MCORE **Lagos (Nigeria) Real Estate Investment Outlook Q1:2018**

MARKET SUMMARY:

❖	***Investment***	*Economic indicators are positive with exchange rate stability, growing reserves and falling inflation. However, non-oil sector growth remains very poor*
❖	***Prime Land***	*Prices have remained resilient with a 3 per cent growth rate across the prime locations tracked*
❖	***Commercial Office***	*The sector continued to suffer from low occupancies in 2018 brought about by an overhang of new space coupled with low demand in a weak economy*
❖	***Residential***	*The market is constrained by a lack of consumer spending power however well-located and attractively priced properties in areas such as Lekki and mainland perennials such as Ilupeju and Yaba continue to find ready buyers*
❖	***Hospitality***	*Occupancies are rising from 2017 lows of below 50 per cent. As long as the mid-term outlook continues to look strong, we can expect occupancy and ADR indicators to reflect positively*

1. INTRODUCTION

Nigeria – Living on borrowed time (and borrowed money)

On the back of a stable, OPEC supported oil price well above its historical lows, Nigeria has emerged from recession into a period of weak economic growth. Following the oil price falls to US$30p/b in early 2016, Nigeria had taken tentative steps towards diversifying the economy away from oil towards agriculture. With a stable oil price and growing external reserves, the pain has eased and our attention turned away from the diversification story to the 2019 elections while we fund our expenditure with borrowing. With the increased borrowing, any sustained deterioration in the oil price will put us back in an even more precarious situation than we were before. Nigeria is living on borrowed time and borrowed money. We trust that you will find our latest report insightful and ask that you forward it to colleagues who have an interest in African real estate markets in general and Nigeria in particular.

2. ECONOMIC OVERVIEW

Inflation has been on a downward trend for over a year and March year on year (y-o-y) Inflation of 13.34 per cent represents the fourteenth consecutive fall in inflation since the high point of 18.72 per cent in January 2017. Y-o-y GDP grew by 1.92 per cent in Q4 2017 in real terms, maintaining its positive growth since the emergence of the economy from recession in Q2 2017. For the full year 2017, Nigeria's GDP recorded a real annual growth rate of 0.83 per cent. This was broken down to 8.38 per cent (y-o-y) for the oil sector up until Q4 2017 and 1.45 per cent for the non-oil sector over the same period.

As at the end of March, oil prices stood at c.US$66p/b with an average price over the first quarter of US$65p/b (OPEC Basket price). Based on the relatively stable oil price, over the first quarter, Nigeria's foreign reserves have recovered significantly from a low of just over $24 billion in October 2016 to almost US$47 billion as at the end of March 2018. Oil sector annual growth stood at 4.79 per cent while non-oil sector annual growth stood at 0.47 per cent. A recent report by the IMF confirms that, while Nigeria is officially out of recession, buoyed primarily by the increase in oil prices, this is yet to translate into real growth in the non-oil sector, which is the primary generator of employment. Growth in the non-oil sector is a critical indicator of how sustainable the economic recovery will be.

Economic indicators are positive with stability in the naira exchange rate, growing reserves and falling inflation. However key indicators such as employment, power generation and diversification of the economy remain weak. Overall, Nigerian economic growth remains weak with GDP real growth at 1.92 per cent in Q4 2017.Positive growth is predicated on the quick passage and effective implementation of the 2018 budget, improved security, foreign exchange market stability as well as favourable crude oil prices and the passage of the PIGB.

Nigeria 5YR Economic Indicators	1	2	3	4	5	
	2013	2014	2015	2016	2017	Q1 End
Oil Price ($/barrel)	111	100	53	42	64	66
Oil Production (Avg bpd/m)	2.40	2.40	2.10	1.80	1.88	1.91
External Reserves (US$Bn)	42.8	35.2	28.3	25.8	38.8	46.7
Exchange Rate, Official (US$1/N)	158	180	197	305	305	306
Exchange Rate, Parallel (US$1/N)	171	188	258	487	360	363
Monetary Policy Rate (MPR, %)	12	12	13	13	14	14
GDP Growth Rate (%)	5.49	6.22	2.79	-1.58	0.83	
	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
GDP Growth Rate (Y-o-Y, %)	-2.34	-1.73	-0.91	0.72	1.40	1.92
	Oct	Nov	Dec	Jan	Feb	Mar
Inflation Rate (Y-o-Y, %)	15.91	15.90	15.37	15.13	14.33	13.34

CBN, NBS, OPEC Prices are year or quarter end unless otherwise stated

3. REAL ESTATE

Economic Overview

The federal government has focused primarily on agriculture and infrastructure spending to diversify and stimulate the economy away from recession to growth. The construction sector has benefitted from Infrastructure spending, with real grown of 4.14 per cent (y-o-y) in the fourth quarter of 2017 and 1 per cent over the year. However, the real estate services sector, primarily driven by private sector money and operating in a tight monetary environment where every transaction is queried as part of an anti-corruption drive, has shown the weakest growth across all sectors of the economy in 2017 with real GDP growth of -5.92 per cent in Q4 and annual growth of -4.27 per cent.

Finance is the lifeblood of investment and definitely the lifeblood of real estate, a capital intensive sector of the economy. In the current illiquid environment, projects that previously looked good, can no longer be supported in an economy where consumers do not have any spending power. In our attempts to raise funding for projects, we are currently coming up against institutional capital no longer actively investing in the real estate market. Until the economy turns around and tight monetary stance eases, real estate is likely to continue to remain constrained.

Infrastructure spending does positively impact real estate values and one may hope that the real estate sector is hence at the bottom of a cycle, with the expectation of a turnaround as the economy improves and the tight monetary environment eases on the back of falling inflation figures.

Lagos State and the Land Use Charge

Lagos State is currently making things happen, particularly as regards infrastructure and urban development. Evidence of this is seen all over Lagos extending into areas such as Epe, Ikorodu, Oshodi and Badagry and reducing urban pressure within the congested core of Lagos. This is a boon to the real estate sector as holders of assets primarily property and land benefit considerably in increased valuations from infrastructure improvements.

LSG need to generate revenues in order to invest in infrastructure and as such we appreciate the concept of the LUC which targets those benefiting from the works. We also appreciate the concept of an increased charge on empty properties considering the huge deficit in housing in the state. The imposition of the charge will hopefully put back formerly empty properties back into the market hence increasing housing supply and reducing upward pressures on rents brought about by landlords seeking to pass the LUC to tenants. Tenants gain from the increased housing on the market, and landlords may lose due to an increase in operating costs but hopefully gain from the increase in capital values from the benefits of spending of IGR on infrastructure.

Investment Trends

- Dangote Refinery, the world's largest single line refinery, is expected to come on stream next year in 2019. The investment is predicted to be a game changer which will lead to a fall in USD outflows of c.US7.5 Billion / annum for imports of refined fuel purchase and potentially lead to a strengthening of the Naira which is attractive for international investment as returns and long term stability are paramount for inward investment
- With bank lending rates of circa 25 per cent, local developers seek to avoid loans and prefer equity funding for projects
- Multiple distressed assets for sale from financial institutions and government entities
- A recent investment of US$18m by Alta Semper Capital LLP in Healthplus is a positive vote for the small to medium business sector in Nigeria. Healthplus is a major space occupier in multiple retail malls in Nigeria and the investment which is positioned to enable the retailer expand its retail footprint in Nigeria can only be a positive development for the modern retail sector in Nigeria.

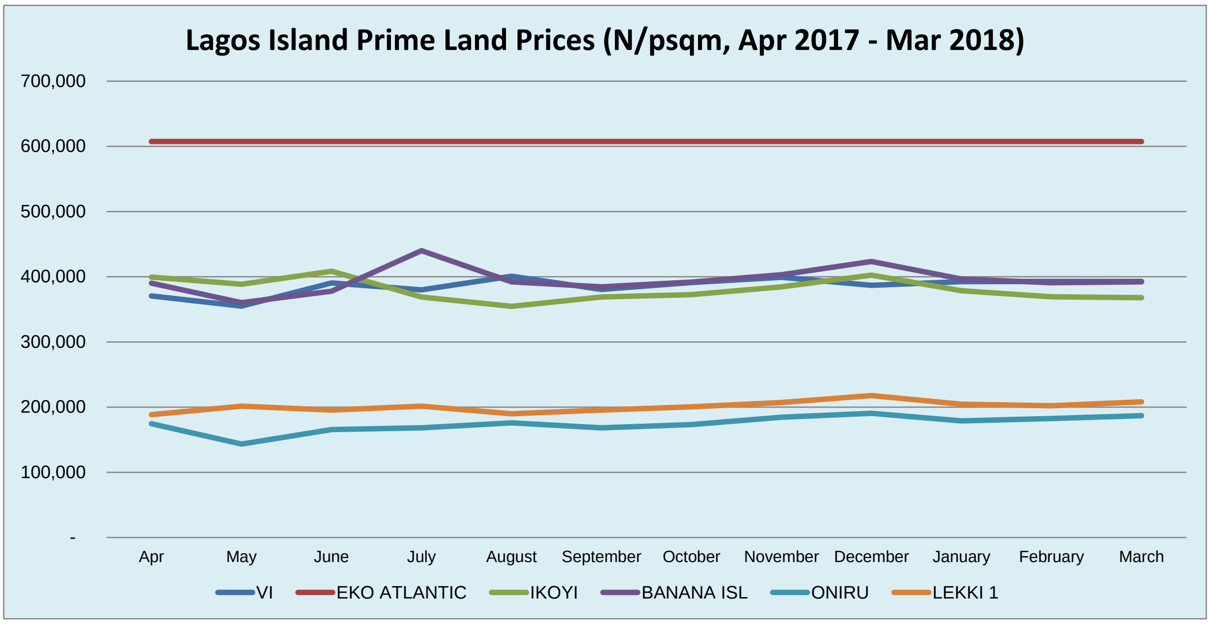
PRIME LAND

We have started to use a 12 month moving average weighted towards the present month to track prime land prices. The moving average irons out any price spikes and clearly outlines a three tier prime market comprising of Eko Atlantic City as the premium priced location in Lagos, followed by Victoria Island and Ikoyi in the middle and Lekki and Oniru as a lower priced alternative. Eko Atlantic City has jumped in price in Naira terms by circa 16 per cent over the last year due to a re-pricing from the official USD rate of 306 to the investor and exporters fx exchange rate of N360/US$1. Infrastructure and development works continue within the City with the Azuri Peninsula mixed-use residential development located in the Marina district beginning to take shape and other residential and office developments also gradually moving from planning to construction stage.

The high standard of infrastructure does however come at a price with Eko Atlantic City at N612,000 / $1,690 psqm, a circa 60 per cent premium over the average price range of Ikoyi (N366,000 / $1,007 psqm), Banana Island (N397,000 / $1,093 psqm) and Victoria Island (N388,000 / $1,068 psqm) prices and a 157 per cent premium to Lekki Phase 1 land which currently stands at N238,000 / $656 psqm.

Lekki Phase 1 core land particularly leading off Admiralty Way is now at a premium and no longer readily available for purchase on the open market. This can only put a premium on price values and demand has already led to an increase in land reclamation at the bottom of Freedom Way leading to new developments including Orange Island, Periwinkle Island, Imperial City and others yet to come.

Prices have remained stable over the last year showing an average growth rate of only 3 per cent across the board with Lekki Phase 1 showing the greatest percentage increase of 10 per cent and Ikoyi falling in value by 8 per cent over the year.



Notes

1. Land value data is derived from advertised sales prices
2. Eko Atlantic prices are benchmarked in US$ and are blended waterfront, non-waterfront and secondary market prices
3. Investor and Exporter FX window rate used for N/USD conversion

COMMERCIAL OFFICE

The commercial office sector continued to suffer low occupancies of circa 50 per cent through Q1 2018 brought about by an overhang of new space coupled with low demand in a weak economy leading to a paucity of occupiers ready to take up new space. Rents have stabilised, however any demand pressures are neutralised by an overhang of new space still feeding into the market through 2018 and into 2019. New entrants to the market will include Kingsway Tower (GLA: 13,317 sqm), Alliance Place (6,670 sqm), Madina Tower (8,300 sqm) and Cornerstone Tower (12,000sqm) plus others putting an additional c.64,000 sqm onto the market approximately 12 per cent of existing stock. Class A office rents have fallen by c.20 per cent over the past three years to stand at circa US$750 psqm while Class B rents hover in the region of c.US$400 psqm

RESIDENTIAL

With bank lending rates of circa 25 per cent, residential developers are avoiding loans which are seen as too expensive and prefer joint venture arrangements between the landowner, the developer and the provider of capital (or permutations thereof). Residential developers are still able to source off-takers, particularly for well-located mini estates in proximity to a good road network and for sale at a competitive price. Developing up to shell level enables the developer offer a product at a more competitive sales price with the buyer able to complete to his own price and standard of finish and at his own time.

Residential trends;

- Pockets of attraction for residential development include Lekki, Ikoyi and mature mainland destinations such as Ilupeju and Yaba
- For prime residential, there is a move away from high priced detached houses to higher density high quality multi-family apartment complexes within mixed use developments branded as live-work-play schemes inclusive of office and retail uses. High densities are needed to maximise returns from high priced land plots in desirable locations.

- Value for money apartments are priced for a quick sale with the expectation that profits are derived from a higher turnover rather than single large sales
- Apartments are priced from N35m–N60m for mainland Lagos and from as low as N90m in Ikoyi
- The recession has led to a weeding out of speculators with long term focused professional developers able to weather the storm
- The Lagos State Government is actively seeking to enter into joint venture partnerships with private developers to bring fallow government land into use for residential housing and commercial development

HOSPITALITY

Hotel trends;

- As at Q4 2017, Lagos had 4,800 hotel rooms compared to 3,900 in Abuja with an increase in supply of 25 per cent and ten per cent respectively over the last four years
- Hotel room rates have remained fairly stable with many hotels operating highly discounted rates in order to attract business. This is not expected to change any time soon over the coming months.
- Room occupancy stood at 48.5 per cent in January traditionally a slow month with a pickup to 64 per cent by February. This compares favourably to the Feb 2017 occupancy rate of 56 per cent and is a reflection in the pick-up in the wider economy
- The 2018 new supply pipeline for Lagos stands at 23 hotels with a total of 3,980 rooms, an average of 173 rooms per hotel. However projected supply does not equate to actual supply
- Recent news includes the dissolution of the management contract between the InterContintal Brand and the former 361-room InterContinental Hotel in Victoria Island owned by the Milan Group, the 155-room Renaissance Hotel in Ikeja opened in late 2016 has been rebranded from Marriot to Radisson Blu and Le-Meridien Hotels has exited its management contract with the Ibom Hotels and Golf Resort, Uyo

As always, the hotel sector is deeply dependent on the fortunes of the oil sector in Nigeria. As long as the mid-term outlook continues to look strong, we can expect room occupancy and ADR indicators to reflect positively

Courtesy of W Hospitality Group

ABOUT US

MCORE (MCORE.co) is a real estate investment advisory firm founded in Nigeria in 2010 that offers services and solutions to a global audience of investors, developers and other market participants to enable them achieve their real estate objectives. Our offerings include investment advice, funding solutions, feasibility studies and services to acquire, develop and sell real estate assets and joint venture opportunities. Our in-depth expertise, market driven research and rigorous due diligence enables us deliver successful outcomes in the volatile markets within which we operate. Contact us NOW to discuss further how we can assist you.

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