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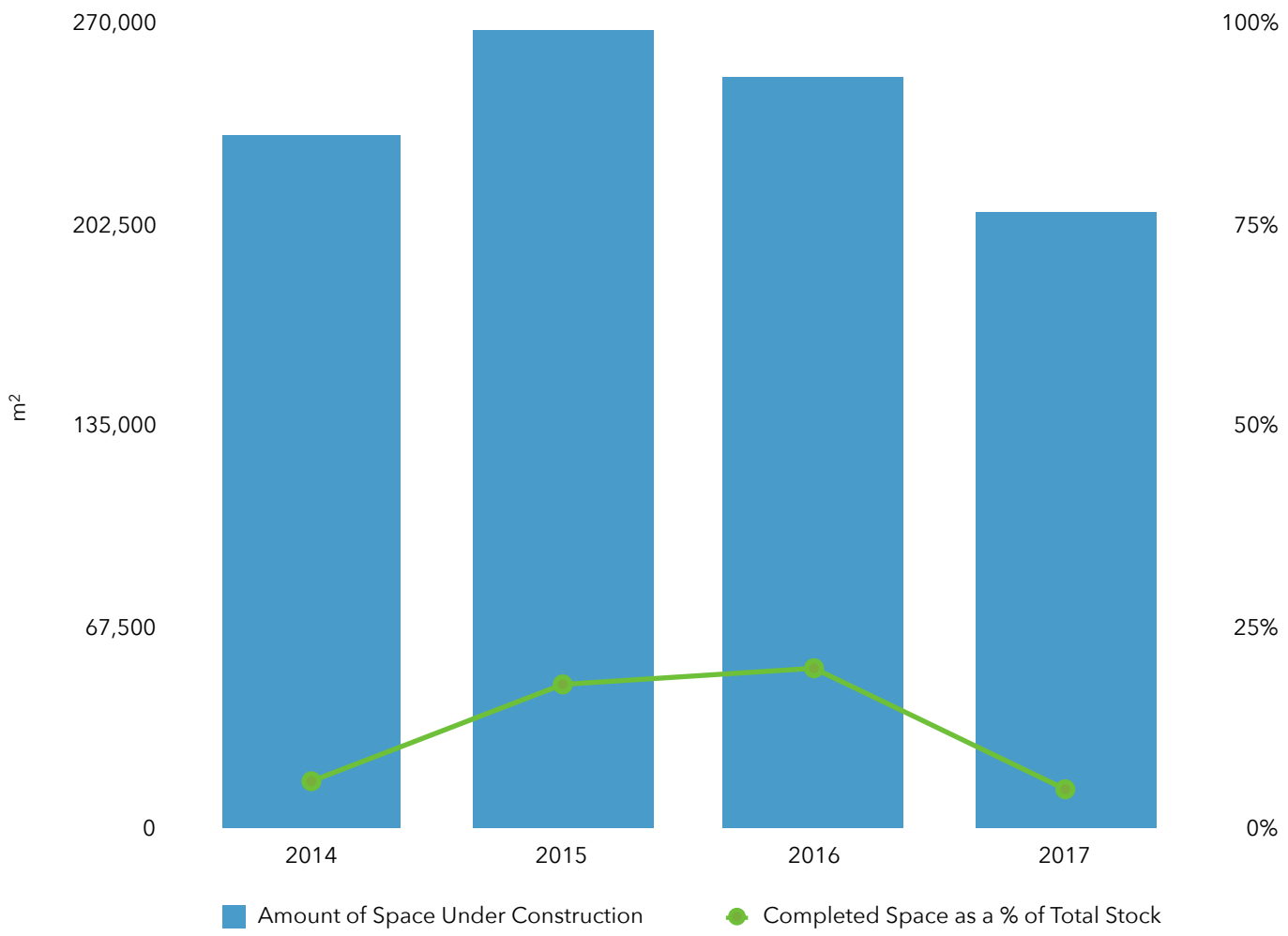
# The 2017 Lagos Office Market in 5 Charts

With the lowest building completions in 3 years, 2017 provided an opportunity for the market to try to absorb the disruptive amount of space that was delivered during 2016. Leasing activity during the year was led by the technology sector and B Grade properties took the biggest rental hit, as the new high specification supply sent older buildings down a pricing level. The year 2018 will seemingly be another big one for building completions, which are forecasted to come in at 20% of total stock. Market sentiment, however, is still strong on the back of Nigeria's recent economic recovery, even with the elections expected in the next 12 months.

*Excerpts from the ei Web App*

*February 2018*

# Fewer building completions




Source: ei Database

**Amount of Space Under Construction**: Total amount of square meters of space under construction within a given period, usually a year.

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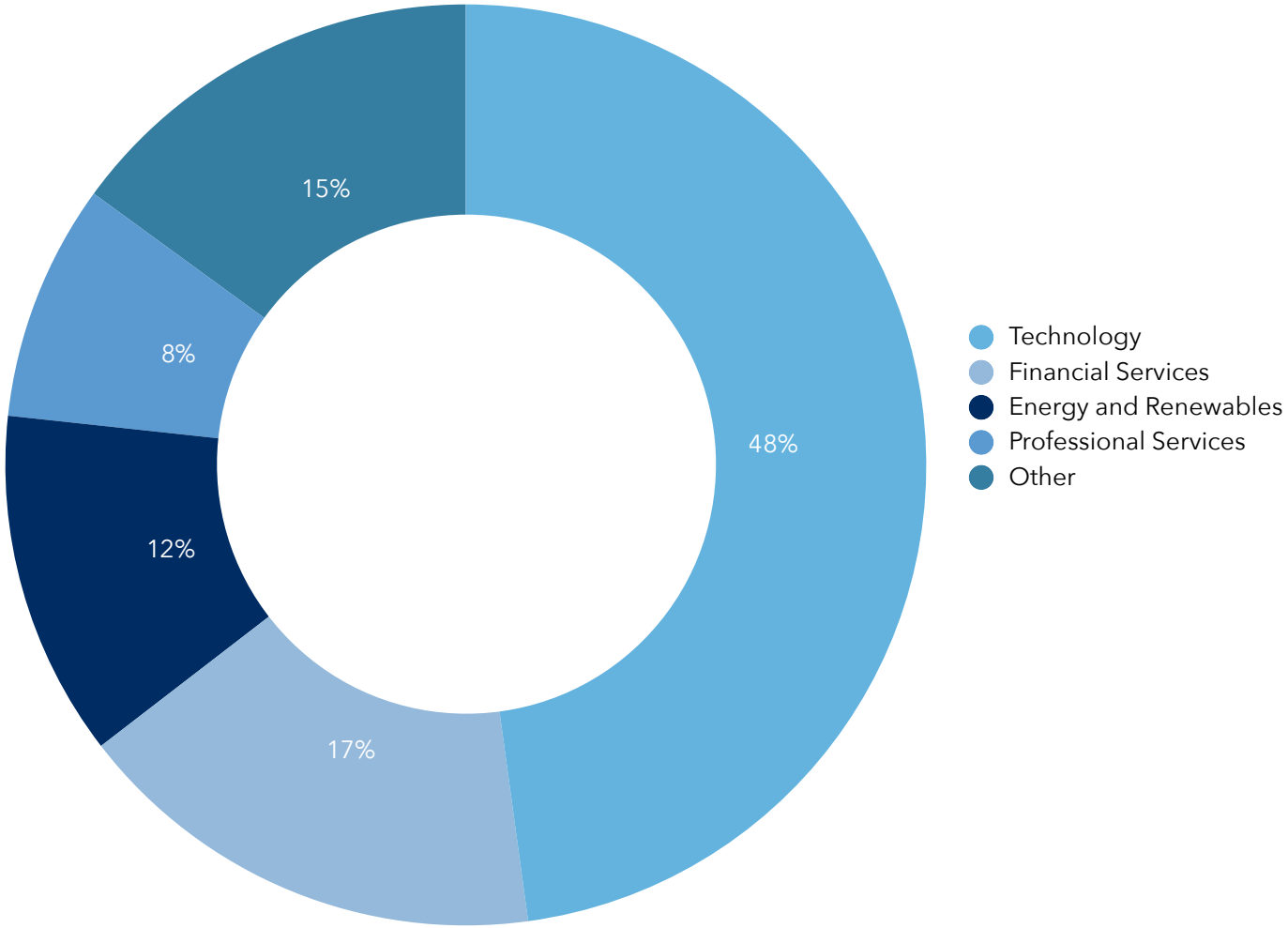
## Construction and Completions

- Active construction of purpose built office space within Lagos reduced to 206,000m² during 2017, 18% less than the previous year.
- The reduction in active construction was a result of significant completions noted during 2016 and not a direct impact of Nigeria's recession or halted projects.
- The slowdown in completions provided some time for the market to try and absorb the space delivered during 2016, which came in at a disruptive 20% of stock at the time. Studies say additions to supply above the 5-10% range typically lead to market shocks.
- The impact of the recession was seen more in delays in building completions, which pushed up to 19,600m² to the next year.
- Major projects that remained in the pipeline after significant completions in 2016 include Kingsway Tower and Alliance Place.
- Notable project starts during the year include the long planned Trinity Tower in Oniru, the Continental Reinsurance HQ in Victoria Island and a handful of small commercial projects in Lekki Phase 1.

# Technology remains king




Source: ei Database

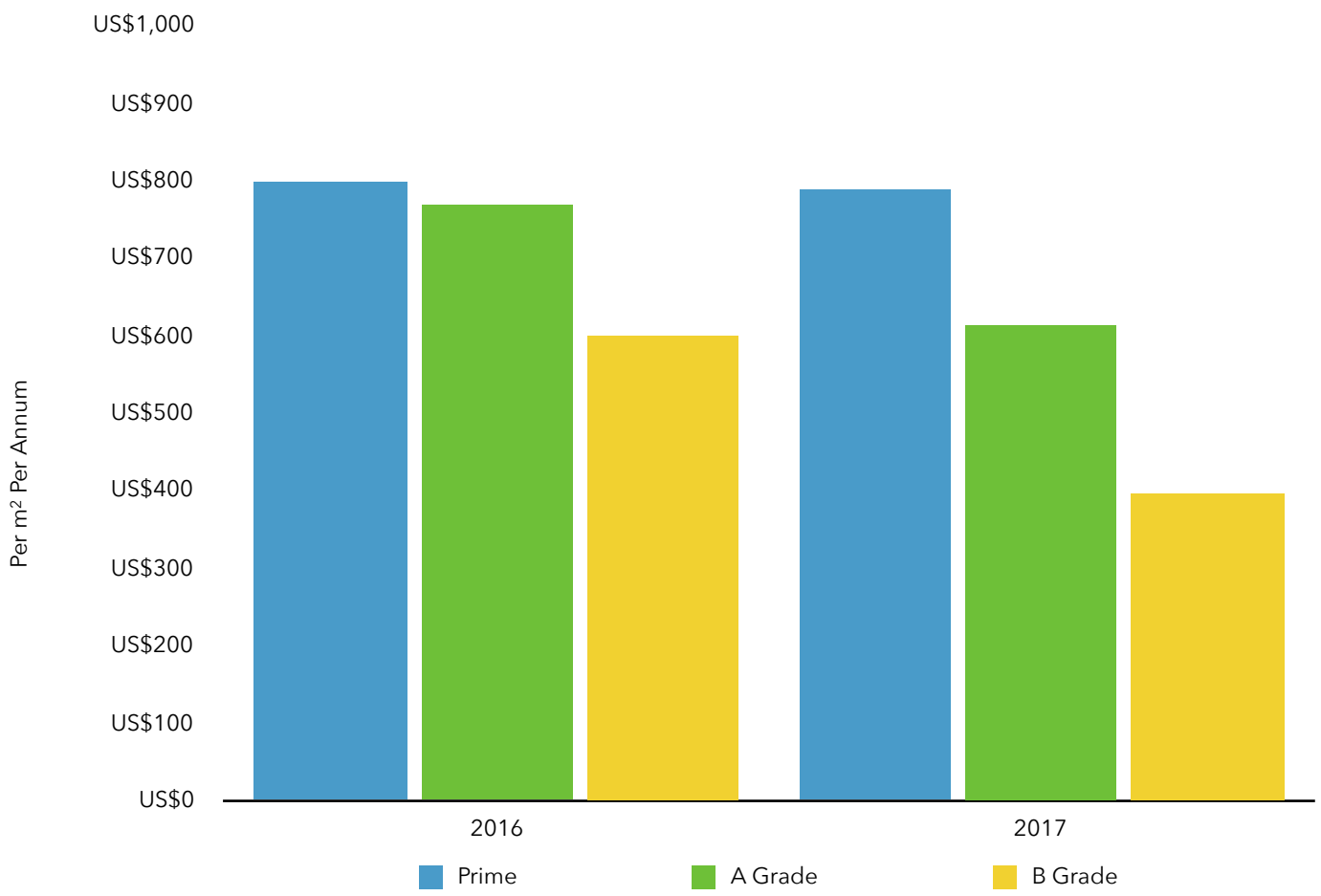
### Acquisition of Office Space

Outside leasing, IFC acquired office space within Alliance Place, a 12 floor office development on Alfred Rewane (Kingsway) Road in Ikoyi. IFC currently occupy space in Atlantic House in Victoria Island, owned by the Sanlam Africa Core Real Estate Fund. Office space acquisition is not common practice within the Lagos market, but Capital Alliance Property Investment Company, the sponsors of Alliance Place, are also adopting a rent or buy strategy for their Cornerstone HQ development in Oniru.

## Performance - Market Drivers

- Similar to previous years, the technology and financial service sectors remained the largest drivers of leasing activity.
- Based on transactions tracked, 48% of leasing activity in 2017 was generated by activity in the technology sector.
- Notable leases include Oracle's relocation from Avenue Suites to a 2,000m² space in Heritage Place, Ikoyi as well as TekExpert's 2,000m² lease in The Wings, Victoria Island.
- Largely performing sales functions, the biggest drivers for firms operating in the technology sectors are banks, governmental organisations and the telecommunications companies.
- Demand from those relocating out of serviced offices such as Regus continues to rise. iFlix, OCP, Andersen, HP and many others grew out of Regus' office in Mulliner Towers during the year.
- Smaller spaces between 100m² - 250m² have remained popular and many landlords have adjusted their floor plates to accommodate tenants who require as little as 90m².

# Hard times for B Grade property




Source: ei Database; Victoria Island & Ikoyi

***Prime Grade:*** *Newly developed properties that are well located in commercial regions, with key amenities/facilities including, but not restricted to, raised floors, flexible floor plates with few pillars, high floor to ceiling lengths, excellent parking ratios of no more 1:45, strong green building features, cafes/gyms and more.*

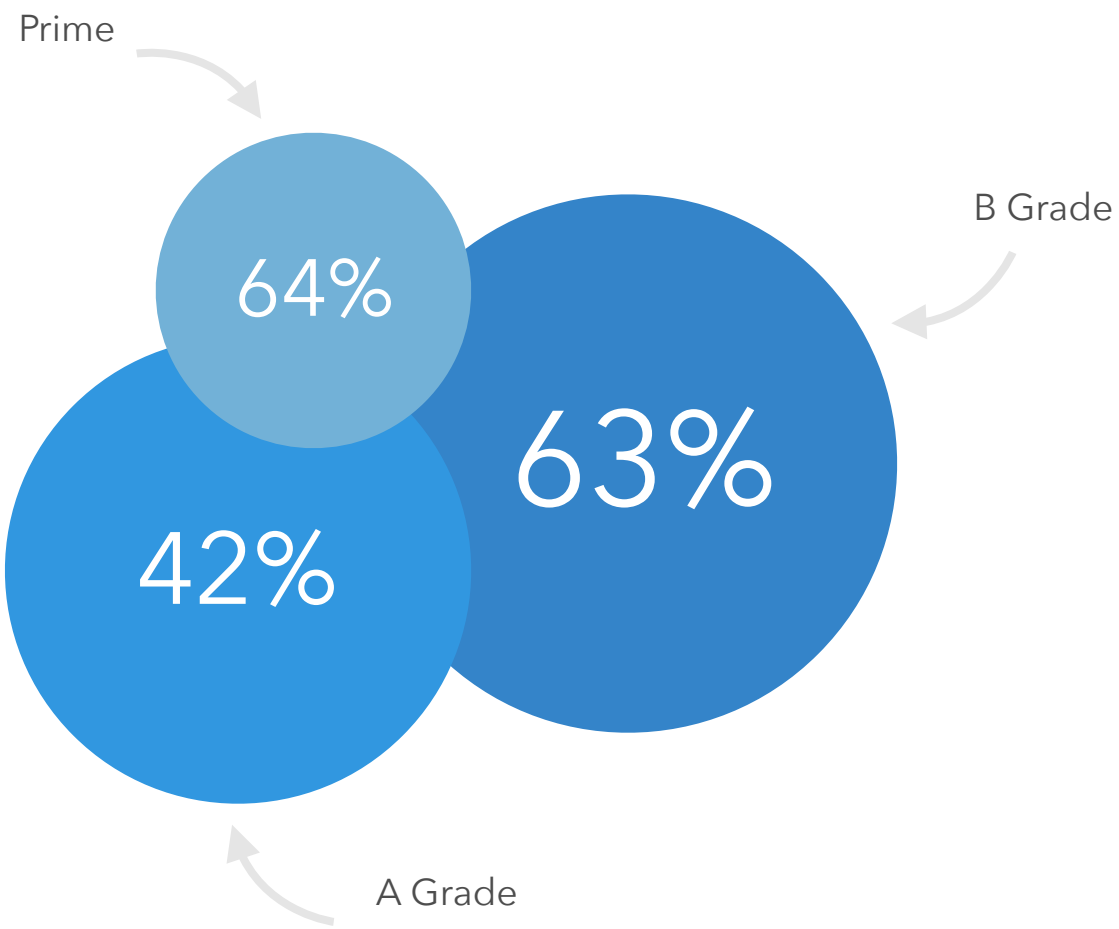
***A Grade:*** *Well built properties that are similarly located within commercial regions which do not include key features the very best properties in the market possess. At this point, these are strong green building features and raised floors.*

***B Grade:*** *Properties typically regarded as average when compared with the others on the market. These properties may be older with lower floor to ceiling heights, poorer parking ratios of 1:65 or worse and few or no additional amenities.*

## Performance - Rental Trends

- During 2017, downward rental pressure as a result of Lagos' largest supply additions including Heritage Place (15,236m²) and The Wings (27,000m²) slowed as leasing activity picked up.
- Average rents for prime space fell marginally, while rents for A and B Grade property fell 19% and 30% respectively.
- Quality buildings, completed just before the large supply dump in 2016, that secured $900/m²/annum+ rents have now had their leases revised to market rates during (often accelerated) renewals amidst cut throat competition.
- The improvement in specification of buildings available has sent those which are older, down a pricing level.
- Aside a significant reduction in asking rents within this segment, most B Grade buildings can no longer demand Dollar linked rental payments.

# At least it's better than 2016

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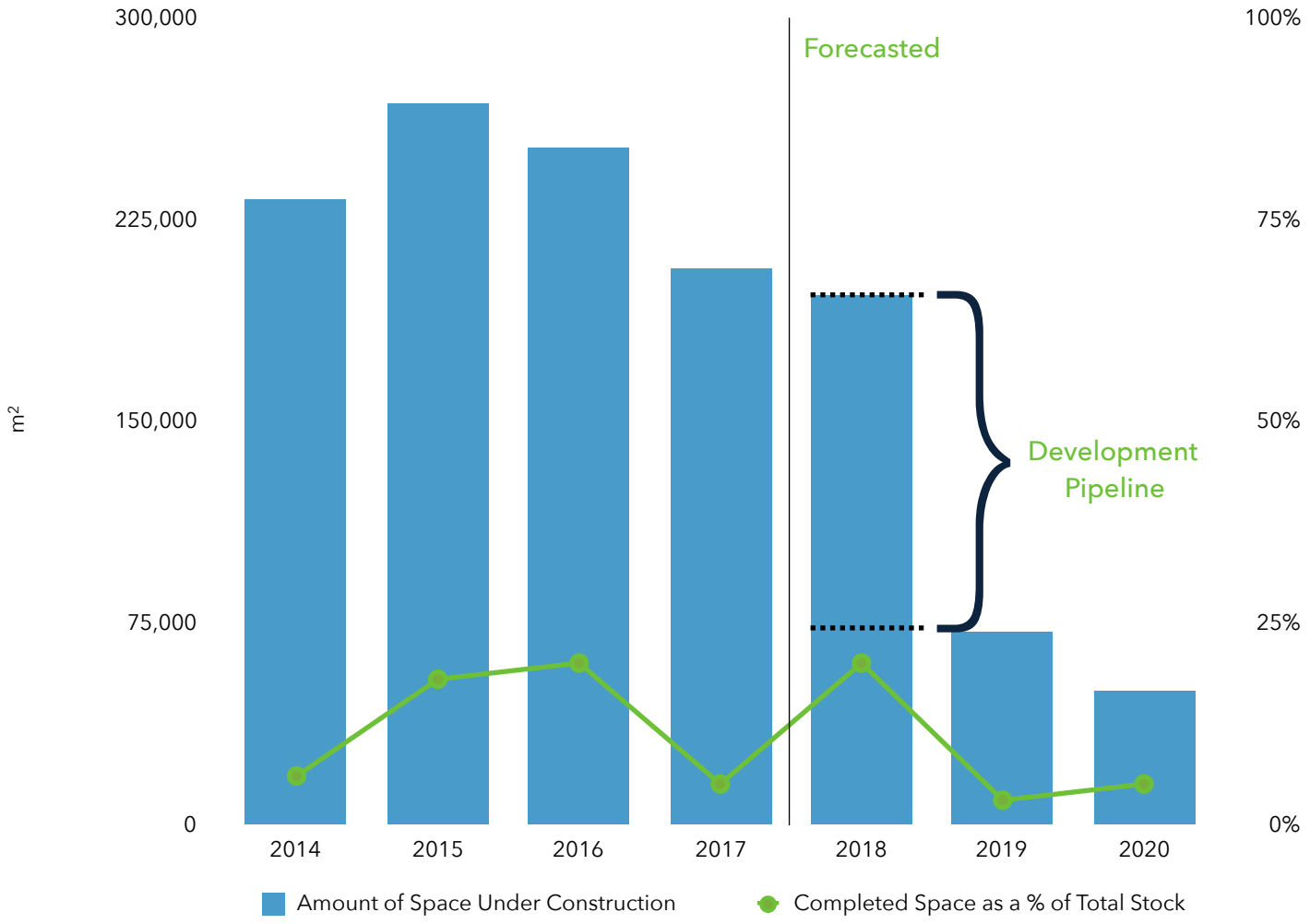
## Occupancy Rates

- Occupancy among the few buildings in the Prime Grade segment was approximately 64%.
- Actis reported that Heritage Place was 60% occupied in Summer 2017 to an attractive mix of tenants across varied sectors.
- Occupancy in A Grade (+ & -) properties was lower, at 42% due to large vacancies in properties including NIPOST Towers (22,000m$^2$) and other similarly sized properties.
- Pier Point (1,500m$^2$) on Ajose Adeogun Street reached full occupancy as a result of Rendeavour and OCP's entry.
- Occupancy in B Grade + properties was approximately 63%.

# Big year of completions ahead

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## Development Pipeline

- Year end 2018 appears to be another large one for building completions as approximately 127,000m² is in the development pipeline.
- This new supply will represent close to 20% of total stock, which could lead to more rental shocks in the year to come should the demand prove to be insufficient.
- Among many others, projects scheduled for completion in 2018 include Desiderata, Kingsway Tower and Alliance Place in Ikoyi, Raymond Place in Lagos Island, Madina Tower and the BUA Group HQ in Victoria Island, CDL HQ in Ikeja GRA as well as many other projects in Lekki Phase 1.
- This development pipeline is not all fully speculative as it includes projects which will be completely taken up by the Nigerian financial service and technology firms that developed them.
- Altogether market sentiment is rising. Service providers and asset owners are optimistic despite the looming election, which is now 12 months away.

# A FEW RECENTLY DEVELOPED PROPERTIES

Lagos - Ikoyi, Victoria Island and Lekki. 'The Island'

1 MM Drive - 2010
5,292m²

NDIC HQ - c. 2020
c. 15,000m²

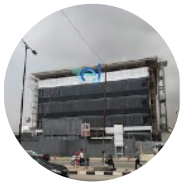
Heritage Place - 2016
15,736m²

Temple Tower - 2016
15,000m²

Kingsway Tower - 2018
13,213m²

Lakepoint Towers - 2017
14,730m²

Desiderata - 2018
4,654m²



Office Project - 2018
c. 5,000m²

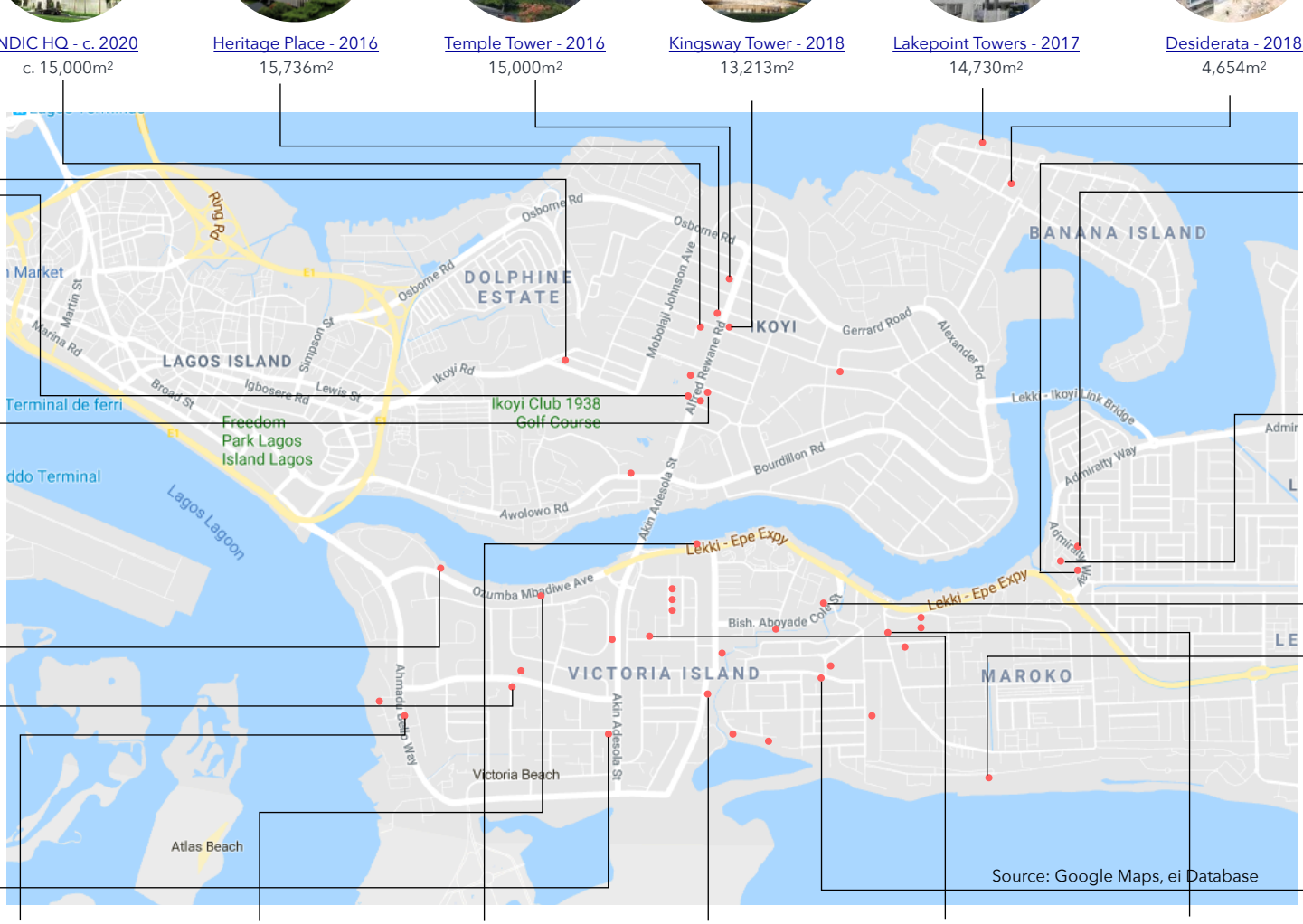
Alliance Place - 2018
6,670m²

Rising Sun - 2015
4,000m²

Wings Towers - 2016
27,000m²

Nestoil Tower - 2016
7,500m²

NIPOST Towers - 2015
22,034m²




5 Floor Development - 2018
1,475m²

5LY - 2018
2,100m²

Landmark Tower - 2015
6,750m²

Pier Point - 2015
c. 1,500m²

Mansard Place - 2013
6,903m²

SCB HQ - 2014
7,500m²

Madina Tower - 2018
8,140m²

Civic Tower - 2015
8,096m²

Eko Tower - 2012
15,000m²

Greystone Tower - 2018
c. 7,000m²

Cornerstone HQ - 2018
12,000m²

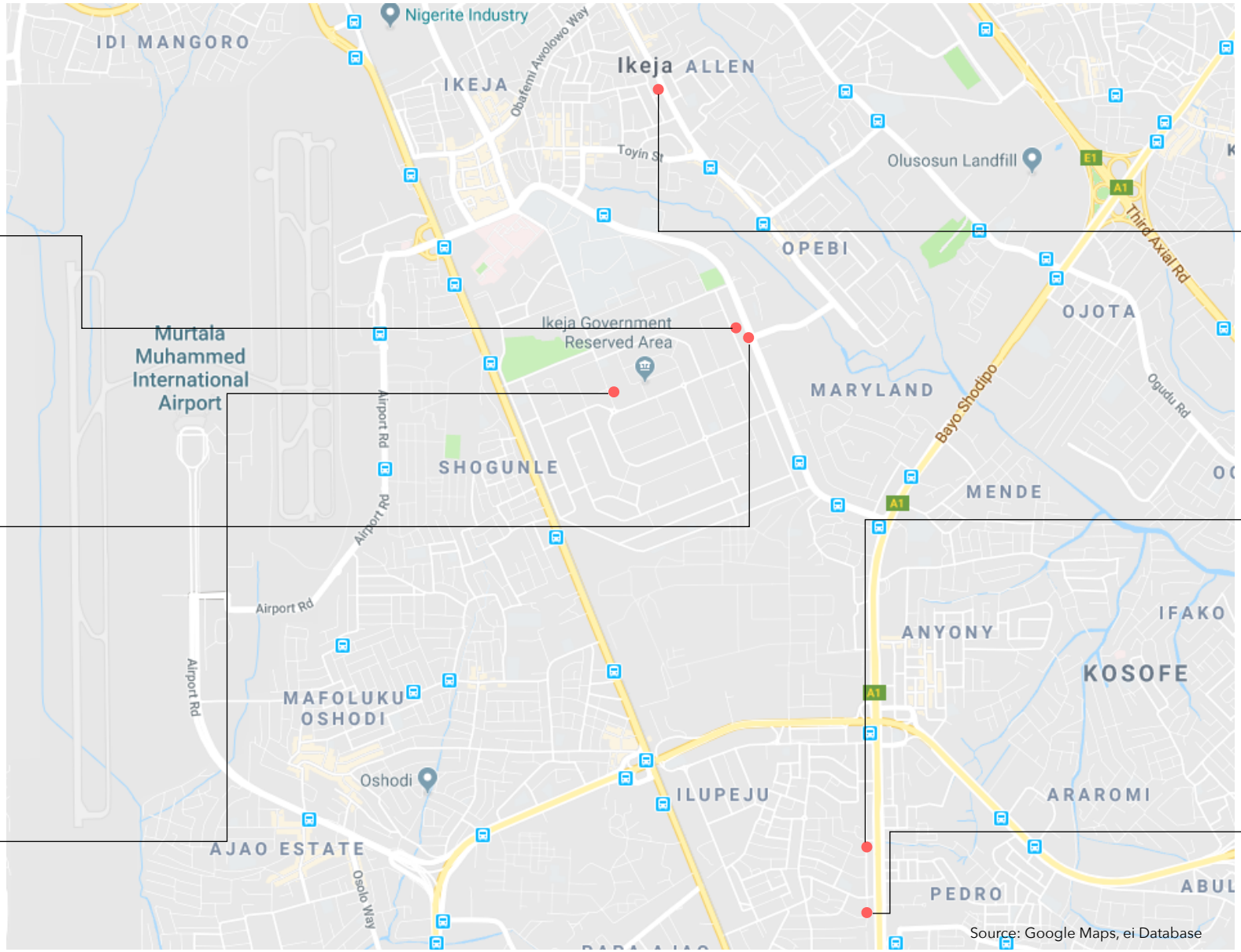
# A FEW RECENTLY DEVELOPED PROPERTIES

Lagos - Ikeja and Ikorodu Road. 'The Mainland'

Landmark House - 2013
4,000m²

Credit Direct Limited - 2018
c. 4,000m² (gross)*

Akewusola Tower - 2016
c. 3,000m²




Source: Google Maps, ei Database

SkySat Building - 2018
2,650m²

Office Project

NEM Insurance HQ - 2015

*Adjustments to size being made.

# Emerging Trend - Q1:2018

## Lekki Phase 1 as a new commercial hub

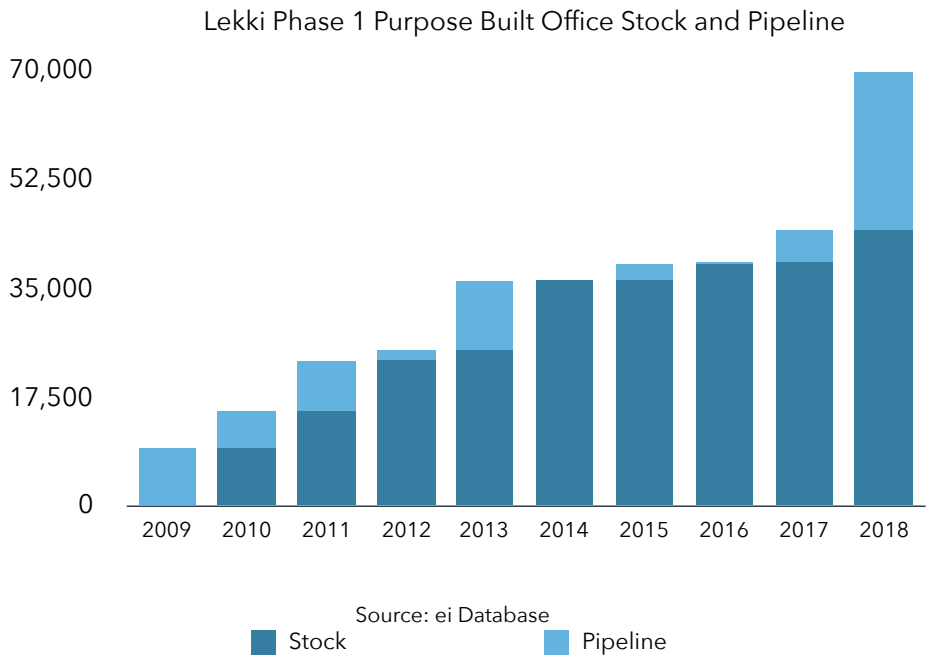
Our emerging trend spotlight for Q1:2018 is Lekki Phase 1, which was planned as a residential gated community but is transforming into a commercial hub as a result of its proximity to core regions, new infrastructure, competitive land prices and attractive demographic.

The supply of commercial space in the Lekki Phase 1 region has grown annually by 38%, on average, since 2011. At the end of 2017, the stock of space in Lekki Phase 1 rose to more than 44,000m². The development activity is being driven by indigenous real estate development firms, HNIs and Nigerian companies developing their headquarters and leasing out excess space. This is in contrast to other commercial regions such as Victoria Island and Ikoyi where the activity is increasingly driven by institutional investors. Quality of space is also beginning to change in the region as the larger percentage of stock is transitioning from the smaller residential conversions to the better designed and more formal purpose built office spaces.

***The demand for office space in Lekki Phase 1 is driven by a number of sectors including, Oil and Gas Services, Financial, other Professional, and Technology Services, Construction, and corporate offices of Retail and FMCGs.***

Over 23,000m² of office space will be coming on stream in the Lekki Phase 1 in the next 12 months. The Ashimina development and the 4 floor office development on Admiralty Way are among the largest.

Despite the increasing supply within Lekki, rents are expected to remain largely stable with a slight upward trajectory as new




developments will be able to capture relocation demand from residential conversion occupiers within Lekki or those seeking to leave C Grade properties in Victoria Island or Ikoyi into newer but still affordable office space. Achievable rents in the region range between ₦40,000 - ₦50,000/m²/annum but newer properties are asking for much more.

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