

REAL ESTATE MARKET OVERVIEW

DOING BUSINESS IN NIGERIA



WRITTEN BY

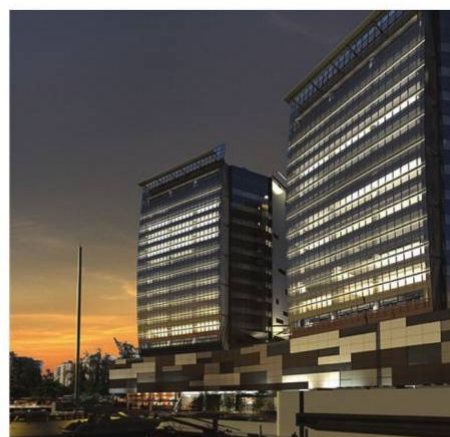
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KEY STATISTICS NIGERIAN REAL ESTATE MARKET

Population (World Bank Est.)	185,989,640
Monetary Policy Rate	14%
GDP Q2	N26,98 Trillion
GDP Growth Q2 2017	0.55%
Inflation (July 2017)	16.05%
Real Estate Services growth rate (Q2 2017)	17.57%
Construction growth rate (Q2 2017)	3.53%
Housing Deficit (2016)	19.8 Million
Consumer Price Index (2016)	213.60
Ease of doing business ranking (2016 -17)	169/190



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GENERAL MARKET OVERVIEW

In recent years, Nigeria's economy plummeted on account of global fall in crude oil prices, instability in prices of other domestic commodities and weak infrastructure leading to significant rise in inflation and an unprecedented value erosion of the Naira. In response to the economic crisis a range of monetary policies were introduced which raised concerns amongst foreign investors about the convertibility and ability to repatriate their profits. The recent marginal rise in global crude oil prices has been instrumental to the renewed inflow of Foreign Direct Investment which totalled USD 274.37 million in

Q2 2017 (a 48.87% increase in comparison to Q2 2016). Further, the opening of a special foreign exchange window for investors by the Central Bank of Nigeria is expected to trigger increased activity in the market by attracting investors who had hitherto been disinclined to invest in Nigeria.

The real estate market was not immune from the economic downturn; it recorded negative growth in 2016. Though still clinching a 6.2% contribution to Nigeria's GDP; construction activities declined significantly with an overall dip in rental income, unprecedented increase in cost of building

materials, increase in rates of defaults on construction contracts and loans, and increase in construction related claims and litigations. The market is expected to rebound in 2017 with analysts predicting a sector growth of about 5% which will principally be hinged on: higher participation of institutional investors (especially Pension and Private Equity Funds), expansion and development of second tier cities such as Ibadan, Owerri, Delta, Kano and Enugu; diversification into new asset classes and Government incentives and regulatory interventions.

03 RESIDENTIAL

The affordable, mid and high-end segments of residential market have varied significantly in their performance over the last year.

A. Affordable housing has been largely driven by private individuals (developing their own homes) and government intervention projects with very minimal participation from the private sector (the exponential costs of land and construction materials and the dearth of financial incentives for private participants makes it unattractive). At the federal level, the CBN continues to drive the National Housing Finance Programme (in collaboration with the World Bank) and recently launched "My Own Home", a micro-credit scheme designed to make housing finance available to low income earners to finance their own construction projects. The scheme involves the provision of a USD 15 million fund to micro-finance banks for on-lending to eligible borrowers.

Outside of the NHFP, the Federal Government (in collaboration with the State Governments, Primary Mortgage Banks and the Nigeria Mortgage Refinance Company) has also established the "Family Homes Fund" a N1 Trillion fund which will be deployed towards construction and acquisition finance. Enabling developers to deliver "ready to occupy" family homes priced between N2.5 million and N18 million to first time home buyers who will also be provided with long tenor mortgages at single digit interest rates.

A few private sector participants have also been visibly present in the affordable housing space;

Lafarge in collaboration with LAPO Microfinance Bank launched the "Ile Irorun" housing scheme in 2013 which has so far developed over 3,000 units of housing as well provided affordable mortgages for beneficiaries under the scheme. The Millard Fuller Foundation, a faith based organisation with the mandate of developing affordable homes has successfully delivered over 300 housing units priced between N1.65 million and N4.2 million in Abuja (FCT) and Nasarawa State.

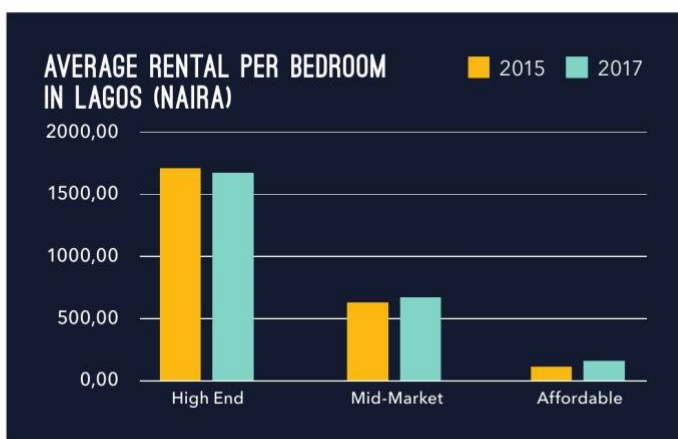
B. The mid-market (which captures properties priced between N20 million and N60 million) has proven to be very resilient particularly in the Lekki - Epe corridor of Lagos (owing to the rapid state of development along the axis such as the Dangote Refinery; the Lekki Sea Port; The Lekki and Lagos Free Zones and a proposed airport) and other key cities such as Abuja and Port Harcourt. This is due to the increased spending power of the expanded middle class and increased access to finance (howbeit short tenured with high interest rates).

C. The high-end market continues to record a glut of properties with an estimated vacancy rate of about 40% (especially in the prime Ikoyi - Victoria Island axis of Lagos and the capital cities in other States) owing to International Oil Companies scaling back operations in the local market and the shrinking population of expatriate staff in many of the top multinational companies. High costs of construction have led to proliferation of many empty properties which have remained on the market but proving impossible to sell. The anti - corruption drive has further contributed to the slowdown in the market, as many high net worth individuals continue to avoid unnecessary attention of anti-graft agencies

The chart below illustrates the average rental value per bedroom of properties in the Lagos market.

IMAGE LEFT

Wing towers,
Nigeria



04 COMMERCIAL

The commercial real estate market is largely concentrated in Lagos, Nigeria's commercial hub, and Abuja, the federal capital. Currently, there is a significant oversupply of Grade "A" office spaces leading to a drop in rental values and services charges especially in the prime Ikoyi/Victoria Island axis of Lagos. This supply glut is compounded by the expected delivery of a number of new commercial developments in the axis including Alliance Place (6,670 m²); Cornerstone Tower (10,000 m²); Kingsway Tower (6,670 m²), and Madina Tower (8,140 m²) in Q3 and Q4 2017; A further 23,000 m² of commercial office spaces are scheduled for delivery in 2018. Prior to the recession, commercial real estate was the premium investment choice for many institutional investors especially dedicated private equity property funds. In the last two years however; many corporates have reduced their

rental spend by adopting more efficient space management strategies; whilst many others have moved out of A grade offices into smaller self-served residential spaces converted to office use.



IMAGE ABOVE

Lagos, Nigeria



IMAGE TOP RIGHT

Ilubirin, Nigeria



05 RETAIL

Retail accounts for 27% of the world's GDP; employing about 17% of the World's population. In spite of the economic downturn, Nigeria is still ranked 19 out of 30 developing Countries in the Global Retail Development Index (recording over USD125 Billion in sales in 2016). Retail penetration is about 11% of total population (growing by about 600% in the last 3 years. In terms of Retail Development; despite dwindling government resources and a dip in consumer spend by about 8% from an all-time high reached in Q4 2015) this asset class has remained resilient - Mall developments continue in Lagos, Abuja and other major cities with Companies like Resilient Africa,

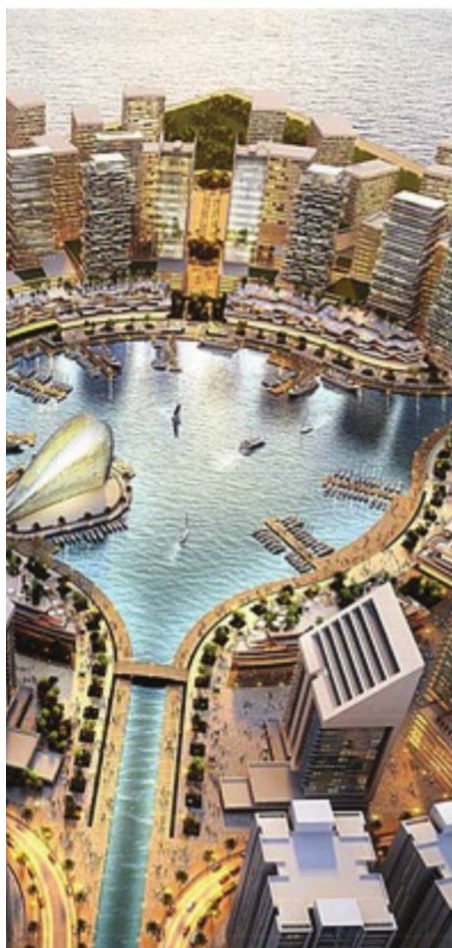
Novare and Actis leading the pack. In terms of rental yield; many retail property owners/managers have had to reprice their lettable spaces in the face of current economic realities. Many of the recent retail developments delivered were also in secondary cities such as Ibadan, Ilorin, Owerri, Delta, Asaba (where retail penetration remains low) and anchored majorly by international grocers such as Shoprite and Spar who seem to have a strong foothold in the Nigerian market. A quick rebound is expected in Retail given that market fundamentals continue to provide a strong business case for continued investment in this asset class.

06

HOSPITALITY

The Hospitality market in Nigeria has attracted over USD 3 billion of foreign capital in the last couple of years especially with the mass entry of international hotel, cinema and quick service restaurant brands (Marriot, Accor, Protea, Carlton, KFC, Dominos and the IMAX Cinemas) contributing over 4.6% to real GDP. Many local brands have also shown a dominant presence in the hospitality, entertainment and quick service restaurant space (Chicken Republic, The Place). The market was in no way insulated from the shrink in economy as many industry players suffered huge revenue losses. PWC estimates

that Hotel occupancy rates dropped to 46% in 2016 causing many hospitality managers to drop prices and also become very creative with different forms of promotions to boost patronage. many have scaled back on expansion plans. Notwithstanding, the hotel development maintained a healthy pipeline. W Hospitality a hotel consultancy in Nigeria estimates that there are currently about 10,000 additional rooms under construction across 61 hotels. Many developers in the hospitality space have scaled back on expansion plans whilst others have begun to target the less concentrated 2nd tier cities.



07

MORTGAGE MARKET

The introduction of the private sector owned but Government backed mortgage liquidity facility (the Nigeria Mortgage Refinance Company Plc) raised market expectations in housing finance. Whilst a lot of positive strides are recorded in the area of technology/market infrastructure, regulation and policy drive. Not much impact is recorded in terms of interest rates. Lending rates in the mortgage market ranges between 19% and 30% while mortgage to GDP index remains at 0.5% compared to 80% in the UK and 77% in the United States. It should be noted that positive steps are also being taken to create micro- credit mortgage schemes which can be assessed by Nigerians in the informal sector.

IMAGE LEFT

Eko Atlantic,
Nigeria

IMAGE TOP

RIGHT

Heritage Place,
Nigeria

08

EMERGING ASSET CLASSES

Given the headwinds blowing across the traditional asset classes, there is increased investor interest in unconventional asset classes such as logistics, healthcare and student housing. The heightened investment in the agriculture, e-commerce, and fintech spaces create an increasing demand for warehouses and smart industrial assets. Dwindling government resources amid growing demand for quality healthcare and education have also created a business case for healthcare and student housing to thrive. A number of government owned health and educational institutions have entered into public private partnership arrangements with local and international investors to develop key facilities required by them examples are the Lagos State Medical Park (MediPark) scheduled for completion in 2018 and the proposed AXA Mansard 150 bed hospital project which has reportedly attracted the IFC's interest.

09 NEW INVESTMENTS

Nigeria's sovereign wealth fund (Nigeria Sovereign Investment Authority) and Old Mutual announced a US\$ 500 Million real estate investment fund to be invested in the commercial, retail and hospitality asset classes. No projects have been announced yet but the size of the initial commitment signals investor confidence in the resilience of the Nigerian real estate market.

68 Real estate focused private equity funds active in the Nigerian market have also successfully raised new funds in recent times - Novare Africa Property Fund II (\$350 million, June 2016); Actis Africa Real Estate Fund 3 (\$500 million, June 2016); and RMB Westport Real Estate Development Fund II (\$250 million, February 2016). It is anticipated that a sizable portion of the funds raised will be channelled towards real investments in Nigeria.

10 EASE OF DOING BUSINESS

Ease of doing business is directly linked to the economic prosperity of any Country. Of the four World Bank indicators for ranking developing nations, two are directly related to the property market; this shows that the property market underpins the economy of any nation. Of the 190 countries ranked in the World Bank's ease of doing business report 2017, Nigeria is positioned 169th for the ease of doing business, 174th for ease of procuring construction permits and 182nd for ease of for registering property. The Federal Government has taken a very targeted approach to improving the Nation's ranking to attract foreign investment by establishing the Presidential Enabling Business Environment Council (PEBEC). The Council's mandate is to collaborate with States to identify and remove bureaucratic and regulatory constraint to doing business in

Nigeria. Already, the nation has begun to enjoy a few quick-wins resulting from the Council's effort; such as

The deployment of an electronic planning platform in Lagos State; www.lagosepp.com.ng through which physical planning approval applications can be made, processed and approved without need for physical submissions.

Executive Orders passed at the Federal level; mandating the publication of timelines and cost of all approvals granted by Federal Ministries and Parastatals.

Simplifying the process of obtaining visas by:

- requiring that applications be turned around within 48hrs;
- clarifying the visa-on-arrival procedure.

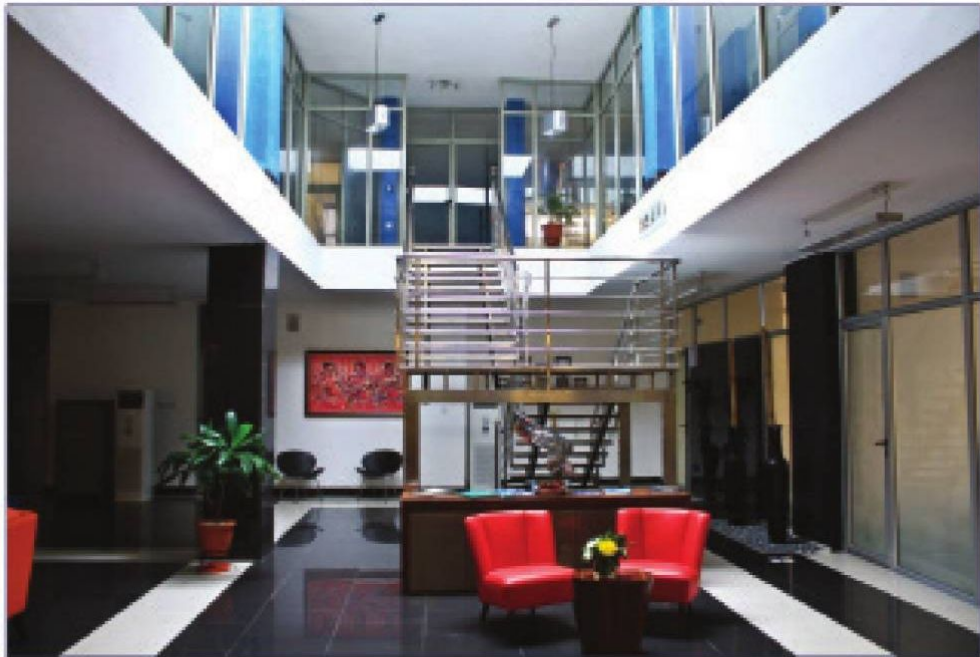


IMAGE LEFT

Marriot Hotel,
Nigeria

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Detail Commercial Solicitors



DETAIL is distinct as Nigeria's first commercial solicitor firm to specialise exclusively in non-court room practice.

DETAIL's Real Estate & Construction practice provides high quality legal services on diverse real estate transactions, including finance, construction, portfolio investment, mortgages, trusts, estate planning and regulatory compliance.

"The firm provides a first rate service. They are knowledgeable, intellectual and have a knack of very quickly becoming subject matter experts in business concepts and areas."

International Financial Law Review 2017

"Efficient, diligent, top work. I find that they go above and beyond their scope and are proactive in highlighting issues and proffering solutions."

International Financial Law Review 2016

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