

Boom & Bust

The past, present and future of Nigerian retail

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Executive Summary

Hacking the African retail sector has been a significant driver of investment activity in the region over the last decade. Every piece of literature regarding Sub-Saharan Africa and the ever-prominent Africa Rising narrative points to the continent's large rapidly urbanising population, young demography and its now disputed rising middle class.

The investment activity discussed, has been centred around creating ways for businesses to provide services to the large growing population, with promises of great success and superior returns once this is finally achieved.

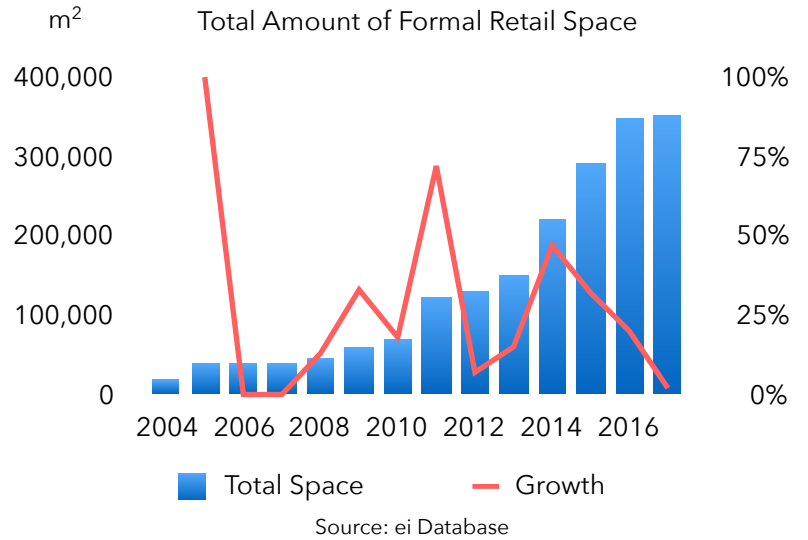
Enter Nigeria, the continent's largest economy and a population en route to becoming the 3rd largest globally after China and India by 2050 and the opportunity was even greater. This apparent opportunity, put together with the historic undersupply of commercial real estate, sold the perfect opportunity to property investors worldwide.

This report describes the 12 year journey of the Nigerian retail sector from 2004 to 2016, focusing on the shopping centre developments actualised and their respective investors as they allocated capital and experienced the first boom and bust. The journey, split into 5 key eras, describes each distinct period based on the activity within it.

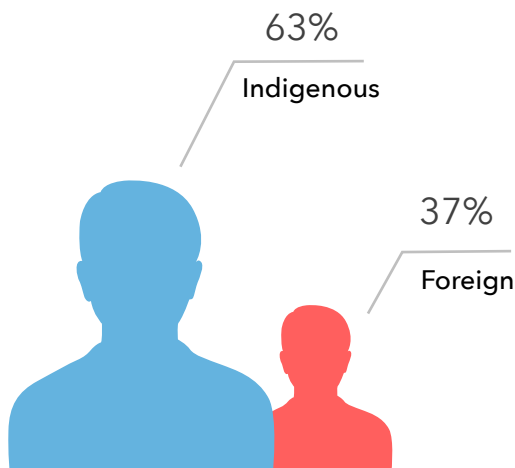
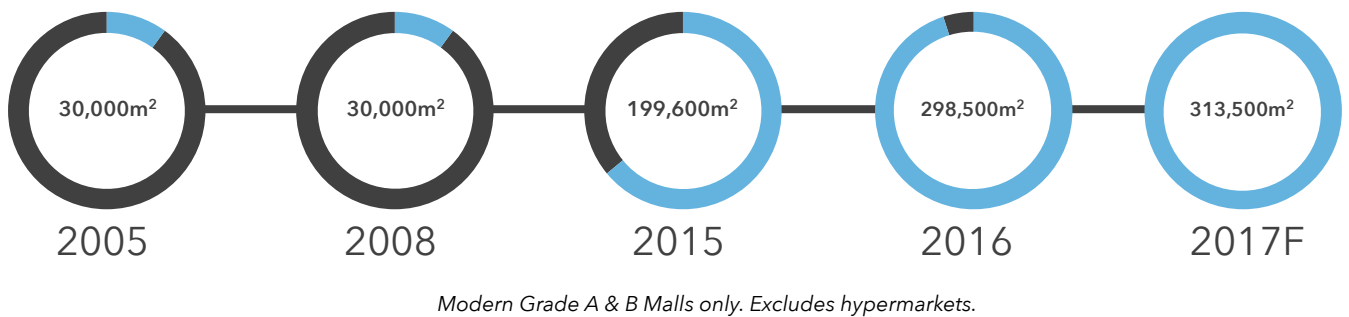


Key Findings

Over the lifetime of the formal Nigerian retail sector, retail space grew 38% annually on average, but grew fastest in the boom era (2009 - 2015) at 40% per annum.



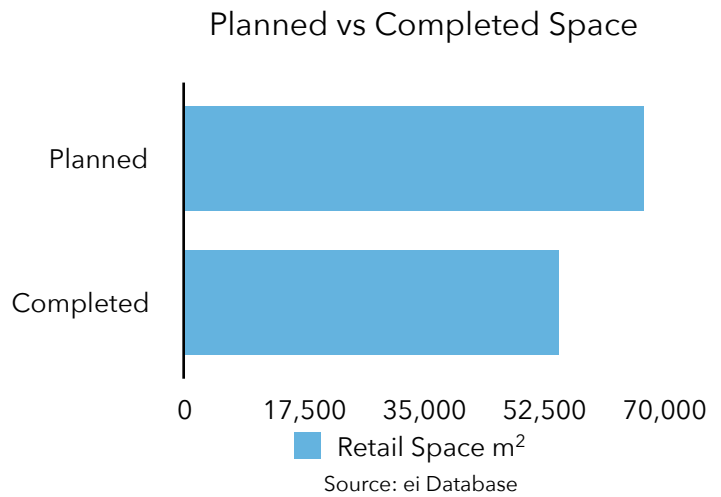
Amount of Space at the end of each era



Of the country's 27 modern retail centres, 63% were developed by indigenous investors while 34% were developed by foreign investors.

Key Findings

As the commodity price induced recession hit Nigeria, retailers struggled, and the developers that were relying on them to fill their mall developments suffered. As a result of weaker demand, developers had to reduce project sizes and approximately 11,942m² of space was lost.

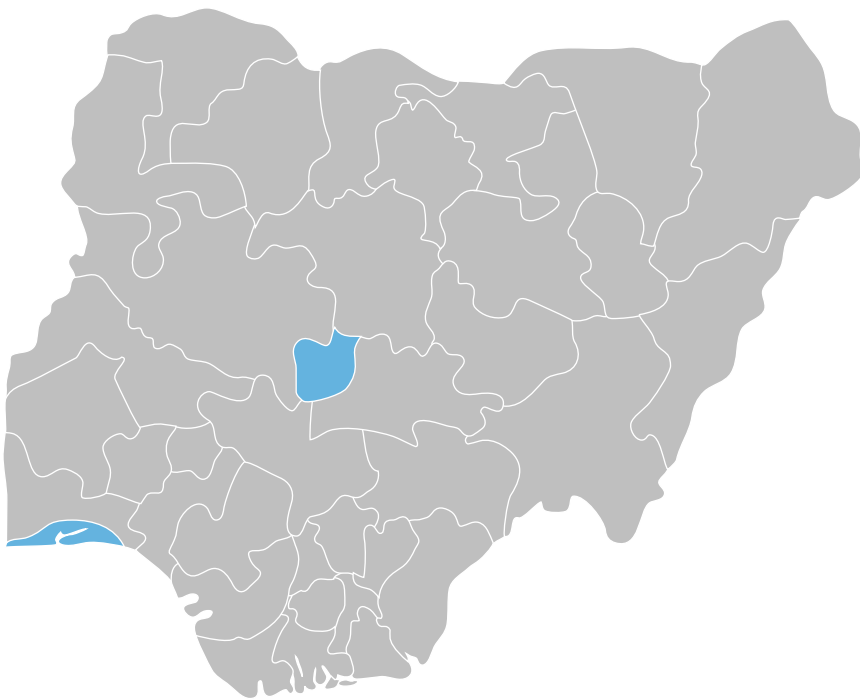


2015

During the era of the Boom & 2nd tier city expansion, the total amount of retail space in the country grew by 199,600m² and the addition accounts for 64% of the country's retail space. During this era, the average retail per capita in cities outside of Lagos and Abuja grew from 0 to 386m²/capita.

The chain of events ends with investors left in the dilemma of determining a new strategy, which will most likely see the greater emergence of the neighbourhood retail centre. These smaller centres with sizes ranging between 7,000m² and 13,000m² depending on the region cater to the basic needs of the average Nigerian consumer including groceries, pharmaceutical products, services, white goods, food and some essential fashion in lieu of the development of large destination or regional shopping centres. Such a model is better positioned to rival the larger informal markets that many Nigerians have refused to migrate from.

#1 The Beginning



30,000m²
retail space added

2004 - 2005



The first era begins with the birth of Nigeria's formal retail sector through delivery of 30,000m² of retail space in Abuja and Lagos, the country's capital and commercial centre respectively. Prior to this, Nigeria largely consumed all of its retail in large informal markets where food, groceries and some clothing could be acquired. Other retail activity occurred in small lock up shops, multi-floor plazas in the more commercial regions and on a few high streets such as Opebi/Allen Avenue in Ikeja or Awolowo Road in Ikoyi.

The Beginning

Ceddi Plaza, located in the Central Business District of Abuja was developed by Ceddi Corporation and holds the title as Nigeria's first semi-formal retail centre. The 10,000m² multi-level retail facility opened in Q4:2004 and was anchored by Spar.



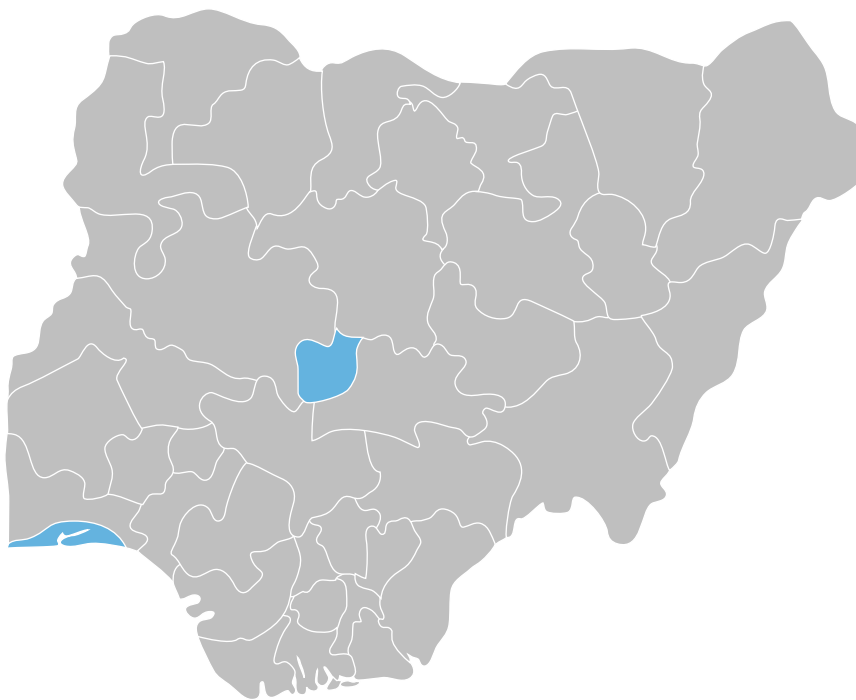
Ceddi Plaza, CBD - Abuja



The Palms, Lekki - Lagos

The Palms Lagos, a larger and more conventional mall at 20,000m² was developed by Actis and local joint venture partner Persianas Investments. It was anchored by South African retail giants Shoprite and Game. The mall was product of Actis' flagship \$154m Africa Real Estate Fund, which was the first of many more that would seek to take advantage of the undersupply of retail, office and other commercial real estate sectors. Despite Ceddi Plaza coming first, the Palms is still widely regarded as the country's first modern mall.

#2 The Great Silence



0m²
retail space added

2006 - 2008



Following the delivery of Nigeria's flagship retail centres in two of her major cities, the period that followed was characterised by a long span of inactivity, dubbed - The Great Silence.

During this three-year period starting in 2006 and ending in 2008, the amount of modern formal retail in the country grew by 0% as no formal retail centre was delivered.

Undeniably, many of the foreign and indigenous investors with the capacity to execute deals were distracted by the global financial crisis and the Nigerian banking crisis that ensued shortly after. The crises arguably had a greater impact on the investment decision making process for international investors as 80% of the malls that followed in the subsequent era were owned by indigenous investors.

The Great Silence

Despite the inactivity in the construction and delivery of new retail centres, the period was used to form strategies and take positions.

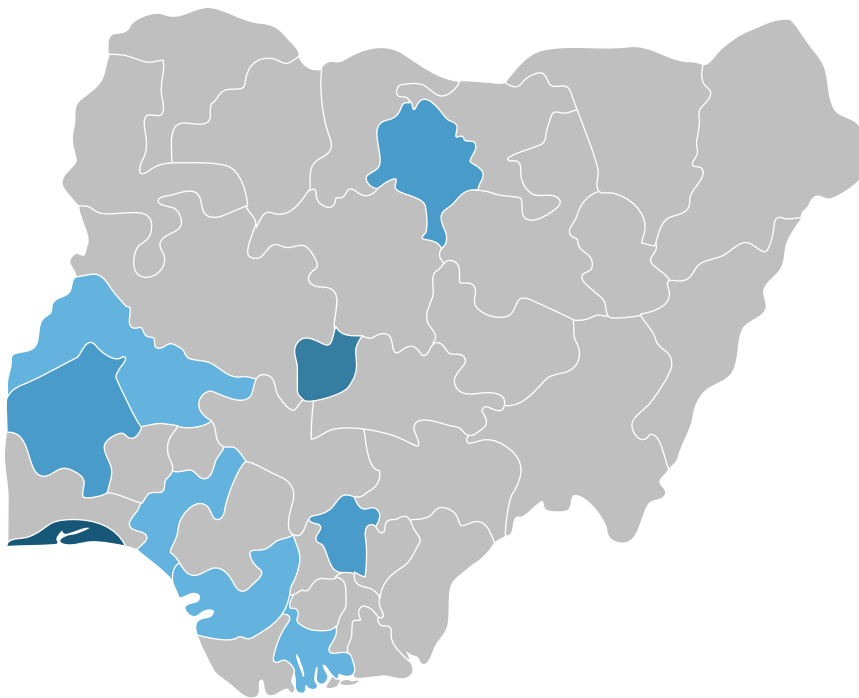
Construction began for a few of the malls that were delivered in 2009 and 2010 and the investment market began to open up. Actis exited their investment in the Palms to Persianas Investments, their local joint venture partners in 2007 and made a new investment into their next Nigeria project, Ikeja City Mall in 2008. African Capital Alliance (ACA) also raised capital for and launched the Capital Alliance Property Investment Company, a \$165m fund with a 10-year life cycle that was established in 2008 to invest in real estate and real estate related opportunities in West Africa.



actis



#3 The Boom & 2nd Tier City Expansion



199,600m²
retail space added



2009 - 2015



Thriving on the back of freshly raised capital, new strategies and the Africa Rising narrative, the third era saw the greatest addition to retail space. A total of 199,600m² of formal retail was added to the Nigerian retail sector from 2009 to 2015 and this currently accounts for over 64% of the country's existing retail space.

The Boom & 2nd Tier City Expansion

Retail space also grew 40% annually during the period, much higher than the 38% average over the lifetime of the formal Nigerian retail sector.

Within this period, the African continent was sold to international investors as the next frontier, the region with a large population, rapidly increasing urbanisation rates, a growing middle class all with an undersupply of retail space. It was a shopping centre's developers dream! And they took action.

as the era that follows demonstrates, market dynamics can change very quickly.

With the exception of Ikeja City Mall that was completed in 2011 by a consortium of investors led by Actis, most of the development activity in the 5 out of 6 years of this era was driven by indigenous investors. Indigenous investors like Persianas Investment developed Palms Ilorin, Palms Polo Park Enugu and Palms Ibadan; UPDC - Festival Mall Lagos;

40%

average growth per annum in retail space during era

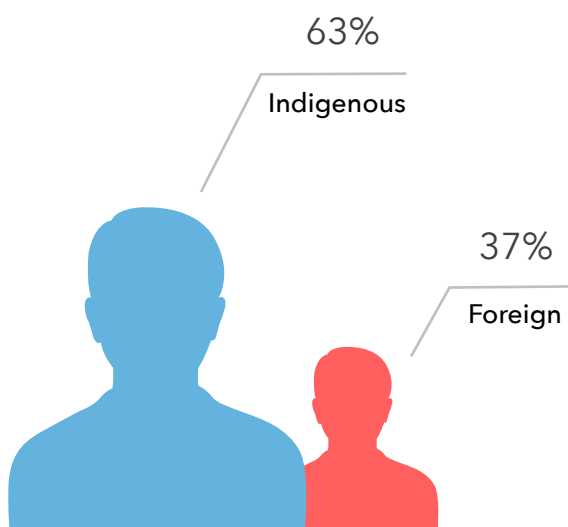
For the most part, the stories were right, in the decade between 2005 and 2015, the economy of Africa as a whole increased by 50% in contrast with a world average of 23%. This narrative was even more exciting for Nigeria as investors rallied in the run up to the rebasing exercise that would see Nigeria emerge as the continent's largest economy with a GDP for \$510bn at the end of 2014. However,



Circle Mall, Osapa, Lekki - Lagos

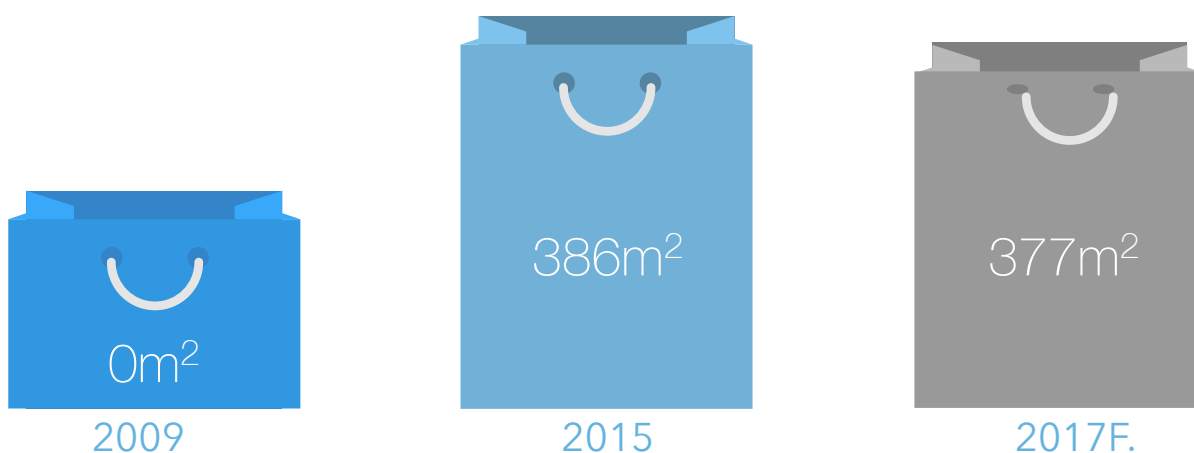
ACA - Onitsha Mall; Artee Group - Port Harcourt Mall; Odua Group's - Heritage Mall Ibadan and also Beverly Development and Realities' almighty Ado Bayero Mall in Kano. The foreign players showed their hand in 2015 through the delivery of Jabi Lake Mall in Abuja, Delta Mall in Delta and Circle Mall in Lagos.

The Boom & 2nd Tier City Expansion



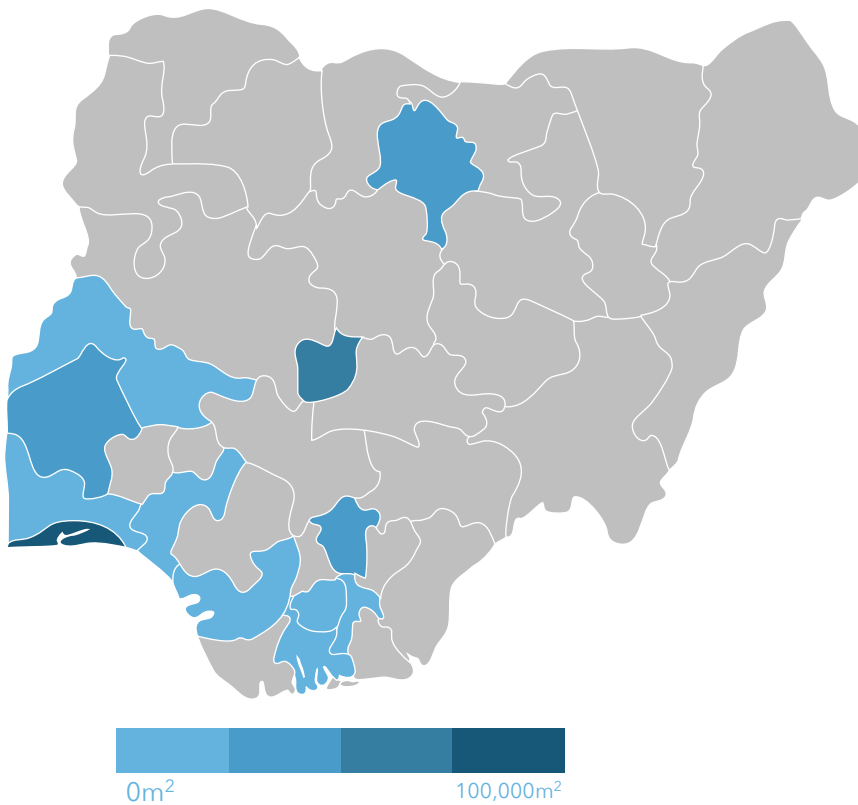
Out of the country's 27 modern retail centres in total, 63% were developed by indigenous investors while 37% were developed by foreign investors.

As the evidence above also shows, a large part of this development occurred in the 2nd tier cities, as investors sought to develop a stronghold in these smaller regions, which would not have the capacity to support multiple malls, before others could take action. During this era, the average retail per capita in cities outside of Lagos and Abuja grew from 0 to 386m²/capita.



Towards the end of this era, especially in the 2nd half of 2015, cracks began to emerge as the oil fuelling Nigeria's economic powerhouse was no longer sufficient to sustain her. The Naira began to depreciate and the tenants who supported the retail developer's dream came under pressure. Fortunately, Actis exited their investment in Ikeja City Mall during the period at an attractive price to South African investors who should still be able to extract value from the asset in the long term.

#4 The Recession

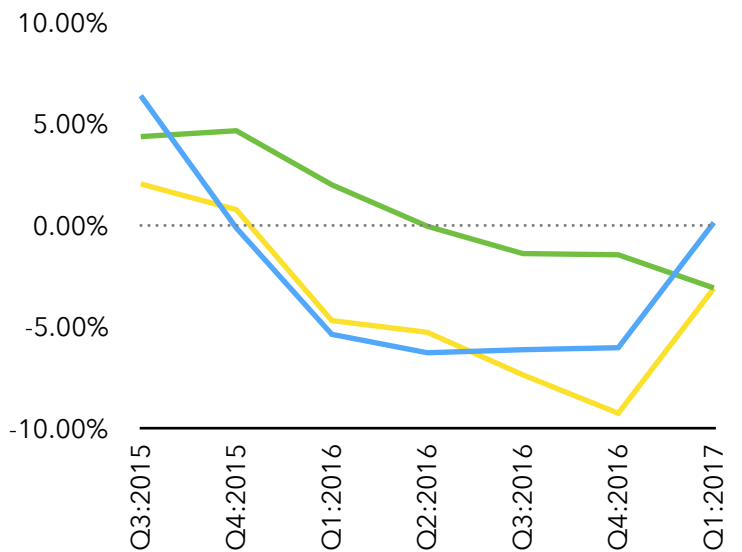


104,000m²
retail space added

2016 - 2017

For shopping centre developers and retailers alike the Nigerian recession came quick and hit hard. The figure below shows that the real estate service, construction and wholesale & retail trade sectors were in recession for most of 2016. Nigeria's over dependence on oil was obvious as the currency depreciated 55% on the official market and up to 50% on the parallel market as Dollar revenues plunged.

GDP Growth by Sector



— Construction — Wholesale Retail & Trade — Real Estate Services

Source: NBS

The Recession

Many of the country's retailers who rely on imports to restock were unable to bear the increased costs because their income was Naira based but restocking and rental costs were Dollar-linked. Mr. Price, the South African large affordable clothing retailer who faced similar challenges had to shut down their centre in Ibadan and move their stock to Lagos. Others such as Foschini closed operations in the country altogether. Several retailers who had resolved to follow the aggressive development of malls across the country and grow their nationwide footprint, had to stall.

Understandably investors/developers who needed these tenants to fill their developments were frustrated and unable to move as quickly as planned. RMB Westport had planned to develop Sunrise Hills Mall, Asokoro (28,000m²) in Abuja and Royal Gardens Mall (30,000m²) in Lekki Lagos has since suspended such plans. Resilient who had planned on developing an attractive portfolio of malls in 2nd tier cities had to slow their plans. The malls they had planned were approximately 12,000m² on average but most that were completed were 8,000m². In this period, over 11,942m² of retail was lost as result of demand led project adjustments.

Developer	Mall	City	Planned Size (m ²)	Final Size (m ²)
Resilient	Owerri Mall	Owerri	13,000	9,262
Resilient	Delta Mall	Delta	15,000	13,766
Resilient	Asaba Mall	Asaba	13,000	7,030
Actis	Jabi Lake Mall	Abuja	26,000	25,000
Total			67,000	55,058

Source: ei Database

As a result of low demand and other market forces...

11,942m²
retail space was lost.

a 18%
decline in delivered space
was noted.

The Recession

During 2016, leasing slowed significantly and vacancies in retail centres rose to 47% according to a publication by Broll Nigeria. While many of the economic fundamentals including the strong demographic profile were still apparent, the realities were not aligned with the expectations that many of the investors had. What was worse is that investor confidence in the economy was deteriorating as the Central Bank with instruction from the President took too long to devalue what was largely recognised as an overvalued currency.

The ShakeUp

2017 & Beyond



The final era, which is in present time, arguably still has some overlap with the previous. The effects of the recession and contraction are still apparent and will be so for a few more years. This year 15,000m² is expected to be added to the retail market by way of Gateway Mall in Abuja, increasing total retail space by a meagre 5%.

Some investor confidence has been restored into capital markets, as the central bank introduced the NAFEX window which made access to FX much easier. The gap between the official and parallel market has closed to 19% down from the record 69% seen earlier in the year and few international investors have re-entered the equity market causing a rally that has left the benchmark index up 39% YTD 2017.

Much like the great silence was used to form strategy and take positions, this era is being used by many to determine the best way forward. Numerous investors are rethinking the model of developing large destination shopping centres in a market with a shallow tenant pool and a not so apparent emerging middle class. Tenants/retailers operating in the country can barely afford the high dollar

based rentals which are higher than those in South Africa now at \$55/m²/month in Lagos and the consumers, especially in 2nd tier cities, struggle to afford retail items other than groceries and food.

Investors are now considering the neighbourhood mall model where malls sizes can range between 7,000m² - 13,000m² depending on the region. These smaller centres will be easier to roll out and sufficiently satisfy the basic needs of the average Nigerian consumer which includes groceries, pharmaceutical products, services, white goods, food and essential fashion. Such a model is better positioned to rival the larger informal markets that many Nigerians have refused to migrate from.

A prime example, though with its shortcomings, is the 7,000m² Maryland Mall in the Maryland neighbourhood of Ikeja, Lagos. Developed by Purple Capital, the asset opened with close to full occupancy with more indigenous than foreign tenants and has maintained a relatively high occupancy for most of its lifetime.

What Next?



Moving forward, the tenants that will occupy these malls need to become a key consideration.

Many of the tenants operating in Nigeria are either foreign or too dependent on foreign goods and it meant that when the FX related crisis occurred, they were unable to bear it and this created a knock-on effect to the malls they occupied or could occupy.



Lessons can be learnt from the Kenyan retail industry.

Nairobi, the country's capital, currently has the largest retail stock in Sub-Saharan Africa (ex.SA) and it may be largely attributable to the head start they had. Their first mall opened in 1984 and their indigenous tenant pool has grown organically to levels where they are able to support the development of multiple shopping malls. Unlike many other African countries who depend on Shoprite and Game, up until recently anchor tenants for Kenyan retail projects have been indigenous. While some parts of the Kenyan retail industry are facing challenges, the lesson on home grown retailers is important.



Local retailers need to be supported.

Retailers typically start out in standalone shops, expand their footprint and gain the capacity to grow into malls. In Nigeria, the malls came much faster than the tenants could grow. Strong home-grown brands like Essenza, MedPlus, The Place, Ebeano, Hubmart, Grand Square, Health Plus, Casa Bella and more are only just coming into their own. Once there are many more brands and retailers which have grown sufficiently then more growth in the built retail sector can be achieved. A greater number of indigenous players with the balance sheet to operate strong franchise operations would also help bolster operations.

What Next?



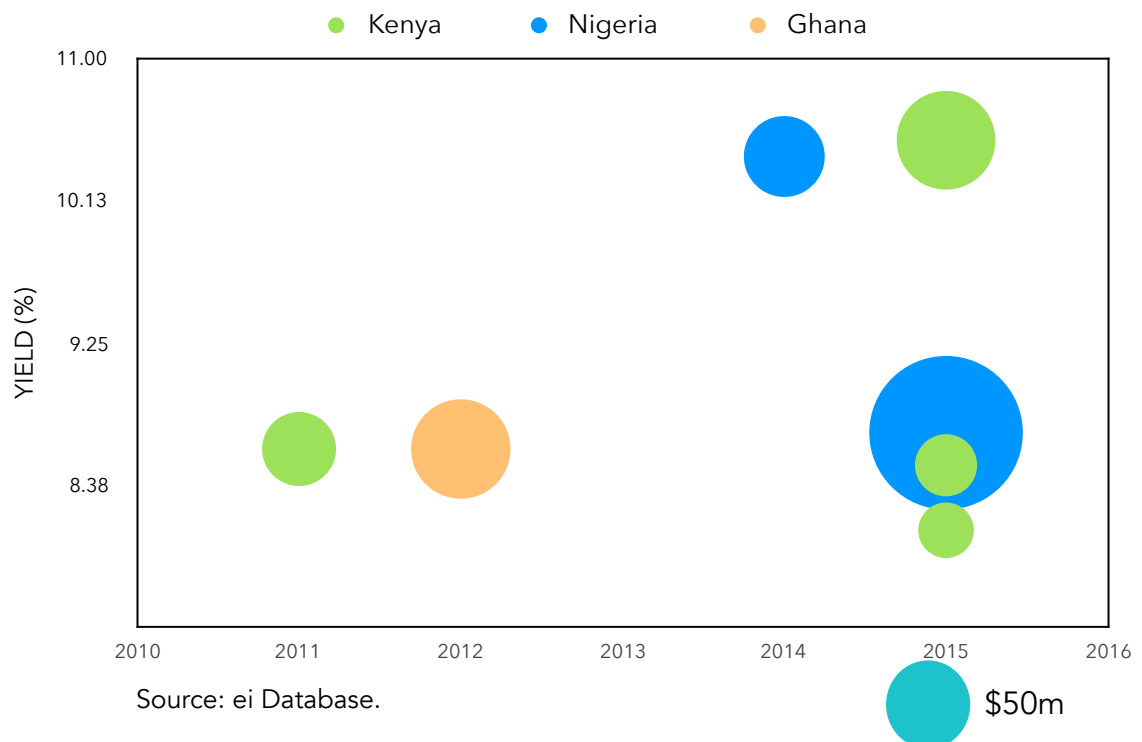
The phased retail project will become a recurring theme.

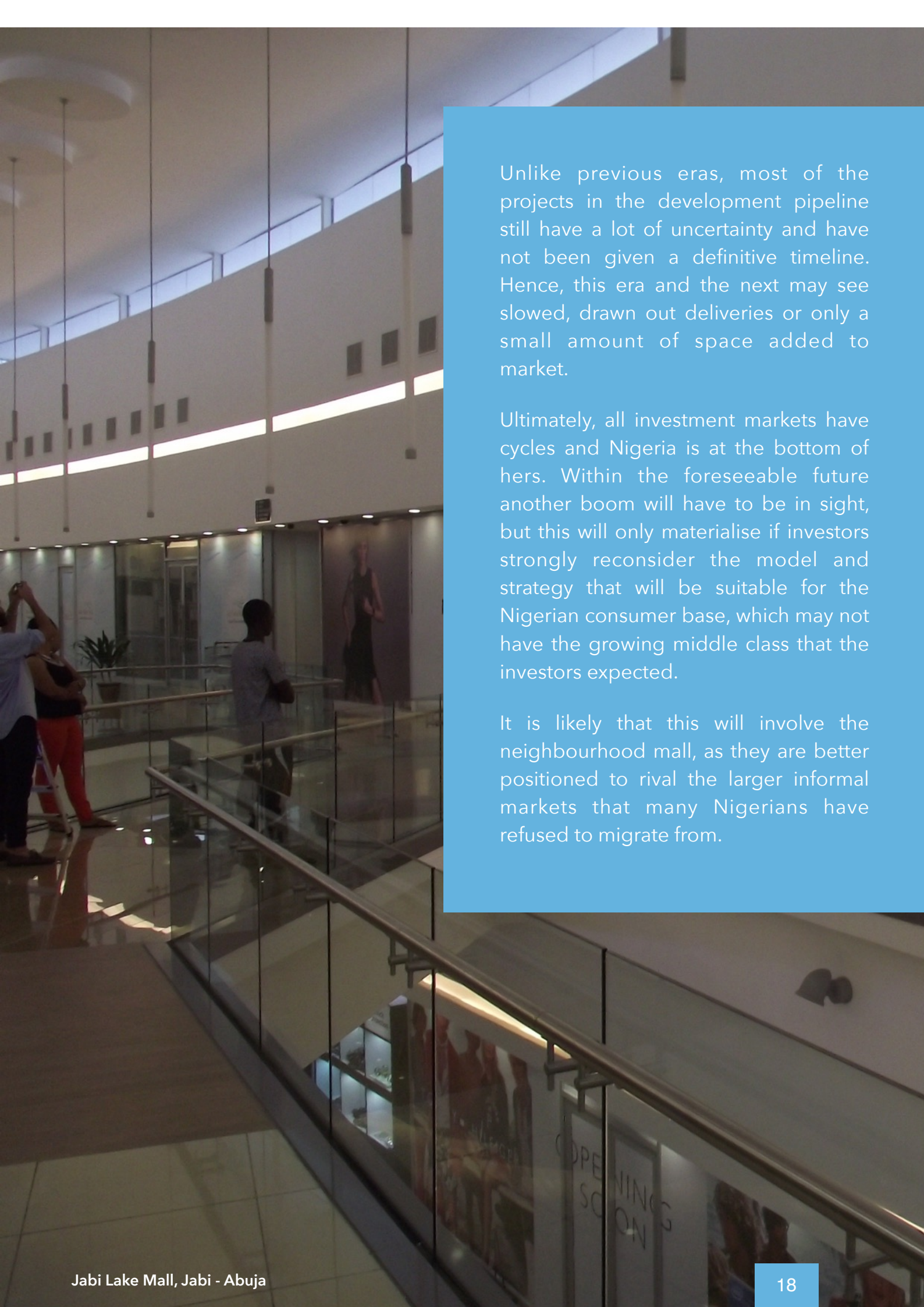
Though the size of some retail projects were reduced, many adopted a project phasing strategy to enable them build out once the market recovers. This strategy enables the investor mitigate current market risks and introduces an option to scale up in the future without starting from scratch. Novare, the developers of the 15,000m² Gateway Mall in Abuja for example, plan on adding 10,000m² to the mall in the future.



Without exit opportunities deal flow will stall.

Long term and consistent deal flow in the commercial real estate sector is reliant on the availability of a clear exit strategy for investors. For new and existing investors to continue rolling out projects, the secondary real estate market via REITs or investors seeking income producing assets needs to see growth. In 2015, an estimated \$265m worth of transactions were concluded in Kenya Nigeria and Ghana, a big improvement to the \$65m seen in all three markets during 2012. The activity needs to be sustained moving forward.





Unlike previous eras, most of the projects in the development pipeline still have a lot of uncertainty and have not been given a definitive timeline. Hence, this era and the next may see slowed, drawn out deliveries or only a small amount of space added to market.

Ultimately, all investment markets have cycles and Nigeria is at the bottom of hers. Within the foreseeable future another boom will have to be in sight, but this will only materialise if investors strongly reconsider the model and strategy that will be suitable for the Nigerian consumer base, which may not have the growing middle class that the investors expected.

It is likely that this will involve the neighbourhood mall, as they are better positioned to rival the larger informal markets that many Nigerians have refused to migrate from.



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Per Capital Retail based on population figures provided by Open Data for Africa.
Image Sources: jabilakemall.com; RMB Westport.

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