

Research Note: Understanding the increased investor interest in Nigerian Healthcare

An increasing number of investors are choosing to allocate capital to the Nigerian healthcare sector as an undersupply of beds relative to other African countries demonstrates an attractive opportunity.

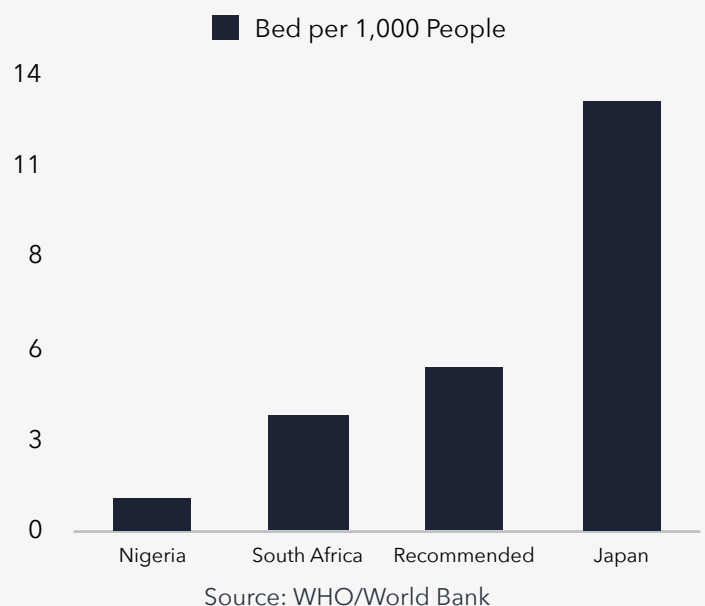
Institutional capital targeting Nigeria has long focused its real estate investment strategies on the conventional retail and office sectors. The recent recession however, has led many investors to rethink these strategies, many of which were based on market fundamentals that are now largely regarded as flawed. Though the industrial sector is usually identified as the next investor favourite, it has proven tough to lift off due to inadequate power supply, poor road networks, owner-occupier demand styles and a general weak manufacturing sector. The built healthcare segment however, is now beginning to take centre stage and a rising number of institutional investors are backing hospital or healthcare projects with their capital.

Recent data from the World Health Organisation (WHO) and the World Bank indicate that the ratio of hospital beds to the population is less than* 1 bed per 1,000 population. Far less than the 3.5 beds per 1,000 population recorded in South Africa in 2015 and considerably less than the WHO recommended 5 beds per 1,000 population.

Modern healthcare delivery in Nigeria comprises over 34,000 public and private healthcare facilities structured under three tiers of control. Government-owned healthcare delivery facilities provide most of the health services to the general population and most of them are primary care centres focused on outpatient care. On the private

sector side, there are a few large multi-specialty facilities with the capacity to provide a range of secondary and tertiary health services in addition to primary care. Reported health statistics however, still point to significant inadequacies with regard to healthcare provision in the country.

A perceived lack of adequate quality facilities in the country has prompted those who can afford it to seek treatment abroad. According to research from Business Monitor International Nigerians could be spending as much as \$1.6bn per annum on outbound medical tourism in destinations such as UK, US, South Africa and India. Efforts are now underway to reverse this trend and capture the medical tourism market, this is reflected in recent government policy statements, Public-Private Partnership proposals, private sector and institutional investments.



*World Bank Estimates that put Nigeria's bed per 1,000 population at 0.5 are from 2004. Recent estimates suggest 0.9 in 2015.

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At least 800 beds are in the pipeline over the next 4 years as various investors back tertiary facilities that aim to keep \$1.6bn of outbound medical tourism spend within Nigeria.

The table below, which highlights only a few of the planned hospital projects, shows that at least 800 beds are in the pipeline over the 4 years.

It also illustrates that investment into the built healthcare sector is not limited to private firms as Health Management Organisations (HMO) have also become key players in the development of new hospitals. Driven by a desire to control quality of care being provided to their customers and to meet the obligations to individuals under their coverage, some HMOs invest in or enter into strategic alliances with health care facility providers. A recent example includes AXA Mansard and their best in class hospital project with IFC and ACA. According to the NHIS, there are presently over 20 in operation providing health insurance to less than 1 million people, a small number when compared to Nigeria's labour force of 81.5 million during 2016.

An important consideration for the success of these new hospital projects is staffing and corporate governance. While the quality of the facilities developed will be improved significantly over the next few years, without structured access to quality medical talent from global experts, doctors in Nigeria and those in diaspora, failures noted in the past may be repeated.



Dr. Charles Hammond Clinic, Lekki Phase 1 - Lagos

PROJECT SPONSORS	BEDS	COMPLETION	LOCATION
Private Equity Firm + LifePlan	250	2020	Chevron Area - Lekki
Private Equity Firm + Dr. Charles Hammond	150	2019	Lekki Phase 1
AXA Mansard, IFC & ACA	150	2020	Lekki Phase 1
AFREXIM Bank, Kings College & Ministry of Health	-	-	Nigeria
Nigerian Sovereign Investment Authority (6 Projects)	-	-	Nigeria
Reddington - Duchess Hospital	±70	2018	Ikeja
Lagos Medipark	180	Unknown	Ikoyi

Source: ei Database

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Primary healthcare still requires investment as most new projects are focused on slowing medical tourism which is driven by the upper echelon of demand. Healthcare investment strategies need to integrate primary healthcare as this is where scale can be achieved.

New projects where this is being considered include the AXA Mansard backed hospital, where an alliance with Healthshare, a South African healthcare management company has been created; and Lifeplan where doctors in the diaspora invested directly in the hospital projects to ensure commitment. Training for Nurses that will work in the Lifeplan hospitals is already ongoing even though the project is still in the pipeline.

The increased investment into the segment has been largely in and around multi specialty hospitals, niche healthcare providers, standalone diagnostic facilities and Health Management Organisations (HMOs). The high financial returns of specialty hospitals and diagnostic facilities are attractive, especially if these new facilities are able to ensure \$1.6bn outbound tourism spend is kept within Nigeria. However, these investments, which are mainly geared towards slowing medical tourism through specialist centres still only cater to the upper echelon of healthcare demand, as only a

small part of the Nigerian population can afford outbound treatment.

As a result of the increasing investment within this segment, it is clear that standard of tertiary healthcare in Nigeria will improve significantly over the next few years. For investors however, it is possible that the increased competition may have an impact on profit margins expected. The primary healthcare segment, which serves a larger percentage of the population (by operating a high-volume business model and allows the investor target low-income groups needing basic interventions) is yet to see a similar level of investment and this is where true scale can be achieved.

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