The Nigeria Real Estate Market Review and Strategic Outlook 2017

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ESTATE SURVEYORS + VALUERS

1991-2016 25TH ANNIVERSARY

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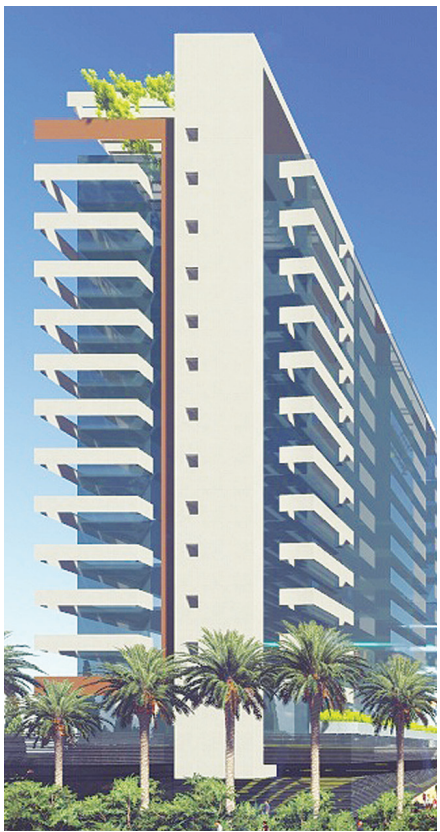

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We might not be able to comprehensively list the names of everyone who participated in making this report birth in the light of day, rest assured though that we are most grateful and look forward to more fruitful engagements with you, going forward.

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EXECUTIVE SUMMARY

Real estate, like the stock market, is seen as a major store of value. But funds that had traditionally poured into the real estate market before the change of government have in recent times shied away for fear of attracting unwelcome attention.

One fact that would stay fresh in the minds of many Nigerians and investors in the various sectors of Africa's most populous nation and largest economy is the fact that it slipped into what many economists have referred to as an avoidable economic recession in 2016. This was largely due to both monetary and fiscal policies which stoked inflation, slowed economic growth and created a volatile exchange rate regime.

This report reviews the events that took place in both the macro and micro-economic spheres in 2016 leading up to the recession and how these impacted real estate markets. It also outlines the real estate market outlook for 2017. Real estate investors would find in this report handy, actionable business information.

The first chapter of the report reviews the political dynamics, described by some as a wind of change, which ushered in an All Progressive Party's government led b y President Muhammadu Buhari. This was a momentous event in the history of Nigeria because it was the first time an incumbent lost an election and ceded power willingly and gracefully.

The second chapter highlights the big factors which shaped the macro-economy. The two biggest movers were the fall in crude oil prices and drop in crude oil production. The 2016 budget was based on a production forecast of 2.20 million barrels per day but due to militant activities and pipeline vandalism production stayed at a little above a million barrels per day.

Oil prices dropped to a record low of $26.00 dollars per barrel on February 11, 2016 before it rebounded to as high as $56.00 per barrel in December 2016 on the Organization of Petroleum Exporting Countries (OPEC) agreement to cut production by 1.20 million barrels per day during the groups November 30 2016 meeting.

The effect of these twin factors, namely, drop in Nigeria's crude oil production which was at a level of 1.988m bpd in October 2016 up from 1.943m bpd last in September and down from 2.305m bpd record of 2015 and fall in oil prices reverberated through the economy.

It led to shortages of foreign exchange (the US Dollars in particular) which led the Central Bank of Nigeria, to initially peg the exchange rate at $/197. This capital control discouraged the inflow of foreign capital. Part of the consequences was that the economy went into a recession after two consecutive quarters of negative growth.

Chapter three examines the micro-economy and how households and firms responded to these macro-economic movers. The Consumer Price Index, a measure of the inflation rate or

consumer goods and services prices climbed to 18.55 percent year-on-year in December 2016, following an 18.48 percent rise in the previous month. The inflation rate accelerated for the 11th straight month to the highest since October 2005, as prices continued to rise for housing, electricity and food items.

Some firms operated at 20 percent capacity and job loss rates rose because companies needed to contain costs in response to the foreign exchange volatility. For instance two consecutive quarters of negative growth in Q1 (-4.69%) and Q2 (-5.27%), 2016, meant Nigeria's economy and the real estate sector were in recession and probably in its worst shape in decades.

The fourth chapter evaluates how real estate fared during the year under review and right from the first quarter of 2016 the signs were evident that it was going to be a challenging year for players in the sector judging from the uncertainty or lack of economic direction of President Buhari's administration which had promised change for the people and the economy.

The middle - low end of the markets remained relatively active, whilst the high end sales and rental markets were down, such that some properties have dropped by as much as 40 percent in asking rent.

The fifth and last chapter outlines the outlook for real estate in 2017. Optimism remains high among investors who hold that the fundamentals of the market are still strong. However, what would determine the volume of activity in the sector would depend on both the fiscal and monetary policies direction. This means that across board in 2017, if the 2016 policies continue there will be further tightening of demand.

POLITICAL REVIEW OF 2016

The report reviews the politics of 2016 because in a nation such as Nigeria with weak institutions the politics influences the micro and macro economic policies which in turn impact real estate and real estate investments and decisions.

The general election that brought the current administration of President Muhammad Buhari into power was arguably the most competitive since the transition to democratic rule in 1999. This is because parties in political opposition formed a formidable alliance to unseat the incumbent. They succeeded with dire political and economic consequences.

It seems safe to say the country's current shape was not what Nigerians anticipated after their votes saw the former military ruler sworn into power under the umbrella of the All Progressives Congress (APC) in May 2015.

The then incumbent President Goodluck Jonathan, had sought his second and final term but conceded to President Buhari, after the former's administration was allegedly marred with accusations of high level corruption and misappropriation of funds, one of which was the $2.10 billion arms deal scandal.

Mr. Jonathan's political ineptitudes gave Buhari's campaign the perfect theme - "War Against Corruption" - and that was exactly what majority of Nigerians wanted to hear.

President Buhari beat Jonathan by more than 2.50 million votes, according to the final results released by the Independent National Electoral Commission (INEC). The APC won 15,424,921 votes and whilst the People's Democratic Party (PDP) garnered 12,853,162 votes.

Worthy of note is the fact that it was the first time in the history of Nigeria that a sitting President was removed from office through the ballot box. The former military ruler dominated the country's north-western/eastern states, which had suffered most from attacks by the Islamist militant group Boko Haram.

In Borno State, one of the worst-affected by Islamist violence, Buhari won 94 percent of the votes. The incumbent President fought corruption alright, going after big wigs that were linked to unscrupulous activities from former National Security Adviser to President Jonathan, Sambo Dasuki to Olisa Metuh, the National Publicity Secretary of the opposition party, the People's Democratic Party (PDP).

Even though President Buhari admitted months into his administration that corruption was "fighting back vigorously" he promised not to falter or renege on his promise to Nigerians.

Almost two years into his administration, however, Nigerians may have caught flashes of a dogged fight against corruption here and there, and a reduced tempo in killings in the Boko-Haram ravaged north eastern Nigeria, but the citizenry saw more to keep them distracted from keeping a coherent scorecard of Buhari's corruption fight and political milestones.

Under Buhari, oil prices crashed by more than 50 percent to as low as $26 per barrel from about $100 in 2014, plunging the economy, which is largely dependent on oil exports into unprecedented recession since 1991.

Faced with the option of currency devaluation, Buhari was bent on holding a currency peg which soon led to job losses as businesses closed shop unable to get foreign exchange. With these job losses came a rise in poverty and the country's citizens were and are still hardest hit.

The President's job - approval ratings fell to new lows as public doubts soared about Buhari's capacity to move the economy to the path of recovery. It worsened further when Buhari decided to remove the petrol subsidy that had benefited the affluent in Nigeria rather than the poor it was targeted at.

Petrol costs rose to N145 per litre from N86.50, throwing many Nigerians into despair and worsening Buhari's image among the same people that voted him in.

Even the First Lady, Aisha Buhari, shocked many after she said in an interview that she would not vote for her husband in the next general elections because she did not understand the rationale behind many of the decisions of his administration.

Buhari may now be down to six quarters to make amends if he will stand a chance in the 2019 election.

This is given that an administration typically has 16 quarters, seven of which went with little economic activity, while the last three months leading to elections are usually spent electioneering.

In the light of analysis from Lagos based Financial Derivatives Company the attitude of the present government towards reforms has been rather slow and woeful compared to her oil peers reeling from the same declining oil fortunes.

While other oil producing countries embarked on a raft of policies to cushion falling oil prices, Nigeria continues to lag and a good example is the 2017 World Bank Ease of Doing Business ranking.

Nigeria remains the 21st worst country to do business in according to the 2017 World Bank Ease of Doing Business index. Poor scores on starting a business, getting electricity and registering a property, weighed adversely on Africa's largest oil exporter.

By contrast, other major oil exporters, Brunei Darussalam, Kazakhstan, the United Arab Emirates, and Bahrain implemented so many reforms to ease doing business, that they came in among ten of the most improved economies in 2017's ranking.

A special committee on improving the ease of doing business established by the government has recommended action to improve the business climate including, improving the ease of registering a business, resolving land use bottlenecks, smoothening government procurement processes and improving expenditure on infrastructure.

One of the reforms also recommends a single tax authority at each level of government to tackle the challenge of tax multiplicity and reduce its burden on businesses in Nigeria.

While it may appear President Buhari's foot dragging on implementing necessary reforms let the Nigerian electorate down, he gained significant points when negotiations between government and militant group, Boko Haram, saw to the release of 21 of the over 200 school girls kidnapped on April 14, 2014.

Despite these, President Buhari's plan to deal decisively with the economic slump that threatens his political standing through emergency powers may just be the tonic needed to kick-start growth and increase investor confidence in Nigeria.

Presidential sources announced in September 2016 that Buhari was seeking from the National Assembly, powers to push through his planned stimulus for the country's economy.

Objectives of the action plan on the economy included abridging the procurement process to support stimulus spending on critical sectors; and allowing express budgetary allocation to projects that are urgent, without going back to the National Assembly.

Others include:-

- amending certain laws, such as the Universal Basic Education Commission (UBEC) Act, so that States can more easily access cash trapped in the accounts of the Commission; and
- embarking on radical reforms in visa issuance at Nigeria's consular offices and on arrival in the country to improve the ease of doing business in the country.

The Emergency Economic Stabilization Bill 2016 is an indication that government is now seeing some sense of urgency and a need to rev up the ailing economy.

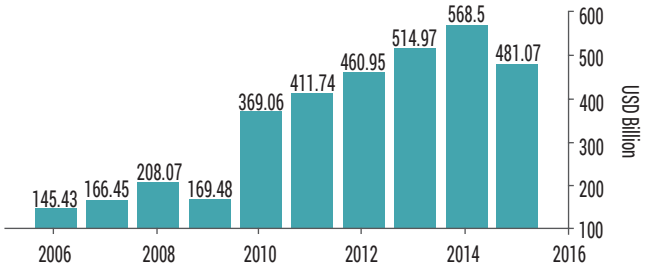
MACRO ECONOMY REVIEW

The Nigerian economy remains dependent on oil and whatever happens to the price of the black gold sends strong ripples through the entire economic ecosystem. Oil prices began a lengthy collapse in mid-2014, but it was not until 2016 after Iran's oil export ban was lifted and the United States shale oil was on stream that it all came crumbling down, trading at a record low of $26.20 per barrel on February 11, consequently putting Nigeria's economy under severe strains.

Demand for oil failed to keep up with the improved supply and revealed the cracks in the economy of oil dependent countries.

Africa's biggest economy erased an average Gross Domestic Product (GDP) growth of six percent in the last decade and is evidently stuck in recession. The National Bureau of Statistics (NBS) confirmed what the global

NIGERIA GDP



Source: www.tradingeconomics.com I World Bank

community knew was inevitable when it published its quarterly data that showed that the Nigerian economy contracted by 0.36 percent and 2.06 percent in the first and second quarters of 2016 respectively.

Compounding the economic strains amid an era of low oil prices, crude production dropped to its lowest ebb, because of militant attacks on oil installations. These attacks took Nigeria's oil production to levels last seen in the 1980s, at a little over one million barrels per day and affected oil companies declared force majeure on their terminals to commence repairs.

The decline in oil production added to the perfect storm already triggered by record low oil prices, blowing more holes into government revenue.

Against the odds of low revenue, Nigeria had set out to spend its highest on record national budget in 2016; a whooping N6 trillion to ease the pain of an economic lull.

Nigeria forecast a revenue of N820 billion from oil in the budget and for the first time it expected an inflow of N1.40 trillion from non-oil revenue and another N1.50 trillion from independent revenue. Oil revenue forecast was N1.60 trillion only in 2015. This was a 50 percent decline compared to the 2016 forecast.

However, a fall in oil production meant the modest forecast was threatened, since the budget was predicated on a daily production of 2.20 million barrels.

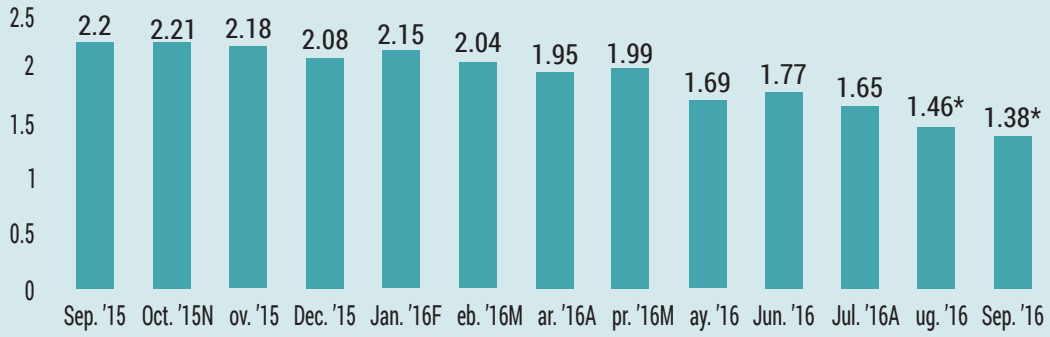
Non-oil revenue, which was to come from taxes and customs duties, also had the stumbling block of plunging corporate earnings to contend with.

As revenue forecasts fell short of expectations, Nigeria's N2.20 trillion budget deficit was swelling and added to that, the stimulus budget was not passed until May 11 2016.

The unemployment and underemployment rate for youths aged 15 - 24 years was a mammoth 58.30 percent.

Headline inflation hit double digits despite being in single digits an average of 9 percent in 2015 until January 2016.

NNPC PRODUCTION (BPD) %



Source: Nigeria National Petroleum Corporation (NNPC)

September 2016 inflation report showed that the cost of goods and services rose by 17.90 percent, the highest in 11 years and October's report put it at 18.30 percent.

At any chance given, President Muhammadu Buhari and his administration, pointed accusing fingers at the previous administration led by Goodluck Jonathan, as responsible for Nigeria's woes.The country's hydrocarbon wealth had been frittered away under the watch of his predecessors. Therefore, Nigeria barely managed to save $1.20 billion dollars in its Sovereign Wealth Fund (SWF), a fund usually set aside for rainy days in oil exporting countries.

Almost every member of the Organisation of Petroleum Exporting Countries (OPEC) operates a Sovereign Wealth Fund (SWF) to ring fence oil revenue and offset the adverse impact of commodity price volatility.

Nigeria's oil peers in terms of production, Angola, Algeria and Libya who produce 1.90 million, 1.80 million and 1.60 million barrels per day respectively, locked away $5 billion, $50 billion and $67 billion respectively.

The country 's poor savings extended to her external reserves which crashed to $30 billion in 2015 from $65 billion in 2007 and down to $24.74 billion as at September 2016.

On another front, Jonathan's administration was enmeshed in accusations of corrupt practices and misappropriation of funds meant for security and infrastructure.

Reduced value for government spending was another legacy factor as recurrent expenditure gulped over 70 percent of Nigeria's annual budgets.

However, Buhari, rather than take bold steps to stir Nigeria away from the current economic crisis, the collapse in oil price compounded the situation by unleashing a series of policies ranging from capital controls to a currency peg hedging out foreign investment inflow.

After oil, diaspora remittances as well as foreign portfolio and direct investment were the second and third largest sources of dollar inflow into the country but they would go dry in reaction to the unpopular currency controls.

In 2015 Nigerians in diaspora sent home $21 billion to their families according to the World Bank, but spooked by the Central Bank of Nigeria's compulsion to change their dollars for a pegged N197, when the dollar sold for almost N320/$ at the unofficial market,

many sought ways to beat official channels. This way, they were able to exchange their dollars at higher rates at the parallel market.

Another blow to remittances came when the Central Bank of Nigeria clamped down on unlicensed international money transfer operators without prior notice. The sudden ban on the unlicensed operators was similar to the Indian scenario where overnight the country decided to phase out the 500 and 1000 rupee notes on the 8th of November 2016.

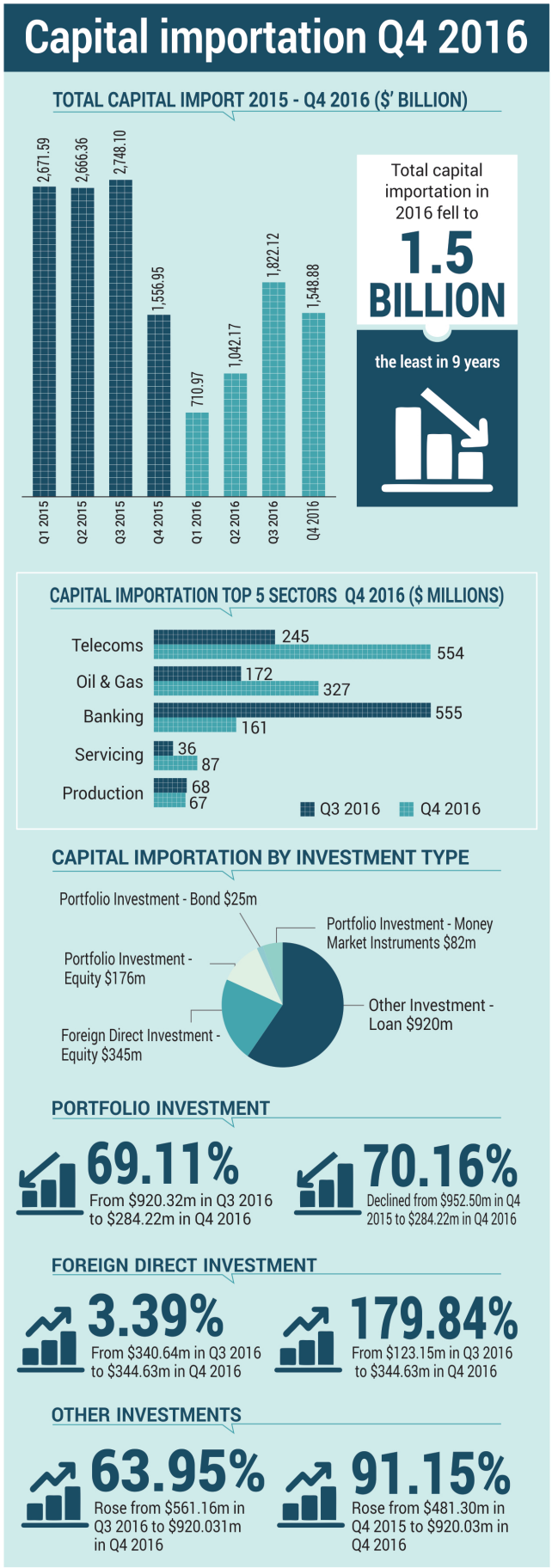
The difference however, was that while the Indian government gave its citizens 30 days to exchange the outlawed notes at commercial banks, Nigeria gave no time at all. The move reduced the number of International Money Transfer Operators that processed diaspora cash in the country to three: Western Union, Ria and Money Gram.

Foreign portfolio and direct investment, the third largest foreign income source, followed suit as investors redirected their monies to other emerging markets which despite being faced with the challenge of low commodity prices, understood that they had to let their currencies weaken if they were over dependent on the commodity.

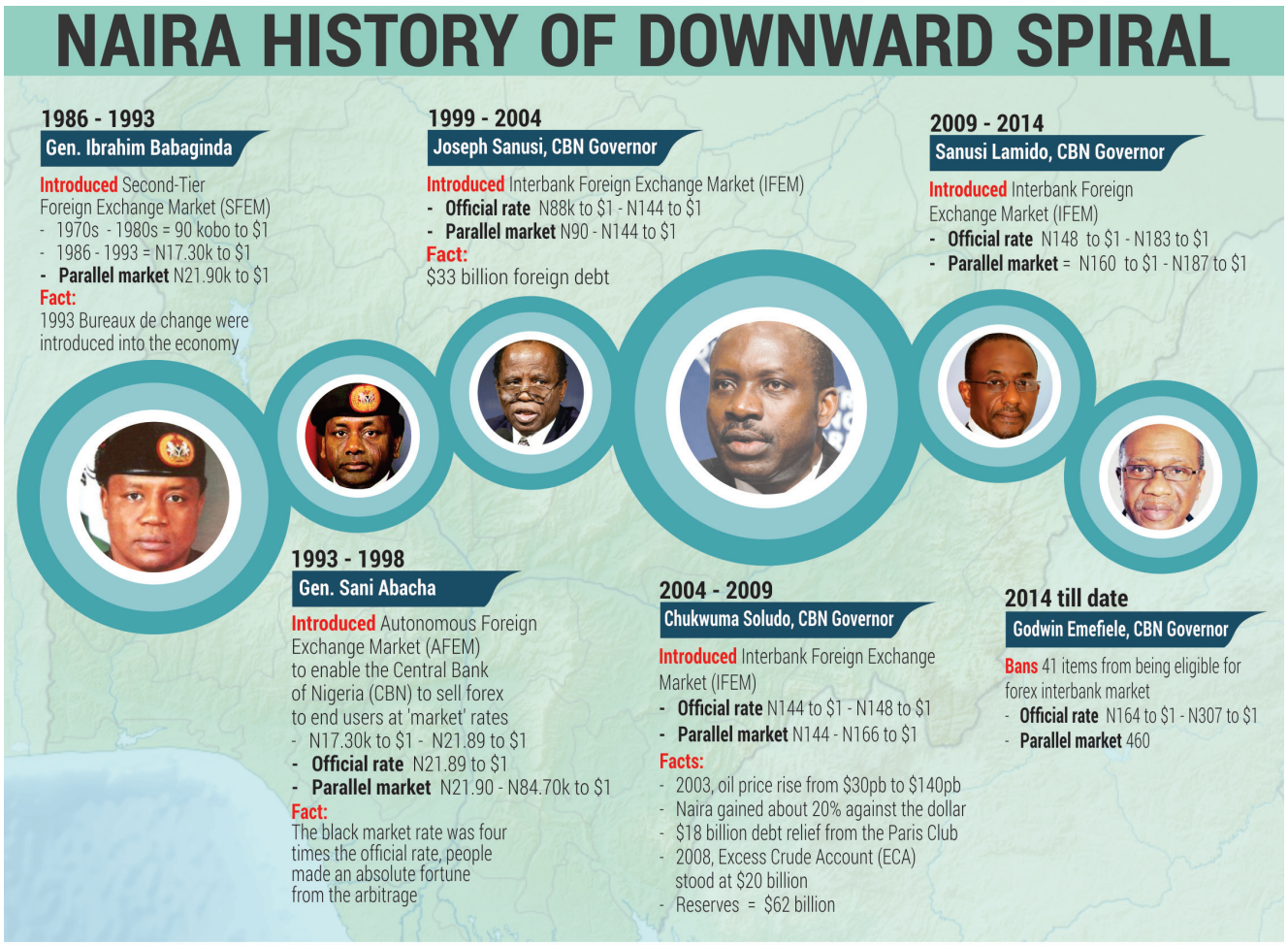
The implication of these events was simple; the official market saw less of inflow of foreign exchange and the apex bank became the single largest supplier of dollars.

The Central Bank of Nigeria's role in the market proved unsustainable and the once liquid currency market had became a shadow of itself, recording a turnover of less than $500 million dollars monthly compared to pre-2014 levels of close to $2 billion.

The apex bank was operating/burning up its external reserves to meet dollar demand and even though it was unable to meet all the



Source: National Bureau of Statistics (NBS)



Source: Orasopee Communication, CBN

demand, there was bound to come a time where it could do no more as it now had less than $27 billion in its reserves.

For a country like Nigeria, an external reserve of this size was equivalent to less than six months of exports and something had to be done to arrest an impending dollar scarcity crisis owing to low crude price and production as well as gummed up autonomous dollar inflows.

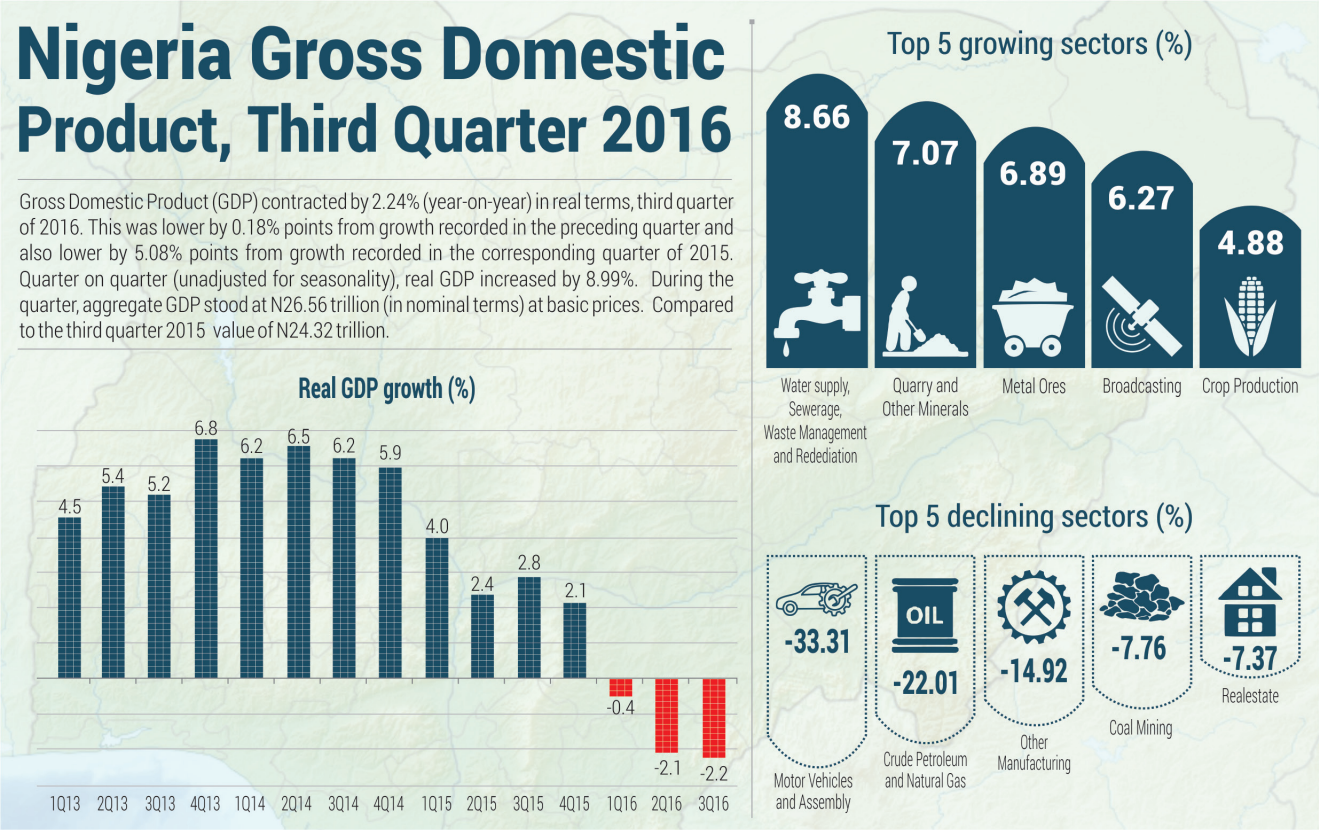
The Federal Government of Nigeria did two things almost simultaneously.

First, it removed petrol subsidies on May 11 2016, taking the price of petrol to between N135 - N145 per litre from N86.5 per litre, representing an increase of 67.6 percent. Secondly, on June 20, 2016 it bowed to the yearnings of foreign investors by liberalising the foreign exchange market which ushered in a spot and forwards market.

Both policies were applauded and it almost seemed like Nigeria was getting it right again.

However it was barely a month after that the National Bureau of Statistics in its second quarter report, confirmed that Nigeria had slid into recession, hope had been rekindled once more. The market liberalisation saw the naira shed more than a third of its value, declining to N320/$ from N197/$ pre-devaluation.

Foreign capital importation report released by the National Bureau of Statistics showed that June saw a dramatic increase in inflows compared to previous months, at $610



Source: National Bureau of Statistics (NBS)

million, and it made up for record low inflows in April ($305 million) and May ($125 million) to boost total capital importation in the second quarter to $1.04 billion.

In the third quarter, a total of $1.80 billion was imported into Nigeria, according to the National Bureau of Statistics. That was the highest so far in 2016 and it represented an increase of 74.80 percent compared to the second quarter, but a 33.70 percent decline compared to the third quarter of 2015.

Inflows were gradually picking up it appeared, as inflows had now surpassed outflows in the months through July to September. But it was not long before the Central Bank's practices which introduced multiple exchange rates began to yield unwanted fruits.

The naira traded at four different rates at three markets. It exchanged for N307/$ at the official market, as at November 11, N470/$ at the parallel market, and N395/$ at the BDC market.

In disregard of an earlier decision to allow market forces determine the value of the naira; the Central Bank of Nigeria continued to aggressively intervene in the official market, selling foreign currency to prop up the embattled naira.

The naira's artificial value at the official market kept investors at bay, as they chose rather to flock to alternative markets to get better value.

Sources at Renaissance Capital think Nigeria's currency woes may linger through 2017 because the wide disparity between both markets is still unresolved and stakeholders fear it would continue to widen due to the Central Bank of Nigeria's damage control and its effort to defend the naira against all odds.

MICRO ECONOMY REVIEW

The microeconomic environment and consumer behavior were impacted by a number of events at the macroeconomic level. For instance, a weak local currency, higher petrol costs and the hike in benchmark lending rates drove the prices of consumer goods upward, dampening household consumption appetite in the process.

The naira shed 57.3 percent since the big devaluation in June 2016, trading at an average of N310/$ in October, from N197/$ pre-devaluation. At the unofficial window, where majority of Nigerians source the greenback, the naira exchanged 48 percent higher at N460/$.

Petrol costs rose 67.6 percent to N145 per litre from N86.5, after the new price modification of May 11 2016.

The impact of the rise in the pump price of premium motor spirit (PMS) on Nigeria's economy is significant given that it is necessary for vehicles that transport passengers (mostly by land) and distribute goods even as it powers houses and factories. So, when PMS prices increased disposable income leftover for other goods and services fell. The frightening prospect is that petrol price is poised to increase in the short term, as the naira finds its feet.

Average incomes in Nigeria fell by about 18 percent in 2015 to $2,550 per annum from over $3,000 in 2014, as the over $500 billion economy shrank in size to about $420 billion (World Bank figures) and has stagnated around that region.

On benchmark interest rates, the CBN raised its monetary policy rates by 200 basis points to 14 percent in July, from 12 percent, in a bid to tackle rising inflation; this was maintained during the last Monetary Policy Committee (MPC) in November 2016.

Commercial banks' lending rates ranged between 27 percent in December 2015 to 29 percent in June 2016. Typically, with high lending rates, consumer confidence shrunk.

The Consumer Confidence Index (CCI), which weighs the degree of consumer optimism on the state of the economy through their spending, was -28.20 in July

The Consumer Confidence Index (CCI), which weighs the degree of consumer optimism on the state of the economy through their spending, was minus 28.20 in July 2016 according to the Central Bank of Nigeria

2016 according to the Central Bank of Nigeria. A report by an investment firm, Renaissance Capital, found that consumer confidence correlated with four variables which include petrol price, foreign exchange rate, interest rate and oil output.

With a weakening naira, consumer confidence further dropped in the short term, and consumption fell. The downside for the consumer was mitigated by the fact that most imports were being transacted at the parallel foreign exchange rate according to a Renaissance Capital report.

Nigeria imports most of the refined oil product it consumes, as several years of corruption have left its refineries non-functional. Food imports, on the other hand, were estimated to gulp $20 billion annually, according to data by the National Bureau of Statistics. Rising inflation has translated to more pressure on consumers' disposable income.

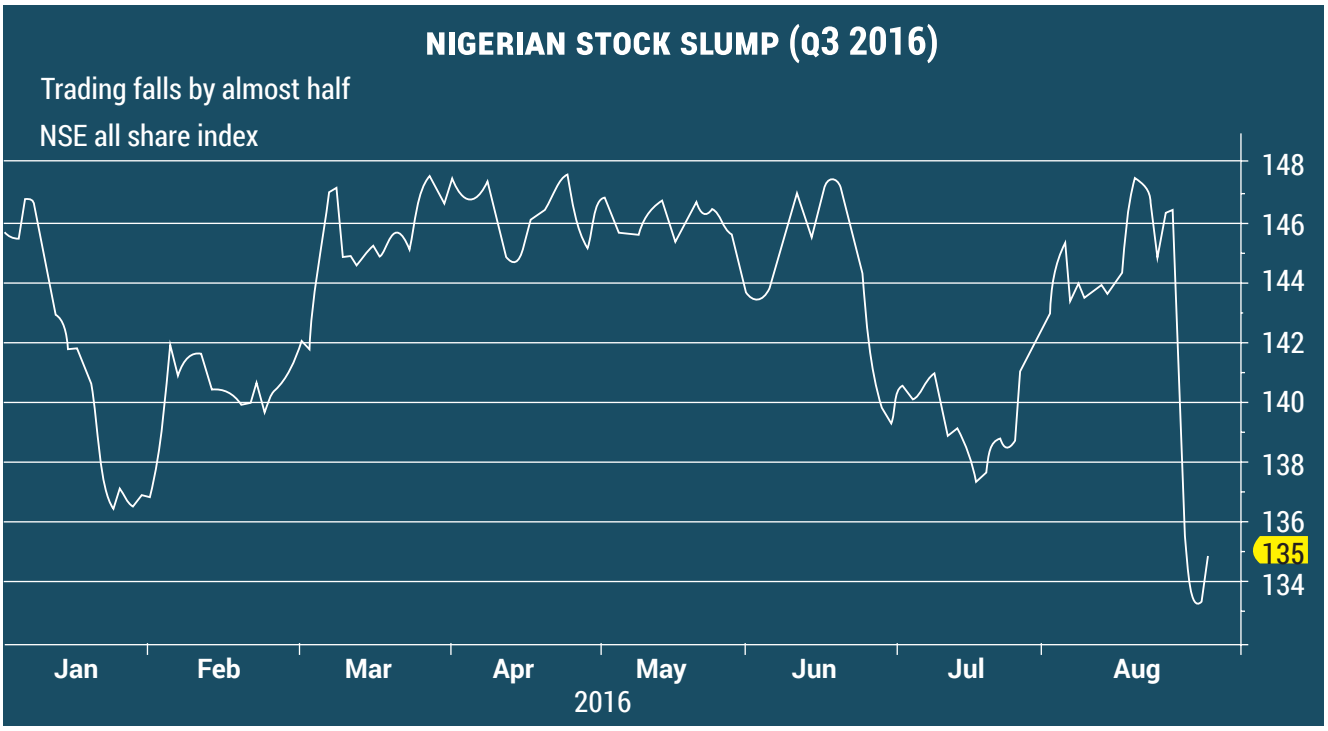
Nigeria's Consumer Price Index (CPI), which measures inflation, rose to 18.30 percent in October, according to the National Bureau of Statistics. That was the ninth consecutive month that the headline index rose.

The upward trend in inflation can be attributed to rising energy prices, costs of imported items and food prices.

Nigeria's Gross Domestic Product growth has been consumption driven over the years, according to erstwhile Central Bank governor, Sanusi Lamido, who now is a traditional ruler in northern Nigeria's Kano state.

It appears only a recovery in oil output can lift consumption again in the short term and a diversified economy in the long term. However, Nigeria's oil crisis remained at fever pitch levels, as militant attacks on oil pipelines showed no sign of abating despite attempts by the government to pacify the militants.

Although the oil sector accounted for 8 percent of GDP in Q3 2016, from 15 percent a year ago, according to the third quarter report by the NBS, the oil sector continues to contribute 90 percent of foreign exchange earnings and 80 percent of total government revenue.



Source: NSE, Bloomberg

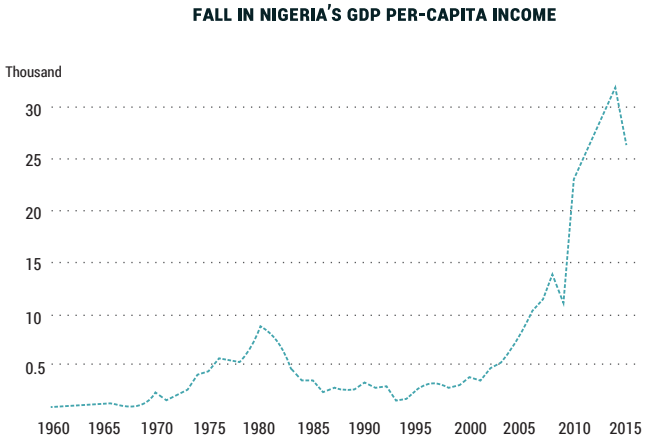
Razia Khan, the Managing Director and Chief Economist at Standard Chartered Bank PLC observed that it is rather surprising that oil woes are affecting the economy this much given that Nigeria's demographics ought to fuel consumption and drive economic growth at the barest minimum, despite oil woes.

Mrs. Khan counselled that the fall in oil prices was no excuse for a sharp economic contraction given that Nigeria boasts of favorable demographics.

Nigeria's Gross Domestic Product per capita income was $2,640 in 2015, according to the World Bank. Per capita income fell 17.57 percent in 2015, compared to $3,203 in 2014.

Per capita income, which measures the average income earned per person in a given area, is calculated by dividing Gross Domestic Product with total population.

An annual population growth rate of 3 percent combined with Nigeria's economic contraction implies per-capita income growth contracted further in 2016.



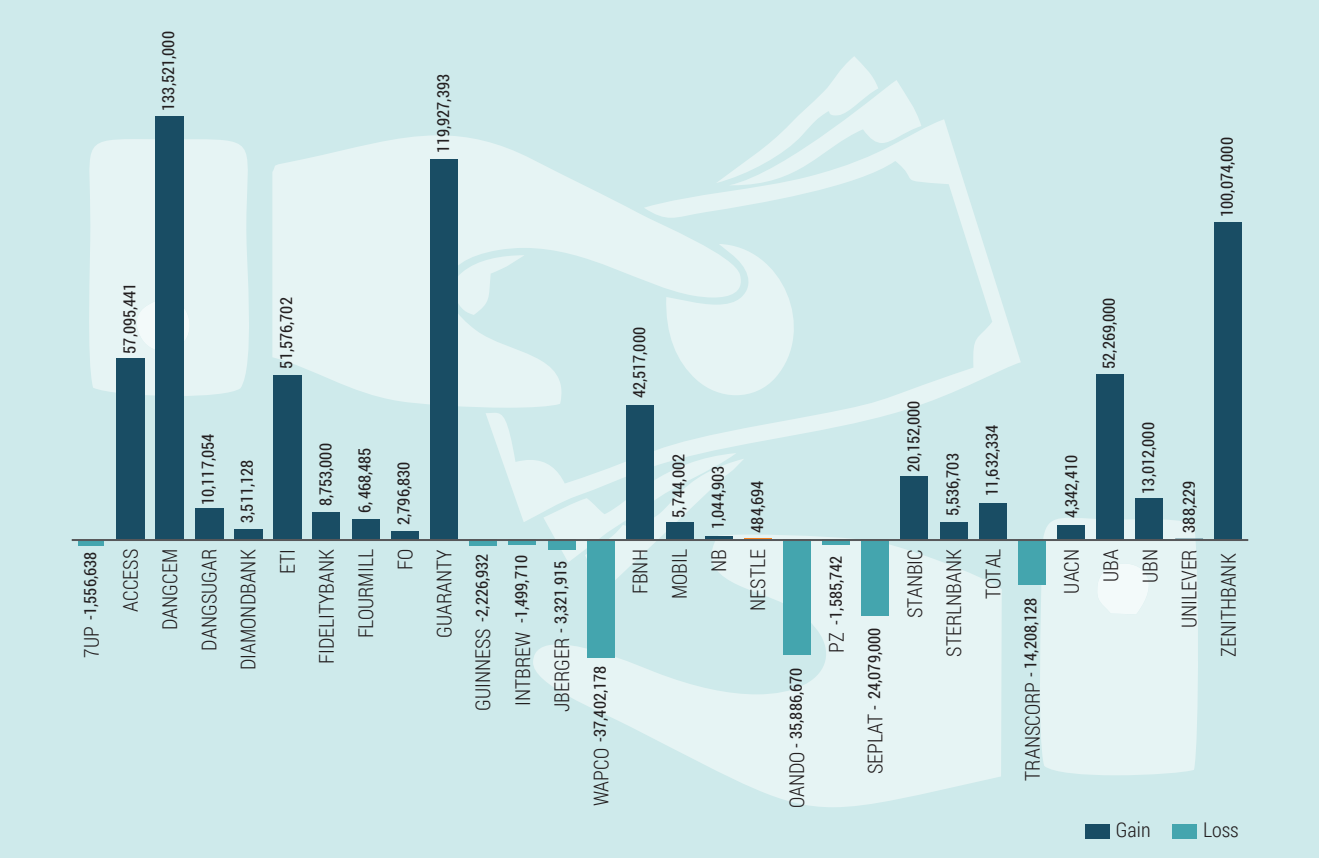
Source: World Bank

Firms And The Nigerian Stock Exchange Hung On To A Thin Thread

The Nigerian Stock Exchange (NSE) All Share Index (ASI) touched a low of 23,916.15 in January 2016, down from 28,642.25 in December 2015, before rising to 27,889.44 in July 2016.

However, as at November 21, 2016, the ASI declined 8.68 percent to 25,466.63 from 27,889.44 in July. Market capitalization also went down by N5.06 trillion to N9.048 trillion as at November 21, compared to a record high

Chart showing profit and loss of NSE top 30 as at Q3 2016 (N'000)



Source: Nigerian Stock Exchange (NSE)

of N14.111 trillion in July 2014.

The broad market benchmark, the NSE All Share Index (ASI) has shed 8,811.37 absolute points since May 29, 2015 to date, wiping out a whooping N2.893 trillion ($9.48 billion at $1/N305) in wealth for investors and the economy.

The Nigerian Stock Exchange has seen a reduction in activity by almost 50 percent this year even after the Central Bank allowed the domestic currency to supposedly float.

When the Central Bank of Nigeria removed the 197 - 199 naira to dollar peg on June 20 after more than a year, the NSE witnessed a significant activity but it tapered off.

Transactions for the first half of the year decreased by 44 percent to N624 billion ($2 billion) from a year earlier, according to data from NSE's website.

Nigerian Consumer Goods Firms Took A Hard Hit By Weak Consumption

Despite macroeconomic challenges which negatively affected consumer purchasing power, there was a broad based positive year on year revenue growth in some consumer goods companies, as deduced from their third quarter financials.

Top-line growth was largely driven by the implementation of an average of 10–30 percent price increase by fast moving consumer goods (FMCG) companies on select products to pass through the impact of higher input costs to customers. This way they were also able to protect their profit margins.

The consumer staples segment (Dangote Sugar and Flour Mills) were the best performing

segment in terms of topline growth. Gross margin pressure persisted further into Q3 as key pressure points were sustained.

Production costs increased due to sustained foreign exchange scarcity and rising local inflation.

Analysts at Investment Firm, Cardinal Stone held that there is a point beyond which consumers are unwillingly to take in further price increases from consumer goods companies. After this point the focus is usually on lowering input costs through backward integration.

Many companies - Nigerian Breweries Plc, Guinness Nigeria Plc, Nestle Plc, Unilever Plc and Dangote Sugar Plc intensified efforts on import substitution projects to increase locally sourced inputs. Positive impact on their gross margins will probably be witnessed in the medium and long term given the length of time to achieve target yield and quality.

Although, consumer goods companies had begun to adopt operating expense management to support profitability margins, higher finance costs as a result of unrealized foreign exchange losses weighed on the bottom line of companies that had dollar denominated loans on their balance sheets.

Flour Mills Plc, Guinness Nigeria Plc and Nestle Plc have had to carry dollar denominated loans on their balance sheet to guarantee sustained foreign currency supply for imported raw materials and equipment needed. It has how ever come with a downside of high finance costs due to the weakness in the currency.

Particularly, Guinness Nigeria Plc reported a loss after tax of N2.20 billion in Q1 2016 (July September) due in part to foreign exchange losses.

Furthermore, the bottom line of Nigerian Breweries Plc and PZ Cussons Plc were weighed down by high finance costs owing to related party trade payables in foreign currency.

Midway into the final quarter of 2016 there was still little being done to alleviate the worsening foreign exchange situation, as it persisted.

However, to minimize the impact of foreign exchange challenges on their businesses, companies started participating in forward contracts, non-deliverable futures, and extended credit terms from related parties. This is a trend that is likely to continue into 2017.

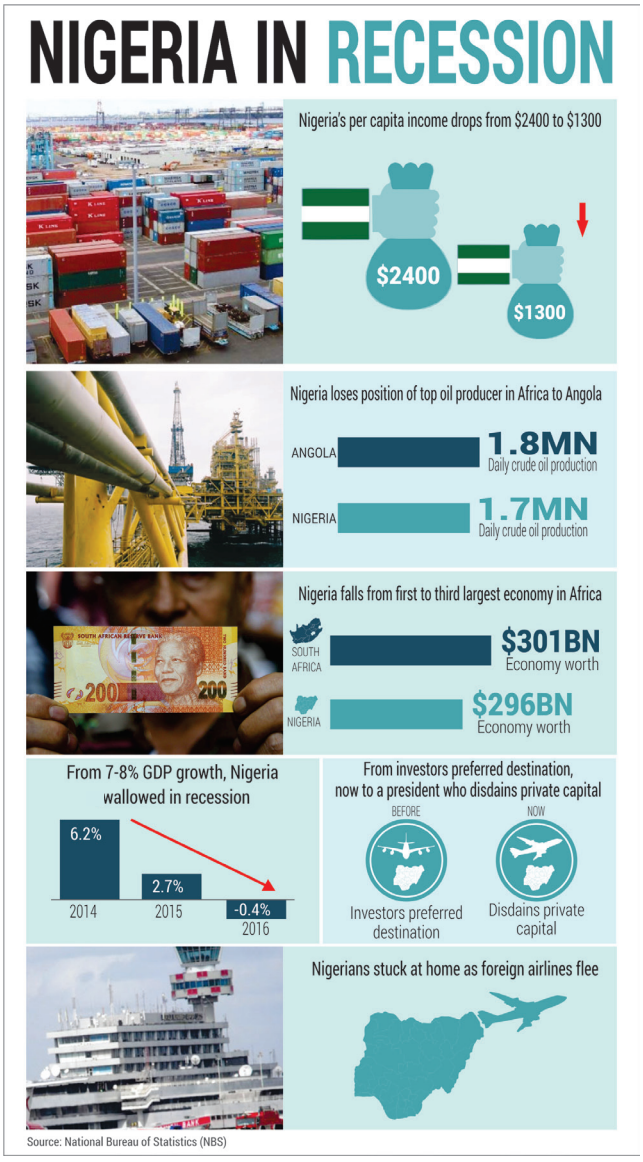
Despite the relatively gloomy picture presented by the foreign exchange instability crunch, there are silver linings. Local sourcing of raw materials and patronage for local firms increased.

Many companies - Nigerian Breweries PLC, Guinness Nigeria PLC, Nestle PLC, Unilever PLC and Dangote Sugar PLC intensified efforts on import substitution projects to increase locally sourced inputs. Positive impact on their gross margins will probably be witnessed in the medium and long term given the length of time to achieve target yield and quality

For instance, local oil palm firm, Presco PLC, saw a substantial improvement in revenue as more food and soap manufacturers that utilize crude palm oil sourced raw materials locally.

Furthermore, Flour Mills of Nigeria Plc (FMN), through its subsidiary, Northern Nigeria Flour Mills (NNFM) disclosed plans to convert part of its wheat mills into maize mills to take advantage of locally grown grains.

Northern Nigeria Flour Mills (NNFM) will also install a sorghum milling equipment to produce flour from locally grown sorghum, which will be included in FMN's wheat flour products.



Their management disclosed that an estimated annual savings of US$25m in foreign exchange is on the cards on the back of this strategy.

Besides local sourcing and backward integration, which augur well for the outlook of consumer goods firms, export has also picked up as Firms look to offshore markets to beat the foreign exchange crunch.

Export sales have increased in recent quarters, with Guinness Nigeria Plc and Unilever Nigeria Plc gaining momentum, based on company disclosure.

These measures alleviated the impact of foreign currency challenges on the companies. To put this in perspective, foreign exchange loss for Nigerian Breweries Plc for instance, dropped significantly to N0.40bn in Q3 - 2016 from N6.30bn in the first half of 2016.

The Financial Sector

The financial sector and other sectors reeled from Nigeria's economic slump, as non-performing loans rose. The introduction of the Treasury Single Account (TSA) pulled government revenue from the banks into a single account held with the Central Bank of Nigeria. This had the effect of mopping up liquidity from the banks.

A 13 percent contraction in the first and second quarters of 2016, tossed the sector into recession. However, the fortunes of the banks started looking up again following the naira devaluation. The sector edged out of recession in the third quarter, according to the National Bureau of Statistics, following a real Gross Domestic Product growth of 2.85 percent.

The growth could be attributed to the June 2016 big devaluation which saw the ousting of a hard currency peg that hitherto was a hindering factor that also crimped profitability in the sector.

First Bank Nigeria Holdings (FBNH), Zenith Bank Plc and Guaranty Trust Bank Plc (GTB), United Bank for Africa Plc and Ecobank Plc bagged N291.6 billion in the third quarter of 2016, their financials showed FBNH, Nigeria's largest bank by assets, made

Why it matters: Nigerian banks restructure indigenous oil firms loans

RESTRUCTURED LOANS

60-70%

Banks loans in the oil and gas sector have been restructured

GAS FOR POWER PLANTS

70%

Gas produced by indigenous firms for power plants, estimated 1billion cubic feet

LOANS TO OIL FIRMS

30%

Total loans to the oil and gas industry

PROPORTION OF LOANS TO OIL SECTOR

Guaranty Trust Bank and FBN holdings have the highest proportion of loans to the oil and gas sector of 40 percent and 35 percent respectively

INDIGENOUS OIL & GAS PRODUCTION

Ten years ago indigenous Nigerian oil and gas firms produced less than **50,000** barrels per day (bpd), but today account for 12 percent of estimated **2.2 million bpd** production and 20 percent of Nigeria's oil and gas reserves

DOLLARIZED BANKS' ACCOUNT

50%

Total loans as of the end of June 2016. Banks' balance sheets are highly dollarized

PRODUCTION COSTS

$20pb

High cost of production due to security and funding costs. Indigenous firms need to boost efficiency to bring it down to near $10 to $12 per barrel

NON-PERFORMING LOANS

Moody's expects banks non-performing loans to increase to around 12 percent over the next 12 months, compared to the 5 percent recorded as of December 2015

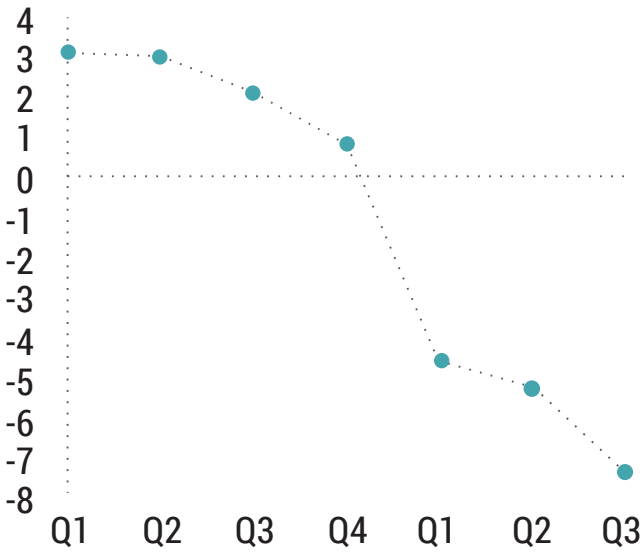
Source: BusinessDay Research & Intelligence Unit (BRIU)

N68.40 billion in revaluation gains, while the largest and second largest banks by market capitalization, Guaranty Trust Bank Plc and Zenith Bank Plc, made N93.60 billion and N31 billion respectively. United Bank for Africa Plc also reported a gain of N41.60 billion, while Ecobank Plc reported a N57 billion gain.

Despite the relatively stellar performance in the third quarter, Moody - a credit rating agency - expects nonperforming loans to increase to about 12 percent over the next 12 months.

The ratio of non-performing loans to total credit rose to 11.70 percent at the end of June 2016, from 5.30 percent at the end of 2015, according to the Central Bank of Nigeria, which requires banks to keep the measure below 5 percent.

CONTRACTION OF REAL ESTATE (2016)



Source: National Bureau of Statistics (NBS)

REAL ESTATE

Real Estate contracted -7.37% in Q3 2016
from -5.27% in Q2 2016 and 2.06% in Q3 2015

Real Estate Sector

Two consecutive quarters of negative growth in Q1 (-4.69%) and Q2 (-5.27%), 2016, meant Nigeria's economy and in effect the real estate sector was in recession and probably in its worst shape in decades.

Real estate contracted a further 7.37 percent in the third quarter of 2016, according to the National Bureau of Statistics.

Prior to Nigeria's economic gloom, the real estate industry was the fastest growing segment of the economy, and even out per formed overall Gross Domestic Product growth in 2013, growing at a rate of 8.70 percent, 1.30 percent above Gross Domestic Product.

However, the lengthy collapse in oil prices, falling household income, dollar shortages and a weakening naira ha ve strangled the demand for residential and commercial real estate. The beleaguered oil sector has historically been the largest demand driver directly and indirectly for real estate in the country.

Hence, a decline in oil prices by more than half in 2016 caused a stir for the real estate sector. However, a population with no signs of slowing down and the Federal Government's resolve to set a new standard for capital expenditure combined to give the real estate industry something to cheer about.

Real estate contracted a further 7.37 percent in the third quarter of 2016, according to the National Bureau of Statistics. Prior to Nigeria's economic gloom, the real estate industry was the fastest growing segment of the economy, and even outperformed overall Gross Domestic Product growth in 2013, growing at a rate of 8.70 percent, 1.30 percent above Gross Domestic Product growth of 7.40 percent, by 1.30 percent

OVERVIEW OF NIGERIA'S REAL ESTATE INDUSTRY IN 2016

Introduction

The different segments of the real estate market received a fair share of the ripple effect coming from the political micro and macroeconomic shocks whilst their slumps and surges affected investors' and consumers' confidence negatively in 2016.

However, no investor or fund indicated that it was exiting the region. It seems that most investors appreciate the long term fundamentals of the Nigerian market which support, a rational investment case for Nigeria's real estate market, built on the large consumer population, urbanization and capital allocations was made by the government to improve infrastructure.

In its 2015 report, the National Bureau of Statistics (NBS) asserted that the real estate sector presents a great potential source of growth for Nigeria. It added that until recently, the general understanding of the sector's composition and growth had been limited to its utility in the national accounts. In addition, the real estate market is largely informal and formalizing it holds investment opportunities.

The NBS estimates that the real estate market is 35 percent formal and 65 percent informal.

Similarly, in 2015, the World Bank estimated Nigeria's population to be 182.2 million, accounting for approximately 47 percent of West Africa's population. Nigeria is rapidly urbanizing, almost half of the population already live in cities and this is anticipated to increase to 75 percent by 2050.

Data from the United Nations show that 64 percent of Nigeria's population live below the poverty-line. Poverty remains highest in rural areas, remote communities and among female headed households. This is a potential market, but to capture it, creative, innovative real estate products would be needed.

Across Nigeria and especially in the more vibrant Lagos, Abuja and Port Harcourt markets, the Federal Government's anti-graft campaign and general fiscal tightening plugged leakages but also led to a considerable reduction of liquidity in the system.

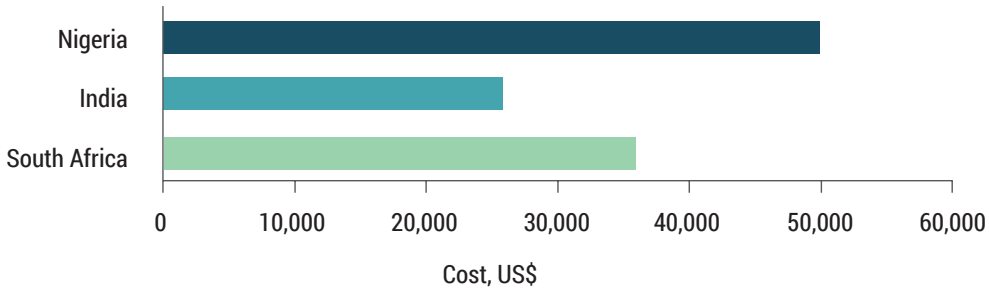
Real estate, like the stock market, is seen as a major store of value. But funds that had traditionally poured into the real estate market before the change of government have in recent times shied away from view for fear of attracting unwelcome attention.

Riding on the back of delays in passing the budget led to an additional lack of liquidity and a considerable supply overhang of land and property at all levels of the real estate market.

Prices weakened with the falling naira leading to greater falls for dollar benchmarked assets. International investors fearing a depreciation of the naira were loath to invest in assets with the risk of devaluation hanging. This led to a slow-down of big ticket transactions.

The attraction of a large and ever expanding middle class consumer base continues to draw attention to the Nigerian real estate markets. A McKinsey report showed that a significant 11 to18 percent of urban households—numbering over 2 million—have purchasing power and annual incomes over $10,000, which puts them in the modest affluent class. Half of the country's growth in

AVERAGE COST OF BUILDING A HOUSE



Average cost of building a house in Nigeria, India and South Africa

wealth will come from these households.
On the next rung of the income ladder—the emerging middle class—there is also considerable growth. Nigerian households with incomes of more than $5,000 a year will increase from the current 20 percent of the population to 27 percent by 2020, putting them within the target customer base of formal retail chains.

Emerging market funds particularly from South Africa, familiar with African markets, are deploying funds to acquire interests in large prime development projects that are expected to yield high returns in a market that is still very much undersupplied. However, with depreciation of the Naira and investor unfriendly monetary policies as regards foreign exchange, these large prime developments have slowed down. Originally priced in Dollars, they are no longer feasible because of the depreciation.

The Nigerian Government continued to make strides towards decreasing its housing deficit, which is currently estimated to be 17 million units. Some efforts in this regard included the Presidency's announcement of an affordable housing scheme which will allow low income earners to acquire housing and land at an affordable rate. The Presidency has allocated N74 billion (US$ 235 million) to this initiative.

The State of Lagos, in partnership with the Office of the Head of Service of the Federation also announced the formation of the Federal Integrated Staff Housing (FISH) Programme, which will provide affordable homes to Federal and Lagos State civil servants. In

In Lagos, properties in the upper-end market of Lagos Island such as Ikoyi, Victoria Island and Lekki Corridors were severely affected by the economic slump. But properties on the lower end Lagos Mainland saw an increase in demand, leading to slight increases in rental rates for the commercial properties in the axis

AVERAGE RETAIL RENTS PER SQUARE METRE (2015/2016)

LAGOS

2015 $68/N13,396 — 2016 $68/N19,176

ABUJA

2015 $55/N10,835 — 2016 $55/N15,510

PORT HARCOURT

2015 $50/N9,850 — 2016 $50/N14,100

ENUGU

2015 $38/N7,486 — 2016 $38/N10,716

WARRI

2015 $37/N7,289 — 2016 $37/N10,434

KANO

2015 $35/N6,895 — 2016 $35/N9,870

**Average monthly rent per square metre in 2015 to 2016 increase by 43% across the states*

Source: Ubosi Eleh + Co.

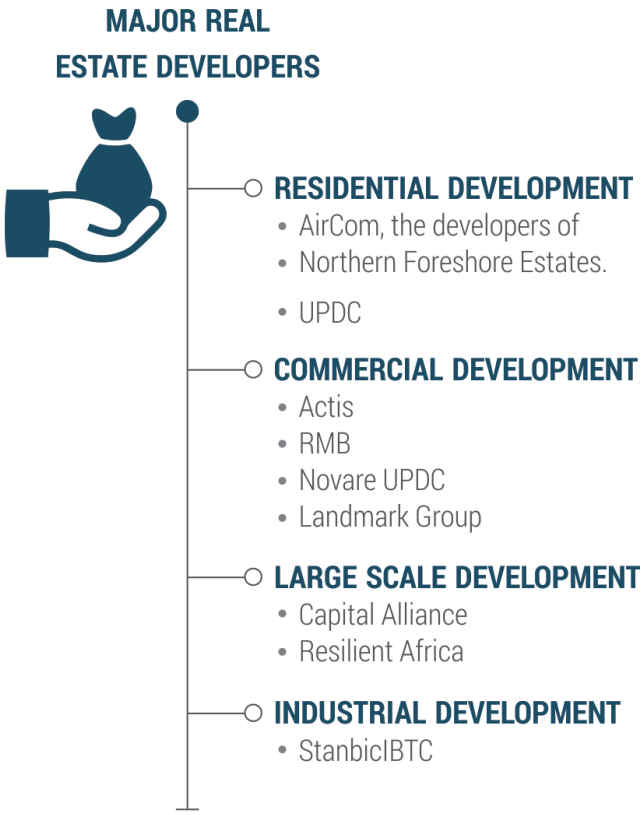
August, the Minister of Power Works and Housing, Babatunde Fashola, announced that 24 states had donated land for mass housing initiatives to the Federal Government. The Minister also noted in his 2016 budget, that N35 billion (US$ 111 million) had been allocated to housing initiatives. In his address to the September African Union for Housing Finance (AUHF) conference, Minister Fashola emphasised the importance of the housing and housing finance sectors, and the need for increased collaboration between the public and private sectors.

One major economic event in the second quarter of 2016 was the unpegging or devaluation of the Naira from its official pegged rate at N197/$. The Central Bank of Nigeria took the bull by the horn and introduced a Two - Way Quote System Inter-Bank foreign currency market facilitated by the FMDQ - Thomson Reuters Foreign Exchange Trading System.

In June 2016 the Central Bank of Nigeria introduced currency futures and forward contracts which would enable investors and protect them from unforeseen risks. Many investors still regard the operations of this foreign current market as opaque. Investors could now access foreign currency freely at the prevailing interbank rate from commercial banks provided they had the necessary documentation; however the 41 items previously banned from access to foreign currency by the Central Bank of Nigeria still remain excluded.

Furthermore, the National Bureau of Statistics released the Q1 2016 GDP year-on-year growth figure which showed a decline of -0.36 percent, down from 2.11 percent in Q4 2015 and 3.96 percent in Q1 2015.

The negative growth was the lowest growth Africa's most populous nation has experienced in 25 years. The low growth figure can be largely attributed to the shrinking of the oil, power and manufacturing industries. The continued poor performance of the economy had lingering effects on the real estate office market. This market reality saw property owners extend concessions by way of rent reduction, favorable lease terms and other tenant incentives in a bid to keep corporate occupiers and increase take-up rates.



Source: StanbicIBTC, Real Estate

Real estate in 2016 saw low transaction levels on the investment side, due largely to the prevailing economic conditions. The wait period for which assets remained on the market continued to increase coupled with little acquisition interest being expressed from potential investors. Market uncertainties typified by capital and foreign exchange constraints as well as the cautious stance taken by investors who largely view the property market particularly, residential and commercial as assets with inflated rents, fuelled this lull in transactions.

These investors however still expressed interest in good quality and well maintained assets with realistic rental levels.

An Ubosi Eleh & Co., survey and review of the real estate market and its financing in 2016 revealed that there were categories of banks, which consist of international banks, or banks with international affiliations and local banks and they had varying levels of participation in the real estate market. On the international banking level Stanbic IBTC, Rand Merchant Bank (RMB) and StanChart top the chart.

These are the large multinational banks that devote greater resources to financing real estate.

The international banks have a defined product site and a dedicated platform for real estate lending. On the continental scale, that is Africa wide, Rand Merchant Bank and StanChart have a dedicated marketing and sales team for this product segment but their core team is not in -country.

According to Niyi Adeleye, Head Real Estate desk at StanbicIBTC Nigeria PLC, "Real estate remains a specialised product segment, but the local banks hardly run it in that manner. It is often more about knowing the client and lending money out on that basis of that knowledge and familiarity."

This has led to projects getting financed by the local banks not on the basis of the fundamentals of the development but familiarity with clients. In most cases, the basic principles of real estate financing are not applied in analysing the deals.

For the international banks real estate is a major product segment and so, they have established structures designed to evaluate transactions.

The percentage of loanable funds that go to real estate financing on the average is about 15 – 20 percent. This applies only to the more active financial institutions in the real estate space. For the local banks it depends on how active they are in the real estate space and the size of their balance sheet. Industry-wide and on average it is 7.50 to 12 percent.

Given that Nigeria's economy is largely dependent on oil & gas , most of the loanable funds go to that sector. The reason is simple. Many real estate developers and developments cannot accommodate the interest rates calculated in local currency because they are way too high. This is why most of the loanable funds are made to the Oil & Gas sector or to the Fast Moving Consumer Goods (FMCG) companies as they are better placed to cushion the effects of high interest rates.

With the dollar currently hovering around N470-N500 in the black market, the N305 used in the 2017 budget is considered highly conservative. Most economists think that the naira would actually sell at around N400 to the US$, if the rate is not pegged by the Central Bank

Impact Of Recession On Real Estate Markets

The Nigerian real estate market was hard hit by the general economic downturn, with most real estate investors now struggling with unsold inventory. Lagos and Abuja are Nigeria's real estate centre pieces and are considered by both local and international businesses to be prime locations. This fact is evidenced in the inflow of multinational companies searching for medium and high end office buildings.

Investors try to capture this opportunity by offering Grade A and Grade B buildings, which are springing up in Lagos and Abuja.

In Lagos, properties in the upper-end market of Lagos Island such as Ikoyi, Victoria Island and Lekki Corridors were severely affected by the economic slump. But properties on the lower end Lagos Mainland saw an increase in demand, leading to slight increases in rental rates for the commercial properties in the axis. This could be attributed to slightly improved traffic flow but mainly comparatively cheaper rents on the Mainland.

With rising demand for foreign currency the Naira started a free fall which caused a crisis in the real estate market. It generated waves of demand, that put tenants and landlords at crossroads and pitched businesses against investors. For example, a few property owners who were used to bringing in foreign investors or funds to invest in real estate with the assurance that their dividends would be Dollar-denominated could no longer do so due to the Central Bank of Nigeria's discretionary dollar allocation policy. The investment terrain became unpredictable because of local currency volatility.

One other point worth making is that previously a home seeker's frustration was not only in the high price tags on houses for sale or lease, but also in the demand for foreign currency (US Dollars) instead of Naira for the houses on the market.

Many developers and home owners in more exclusive locations, especially those in Lagos Island were guilty of this practice. The excitement on the part of house owners, therefore created a myth and an uncommon exclusivity around these neighbourhoods, making it the most expensive real estate destination in Nigeria, where a three-bedroom apartment could lease for between N10 million and N15 million per annum and sell for N200 million upwards.

The real estate markets in Nigeria lack requisite transparency in terms of data, sources and statistics. This necessitates policies that will mandate comprehensive documentation of the real estate value chain and attributes of price determinants to enhance the evaluation of various asset classes in Nigeria. It is important to recognise the need to develop a robust and reliable database on the actual trends in the real estate market.

Lagos has experienced rapid real estate development in the past decade. There have been waves of development in the less congested new Central Business Districts (CBDs) and the Lekki axis. These developments in the CBDs such as Victoria Island and Ikoyi were primarily driven by oil and gas corporations and financial institutions seeking headquarters that meet international standards for their in-country operations.

New retail developments have also been concentrated in the Lekki corridor to take advantage of the higher consumer spending power from the surrounding residential areas.

A little history, by mid-2014, oil had stabilised at over US$100 per barrel and the commercial sector was achieving market rents of between US$800 - 1000/m2/annum. Given the shortage of supply and the surge in demand for better

accommodation, property owners were able to collect rental payments 2/3 years in advance. The ensuing downturn in the economy in 2015 following the drop in oil prices severely affected the Nigerian economy, leading to a sharp downward correction of commercial rents and causing serious concern for developers with schemes recently completed or still under construction.

Commercial Real Estate Market

ACTIVE MARKETS FOR INSTITUTIONAL 'CLASS A' SUPPLY		
Location	**Property**	**Dimension**
Ikoy, Victoria Island, Lagos	The Wings Towers	27,500sqm
Victoria Island, Lagos	Nestoil Tower	7,500sqm
Ikoyi, Lagos	Madina Tower	8,300sqm
Victoria Island, Lagos	Civic Centre Towers	8,096sqm
Ikoyi, Lagos	Heritage Place	15,631sqm
Ikoyi, Lagos	Alliance Place	6,670sqm
Ikoyi, Lagos	Kingsway Tower	12,000sqm
Ikoyi, Lagos	Temple Tower	14,000sqm
Ikoyi, Lagos	BAT's Rising Sun	10,000sqm
Ikoyi, Lagos	Lake Point Towers	13,400sqm

Among the real estate sub-markets, the commercial market space appears to have received more shocks from the negative economic headwinds because corporate users started cutting costs and became unwilling to take up new or expensive space due to the recession. It did not also help matters that prime office rents were quoted many times in Dollars. Amid escalating exchange rates, this led to an artificial over-supply of new A-grade office developments.

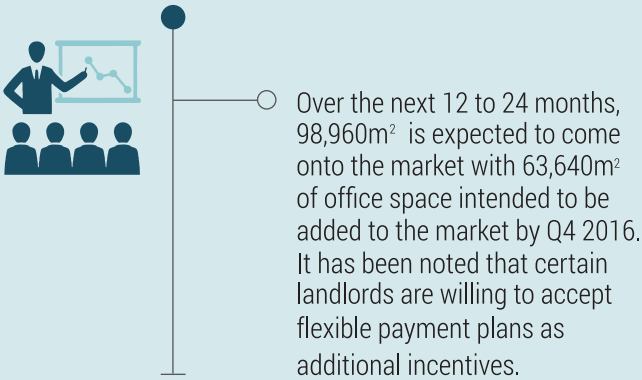
Ikoyi and Victoria Island were the most active markets for Institutional Class A supply in Lagos. New developments currently leasing or due to be delivered into 2017 include The Wings Towers (27,500 sqm), Nestoil Tower (7,500 sqm), Madina Tower (8,300 sqm) and Civic Centre Towers (8,096 sqm) in Victoria Island and Heritage Place (15,631 sqm), Alliance Place (6,670 sqm), Kingsway Tower (12,000 sqm), Temple Tower (14,000 sqm), BAT's Rising Sun (10,000 sqm) and Lake Point Towers (13,400 sqm) in Ikoyi.

The over-supply mirrored in falling rents is likely to put a damper on further commercial development in the short term. This is not least because of the challenges of raising finance in a market where pre-leases are hard to come by. It is also notoriously difficult to predict real estate cycles for projects, as by their very nature they take 3 – 5 years to develop. In addition, the economy is also difficult to predict within such a time frame. Following the devaluation of the Naira by the Central Bank of Nigeria (CBN), the exchange rate of the local currency against the US Dollar

A-GRADE OFFICES (IKOYI)

Source: Ubosi Eleh + Co.

PLAYERS EXPECTATION



Source: Ubosi Eleh + Co.

has been unstable making planning difficult.

The implication of this for a tenant who leased an apartment at a certain rate two years ago is that, at the point of renewal, the rent would possibly have doubled in Naira terms.

It is against this backdrop that housing industry experts were in support of the ban of the Central Bank Nigeria on the use of foreign currency to transact business in Nigeria, insisting that the legal currency for doing business in Nigeria remained the Naira.

Average asking rents for A-grade offices in Ikoyi are still on the downward trend, averaging US$600 - US$850/m2/annum, 2 percent lower than Q2 2016. Achievable rents are 8 percent to 15 percent below asking rentals. Average asking rents in Victoria Island followed suit, easing by 6 percent to US$780/m2/annum. Achievable rents are 10 percent to 20 percent below asking rentals. According to a survey of active players in the real estate industry consulted in the course of putting together this report, over the next 12 to 24 months, approximately 98,960m2 of office space is expected to come into the market with 63,640m2 of that space intended to have been added to the market by Q4 2016.

The significant slowdown in activity and high vacancy rates recorded in previous quarters, pushed estate agents and property owners to extend even more concessions to prospective tenants, flexible modes of payment and other incentives such as fit-out allowances, which are attractive to tenants deterred by the large capital expenditure needed to furnish space.

In some instances, Landlords were also willing to put in soft furnishing for the space on offer. Typically, this cost is amortized over the lease term and has been welcomed by tenants who benefit primarily from the considerable reduction in their upfront costs.

Furthermore, a noteworthy development in the second quarter was the reduction in space requirements from corporate occupiers, as the main driver of demand for space continued to shift from the oil and gas sector to the management consulting, technology, finance and other service sectors.

Desirous of attracting more corporate tenants and maintaining longer lease periods, certain serviced office providers' commenced refurbishments in order to improve the quality of their space offerings.

As the market continues to shift towards a tenant friendly market and Landlords intensify their desire to lure corporates into their new developments, some of the service providers will have to change their pricing structure to remain competitive including now providing strictly Naira denominated rents and price reductions.

Retail Real Estate Market

Retailers felt the effects of the weakening economic climate with their margins shrinking further as their operational costs increased. Consumers also faced a decline in real wages, putting downward pressure on their purchasing power.

The reality of a shallow tenant pool in the retail market continued to bear down on the sector with respect to leasing activity and take-up rates. Push back from tenants and the demand for Naira based rentals and more favorable leasing terms gathered momentum resulting in Landlords considering the extension of existing concessions to tenants on a case-by-case basis.

The opening of Maryland Mall in Lagos saw the retail space in the core market increase by 7,000m2. The mall, developed by Purple Capital Partners, is anchored by Shoprite Save (a subsidiary of Shoprite Holdings) which made its maiden entry into the Nigerian retail market in July. Currently leased to a considerable number of indigenous retailers, Maryland Mall is already benefitting from the large number of consumers in its catchment area on the Lagos Mainland.

Established malls in core markets continued to record strong performance due to first movers' advantage, whilst newer malls across core markets faced serious challenges as market conditions took a turn for the worse. Recently delivered malls recorded low trading densities and a slower take-up rate as tenants found it difficult to complete fit-out and commence trading. The Warri Mall is a good reference point.

Vacancy rates in Nigeria, stood at approximately 8 percent and 9 percent in Lagos and Abuja respectively. Average asking rents remain the highest in Nigeria for spaces between 10m2 to 1,100m2 (excluding anchor tenant spaces) at $68/m2/month and $55/m2/month in Lagos and Abuja respectively.

The second quarter of 2016 saw the opening of Onitsha Mall, increasing the overall mall space in emerging real estate market locations by 12,000m2. This increase in retail space was met with slowing activity across the secondary market which has persisted through previous quarters.

Landlords remained uncompromising with respect to downward rental reviews despite the push back from tenants rather they were

NIGERIA RETAIL OUTLETS

500,000

Square meters, total retail mall space

SOUTH AFRICA RETAIL OUTLETS

2MILLION

Square meters, being total retail mall space

NAIROBI RETAIL OUTLETS

390,000

Square meters, and 470,000 square meters in the pipeline

Source: Ubosi Eleh + Co.

more willing to extend concessions based on the peculiar needs of their clients. Average asking rents continued to range between $35 and $50/m2/month.

In view of the slow but sustained economic growth and growing consumer demand, modern retail formats are changing and expanding from large Lagos based developments, such as The Palms (19,520 sqm), Festival Mall (10,900 sqm) and Ikeja City Mall (22,000 sqm), to Abuja (Jabi Lake Mall 26,478 sqm, World Trade Center Capital Mall 21,500 and Maitama Mall 23,855 sqm) and further afield to other secondary cities such as Onitsha Mall (12,100 sqm), Owerri Mall (12,500 sqm) and Warri Mall (12, 000 sqm).

Formats are also changing to better adapt to the challenges prevalent in the Nigerian markets. A number of malls in the pipeline are now part of larger mixed use schemes (Festival Mall, Capital Mall and Maitama Mall) while secondary city malls and some of the new Lagos based malls such as Maryland Mall (7,000 sqm) are smaller in order to meet the reduced demand of a smaller catchment area.

Ikeja City Mall has recently been sold by Actis, RMBWestport and Paragon to Hyprop and Attacq, two South African funds, in a deal reportedly worth US$91 million. The successful sale of the asset will also attract additional investors to the Nigerian retail segment of the market having seen the potential for a successful exit from their investment

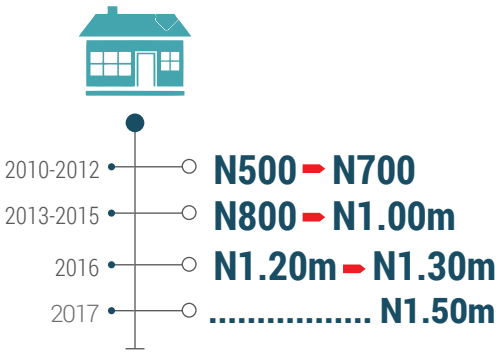
International funds find the real estate market in Nigeria attractive because of some microeconomic indices and demographic indicators. Chief about these indices is the population. Huge population numbers is an indication that there is demand. It might be difficult to accurately quantify the demand in Nigeria for dearth of data, but, surely it exists. Investors gravitate towards large numbers

The Residential Real Estate Market

According to the United Nations, Nigeria's population estimated at 183m is projected to more than double over the coming 35 years while the migration from the rural areas to cities is expected to more than triple over the same period. This huge population increase will continue to sustain housing demand over the middle to long term and is already evident in the strength of demand for housing stock in the lower to middle income segment of the market.

However, over the short term, as much as demand remains very fair, affordability has been eroded by the

RENTAL VALUE: 3 BEDROOM FLAT (FESTAC TOWN)



Source: Ubosi Eleh + Co.

RENTAL VALUES ON PROPERTY (2010-2016)

AT IKEJA GRA, MAGODO GRA AND IKEJA INDUSTRIAL AREA

INDUSTRIAL REAL ESTATE, IKEJA (2010-2016)

2010-2011	2012-2013	2014-2015	2015-2016
WAREHOUSE (IKEJA IDUSTRIAL AREA)	WAREHOUSE (IKEJA IDUSTRIAL AREA)	WAREHOUSE (IKEJA IDUSTRIAL AREA)	WAREHOUSE (IKEJA IDUSTRIAL AREA)
N700/sqmtr ▼ N800/sqmtr	N800/sqmtr ▼ N900/sqmtr	N900/sqmtr ▼ N1,000/sqmtr	N1,000/sqmtr ▼ N1,500/sqmtr

3 BEDROOM FLAT, IKEJA GRA (2010-2016)

2010-2012	2013-2015	2015-2016
3 BEDROOM FLAT, IKEJA GRA	3 BEDROOM FLAT, IKEJA GRA	3 BEDROOM FLAT, IKEJA GRA
N2Million ▼ N2.50Million	N2Million ▼ N3Million	N3Million ▼ N3.50Million

DETACHED HOUSE, IKEJA GRA (2010-2016)

2010-2012	2013-2015	2015-2016
DETACHED HOUSE 4 BEDROOM (IKEJA GRA)	DETACHED HOUSE 4 BEDROOM (IKEJA GRA)	DETACHED HOUSE 4 BEDROOM (IKEJA GRA)
N6Million ▼ N8Million	N6Million ▼ N7Million	N7Million ▼ N7.50Million

3 BEDROOM FLAT, MAGODO GRA (2010-2016)

2010-2012	2013-2015	2015-2016
3 BEDROOM FLAT, MAGODO GRA	3 BEDROOM FLAT, MAGODO GRA	3 BEDROOM FLAT, MAGODO GRA
N700,000 ▼ N850,000	N850,000 ▼ N1.20Million	N1.20Million ▼ N1.50Million

DETACHED HOUSE, MAGODO GRA (2010-2016)

2010-2013	2013-2014	2015-2016
DETACHED HOUSE 4 BEDROOM (MAGODO GRA)	DETACHED HOUSE 4 BEDROOM (MAGODO GRA)	DETACHED HOUSE 4 BEDROOM (MAGODO GRA)
N1.50Million ▼ N2Million	N2Million ▼ N2.50Million	N2.50Million ▼ N3.50Million

Source: Ubosi Eleh + Co.

economic slowdown, rising unemployment, lower salaries and rising local costs of imported materials that make up a considerable portion of the final sales price of residential units.

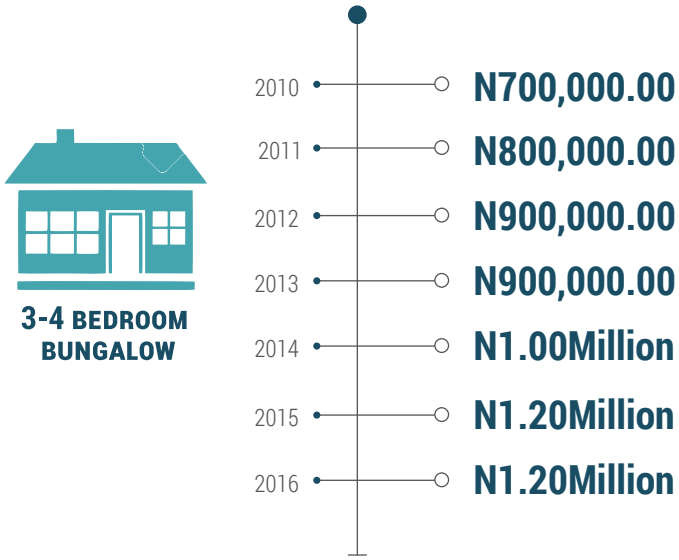
The new housing demand wave favors flats and terraces as affordability weakens. Taking into account actual demand, the sweet spot for residential housing developers has long since moved from the high end segment of the market where properties are valued above N60m to the lower to middle market segment where properties are valued from N12m – N50m. The issue of affordability means that flats and terraced houses are in greatest demand. However the intelligent and profitable developer will strive always seeking to strike the right balance between cost of land, localised demand for different housing types, and quality of finish, profit and speed of sale. The successful developer that understands the market forces / trends will enjoy optimum returns.

According to MCO Real Estate, the Ikoyi and Victoria Island Prime Res idential sector

RENTAL VALUES FOR IKOYI, LEKKI AND VICTORIA ISLAND, LAGOS (2010-2016)

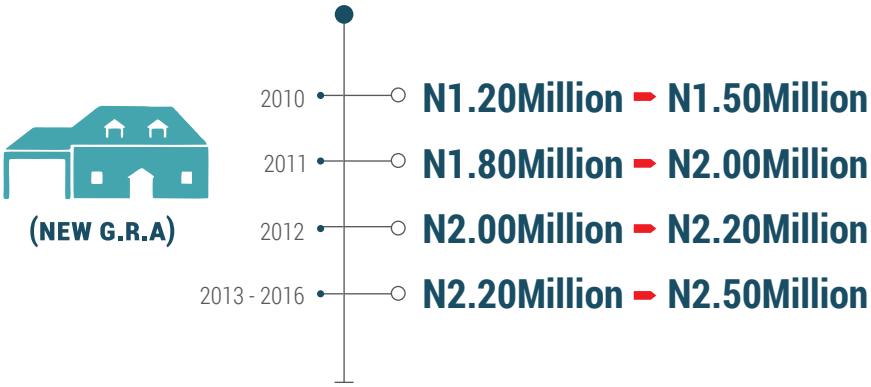
S/N	LOCATN	TYPE OF ACCOMMODATION	YEAR & VALUE 2010	YEAR & VALUE 2011	YEAR & VALUE 2012	YEAR & VALUE 2013	YEAR & VALUE 2014	YEAR & VALUE 2015	YEAR & VALUE 2016
1	Ikoyi	4 Bedrooms Detatched House	15million	16million	16million	16million	15million	13million	12million
2	Ikoyi	3 Bedrooms Luxury Flat	10million	12million	12million	13million	12million	8million	8million
3	Lekki	4 Bedrooms Detatched House	3.5million	4million	4.5million	4.5million	5million	6million	6million
4	Lekki	3 Bedrooms Flat	2million	2.5milliom	3million	3million	3million	2.8million	2.8million
5	Victoria Island	4 Bedrooms Detatched House	12million	12million	15million	15million	12million	10million	8million
6	Victoria Island	3 Bedrooms Flat	10million	10million	10million	12million	10million	8million	6million

RENTAL VALUE ON 3-4 BEDROOM FLAT AND 3 BEDROOM FLAT (ADENIRAN OGUNSANYA/BODE THOMAS ENVIRONS)



Source: Ubosi Eleh + Co.

RENTAL VALUES OF 3 BEDROOM FLATS IN PORT HARCOURT FROM 2010-2016



Source: Ubosi Eleh + Co.

(+N120m/+US$500,000) suffered setbacks for a number of reasons. Lack of a clear petroleum oil policy, halving of the oil price and a move from onshore to deep water drilling have all had a negative effect on International Oil Companies. Reducing staff strengths and a huge demand for the Island luxury apartments led to higher vacancy rates now prevalent in that market in particular. The Victoria Island market has not risen anything near the recent levels of over - supply and as such has been more resilient to changing patterns of high end occupation.

The Ikoyi luxury market has additionally been negatively affected by the Lagos State Government increasing densities in Ikoyi leading to a huge increase in supply of luxury residential apartment towers over the last 5 –

10 years. The gradual rise of Eko Atlantic City as an alternative destination for prime residential development does not offer any long term solace to the Lagos Island's luxury residential apartment tower market's current woes.

Logistics/Warehousing

A recent study found that for the first time, logistics professionals see consumer spending in Africa as a more important driver of growth than energy and minerals.

They identified Nigeria, South Africa, Ghana and Kenya as Africa's most promising markets. In spite of recent growth and investment, Sub-Saharan Africa remains a frontier market for most supply chain executives though only 21.20 percent have operations there.

The burgeoning growth in modern retail outlets and online retail is poised to lead to increased demand for logistics hubs. However, this trend was stalled by the retailers who could not access the foreign exchange needed to import products thus led to less imports, reduced demand and take up rates for warehousing space.

RENTAL VALUE: INDUSTRIAL WAREHOUSES (APAPA)

2010-2012	N1,000per/ft ➡ N1,200per/ft
2013-2015	N1,300per/ft ➡ N1,500per/ft
2016	N2,000per/ft ➡ N2,500per/ft

Source: Ubosi Eleh + Co.

RENTAL VALUES OF WAREHOUSE IN PORT HARCOURT FROM 2010-2016

(TRANS AMADI)

2010	N20,000/m² ➡ N30,000m²
2011 - 2013	N25,000/m² ➡ N35,000m²
2014	N35,000/m² ➡ N40,000m²
2015	N40,000/m² ➡ N50,000m²
2016	N40,000/m² ➡ N50,000m²

Source: Ubosi Eleh + Co.

The Hospitality Market

The hotel industry in Nigeria has been hit by wave after wave of problems, starting with the Boko Haram - related security issues in early 2014 and the mid - 2014 Ebola crisis, which had a negative impact on hotel occupancies throughout the entire continent. The oil price crash, the devaluation of the Naira, election uncertainties, the lack of activity after the much - lauded (and unexpected) result and, more recently, drove home the effects of an economic recession all have added to the low economic activities and which has impacted the hospitality industry negatively.

The China impact, importing less of what Africa produces and exporting less to Africa because of the slowdown and currency devaluations here, have led to what appears to be a seemingly inevitable downward spiral. Whilst demand for hotels has been negatively affected by all these external factors, there is light at the end of the tunnel, as travellers adjust their perception of risk, and accept that change is a fact of life. The good news for investors in the hospitality industry is that future additions to supply are at the lowest level for many years. In Abuja, one hotel under construction with an international brand is the Fraser Suites in the CBD.

In Lagos, only one internationally branded hotel Mantis, a 62 - room The George, opened in 2015, and there is very little likelihood of more being opened in 2017 though quite a few are in the pipeline. Work has been stalled for many years on the Le Meridian in Ikoyi, and work has stopped on the Marriott in Victoria Island. However, the Hilton in Ikoyi has started ground works. Marriot in Ikeja GRA opened its doors as well as Renaissance Hotel in the third quarter of 2016.

Demand For Real Estate

In the face of spiking inflationary trend, rising unemployment, falling oil prices and decreasing investor and consumer confidence, demand for real estate was hard hit. Looking at it from the demand angle, the inability of the monetary and fiscal authorities of Africa's largest economy to align their respective policy direction, crimped the disposable income of most Nigerians. In the order of man's priorities, it is food before shelter. Many Nigerians have been forced to re-order and reorganise their priorities and so, fewer numbers of people were ready and willing to acquire houses. No sales or low sales led to an oversupply in the real estate market.

Some players in the real estate market had committed to real estate projects development by facilities from financial institutions or self-funding but in either case, many could no longer continue with such projects. Many investors called back their investments in off-plan sales. Defaults on mortgage loan repayments rose. Many projects could also no longer continue because sources of income had been affected. Inflation rate rose from 9.60 percent in January to 13.70 percent in April. It moved even higher from 17.10 percent in July to 18.30 percent in October, shaving off a significant proportion of personal and corporate income, eroding purchasing

power and reducing effective demand for real estate products.

Demand for real estate was equally affected by mortgage interest rates, which in Nigeria is stifling. Interest rates on mortgage loans in Nigeria range from 15 to 25 percent per annum excluding fees and other charges. Compare this to South Africa where the interest rate is between 7.87 percent and 10.50 percent.

Some other factors that affected the demand for real estate included the crashing crude oil prices. According to the Financial Times of London, Nigeria's energy companies that bought oilfields from majors when oil was selling for more than $100 a barrel were hammered by the crash in prices and their troubles took a toll on the banking sector.

In the two years before crude oil prices began falling in mid - 2014, Nigerian banks lent an estimated $10bn to local oil and gas companies to buy assets from RoyalDutch Shell, Eni and Total as they retreated from the country's onshore industry.

Subsequently,many of these financial institutions started having liquidity and profit challenges. At the time, these loans were celebrated as milestone for Nigerian finance and a boost to bank portfolios which would support greater domestic participation in the industry. Now that the price of Brent crude has fallen by nearly two-thirds to the mid-$40s, much of that lending has become a liability.

This tightened liquidity in the economy and many real estate developers could not access their life lines with banks for further developments. In the final analysis the result of this illiquidity, was that many businesses had no money to trade and so started laying off workers. Real sectors such as manufacturing were starved of credit as well and therefore retrenched staff.

Supply Of Real Estate

From the supply angle, with rising unemployment rates, the demand for real estate got weaker with fewer demands. As a result of the liquidity squeeze in the economy, many banks tightened up and a lot of credit facilities that had been pre-approved could not be disbursed. The non-performing loans (NPL) ratio which should be at a maximum of 5 percent has risen within five months from 2.30 percent to an industry average of 4.80 percent.

In April 2016, the Central Bank of Nigeria had announced that Nigeria's non-performing loans (NPL) ratio stood at 10.0 percent. It is estimated that the non-performing loans (NPL) of two of the top five banks has reached 12 percent with the implication that those credits were seriously at risk.

New real estate developments slowed down in taking off whilst existing ones have been hampered by poor access to foreign currency. A project started and stopped midway, comes at increased costs. The long term outcome is not only that the project delays in terms of schedule, but the cost of delivery will go up. Delay in project execution affects scheduling; cost of delivery and these costs cannot be transferred to the buyer because demand is already weak.

THE REAL ESTATE OUTLOOK 2017

Unbundling The 2017 Budget

President Buhari on Wednesday 14 December, 2016 at the National Assembly presented his plans to spend N7.30 trillion in 2017, the highest budget proposal by any Nigerian government in nominal terms since the nation's Independence. The budget is N1.24 trillion or 20.4 percent more than the N6.06 trillion budget for 2016.

As President Buhari noted during his presentation, the 2016 budget was based on an and exchange rate of N197 to the US$ which was the reigning exchange rate when the 2016 budget was prepared. So in dollar terms, the

Source: National Bureau of Statistics (NBS)

2016 budget was about US$30 billion.

Since then the exchange rate has suffered, and so the 2017 budget is now based on an exchange rate of N305 to the US$. Which means the dollar equivalent of the 2017 budget is US$24 billion, about US$ 6 billion less than the 2016 budget.

So, in dollar terms, Nigeria is actually spending less in 2017 than it spent in 2016.

One key area that dollar inputs affect is in the development of infrastructure. So in 2017, the President is planning to spend N2.24 trillion on capital projects. Some of these key capital projects that have been budgeted for this year include; roads and railways which actually have a high component of foreign input besides a good proportion of local labour. Majority of the equipment that will be used in a road construction or in building a railway would need to be imported and the government would need foreign exchange to achieve this.

At N2.24 trillion, Nigeria's capital budget is about US$7.3 billion, which is just about half of the estimated US$14 billion the country needs to spend annually to build up its infrastructure. So while Nigeria's budget has actually gone up in Naira terms, it has in reality dropped in dollar terms to a level that would have little impact on the strategic sectors that it has been targeted at. The fall in the Naira, which has sparked imported inflation, means that each Naira will not go as far as the 2016 budget in making an impact on the economy even if the budget were to be fully implemented.

With the dollar currently selling for almost N470 in the black market, the N305 used in the budget is considered highly conservative. Most economists think that the Naira would actually sell at around N400 to the US$, if the rate is not pegged by the Central Bank.

A way out, which the President rightly noted in his budget speech, is to get the private sector more involved in providing key infrastructure projects across the country. This is where the Private Public Partnership (PPP) model becomes key for the government in meeting its deliverables in 2017 and beyond. The PPP model has to be urgently revived, as it is obvious that the current budget will not go far enough to meet the huge needs of the country.

The projected fiscal deficit for 2017 is put at 2.14 percent of Gross Domestic Product (GDP). This deficit resulting in a proposed cumulative amount of N2.32 trillion is expected to be financed by domestic borrowing of N1.25 trillion and N1.07 trillion from external sources.

Tax revenue from non-oil sector is proposed to be reduced by 5.50 percent from N1.45 trillion in 2016 to N1.37 trillion in 2017. However, tax revenue from oil is expected to increase by 143 percent from N0.82 trillion in 2016 to N1.99 trillion in 2017. The Government intends to diversify the economy and in doing this, it plans to use revenue from oil to revive the agricultural and industrial sectors of the economy.

The Government has planned to set aside a sum of N50 billion as the Federal Government's contribution for the expansion of existing, as well as the development of a new Export Processing and Special Economic Zones, which will be developed in partnership with the private sector.

It also proposed that a sum of N20 billion be set aside to revive the Export Expansion Grant (EEG) which will be used in the form of tax credits granted to companies to enhance and create investments and job opportunities in the development of the agriculture and mining sector. This is also directed at companies to

take advantage of the opportunities to export processed agricultural and manufactured goods and reduce the reliance on importation as emphasized by the budget speech.

Effective from January 2017, the Federal Government has indicated that it will no longer make a provision for Joint Venture cash-calls. All Joint Venture operations are expected to be subject to a new funding mechanism that will allow for cost recovery.

This arrangement is expected to enhance exploration and production activities, with a resultant net positive impact on government revenues. This positive impact is expected to be allocated to infrastructure, agriculture, solid minerals and the manufacturing sectors.

Infrastructural Development

According to a Price Water House Coopers (PwC) report of 16 December 2016, capital expenditures are expected to be financed by a budget of N2.24 trillion in 2017. This reflects a 24 percent increase in comparison to the budget of 2016. The Government intends to focus on the rapid development of infrastructure especially rail, roads and power.

Overall, infrastructural projects received a substantially higher allocation to stimulate a multiplier effect on productivity, employment and also promote private sector investments into the country.

Transportation – Railways: The modernization of the railway system is a priority in 2017 and it is expected to receive a boost of N213.14 billion as counterpart funding for the Lagos - Kano, Calabar - Lagos, Ajaokuta – Itakpe -Warri railway, and Kaduna - Abuja railway projects.

Given that Nigeria has no clearly articulated national housing policy for the provision of mass low cost homes, the 2017 budget would have no direct impact on real estate market because it is a largely private sector driven.

However, with massive infrastructural spending on the part of government, improved infrastructure would rub off positively on the real estate markets.

Market Fundamentals And Growth Potential

The fundamentals of the Nigerian real estate market, despite all its challenges, still remain strong because the gaps therein are quite massive and are unlikely to close soon. However, the current volatility in the local currency has reduced affordability and therefore reduced demand in many areas. It will take time for all stakeholders to adjust to some of these realities. What has also affected the speed of investment is the drive to change the structure of Nigeria's economy. As much as this is clear to all as the right and proper thing to undertake, the speed of implementation remains an issue.

When there is uncertainty in the economy or opaqueness about how things will play out, it has a counter intuitive impact on trade and investment. Investors want and need predictability. Nigeria has been a trade dominated nation; therefore, the bulk of foreign exchange utilization has been directed towards those economic activities. There has not been enough value adding activity going on. It is inefficient to use scarce and expensive resources to import mundane goods.

When the economy is not diversified with a sustainable manufacturing base this indirectly impacts real estate demand.

The current perception of economic policies is one of unpredictability, which is limiting demand and constraining actives in the sector. This means that across board in

2017, if the 2016 policies of the government were to continue there will be a further tightening of demand.

When government policies hinder business there is a loss of interest which could be temporary or permanent. And even where it is temporary and these unfavorable policies are reversed, investors would still have a cooling off period to observe and monitor the environment before they return.

In the residential space for example, costs are going up but developers still wanting to do business will work hard at managing the increase in costs because they are aware that affordability will be constrained. This could in the long run translate to reduced quality of houses produced. The rooms might be slightly smaller. The quality of finishing might drop as developers understand that it will be difficult to pass all the costs to the end user.

In the retail and commercial space, rental rates will drop and the wait time for leases to be concluded will increase significantly. The increase in the wait time will be primarily a function of the poor economy and subsequently low demand. Because of the current foreign exchange restriction policy, businesses have found it difficult to bring in goods and services for display in those retail centres.

However, when the policies are hindering their entry, they will lose interest in the market. This loss of interest might be temporary or permanent. Even when it is temporary and policies are reversed, investors would still create a window period to observe the environment before they move in.

For instance, say there is a change in policy effective in three months, it allows players room to plan and build confidence. However, in a case where there is a policy change, which is effective immediately, the wrong signal is sent to the investment and business communities. This is because it becomes clear policymakers care little about investors who might have deployed capital in that space. Investors take time to make decisions and to plan. As long as policy implementation continues to be erratic it would further keep away investors and tighten the market. There will be reduction in capital flows towards Nigeria and those investment products.

This has severe consequences because Nigeria as a market and real estate in particular has grown and would continue to grow on sustained flow of capital into the country. With reforms in policies and regulations underway that meet internationally accepted standards, foreign investors might begin to take the Nigerian market seriously again. It would all have to do with the nature and method of implementing trade and foreign currency policies.

Investigations indicate that many retailers are staying away because of the policy environment. For instance, among the 41 banned items restricted from accessing foreign currency, fabric and clothing were on the list. An international retailer desiring to have an economic footprint in Nigeria rather than access foreign currency at the parallel market rates would prefer to stay away entirely, which is still relatively small. These sorts of policies and regulations create problems that are broader than just access to liquidity.

Interestingly, these policies do not only drive away foreign capital, they equally drive away local capital. Local investors that have capital, worried about losing what they have quickly save here to convert it into foreign currency and seek means to export same or hold onto same to protect their capital from depreciation. Creating an enabling business environment is for both local and foreign capital formation.

International funds find the real estate market in Nigeria attractive because of some microeconomic

indices and demographic indicators.

The first one is the numbers, that is, the population. Huge population numbers is an indication that there is demand. It might be difficult to accurately quantify the demand in Nigeria for issues of lack of data, but, surely it exists. Investors gravitate towards large numbers. Nigeria has been classified as the biggest economy in Africa. It means that there are lots of opportunities for gainful investment attested to in the gap between what industry experts consider should be the norm or level of production in the market and what is currently available.

Putting it all together, Nigeria being the largest economy in Africa and the most populous African nation, has vast capacity for real estate development yet to be explored.

Multinational companies are not attracted to markets where they cannot find international quality offices that match their profile and idea of what a work environment should be. This gives room for the development of business infrastructure.

The retail space creates formalized structures of trading that enhances tax collections and deepens penetration in terms of where people want to buy and where they want to shop. It is not true that those formal structures translate to expensive products. For instance, when Shoprite opened in 2005, 2006, shoppers found that they were buying things cheaper at those outlets than they were buying in the open air markets. Children went to buy drinks and noodles from Shoprite because it was able to negotiate bulk purchases with manufacturers, cutting off the middle men. These formal retail channels create jobs, and these are permanent new jobs to the economy.

Shoprite – one of the major retail brands in Nigeria - for example has created a huge impact in the retail space by working with farmers to backward integrate for instance, improving the quality of processing and packaging.

These fundamentals create a compelling argument for international investo rs to invest in the sector. However, there is need to build a local capital pool also invest in the sector. Local capital pools are not developed and because they are not, they are not given priority.

Demand for commercial zoned land for redevelopment into offices buildings will remain high. The fundamentals for the market remain strong as the country generally lacks a good supply of Class A developments which many international concerns are used to in Europe, North America and even South Africa

Outlook 2017

Commercial Real Estate

The outlook for commercial real estate in 2017 remains gloomy.

The A Class developments currently hitting the market in locations like Ikoyi, Victoria Island and Central Area Abuja are projected to struggle in getting paying tenants.

The reasons for this are not farfetched. With the odd exception, few organizations are doing well in the current economic clime. In fact many are contracting and reducing staff which ironically means that these companies will even have surplus space which they are already paying for.

Unfortunately with the nature of leases in the Nigerian market it could be more expensive to exit an existing lease contract than to remain. What may then happen in a lot of instances is that leases coming up for renewals will have their rents renegotiated downwards with sweeteners possibly thrown in – more relaxed payment terms etc.

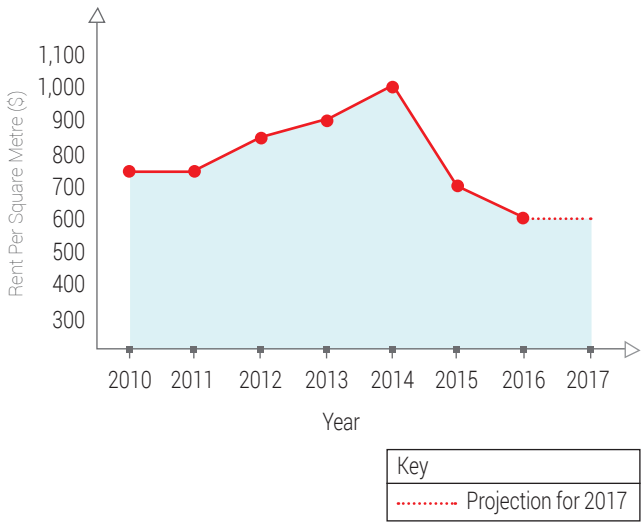
The economic recession has made it very difficult for new businesses to start off. Very few/new businesses are also coming into the country and these are foreign organizations which are mainly able to afford the high class buildings and their rents are usually priced in US Dollars.

2017 will witness a major reduction in acceptable market rents in the A Class commercial developments. Rents are projected to fall by as much as 40% if the recession bites harder and this will be all in a bid to attract tenants.

Demand for commercial zoned land for redevelopment into offices buildings will remain high. The reason is that investors with deep pockets will always strive to acquire these lands because of their limited supply for development in the future as the economy improves. The fundamentals for the market remain strong as the country generally lacks a good supply of Class A developments which many international concerns are used to in Europe, North America and even South Africa.

This is as a result of lack of availability of first class locations with existing zoning approval for development of commercial structures.

Class "A" Commercial Office Buildings Lagos State



For the B Class and other commercial developments, we shall witness more defaults in terms of rent payments and more legal actions to evict tenants etc. It is conceivable that not many new developments will be embarked upon by investors.

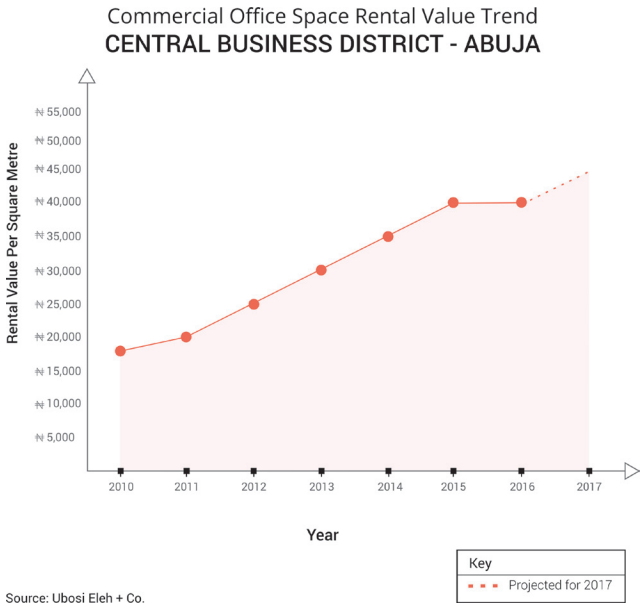
As projected there will be a reduction of rents in many instances by property owners to ensure occupancy of buildings.

Commercial Real Estate (Virtual Offices)

In 2015, the growth of the virtual office was negligible and almost a source of worry for the operators, but as the year wore on and by April 2016 demand began to increase.

The virtual office market is a part of commercial real estate that is indeed attractive and will enjoy very positive growth.

As the strangling economic recession progresses rather unabated, organizations are downsizing staff and many will relocate to virtual offices to manage costs. Lots of new businesses with plans to enter the Nigerian market will also "dip their toe into the water" by starting off in a virtual office with one or 2 representatives within the country.



Source: Ubosi Eleh + Co.

Demand will continue to rise as tenants want to run lean but efficient offices.

In fact the projections for 2017 and beyond are that the lessons of the economic recession and uncertainties of the Nigerian economy will drive demand for virtual offices in Nigeria, particularly the big cities of Lagos, Abuja and Port Harcourt. Fundamentals for this remain strong.

Warehousing And Logistics Real Estate Market

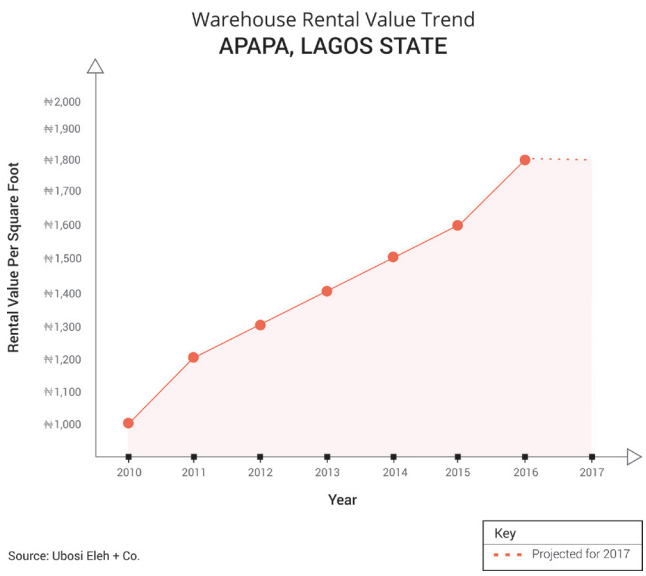
Development of warehousing supports the logistics industry, which in turn is supported by high industrial capacity utilization and distributive trade.

The current national industrial utilization capacity is under 40% based on available statistics, and projections for 2017 indicate that the warehouse and logistics sector will still remain at the levels of 2016.

It is envisaged that as operators and stakeholders adjust to the realities of the economy and adopt new and creative strategies to remain in business through backward integration as well as the sourcing of foreign exchange from alternative ventures there is a great possibility that by mid 2017 the level of capacity utilization will rise marginally.

We shall witness more defaults in terms of rent payments and consequent legal actions to evict tenants etc.

It is conceivable that not many new developments will be embarked upon by investors in 2017.



Source: Ubosi Eleh + Co.

Also projected is that there will be a reduction of rents by Landlords in many instances to ensure occupancy of buildings by tenants. Another factor that usually drives the demand for the warehousing industry is the import retail trade, and start up businesses looking for accommodation, but surveys and market statistics indicate easily about 80% of the former.

From all indications the level of import trade will continue to suffer because of the acute shortage of foreign exchange. Unless, by some default the country begins to earn more foreign income and the Central Bank of Nigeria (CBN) further liberalizes access to foreign currency by cancelling the multiple rates currently in operation. The wide gap between the official and black market rates will subsist. The arbitrage currently cor ruptly earned in allowing dual currency rates will help stifle industrial production and trade.

An increase in importation will impact positively on the demand for warehousing – long and short term leases.

Industries bold enough to commence production at this time are mainly starting off small depending on the industry – more as a precautionary measure and in a bid to monitor the economy than anything else.

The export market though growing, rarely impacts demand for warehousing. Most exporters simply process their exports, containerize them and move same straight to the Ports rather than store in warehouses close to the ports.

Statistics is still very sparse on this sector, but our survey indicates that many operators in the export business already have storage and further requirements for larger spaces are almost non-existent.

Development of new warehousing facilities either as investment or for additional production space will be limited in 2017 by existing manufacturing concerns.

Our outlook for the warehousing market is that many facilities will come into the market for outright disposal.

The economic recession, low capacity utilization and their biting effects will see to that, as firms struggle to survive and device creative and aggressive means of survival.

Some of the major industrial estates in Ikeja, Oregun, Apapa, Ilupeju, in Lagos, Idu in Abuja, Trans Amadi in Port Harcourt, Bompai in Kano etc will continue to experience low activities with many of the warehouses being converted to show rooms, event centers and locations for religious activities as well as a wide variety of uses much different from their original uses.

Between 2015 and early 2016, the average wait time to conclude a lease of a warehouse was about 60 – 90 days. Towards the end of 2016 it had easily doubled to 150 – 180 days or more in some of the major industrial precincts.

Rates in Lagos have remained in the range of N1200 – N1800 square feet and only increase as proximity to the ports increases.

We project that these rates will remain the same more or less in 2017.

Retail Real Estate

The retail market will continue to experience increase in 2017. Its fundamentals remain strong.

Many projects that are in the pipeline will continue to be funded as their developers will seek more equity participation to reduce debt and to get them completed within budget, limiting cost overruns.

2017 will witness increased development activity but there will be a lot of phasing to accommodate the economic realities and uncertainties.

The fact is that the high cost of borrowing and the un-favorable internal economic headwinds make it difficult for external funds (as willing and attractive as it may be) to come into the Nigerian space despite the strong fundamentals for the retail market, e.g. huge population or market.

We see a continued increase in the development of retail outlets and increased desire for same.

As noted in our review, Nigeria with a population of 180 million people has a total retail mall space of under 500,000 square meters and purchasing power party (PPP) of $5360 (World Bank 2015).

South Africa with a population of 54 million and purchasing power parity (PPP) of $13165 (World Bank 2015) has 23 million square meters of retail mall space.

Nairobi, capital of Kenya – has a total retail mall space of 390,000 square meters with 470,000 square meters in the pipeline. Nairobi's population is currently estimated at 3.50m (2015). The purchasing power parity of Kenya is $3100 (2015).

The Nigerian market offers serious depth for development of more malls in both premier and secondary city locations.

With a burgeoning and teeming youth population (of the estimated 180 million population of Nigeria over 60% are under age 40) fair disposable income, growing internet presence, changing cultures and habits regarding shopping, Nigerians are geared for increased shopping opportunities and the varieties offered by retail malls.

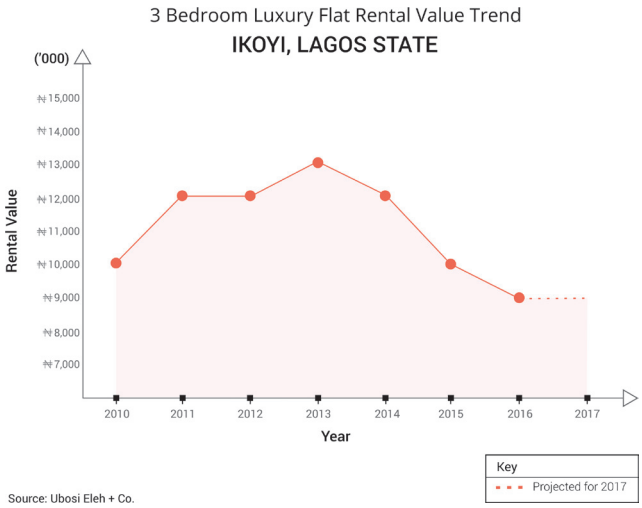
As a result of the scarcity of foreign exchange we also project higher turnover in many of the malls as operators find it difficult to stock their shops with imported goods which are usually in high demand.

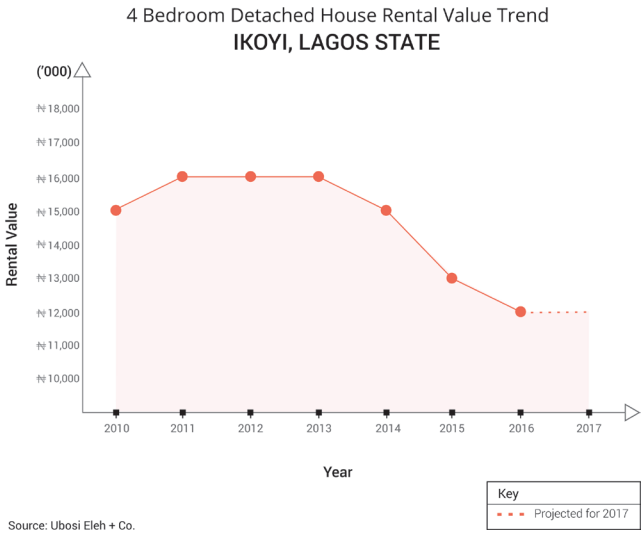
Residential Real Estate

In 2017 our projection is that Dollar based rental properties will continue to get realistically priced by being redenominated in Naira or will have much lower Dollar asking rents.

Many Landlords not wanting their properties to remain unoccupied will be ready to reduce rents and service charge to accommodate new tenants and economic realities accommodate new and old tenants.

Compromise will be made, on things like 24 hours services charge, especially where





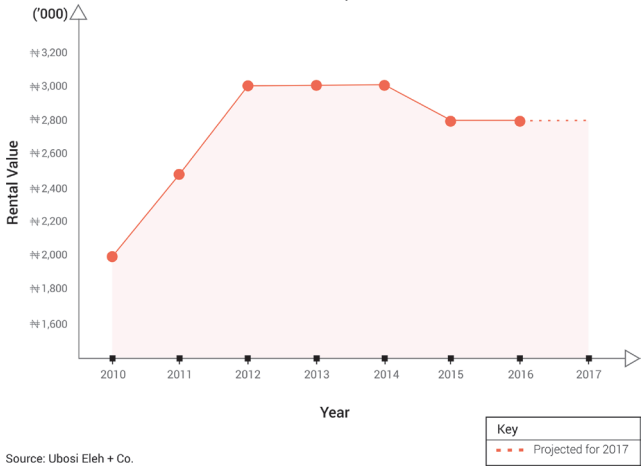
poor electricity supply and diesel costs are concerned.

High end properties usually occupied by expatriates and corporate tenants will become available to individual (single) tenants.

The market for corporate tenant's occupancies will continue to remain elusive.

As tenants and Landlords come to terms with the devaluation and its effect on rents, the take up rates of residential properties may increase marginally with the devalued Naira being that it would now require almost 40% less foreign exchange to retain or lease

3 Bedroom Flat Rental Value Trend
LEKKI SCHEME 1, LAGOS STATE



Source: Ubosi Eleh + Co.

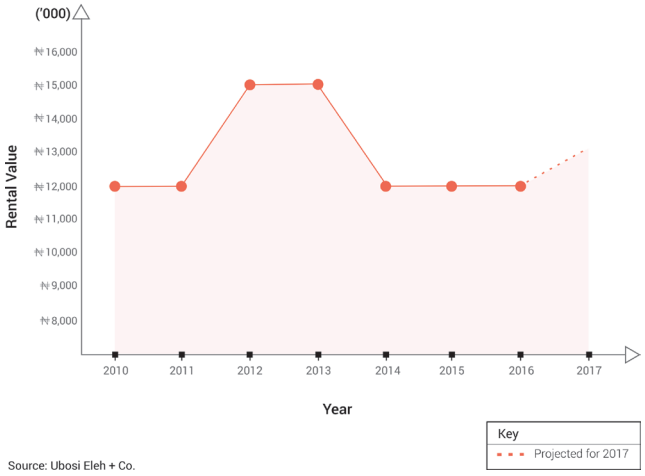
4 Bedroom Detached House Rental Value Trend
LEKKI SCHEME 1, LAGOS STATE

Source: Ubosi Eleh + Co.

3 Bedroom Flat Rental Value Trend
VICTORIA ISLAND, LAGOS STATE

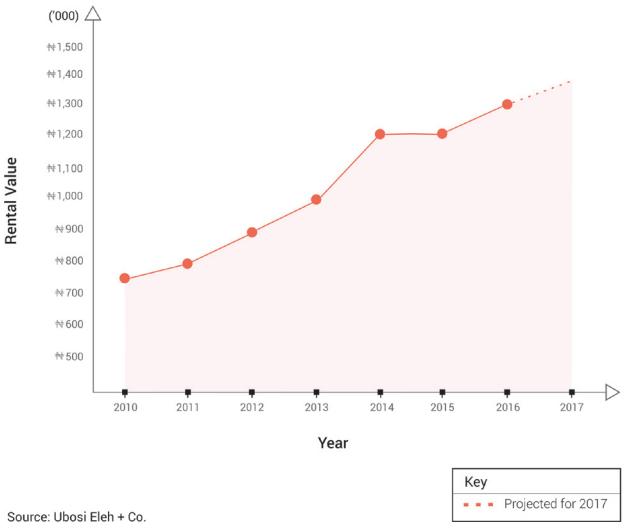
Source: Ubosi Eleh + Co.

4 Bedroom Detached House Rental Value Trend
VICTORIA ISLAND, LAGOS STATE



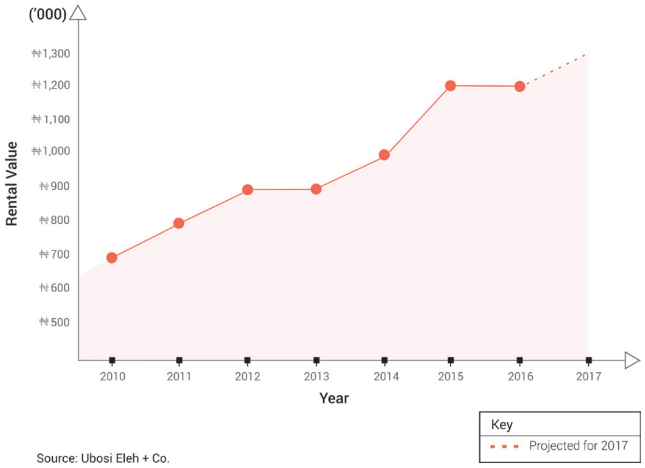
Source: Ubosi Eleh + Co.

3/4 Bedroom Flat Rental Value Trend
SURULERE (BODE THOMAS ROAD ENVIRONS), **LAGOS STATE**



Source: Ubosi Eleh + Co.

3/4 Bedroom Bungalow Rental Value Trend
SURULERE (ADENIRAN OGUNSANYA ENVIRONS), **LAGOS STATE**



Source: Ubosi Eleh + Co.

new properties.

Rents will continue to be paid one year in advance in many cases, with service charge payable 6 months in advance as individuals and organizations manage their cash reserves.

New constructions will reduce whilst ongoing projects will see the speed of completion slow down as the bad economy bites.

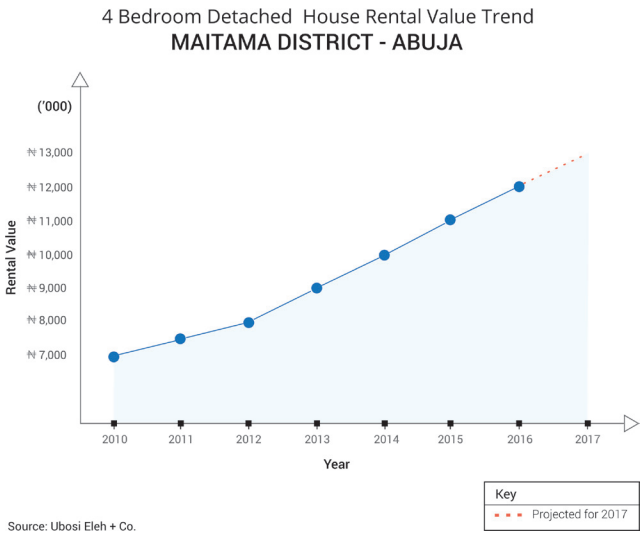
Many proposed large estates may modify the designs to allow construction in phases or suspended completely.

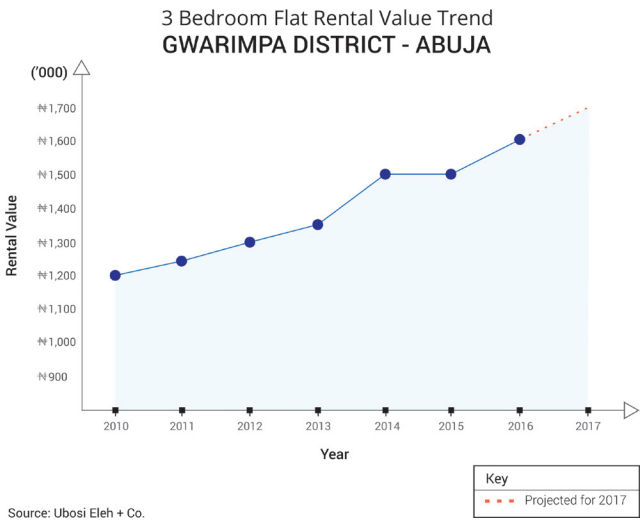
Rents in 2017 will basically remain at the same levels of 2016 and it will not be unusual to see more of what has been observed in 2016 where sitting tenants were paying rents higher than new tenants. The reverse should ordinarily be the case.

Further into the Lekki stretch where private and unorganized developers are having a field day, it is expected that as the economy continues in a downward trend, development of property will drop by at least 30% (current annual production from Ubosi Eleh + Co studies is about 1000 – 1200 units of various types of housing per annum). The market will continue to shrink as incomes are squeezed.

To stay in business it is projected that developers will make homes smaller, i.e. smaller room sizes etc, to lower costs etc. Quality will reduce drastically in terms of materials and finishing as developers strive to stay in business, whilst trying to maintain profit margins at the same or slightly reduced sale values.

We project a marginal 10% to 15% increase in rental values of flats as more people squeezed by the economy downsize from duplexes and detached houses to flats.





Many neighborhoods and gated estates on the Mainland and Island will retain rental values but projections are that capital values will drop marginally.

This drop will depend on the reasons for sale and also reasons for purchase.

Shonibare Estate, Maryland Estate, Cappa Estate, certain streets in GRA Ikeja – Oduduwa Streets, Herbert Macaulay Crescent, all in Lagos, will remain good.

One evolving practice in various precincts is the emergence of strong neighborhood associations.

These have evolved to ensure longetivity of neighborhood facilities and services and also the desire of residents to provide themselves with a livable environment.

The practice is that from the annual dues paid by residents the Association maintains and provides more facilities security and other services. In undertaking this exercise, the Association also carves out Zones out of large neighborhoods by erecting gates in strategic locations.

In these zones they provide tarred roads, drainages, street lighting, and security and even to a large extent act as development control agents by stopping the development of commercial activities, hotels, shops and offices within residential areas. These zones dot many residential precincts of Lagos, Festac, Amuwo Odofin, Yaba, Magodo, Ogudu etc.

The overall effect is that properties within those zones command 5% - 10% higher rental and capital values than others.

Our projection is that generally if the recession bites harder a large drop in achievable sale values will be observed for many properties. What is currently a pattern is the fixing of high asking prices whereas at conclusion only 60%/70% of such asking prices are achieved.

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