000$m^2$

**Location:** Maputo, Mozambique **Status:** Nearing Completion
**Size of Park:** 290,000$m^2$ **Leaseable Area:** 32,000$m^2$

**"The COVID Pandemic has had wide reaching impact on business globally and Nigeria is suffering from a double whammy from the direct reduction in economic activity from the pandemic combined with the collapse in the oil price.**

**However, Nigeria remains Africa's strongest potential market with significant medium and long term growth opportunities. Macro trends that had been forecast to develop over the coming decades are happening more immediately as a result of changes that have been due to the pandemic.**

**There is significant new interest in local manufacturing; e-commerce and its fulfilment; a reduction in JIT manufacturing; increased local stockholdings and local assembly and resource beneficiation.**

**All real estate sectors have seen dramatic changes from the pandemic, but the warehouse sector, unlike many other real estate sectors, is seeing increased demand and a growing opportunity to provide the infrastructure required for both local companies and multinationals to align with the demands of the new normal."**

Geoffrey White, CEO,
Agility Africa.

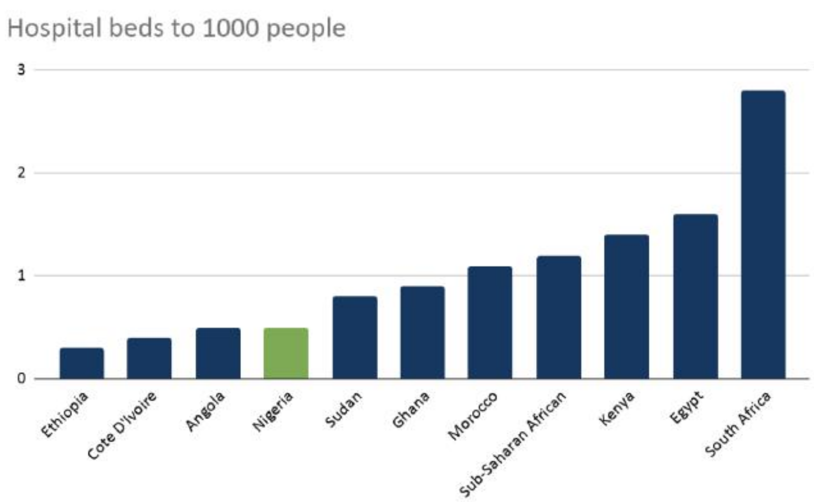
# Overview - Healthcare

**Market Supply:**

The inadequate supply is proven by the limited number of beds availble in the country. Although quite outdated, the World Health Organization (WHO) published in 2004 that Nigeria has a total of 0.5 hospital beds per 1,000 people. At the time, this was 900% lower than the WHO recommended ratio of 5 hospital beds to 1,000 people and 58% lower than the sub-Saharan African average of 1.2 beds to 1,000 people. The current health expenditure as a percentage of GDP, standing at 3.76% is also one of the lowest among Africa's largest economies.

**Market Demand:**

The perceived lack of adequate quality facilities in the country has prompted those who can afford it to seek treatment abroad. According to the Nigerian Sovereign Investment Authority, Nigerians could be spending as much as USD $1.6bn per annum on outbound medical tourism, which in comparison represents over 11% of the country's entire USD $14trn health expenditure. Redirecting the medical tourism expense back into the country should be the priority to investors looking this way.




SOURCE: WORLD HEALTH ORGANISATION 2004


SOURCE: FEDERAL GOVERNMENT OF NIGERIA & NIGERIAN SOVREIGN INVESTMENT AUTHORITY

# Highlights - Healthcare

## Recent Activity

- In 2017, Hygeia acquired a 35 bedded multi-disciplinary, tertiary care hospital in Lagos. The acquisition also included Gold Cross MRI Diagnostics also in Lagos; a fully operational diagnostic centre with MRI, CT Scan and other diagnostic facilities.
- In 2019, TPG closed the transaction to take over Abraaj Group's Growth Markets Health Fund now known as Evercare Health Fund.
- In 2020, Evercare Hospital, a multispecialty and tertiary care facility backed by international private equity capital will become operational.

### Key Players:

AfyACare

Investor

evercare

Developer

HYGEIA HMO

Health Maintenance Organization and Owner

## New Development Profile

### Evercare Hospital, Lekki Phase 1

Formerly known as Dr. Charles Hammond Clinic, the Admiralty Evercare Hospital is located on the corner of Admiralty Way and Bisola Durosimi-EttiStreet in Lekki Phase 1 and offers a range of care across a range of speciality medical services.

| | |
|---|---|
| **Number of Beds** | 165 |
| **Developer** | Evercare |
| **Commemncement Date** | 2017 |
| **Completion Date** | 2020 |

# How do you succeed in these new markets?

## YOUNG PROFESSIONAL HOUSING

**Strengthening off plan sales strategies:**
Developers highlighted debt funding as a major challenge. Finance institutions, particularly banks issue loans that are not suitable for real estate projects as they begin charging interest even during early construction stages. In overcoming this challenge, developers need to strengthen their strategies for off plan sales to help in raising funding pre-construction. Some developers have highlighted reaching out to agents outside of the country to help with holding marketing events as a strategy that worked.

**Finding the right price point:**
The pricing for young professional housing needs to be competitive as this market segment is quite price sensitive. As developers incur construction related costs, they also need to be sensitive to the resultant effect on sales and rent values.

## STUDENT HOUSING

**Structuring Better Private-Public Partnerships with Universities:**
Despite the opportunity investors have faced challenges when attempting to structure financing as educational institutions who lease land to developers create terms of agreements that are onerous and difficult to finance. Agreements that take the requirements of the funding partner into consideration will drive more activity in this segment.

**Repurposing Assets:**
Developers are advised to model worse case scenarios where student housing developments can be repurposed flexibly to suit future demand shifts such as hotels or young professional housing.

## INDUSTRIAL

**Targeting occupiers:**
As the industrial sector is yet to receive large amounts of private institutional capital, good quality space is typically developed by owner occupiers. Working in close contact with these existing occupiers is an ideal starting point for new investors. On the other hand, because the quality of stock is so poor, A and B Grade fully speculative developments are usually able to reach strong occupancy in less than 12 months.

**Understanding regional hubs:**
Occupiers usually have various industrial use preferences by location. Some locations are hubs for storage and industrial admin, while others are hubs for manufacturing and assembly line. Understanding what type of shed to build in a specific location is important to avoid long void periods.

## HEALTHCARE

**Government partnerships:**
Without Government participation, investors in the healthcare sector will be unable to tap into the latent potential is Nigeria's 'large attractive population'. Due to the widespread poverty in the country (over 70% on less than $1.50 a day), most Nigerians will need some form of government support to access healthcare.

**Attracting patient capital:**
Similar to the industrial sector, large amounts of private institutional capital is yet to flow towards the healthcare sector. As such, patient capital that can maintain staying power during the wait for a public sector breakthrough is required to succeed.

FOR ENQUIRIES

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