



Eko Atlantic

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Detail

1. REAL ESTATE SECTOR OVERVIEW

The Nigerian Real Estate Sector has recorded steady and consistent growth over the last four years becoming one of the greatest contributors to the Nation's rebased GDP from the non-oil sector - having contributed 8.03% and 11% in 2013 and 2014 respectively. The market which is currently valued at approximately N6.5 Trillion is estimated to grow at an average of 10% over the next few years. The major growth drivers in the sector have been credited to: an increased inflow of foreign investment (especially from South Africa, MEA and the United States); increased institutional investment from local companies including PFAs and Mutual Funds; the growing population of High Net worth Individuals; and the targeted intervention of the Federal Government in the housing finance sector.

The Real Estate Guide 2015 provides a detailed and concise overview of Nigeria's real estate sector including performance, opportunities, challenges and outlook with the intention of assisting discerning investors navigate the market more effectively.



The (proposed) Jabi Lake Mall

A. NOTABLE PROJECTS

COMMERCIAL

WORLD TRADE CENTRE

The World Trade Centre is a N156 Billion 37-storey structure being developed by the Churchgate Group in the country's capital, Abuja. The World Trade Centre is expected to house the very best of luxury apartments, an A-Grade Office Tower, the Capital Mall and a five star hotel. This project is billed for completion in 2015.

THE WING TOWER

Oando Plc. and RMB Westport have concluded plans to commence the construction of a state of the art office complex on the shores of Lagos. The building dubbed the "Wing Tower" is to be constructed within a 3-year timeframe and will be located on Ozumba Mbadiwe road, a major artery of many multinational businesses costing approximately USD\$180 Million. Sources of funding for the project stems from equity contributions by Oando Plc and RMB Westport and debt financing by Stanbic IBTC Ltd.

LANDMARK TOWERS

In Lagos, Landmark Africa is expected to deliver its signature 10-floor Landmark Towers with the construction carried out by Global Reality Services Ltd, a subsidiary of the Landmark Group.

The project, a "live-work-play" concept sits on 17,945sqm of land - with six floors of grade A office space, a 3-storey leisure facility, 22

boutique short stay apartments and a 2,100sqm of retail space. Estimated at an approximate USD\$43 Million, financed by Diamond Bank Plc, the project was expected to have been completed at the end of 2014.

MIXED DEVELOPMENTS

EKO ATLANTIC CITY

The Eko Atlantic City is the most talked about real estate project in Nigeria. The city is sited on 10 square miles of land reclaimed from the Atlantic Ocean on the Lagos Coast. Major developments in the City would include, high rise condominiums, schools, commercial properties, a centralized conference center, a U-shaped office tower and the 'Great Wall of Lagos' which will be a 7km long wall of bricks to shield the city, as well as Victoria Island, from the waves of the Atlantic. The development company, Chagoury Group, has indicated that large portions of the land have already been sold, one being the proposed site of the USD\$50 Million, 24 storey condominium—the Eko Pearl.

WARRI INDUSTRIAL BUSINESS PARK

The Delta State Government has commenced the first phase of developing the Warri Industrial Business Park. According to its promoters, the park will host amongst others, a cluster of heavy industries, warehouses, office complexes, commercial retail outlets, hotel, high-end residential apartments, light industries and factories across its 329 hectares. The Park is expected to procure a Free-zone license from NEPZA. This will deliver significant tax benefits to businesses within the Park.

RAINBOW TOWN

Rivers State Government and Rainbow Town Development Limited together, are approximately 20 percent away from delivering the N50 Billion, 23.24 hectare Rainbow Town. This premium, mixed-use community comprises of 1,181 upscale residential apartments and a 15 floor Iconic tower to host the commercial hub of offices, convention centre, movie theatres, shops and restaurants. Located on the Trans Amadi business/ industrial corridor of Port Harcourt, the project is slated for completion in 2015.

JABI LAKE DEVELOPMENT

At 40% completion, the Jabi Lake Mall sits on 5 hectares of land, as part of the 35 hectare master-planned Jabi Lake Development in Abuja. The development includes a hotel, residential apartments, and offices spaces. The USD\$120 Million mall is a joint venture between Actis West Africa and Duval Properties.

HOSPITALITY

STARWOOD'S 7-STAR SUITE

The Starwood Group, owners of Le Meridien Mixed Resort and Apartments, located in Lagos, plans to upgrade its towers to a 7-star suite. This is part of the Company's plan to invest up to USD\$500 Million in the Nigerian hospitality subsector.

MARRIOTT INTERNATIONAL

Marriott International Corporations, U.S.A intends to extend its hospitality brand across Africa, with plans of building over 50 hotels across Africa to the tune of <USD\$1.5 Billion. Its USD\$200 Million acquisition of Protea Holdings made a definite impact on the hospitality sub-sector. The Company is expected to have a significant number of its hotels up and running by 2020.

FOUR POINTS BY SHERATON

Starwoods Hotels and Resorts has expanded its presence in Nigeria with the flag off of the Four points by Sheraton in Ikot-Ekpene, Akwa Ibom, Nigeria. The PPP project between the Akwa Ibom State Government and Starwoods is billed to be the one of the most remarkable sights in the hotel industry in southern Nigeria.

HILTON

Hilton Worldwide plans to develop two new hotels in close proximity to Owerri and Abuja airports, with an anticipated completion date of Q3 2017 these hotels will serve the air travel passengers along these routes.

RETAIL

SHOPRITE'S PROPOSED EXPANSION

Shoprite, the South African retail giant, has announced that it intends to develop 15 new outlets in Southern Nigeria within the next 36 months. The Company is expected to become the largest single off-taker of retail space in Nigeria.

"The Nigerian Mortgage Refinance Company (NMRC) is without a doubt, one of the most laudable initiatives of the Federal Government in recent years"

B. FINANCING AND REGULATORY INTERVENTIONS

LAGOS HOME OWNERSHIP MORTGAGE SCHEME (HOMS)

The Lagos State Government has flagged off the delivery of homes to successful participants under the HOMS, with 540 housing units in Sangotedo; 270 in Ogba 36 in Shita and 660 in Agbowo.

Other areas with ongoing developments include: Ajara - 540 units, Ibeshe - 720 units, Iponri - 144 units, Oyingbo - 48 units and Ijora Badia - 1008 units.

MODEL MORTGAGE AND FORECLOSURE LAW

The NMRC, Federal Ministry of Finance and other stakeholders under the Housing Finance Programme have initiated the drafting of the Model Mortgage and Foreclosure Law - to deepen the mortgage sub-sector and strengthen the foreclosure processes. The law aims to, amongst others:

- Fast-track the process of creating legal mortgages (including reducing the cost and time required to process consents and registration); and
- Create a platform for the timely resolution of disputes through contractual arbitration and creating an efficient foreclosure process.

The law also seeks to provide a framework for the recognition and registration of Strata Titles. This is expected to boost the construction of condominiums and multi-storey structures - a prevalent feature in any modern metropolis.

NIGERIA MORTGAGE REFINANCE COMPANY PLC

The Nigeria Mortgage Refinance Company (NMRC) is without a doubt, one of the most laudable initiatives of the Federal Government in recent years. The NMRC, is expected to revolutionize our domestic housing finance market through the provision of cheaper long term funds to mortgage lenders which would enable them originate more mortgages at lower interest rates and for longer tenors, as is the case in other developed markets.

UNIFORM UNDERWRITING STANDARDS (UUS) FOR MORTGAGES

On the heels of the establishment of the NMRC, the company together with other stakeholders and its Development Partners (specifically the IFC), have developed a set of standards for mortgages to be refinanced by the NMRC. The UUS is expected to change the face of mortgage lending in Nigeria, standardize the process of mortgage origination and minimize credit risks to mortgage lenders. Specifications are given especially with respect to eligibility of borrowers who must be natural persons i.e. civil servants, self-employed persons or salaried employees; there is also the requirement for a borrower to obtain a credit report from 2 independent credit bureau agencies licensed by the CBN. The minimum loan amount is slated at N5 Million whilst minimum maturity period is fixed at 20 years. According to the NMRC, lending standards promote efficiency and mitigate the legal and operational risks inherent in mortgage lending by ensuring quality collateral, adequate property title, proper registration and enforcement of mortgage liens and efficient loan servicing processes.

AMCON'S VALUATION OF COLLATERALS OF UNDERPERFORMING BANKS

The Asset Management Corporation of Nigeria (AMCON) has recently prequalified 50 estate survey firms to undertake independent valuation of the collaterals backing the Non-Performing Loans (NPLs) of the rescued banks. Following the valuation exercise AMCON shall, under its inherent powers to maintain a portfolio of diversified assets including real estate, appoint property/facility managers to manage and optimize the value of returns from this pool of real estate assets.

INTRODUCTION OF THE SYSTEMATIC LAND TITLING REGISTRATION

As at October 2014, the Surveyor General of the Federation estimated that only about 3% of the country's total land mass had registered titles - unregistered land title increases the difficulty of transfer and nurtures fraudulent practices as prospective buyers are unable to verify the authenticity of the title of the seller or to determine if there are competing interests or existing encumbrances on such land. To address these issues, the Presidential Committee on Land Reforms in 2013 produced the Draft Land Use Regulation, which aims to introduce the Systematic Land Titling Registration (SLTR) system. The system is expected to utilize effective data capture system to number, measure, photograph and classify all parcels of land (and buildings) within a State under a central register which would also note the holder and nature of title held over the land.

The system was pioneered in Kano and Ondo States where an estimated 10,000 parcels of land were captured and registered within 6 months. If successful, the SLTR will provide the framework for efficient land titling and registration (especially in non-urban areas), it is also expected to effect a reduction in land conflicts and improve the process of land title verification especially in non-urban areas.

THE GROWTH AND EMPLOYMENT IN STATES (GEMS)

The GEMS, a project funded by the World Bank and DFID in collaboration with the Federal Ministry of Trade and Investment has been established in Nigeria to enhance job creation in non-oil (high potential) sectors. GEMS-2, one of the three key areas of the project, is focused on the Real Estate and Construction and is expected to improve the vocational skills of artisans and unskilled workers who serve the industry; facilitate efficient partnership between the private sector and the Government; link skilled workers to employers; build technical skills of

construction companies and improve the quality of their construction output. This aspect of the project was concluded in July 2013.

The GEM3 programs also has some elements which are related directly to the real estate sector such as improving public access to land records, through the installation of digital registries in all States and building capacity of the States to deliver land registration to 50,000 households each year.

CERTIFICATES OF OCCUPANCY FOR POWER DISTRIBUTION COMPANIES

Through the Ministry of Land, Housing and Urban Development, the Federal Government has commenced the process of issuing Certificates of Occupancy to power distribution companies, with the intention of creating the opportunity to raise debt capital secured against the title to their landed assets.

DEPOSIT INSURANCE FOR PRIMARY MORTGAGE BANKS

The Nigeria Deposit Insurance Corporation (NDIC) has proposed an upward review of the extent of coverage it provided for deposits held by Primary Mortgage Banks (PMBs) and consequently the adoption of a risk-based approach in the premium assessment process to ensure that PMBs with higher credit exposures pay more. It is expected that the credit profile of Mortgage Banks who originate effective operations of the sector and minimize credit risk will improve.

LAND TITLE INSURANCE

The Nigeria Deposit Insurance Corporation (NDIC) has proposed a review of the insurance coverage it provides for PMBs to ensure effective operations of the sector and minimize credit risk.

C. MANPOWER AND MATERIALS

SKILLED MANPOWER AND RAW MATERIALS

There has been an ever increasing dearth of local manpower and raw materials in the construction sector. Due to the declining state of vocational training institutes in the Nation. It has been estimated that due to this lack of domestic, skilled and semi-skilled labor, Nigeria loses an estimated N960m annually to artisans from other West African countries; the most common amongst which are neighboring Togo, Republic of Benin, Niger and

Cameroun. To address the incidental capital-flight, intervention from relevant stakeholders has intensified, all with the intention of plugging the deficiency-gap.

Julius Berger, in collaboration with the National Office for Technology Acquisition and Promotion (NOTAP) is establishing a skill acquisition and artisan school in Abuja. The centre would be equipped with modern equipment and machineries for artisans and craftsmen to develop their skills, with the intention of breeding a new crop of professionals that would substitute expatriates currently employed in the Nigerian construction industry.

LOCALLY PRODUCED CONSTRUCTION MATERIALS

Nigeria has an adequate supply of raw materials for construction purposes including wood, granite, sand and to some extent cement. Irrespective of these resources, over 90% of construction materials - steel, glass, fibre-concrete, fiber-wires, tiles, roofing sheets, doors, plumbing/electrical fittings - and other modern building materials are imported. The problem lies in the lack of adequate processing facilities required to convert the raw materials into their respective finished products. The materials produced locally could be better in quality and pricing in comparison to those sourced overseas.

In an attempt to rival international standards and improve the durability of construction materials generally, the Standard Organization of Nigeria has reviewed the grade strength of cement in Nigeria. The organization has relegated the 32.5R grade cement to

the plastering of building only, and has approved the following for the production of cement:

- CEM I 52.5R and 52.5N - for use in the construction of bridges; and
- CEM II 42.5R, 42.5N - for use in the casting of columns, beams, slabs and block molding.

Previously, the 32.5R grade cement accounted for about 50% of the cement used in Nigeria, even when this grade of cement had been since abandoned in other countries such as the United States and India.

The four top cement manufacturers: BUA, Lafarge, Ibeto and Dangote have welcomed the review and increased standard in their cement grade. Dangote Cement has recently launched its 42.5R cement grade brand for retail.

D. EMERGING ASSET CLASSES

HOSPITALITY

The Nigerian Hospitality sub sector has experienced exponential growth in recent times as various boutique and luxurious brands have established their presence round major cities of the federation. Landmark developments such as the upgrading of Starwood's Le Meridien Hotels into a 7-star suite, Marriott International's multi-million dollar proposed investment into the subsector, the entry of Sheraton's Four Points into Akwa Ibom State and the incursion of Hilton into several other major cities all serve as pointers to increased investment in this sector over the past few years.



“...Nigeria loses an estimated N960m annually to artisans from other West African countries...”

REAL ESTATE SECTOR OVERVIEW

REAL ESTATE INVESTMENT TRUST SCHEMES

UPDC REIT, Skye Shelter Fund and Union Homes Savings & Loans, have created more options for investors looking to invest in the real estate market indirectly. Also, the advent of new instruments like the HMK REIT, which made a bullish entry into the market in Q4, 2014, echoes the growth strides the Real Estate Market is currently experiencing.

REAL ESTATE BACKED BONDS

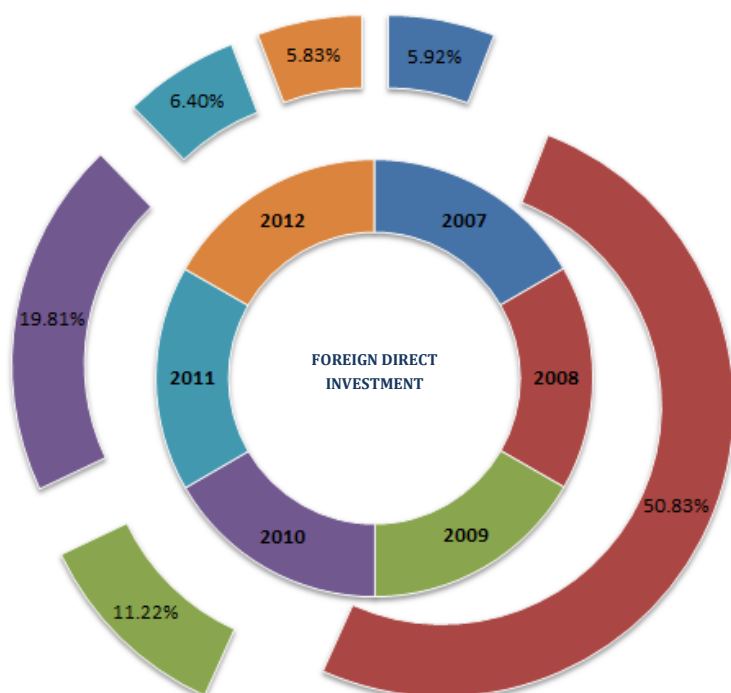
The Federal Mortgage Bank of Nigeria recorded the first mortgage backed bond transaction in sub Saharan Africa in 2007, with the floatation of its N26 Billion mortgage backed bonds issue. The funds raised from the issue was used in the refinancing of civil servants acquisition of Government residential houses sold in the Federal Capital Territory. In 2012, the bank issued its 2nd tranche of a N6 Billion mortgage backed bond. The market is also anticipating the floatation of the 1st tranche of NMRC Bonds Issue on the heels of its 1st Mortgage Refinancing billed to happen in Q1 2015.

RETAIL

The retail sub-sector has seen considerable improvement in the year 2014, following the increase in lettable retail space from 5,2520sqm in 2009 to the current 17,1070sqm. It is also notable that the popular South African franchise – Shoprite announced during the 3rd quarter of 2014, that it intends to develop 15 new malls in southern Nigeria within the next 36 months.

MALL	LETTABLE AREA (SQM)	LOCATION	OPERATIONS COMMENCEMENT DATE	STAKEHOLDERS
Palms shopping mall	19,520	Lagos	2005	Persianas Group (Nigeria)
Palms shopping Mall Extension	40,000	Lagos	Under Construction	Persianas Group (Nigeria)
Jabi Lake Mall	26,478	Abuja	Under Construction	Actis/Duval(UK/ Nigeria)
Ado Bayeromall	23,000	Kano	2014	Alpine Investment (Nigeria)
Capital mall	21,500	Abuja	Under Construction	Churchgate Group (Nigeria)
Ikeja City Mall	22,000	Lagos	2011	Gruppo Investment (Nigeria)
Lekki Peninsula mall	22,000	Lagos	Under Construction	Novare Private Partners
Ibadan Mall	18,500	Ibadan	2014	Persianas Group and Oyo state (PPP)
Port Harcourt Mall	16,000	Port Harcourt	Under Construction	Artee Group (Nigeria)
Delta City Mall	13,980	Effurun	Under Construction	Resilient Africa (South Africa)
Benin City Mall	13,980	Benin	Under Construction	Resilient Africa (South Africa)
Festival Mall	10,900	Lagos	Under Construction	UAC Property Nigeria
Onitsha Mall	12,100	Onitsha	Under Construction	African capital Alliance (Nigeria)
Kwara Mall	12,000	Illorin	2012	Persianas Group and Kwara State (PPP)
Osapa Convenience Centre	10,539	Lagos	Under Construction	RMB Westport (South Africa)
Ceddi Plaza	10,000	Abuja	2004	Ceddi Corporation (Nigeria)
Polo Park Mall	22,530	Enugu	2011	Persianas Group and Enugu State (PPP)
Silverbird Entertainment Centre	23,000	Abuja	2009	Silverbird Group

Total lettable retail space available in Nigeria's Real Estate Sector



E. INDUSTRY PARTICIPATION - CAPITAL MARKET INVESTMENT INDEX

In May 2014, the Candy GPS Report identified Lagos as one of 12 future world cities for real estate investment. The report produced by Candy & Candy, Savills World Research, and Deutsche Asset & Wealth Management - highlights Nigeria's megacity as a rising star, with the potential to show sustained and strong growth in residential property price, as global investors look to alternative locations for investment. (Source: Lamudi) The table below shows the trend of Real Estate Foreign Direct Investments between the years 2007-2012.

S/N	YEAR	MILLIONS USD\$
1	2007	USD\$4.214
2	2008	USD\$36.134
3	2009	USD\$7.978
4	2010	USD\$14.080
5	2011	USD\$4.543
6	2012	USD\$4.142

TOTAL MARKET CAPITALIZATION OF REAL ESTATE INVESTMENT TRUSTS (REITS)

The total market capitalization of real estate investment trusts (REITs) is N42.5 Billion - Skye Shelter REIT represent 5% of this amount whilst UPDC REITS and Union Homes REITS are 66% and 29% respectively. Considering the success of the Initial Public Offer for the UPDC REIT, it is expected that more REITs would enter the market in the nearest future.

FOREIGN PORTFOLIO INVESTMENT

Foreign Portfolio Investment in Real Estate in 2011 stood at N2.07 Billion, this dropped in 2012 to 1.99 Billion. Other inward foreign capital flows in 2012 to the construction sector were estimated to be at N360 Million which also dropped from the N410 Million in 2011. [Source: Survey of Foreign Assets & Liabilities in Nigeria 2011 Report - CBN Journal of Applied Statistics, Volume 3, Page 156]

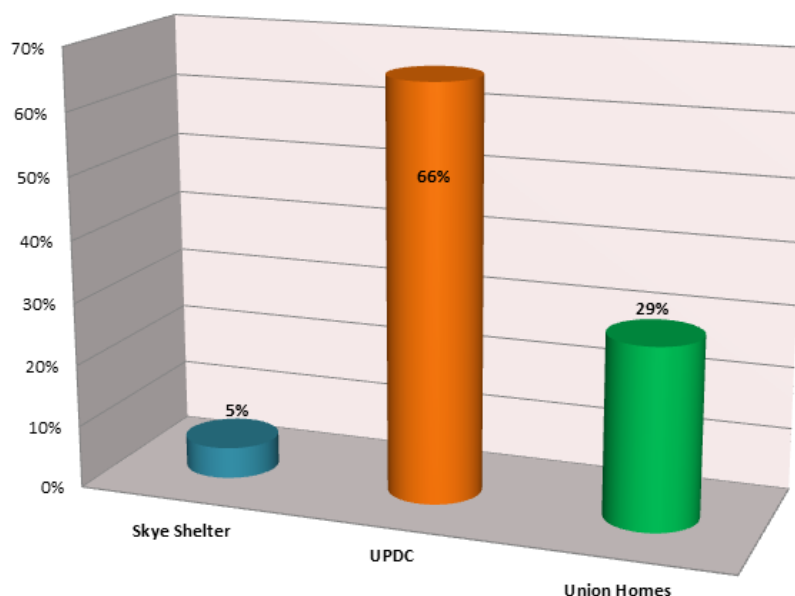
REAL ESTATE CAPITALIZATION

The Nigeria Stock Exchange (NSE) in its June 2014 report quoted that Real Estate capitalization at N229.45 Billion, representing 1.2% of the entire market capitalization. This was a noticeable increase from 2013, where the same capitalization stood at N171.14 Billion, being 1.006% of the entire market capitalization. The Real Estate Sector capitalization in 2014 recorded a very marginal increase.

By the 1st half of 2014, Infinity Trust Mortgage Bank led other real estate firms on the Nigeria Stock Exchange. Infinity led with a net margin of 38.65%, while its base line performance showed a 77% growth and a revenue spike of 57%. Abbey Building Bank Plc's revenue dropped by 61% in the review period, while profits fell by 60% due to its inability to overcome environment challenges it faced. Union Homes was unable to control costs that spiraled out of control as operating expense reached a staggering 105%, thus bleeding profits. The ripple effects resulted in a loss of approximately N773.78 Million.

LISTING OF REAL ESTATE FIRMS ON THE FLOORS OF THE NSE

Both the NSE and the Alternative Securities Market (ASem) (for smaller companies) projected a rise in the listings of Real Estate by the end of 2014. This projection came after the listing of UPDC REITs on the floor of the NSE.



Total Market Capitalization of Real Estate Investment Trusts

The NSE has begun to implement the following procedures to encourage Nigerian Businesses to access funds from the Capital Market:

- Recent review of the listing rules to accommodate and attract more companies;
- Providing robust capital market infrastructure and trading platforms; and
- Ensuring an orderly, fair and equitable market by protecting the integrity of the market and real estate investors from market manipulation.

The NSE has repeatedly stated that it is committed to reducing the housing deficit of 17 million units in the country by bolstering Capital Market involvement for Real Estate Investors.

THE ALTERNATIVE SECURITIES MARKET

ASem is the specialized board of the NSE targeted at small and medium sized companies giving them an opportunity to raise long term funds from the capital market. Similar to the UK AIM, a number of small real estate firms are now listed on the floors of ASem - the most recent being the listing of McNichols Consolidated Plc. ASem has made the requirements for listing on its floors less stringent, with the application fee for listing being brought down to as low as N300,000 for new applicants. It is anticipated that the number of Real Estate companies accessing the market via the ASem will increase significantly in 2015.

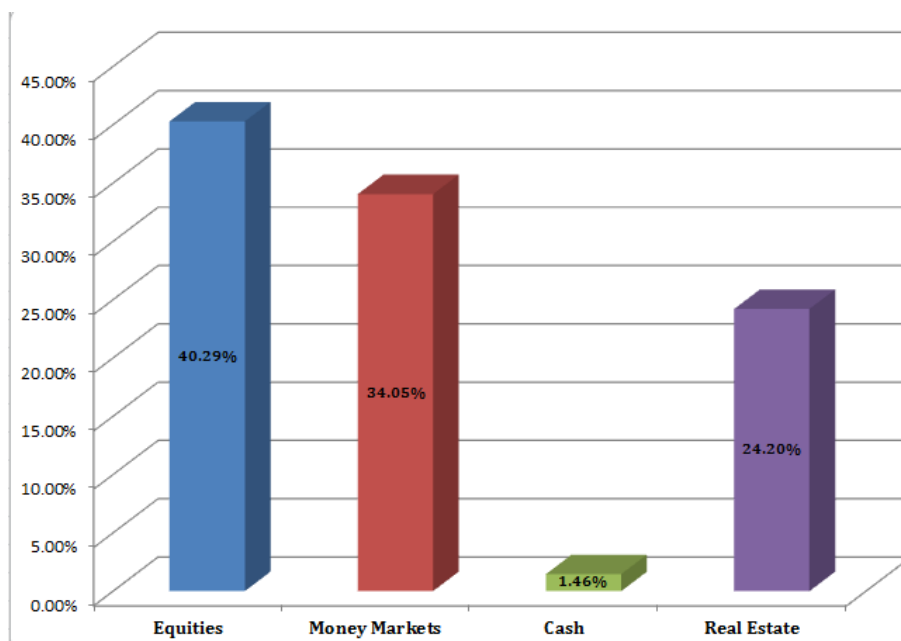
REAL ESTATE INVESTMENT RATES IN THE CAPITAL MARKET

Capital Market participation sways mostly in favor of equities and fixed income securities rather than real estate funds or securities. The Canary Growth Fund, managed by Alternative Capital Partners Limited, is one of the few diversified Private Equity Funds that maintain an aggressive real estate investment portfolio.

Infinity Trust Mortgage Bank led other real estate firms on the Nigeria Stock Exchange. Infinity led with a net margin of 38.65%, while its base line performance showed a 77% growth and a revenue spike of 57%.

REAL ESTATE AND COLLECTIVE INVESTMENT SCHEMES

The Securities and Exchange Commission (SEC) intends to bolster the role of Collective Investment Schemes (CIS) in growing Nigeria's Real Estate Sector. To achieve this, there is an on-going sensitization programme by top officials of SEC showing the advantages of investing in Collective Schemes; chief amongst them being the avoidance of any risks of investing directly in the major market. SEC also promises that the International Financial Reporting Standards will be used in regulating the scheme and further promises to increase the number of training programmes for CIS participants to ensure a high level of professionalism. It is the intention that these plans, when implemented, result in a boost in investor confidence in the sector.



Allocation of assets - Canary Growth Fund

INCREASED PARTICIPATION OF INVESTMENT COMPANIES

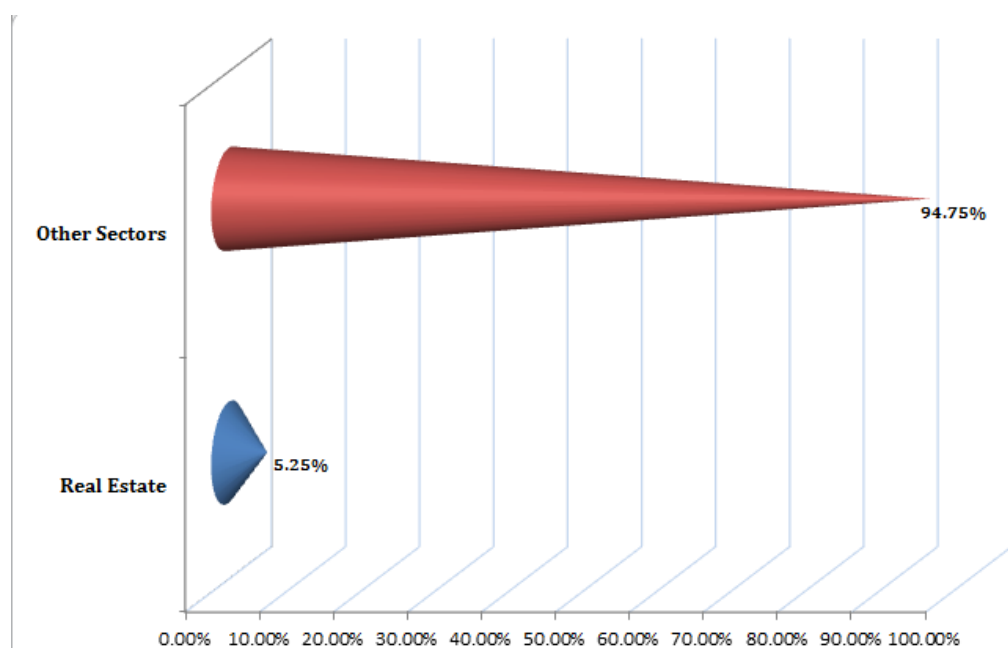
Shelter Afrique, a pan-African development finance institution focused on housing and real estate and currently doing business in 44 countries in West Africa has provided funding for a number of private developers on the supply side and expanded the number of credit to primary mortgage banks such as Aso Savings and Loans and Abbey Building Society. Its Board recently approved an investment of USD\$3 Million in NMRC. Currently, Shelter Afrique's investment in the real estate market is approximately USD\$200 Million.

In addition, AIQ Capital a Private Equity firm seeks USD\$105 Million from investors for its Real Estate & Hospitality Fund. It is its intention to utilize the fund in 2 tranches – the 1st targeting the construction of 15 to 20 mid-range hotels in Nigeria; and the 2nd to build neighbourhood mini-malls with internationally branded anchor stores like Shoprite.

as at 2014. This is however a meagre 5.25% of the total N4.3 Trillion of total pension assets in the country. Stakeholders expect a surge in the involvement of Pension Funds in the sector.

PENSION FUNDS INVESTMENT IN REAL ESTATE

Statistics obtained from the National Pension Commission reveals that Nigerian PFAs invested a total of N228.3 Billion in real estate



Pension Funds Investment in Real Estate

F. KEY INDUSTRY MILESTONES

THE REAL ESTATE SECTOR AND GDP GROWTH

The Real Estate Sector contributed 8.01% to the Nigeria's GDP - equivalent to N6.43 Trillion (USD\$40.9 Billion) of the total rebased GDP estimate of N80.22 Trillion (USD\$510 Billion). According to the National Bureau of Statistics the sector grew by 4.95% in 2014.

RISE IN VALUE OF PROPERTY

Real Estate properties prices in Victoria Island have crossed USD\$2,000 per square metre mark, with values currently averaging USD\$2,049 per square metre. Banana Island values are similar to prices at Eko Atlantic, which have appreciated in value by approximately 17% since 2011. On the other end of the pond, Ikoyi properties cost an average of USD\$1,700 per metre square.

REFINANCING EXISTING MORTGAGES

The establishment of the NMRC by the Federal Government is another important milestone in the real estate sector. With a capital base of N20 Billion, the NMRC's key objective is to refinance mortgages originated by mortgage lenders and selling them as securities on the secondary market. The Company is projected to set in motion a growth process that will deliver 75,000 houses annually and create job opportunities for at least 800,000 people.

REAL ESTATE SECTOR TRANSPARENCY RATINGS

Jones Lang LaSalle's 2014 Transparency Index, which covers 102 markets worldwide tracking their progress in the transparency of commercial real estate ranked Nigeria the number 4 on its *Top Improvers List*. The top improvers in each survey are based on the level foreign direct investment and corporate occupier activity. The high activity of investors in any market accelerates transparency reforms as it serves as a catalyst for more investment.

RE-CAPITALIZATION OF MORTGAGE INSTITUTIONS

The restructuring of the mortgage sub-sector by the Central Bank of Nigeria ("CBN") promises to re-shape the real estate sector beginning with its recent re-capitalization of primary mortgage institutions in the country. To this effect, 36 mortgage institutions have been granted licenses to operate in Nigeria. 26 institutions have been granted licenses to run within States; while 10 out of the 36 are to

operate on a Federal level. 15 mortgage firms down-scaled to become microfinance institutions while 26 former PMB's no longer operate as mortgage institutions as they failed to meet CBN's re-capitalization milestones.



2. NIGERIA'S EMERGING REIT MARKET – OUTLOOK, PERFORMANCE AND OPPORTUNITIES

A. INTRODUCTION - REAL ESTATE INVESTMENT TRUST

Investment in real estate has been one of the oldest and most common forms of investment dating back to the beginning of human civilization, evolving into a more sophisticated market having its own real estate backed securities, which could be issued privately or on the domestic/international capital market. The desire to pool resources from multiple investors to acquire prime real estate, which would otherwise be out of the financial reach of any single investor, birthed the concept of Real Estate Investment Trust (REITs) schemes. While this has been in use in the United States as far back as the early 1960s, it was first pioneered in Nigeria by Skye Shelter Fund when it floated its 1st Tranche of the N5 Billion Hybrid REIT in January 2008.

Real Estate is generally considered to be an indicator of the economic performance of any Nation. Over the last decade, especially following the end of global economic crisis and the failing equities market; the global real estate market experienced a boom having been perceived as a safe haven by investors. Consequently the once volatile global market saw countries like the United Kingdom, Australia, South Africa, USA, Singapore, Malaysia, Mexico and Hong Kong growing their real estate market into an enviable Global REIT market.

REITs are a form of collective investment scheme, which involves the pooling of capital by a group of investors and utilising same in the acquisition of a select portfolio of income generating real estate; mortgage loans; or a combination of both. The portfolio of underlying assets is placed under professional management to maximise returns to the investors; each holding an indivisible interest in the underlying assets of the REIT proportionate to its investment. These schemes which are constituted under a Trust Deed wholly acquire and hold title to investment grade, income producing real estate properties or related assets. A REIT may be classified according to the nature of its underlying assets.

Equity

- Invests in and own income producing real estate or related assets.
- Revenues are derived principally from rent and proceeds of sales of the properties (including capital gains).

Mortgage

- Involves the purchasing of existing mortgages or mortgage backed securities.
- Revenues are derived principally from receivables from the underlying mortgages.

Hybrid

- Invests in a combination of equity and mortgage assets.

OPEN-ENDED	CLOSE-ENDED
Does not have a fixed investment size	Fixed fund size and the number of investible units from inception which cannot be increased during the life of the Scheme
It is able to admit new investors at any time	New investors cannot be admitted once the offer for subscription closes
The REIT is obliged to pay out any investor seeking to exit/liquidate its investment - making the Net Asset Value of such fund very fluid and having a higher liquidity demand	Usually has its units listed on a stock exchange or capital trade point and the investment can exit by an investor selling out the units held on the exchange without recourse to the REIT.

Forms of REITs

B. NIGERIA'S EMERGING REIT MARKET

Since 2007, when the Securities and Exchange Commission (SEC) introduced the framework for the establishment of REITs, the Nigerian investing public has been given an opportunity to invest in a diversified portfolio of choice real estate assets. The market regulators SEC, the Nigerian Stock Exchange (NSE), the Federal Inland Revenue Service (FIRS) and the Federal Government of Nigeria (FGN) have also continued to seek new ways in creating an enabling environment for this asset class to thrive - while bearing in mind its capacity to deliver stable long term value investment; meet Nigeria's rising housing demand; attract foreign portfolio investment into the Nigerian

Real Estate sector; support the drive for real estate infrastructure development & diversification from concentration of investments in traditional equities; and other fixed income instruments.

From inception to date, the market has witnessed the establishment of 5 REIT Schemes, 4 pure equity REIT schemes and 1 Hybrid scheme. A new entrant into the market is the Haldene McCall REIT which is currently open for subscription and anticipated to be listed on the main Board of the NSE before the end of January 2015. It is notable that industry experts are getting a better grasp of this previously unpopular asset class, evidenced from the creativity and significant improvement in the structure of each subsequent REIT Scheme. The HMK REIT is seen to have uti-

lized very creative credit enhancement models such as a Bank Guarantee to hedge credit losses, over-collateralization and the introduction of a market maker to stimulate liquidity for its units.

Whilst the Nigerian market may not be as developed as other frontier markets such as Mexico, India and Ireland (on account of its inherent challenges), this asset class has definitely come to stay and is expected that the wholesale reform of the Real Estate sector being undertaken by the FGN and its development partners will have a positive impact on this segment of the market.

C. LEGAL AND REGULATORY FRAMEWORK

The SEC is the primary regulator of REITs in Nigeria. The Investment and Securities Act 2007 empowers SEC to regulate the establishment and management of Collective Investment Schemes and sets out the guidelines for the constitution of REITs.

THE INVESTMENT AND SECURITIES ACT (ISA)

The ISA provides the powers and functions exercisable by SEC in relation to Collective Investment Schemes. Under the ISA, REITs are classified as a type of Collective Investment Scheme to be administered by an incorporated entity that has been duly registered as a fund manager by SEC. Prior to the establishment of a REIT, the scheme and the units to be issued must be registered with and approved by SEC.

SEC is empowered to make regulations in respect of the management and constitution of REITs and in addition, the SEC has from time to time introduced new regulations to encourage the establishment of REITs as well as to deepen the market. One of SEC's most ingenious interventions was the introduction of *Rule 509* which states that *"a real estate investment scheme shall wholly acquire and hold legal title to property or chose to hold equitable and beneficial title to such property vide a deed of trust or such other structure as may be acceptable to the Commission"*, thus permitting the use of a deed of declaration of trust or other such structures to transfer property. This intervention has eased the difficulty of transfer charges payable by REITs at the point of acquiring its underlying portfolio which is typically in the range of 13 – 32% (depending on the state) of the cost of the transferred property. The REIT suffers an erosion of its Net Asset Value due to the high transfer costs incurred prior to the REIT commencing operations.

SEC RULES AND REGULATIONS, 2013

The SEC Rules and Regulation contains general and specific provisions governing Collective Investment Schemes in Nigeria. In relation to REITs, the focus of the regulations has been the enforcement of good corporate governance practices, effective asset administration, value investment decisions, risk management and most importantly, investor protection. Below are some of the key features of the regulations:

1. Sponsor involvement

It is expected that the sponsor of any scheme will subscribe to a minimum of 5% of the registered units of the REIT for the lifetime of the scheme, the rationale behind having the sponsor hold some "skin in the game" is to ensure that it is motivated to structure an efficient scheme aimed primarily at maximising returns to the investors.

2. Non-Discretionary Distribution

The rules also require that each scheme pays

"...One of SEC's most ingenious interventions was the introduction of Rule 509 which permits the use of a deed of declaration of trust to transfer property. This intervention has eased the difficulty of transferring taxes payable by REITs at the point of acquiring its underlying portfolio which is typically in the range of 13 – 32% of the cost of the transferred property..."

out a minimum of 25% of its annual income. The threshold is included to balance the need for liquidity by the REIT manager and the expectations of investors.

3. Investment in Development

A REIT is restricted from investing more than 20% of its funds in development activity which is considered high risk and may affect the returns to investors.

4. Minimum Subscription

Prior to the clearance by SEC for the allotment of units under a REIT scheme, a minimum of 50% of the units must have been subscribed. Where this minimum subscription threshold is not achieved the issue will be deemed to have failed and the issuing houses will be required to refund all subscribers' monies.

5. Underwriting

Underwriting is a contractual obligation between an issuer of securities and an underwriter (usually one or more investment banks) who agrees to either take up all unsubscribed units in an issue or an agreed proportion, where not fully subscribed by the public of the securities, in return for an underwriting commission. With respect to a REIT issue, underwriting is optional and at the discretion of the issuer, however, in instances where the issue is underwritten, all underwriting and sub-underwriting agreements are required to be submitted to SEC for clearance along with other transaction documents.

6. Insurance

As an additional safeguard, all the underlying assets of the REIT are required to be insured against all known risks. Where the properties are to be acquired post issue which is usually the case, evidence of the existing insurance policies (where available) or a letter from a reputable insurance company undertaking to provide insurance coverage to the properties

will be required for submission.

7. Borrowing Limits

The trustees to a REIT may on the advice of the fund manager, borrow in the ordinary course of the REITs business up to 15% of its Net Asset Value. This presupposes that the extent of the REITs exposure at any point in time cannot exceed 15% of its asset base thereby mandating a minimal gearing ratio. This limitation acts as a deterrent to managers with a high risk appetite from over-leveraging on any REIT assets to the detriment of the investors.

8. Cost

The SEC rules provide that the initial expense/issue cost of the REIT which includes expenses such as advisers' fees, statutory payments, printing and advertisement costs shall be borne by unit holders and deductible from the issue proceeds. The Commission however mandates that the total issue cost shall not exceed 3% of the total expected returns from the Issue. This restriction helps to preserve the Net Asset Value of the REIT. Furthermore, the annual administrative cost of the scheme shall not exceed 5% of the REITs open value. The statutory cost restrictions are enforced by the commission to discourage frivolous spending by the Manager and to preserve the profitability of the Scheme.

THE PENCOM GUIDELINES ON INVESTMENT OF PENSION FUND ASSETS

Pension Funds are undoubtedly the biggest institutional investors in the Nigerian Capital Market, holding an enviable N4.3 Trillion of investible long term funds. The National Pension Commission ("PENCOM") in December 2012 introduced a set of revised investment guidelines in response to the changing dynamics of the financial sector. The Guidelines, amongst others, sought to expand the scope of allowable investments to include instruments such as Exchange Traded Funds, Infrastructure Funds, Global Depository Receipts and Eurobonds. It also relaxed the qualifying requirements for other existing instruments to enable Pension Funds Administrators (PFAs) invest more in certain asset classes such as the REIT and other forms of closed or open ended investment funds.

Real Estate is recognized as one of the authorized investment outlets for Nigerian Pension Fund Assets. Clause 4 of the Guidelines outline the list of permitted investments which PFA's may invest, specifically mentioning that pension funds may be invested in "Funds" whose underlying assets are tangible physical assets, such as real estate (Sub-section 4.7). Whilst there is no definition for REITs, the Guidelines specifically state that PFAs cannot invest directly in physical real estate assets. They are however permitted to invest in securities whose underlying assets

are physical real estate (“real estate backed securities”) such as REITs.

PFA'S CRITERIA FOR ALLOWABLE INVESTMENTS

There are a number of general principles which apply to all asset classes, which determine if any category of investment qualifies as a permissible investment under the pension guidelines:

1. Rating

All allowable instruments must meet and maintain a minimum investment grade rating ‘BBB’ from a SEC registered or recognized rating agency throughout the tenor of the investment. PFAs may also invest a maximum of 20% of their cumulative funds in other allowable instruments that have a minimum of “BBB” rating from a SEC registered rating agency.

2. SEC Registration

Pension Funds can only be invested in allowable instruments which are registered and regulated by the SEC.

3. Definite Exit window

Pension Funds can only be invested in instruments that have a clear exit window, which will allow the PFAs realize their investments

at their discretion whether or not such schemes are closed or open ended.

PFA'S CRITERIA FOR REIT'S INVESTMENTS

1. Fund Manager Rating

The Fund Manager must be rated by a SEC registered rating agency with a minimum rating of BBB.

2. Principal Officer Qualification

The CEO and CIO of the fund manager must have a minimum of 10 years investment management experience, 5 of which must have been spent at senior management levels.

3. Minimum Issue Size

The Issue size must be a minimum of 1 Billion Naira.

4. Listing

Post issue, the Securities of the REIT must be listed on a recognized securities exchange.

5. Disclosure obligations

Fund Manager must make full disclosure of all relevant information regarding the fund to investors including its corporate governance standards, 3 annual valuation report of the underlying assets, all other information re-

quired to assess the risks associated with each investment.

6. Promoter's Equity Interest

The promoter of the REIT must at all times hold a minimum of 5% of the fund.

Generally, the investment guidelines for Pension Funds are stringent and quite conservative in a bid to avoid erosion in the value of the funds held and managed by PFAs. As at July 2014, the PFAs in Nigeria were reported to have invested a total of N228.3 Billion in the real estate sector, being 5.2% of their total investible fund. Given the nature of the Asset Class promising steady and continuous yield and a hedge against inflation, one would expect that PFAs would hold a more robust portfolio in real estate backed securities (specifically REITs). PFAs have however consistently shunned this form of investment because of its incapacity to match the yield from other instruments such as Government Bonds and Treasury Bills.



D. TAXATION

Globally, REIT schemes enjoy preferential tax treatment to enhance profitability and returns to investors. To that extent, there is only one leg of taxation at the investor level. The scheme would typically be exempt from income tax once a minimum of 90% of its income are distributed to investors. The tax treatment for REITs in Nigeria is not as favourable as that in other climates and this has occasioned a major setback in the development of this otherwise attractive asset class.

INCOME TAX

In Nigeria, REITs are treated as a company for the purpose of taxation and thus, are subject to 30% income tax under the Companies Income Tax Act (CITA) in the same manner as a company. This is an anomaly given that REITs are usually administered as a pass-through vehicle where all of its net income is paid out to investors as distribution - in which case taxation should only apply (withholding tax) to distributions in the hand of investors.

In 2010, the Debt Management Office announced the exemption of all categories of asset backed securities from Income Tax, Value Added Tax and Capital Gains Tax. Whilst some schools of thought have argued that this exemption would extend to REITs as they qualify as asset backed securities; this position may be perceived as an unrealistic stretch given that the term "Asset Backed Securities" usually connotes forms of debt securities backed by a pool of financial assets/receivables and clearly the intent of the FGN and the Debt Management Office is to incentivise investors in the Debt Capital Market. Quite unfortunately the FIRS is yet to take a definite position on the matter leaving the market in a haze of uncertainty.

LAND TRANSFER TAXES

One of the biggest disincentives to the establishment of a REIT has always been the taxes incidental to the transfer of property in Nigeria (cost of Governors Consent, Registration, Capital Gains Tax and Stamp Duty), which varies at between 13 – 32% of the value of the property to be transferred depending on the State the property is located. Outside of these, the Purchaser is often made to bear any outstanding liability in respect of the property. The ISA had previously mandated that legal title in all underlying assets of the REIT be vested in the Trustee thereby, exposing the REIT to the land transfer tax liability and resulting in the significant depletion of its Net Asset Value, before commencement of operations. In February 2013, the Commission revised its rules on REITs to permit the use of a Deed of Trust to effect the transfer of properties acquired by it. In this case beneficial interest in the property is transferred whilst the legal title is held on behalf of the REIT by the Vendor with several legal safeguards that

preserve the right and interests of unit holders in the REIT. The UPDC REIT became the first scheme to utilize the Deed of Trust structure. DETAIL was privileged to act Transaction Counsel on this deal.

VALUE ADDED TAX AND STAMP DUTY WAIVERS

In October 2014, FGN commenced the implementation of the exemption of Value Added Tax on all capital market transactions. This came 2 years after the announcement of the waiver by the Honourable Minister of Finance; the delay having been caused by the failure to gazette the Presidential approval. The exemption, which is for a period of 5 years, applies to: (1) Commissions earned on traded value of securities; and (2) Commissions payable to the NSE SEC and the Central Securities and Clearing System (CSCS), which incentive is intended to bolster activities on the market.

The Government is however yet to commence the implementation of the proposed Stamp Duty waiver on Capital Markets transactions, which was announced alongside the VAT waiver in 2012.

E. BENEFIT TO THE NIGERIAN REAL ESTATE SECTOR

The Nigerian REIT Market can be classified as still in its infancy and bears a lot of potential for our local real estate sector and the nation at large. As we anticipate more entrants into the market in 2015, it is expected that the Real Estate Sector can benefit from the immense value that this asset class has the capacity to deliver. Some of the key benefits are:

DEEPENING OF THE CAPITAL MARKET

REITs as a new asset class trading on the Nigerian Stock Exchange is gaining popularity and many institutional investors have, over the last 8 years, made investments in the listed schemes for the purpose of portfolio diversification.

EXIT OPTION FOR HOLDERS OF LARGE PROPERTY PORTFOLIO

Many individuals and corporations who have a sizeable portfolio of investment grade assets may utilize the REIT as an exit window for unlocking capital from such investments. For example UPDC Plc realized 60% of the value of the investment in the underlying assets of the UPDC REITs to fund some of its new projects

SOPHISTICATION OF THE LOCAL PROPERTY MARKET

Given the requirement for underlying properties of any REIT to meet a minimal investment grade criteria, it is expected that many more developers and property owners will embrace

more sophisticated construction technology, quality fittings and finish and more professional property management systems to enable them qualify for acquisition by REITs.

ENCOURAGEMENT OF SMALL SCALE (RETAIL INVESTMENTS) IN THE REAL ESTATE SECTOR

REITs have given many small scale retail investors the opportunity to invest in real estate without necessarily incurring the cost of acquiring a physical property or other incidental cost of managing the Property.

HEDGE AGAINST INFLATION

Real Estate investments are generally known to be a hedge against inflation as the rate of capital appreciation is usually very predictable and more rapid than the rate of inflation. Many discerning investors have therefore utilized the form of investment to cushion the impacts of inflation.

PREDICTABLE CASH FLOW/RATE OF RETURNS

Investors enjoy predictable cash flow from rental receivables, proceeds of property sale and returns from any investments made with the REIT liquid assets.

PROFESSIONAL ASSET MANAGEMENT

REITs are mandated to have both a professional fund manager and a professional property manager who manages the property. This requirement has deepened the level of expertise and quality of service offered by our local property managers. It has also opened doors for other international property management brands such as Broll to make an entry into the Nigerian market.

F. OVERVIEW OF EXISTING REITs IN THE NIGERIAN REAL ESTATE MARKET

REIT	DETAILS	PERFORMANCE
UNION HOMES	<p>Issuer Union Homes Savings and Loans Plc</p> <p>Offer Between August 2008 and September 2008, Union Homes REIT offered 970,873,787 (Nine Hundred and Seventy Million, Eight Hundred and Seventy Three Thousand, Seven Hundred and Eighty Seven) Units of N51.50 each. Only 25.75 % of the issue was subscribed.</p> <p>Assets The Union Homes REIT holds a portfolio of high-quality real estate and mortgage assets which include commercial and residential properties in choice locations across the Country and a well serviced pool of mortgage loans.</p>	<p>Market Union Homes REIT recorded a dip in its unit price of N45.22 as at 31st December 2014, N6.28 lower than its initial offer price. There was only a record of trading activity in November 2014 of 205,000 units.</p> <p>Distributions The company last paid distributions April, 2014 at a rate of N2.41 per unit.</p>
SKYE SHELTER	<p>Sponsor Skye Bank Plc</p> <p>Offer Between July 2007 and August 2007, Skye Shelter Fund offered 20,000,000 Units of N100.00 each being the 1st Tranche of the N5 Billion Skye Shelter Fund of the issue was over-subscribed. The registration and authorization of 300,000,000 units of N10.00 each being the 2nd Tranche was stalled in 2011 due to the transfer of management of the fund resulting from CBN policy reversing the Universal Banking Model.</p>	<p>Market Skye Shelter Fund closed at N100 as at 31st December 2014 also recording a dip from its unit price of N112.9 in December 2013.</p> <p>Distributions Skye Shelter Fund announced a distribution of N4.04 per unit for its shareholders for the financial year ended December 31, 2011; this was a drop from N9.00 per unit paid out in the 2010 financial year. For the first 6 months of 2014, Skye Shelter Fund's revenue increased by 7 percent to N90.24 Billion from N84.23 Billion in the same period in 2013 based on a surge in prices in the real estate sector.</p>
UPDC	<p>Sponsor UACN Property Development Company Plc (UPDC)</p> <p>Offer In the first quarter of 2013, UPDC promoted a N30 Billion closed ended publicly traded REIT with an offer of 3,000,000,000 Units of N10.00 each about 80% of the issue was reported to have been subscribed.</p> <p>Assets The UPDC REIT has a diversified portfolio of residential and commercial properties in choice locations in Lagos, Abuja and Aba.</p>	<p>Market UPDC REIT closed at N10.40 as at 31st December 2014 recording a slight margin above its N10 initial offer price. A total of 20,787,387 units were traded in 2014.</p> <p>Distributions The fund managers stated that the investors will be rewarded with N1.4 Billion interim distribution for the period ended June 30, 2014 and in December 2014 with a distribution of 56 kobo per unit. The pay-out will represent 90% of the distributable income for the stated period.</p>
SUNTRUST	<p>Sponsor SunTrust Savings and Loans Limited</p> <p>Offer Between March 2012 and April 2012, SunTrust REITS promoted 400,000,000 Units of N50.00 each.</p> <p>Assets SunTrust REITS have a portfolio of real estate assets comprised of residential and commercial real estates.</p>	

HALDANE MCCALL REIT

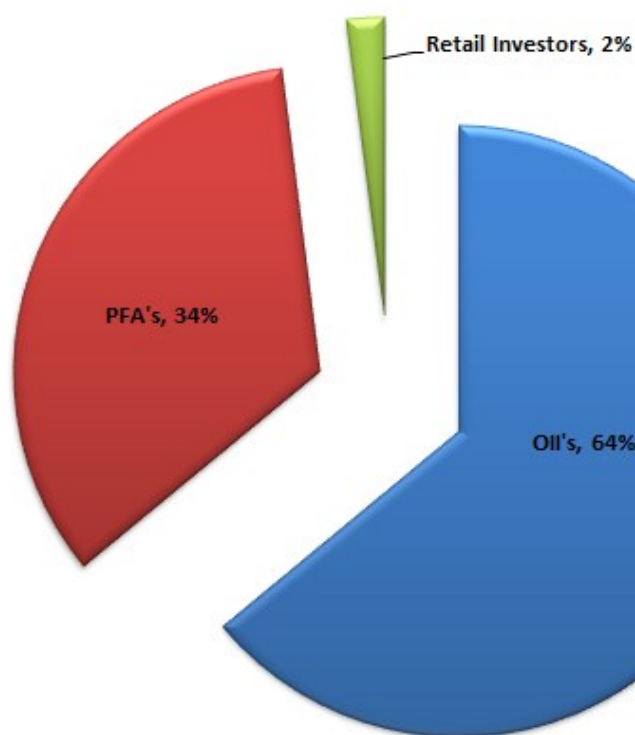
The Haldane McCall REIT made its entry in to the market towards the end of 2014 and it is an equity REIT constituted under a Trust Deed as a close-ended publicly traded scheme. The Haldane McCall REIT is offering 2,600,000,000 Units of N5.15 each with the intention of investing in commercial (hospitality) and residential properties.

Haldane McCall REIT has projected revenue of N1, 479 Million and N1, 586 Million for the year ending 30 September 2015 and 2016 respectively. The projected distributions for the same periods are at N995 Million and N1, 091 Million respectively. The Scheme is managed by FSDH Asset Management Limited.



G. MARKET PARTICIPATION INDEX

The Chart depicts the percentage participation of each investor group in the REIT Market. Other Institutional Investors (**OII**) leads with a total market share of about 64%; followed by Pension Funds (**PFA**s) holding about 34% and thereafter Retail Investors holding the remaining 2% . In comparison to their portfolio of investible funds one would reasonably expect the PFAs to be the biggest players in the sector.



A. THE NATIONAL HOUSING FINANCE PROGRAMME ("NHFP")

Housing reform is a critical element of the 7 point agenda of the Federal Government of Nigeria ("FGN"); this priority status is reflective of the near comatose state of the sector. Over 80% of Nigerians lack decent accommodation principally because there is a barrier to accessing finance for home acquisition. Developers too are unable to access long term finance for development/construction. They are therefore compelled to take on short term loans at double digit interest rates which typically are passed on to home buyers. This leads to a mismatch in the cost of housing and which is taken out of the reach of the average Nigerian.

In November 2012, the President of the Federal Republic of Nigeria launched the NHFP to address the issue of access to finance which plagued the demand and supply sides of the housing sector and consequently the housing deficit (currently estimated at about 20 (twenty) million units) which was at the time recognized as a national emergency. The NHFP is principally driven by the Federal Ministry of Finance ("FMF") and its mandate is to promote availability and affordability of housing to Nigerians irrespective of their socio-economic status.

B. THE NIGERIA MORTGAGE REFINANCE COMPANY ("NMRC")

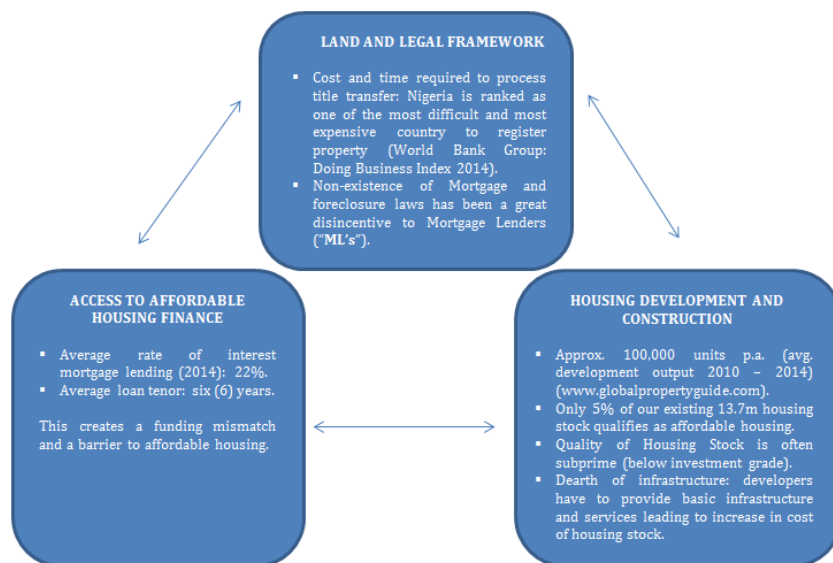
INTRODUCTION

NMRC or ("the **Company**") is an offshoot and a key component of the NHFP; poised to deliver access to affordable housing finance and support policy and regulatory reforms that would galvanize the housing sector generally. Although the Company is driven by the Private Sector, it is an initiative of the **FMF** (supported by the CBN, the Federal Ministry of Lands and Housing ("FMLH") and the **IFC**. The Government's commitment to the ongoing housing finance sector reforms has informed the enormous public sector support that the NMRC has enjoyed from its inception.

The Company was established as a public limited liability company registered with the Corporate Affairs Commission on the 24th June, 2013. Following the procurement of an approval-in-principle granted by the CBN under its Regulatory and Supervisory Framework for the operation of Mortgage Refinance Companies ("**MRC Regulations**") 2012. Having met all the regulatory requirements, the Company is expected to procure its Final License and commence core operations during the first quarter of 2015.

REGULATORY FRAMEWORK

The MRC Regulations are the principal regulations which govern the affairs of the NMRC. They were promulgated by the CBN under its



Main components of the NHFP

To realize its objectives, the FGN has identified and partnered with: the Central Bank of Nigeria ("CBN"); Securities and Exchange Commission ("SEC"); the World Bank; the International Finance Corporation ("IFC"); Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH; and the Department for International Development ("**DFID**"). The programme is expected to deliver a minimum of 75,000 new homes per annum and generate approximately 700,000 jobs in the formal and informal sectors of the housing market within the next 5 (five) years.

inherent powers to make regulations in relation to the operation and control of institutions under its supervision. The MRC Regulations, 2012 provides for the licensing and establishment of MRCs as specialized secondary mortgage institutions which would provide short term liquidity and long term funding to mortgage originators and housing finance lenders.

The NMRC is also subject to the provisions of the CBN Act, 2007; the Banks and Other Financial Institutions Act, 2004 and the Companies and Allied Matters Act which regulates generally the corporate and constitutive affairs of all corporations registered in Nigeria. Finally, being a public company that interfaces with the investing it must also comply with the Investment and Securities Act, 2007 and the SEC Rules and Regulation passed pursuant to the Act.

BUSINESS OBJECTIVES

The key objective for which the NMRC was established includes:

- Improving Mortgage Lender's ("MLs") access to cheaper/long term funds;
- Providing continuous liquidity to MLs in a bid to stimulate the volume of mortgage origination and increase home buyers' access to finance;

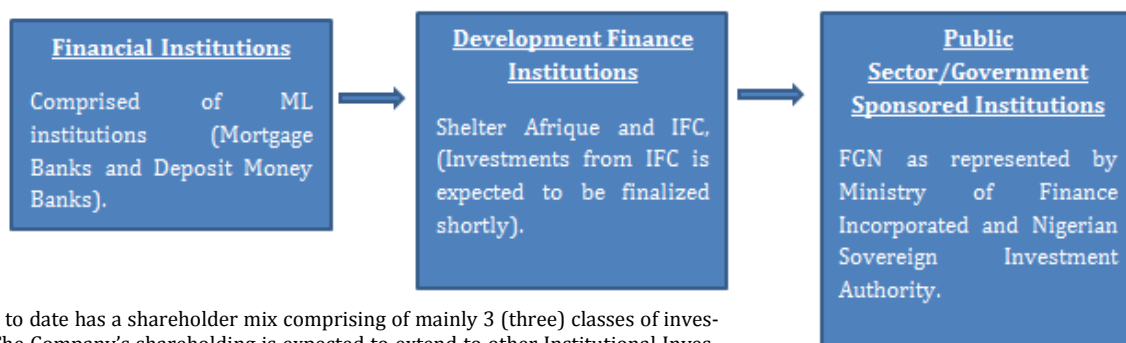
- Improving efficiency and transparency in the mortgage market and minimizing credit risks through the standardization of underwriting practices for MLs;

- Kick-starting the secondary mortgage market through the issuance of debt securities (backed by a homogenous pool of qualifying mortgage assets) in our domestic capital market that is attracting Institutional Investors (specifically Pension Fund Associations) in preparation for a more sophisticated mortgage securitization market; and

- Supporting the housing finance sector through advocacy and regulatory interventions.

OWNERSHIP STRUCTURE

NMRC was conceived as a public-private partnership where the private sector will run the affairs of the Company to actualize its objects and maximize returns to investors, while Government will maintain a minimal stake and continue to provide the necessary policy and regulatory support required to achieve the commercial and developmental objectives of the institution.



NMRC to date has a shareholder mix comprising of mainly 3 (three) classes of investors. The Company's shareholding is expected to extend to other Institutional Investor groups and Development Finance Institutions as the Company progresses into its second and subsequent phases of its capital raise.

C. CAPITALIZATION STRUCTURE AND REFINANCING OPERATIONS

CAPITALIZATION STRUCTURE

NMRC raised a total of N7.05 Billion under its first tranche capital raise. This is expected to make up its Tier 1 capital (the amount exceeds the N5 Billion minimum capital requirement for MRCs). The Company is also a beneficiary of a USD250 Million subordinated debt under the USD300 Million International Development Association ("IDA") facility provided by the World Bank to facilitate the execution of the National Housing Finance Programme. The loan attracts a 40 (forty) year moratorium and 0% interest rate. While the value of the IDA Loan is expected to be reserved on its balance sheet (not to be utilized as working capital), the Company's Tier 2 capitalization will be (further) strengthened with the proceeds of the bonds Issuance expected to be undertaken by the Company.

The USD\$250 Million of the IDA Loan will be disbursed in 6 (six) tranches based on pre-agreed performance indicators. In June 2014, NMRC received the 1st disbursement). It is expected that the loan will strengthen the Company's balance sheet significantly by improving its credit rating and its capacity to raise debt finance in the capital market.

REFINANCING OPERATIONS

The core business objective of the NMRC is to create an avenue for MLs to refinance their eligible loan portfolios, and receive immediate liquidity prior to maturity of the loans) to enhance their capacity to continue loan originations without overdrawing their working capital.

The NMRC serves as a financial intermediation vehicle. With the strength of its capital base and credit support from the Federal Government; it is able to access a steady flow of long term funds from the capital market through the issuance of bonds or other forms of debt instruments. The Company in its ordinary course of business will lend these funds to participating ML's in the form of loans backed by an assignment of security

interest in a pool of mortgages which have been pre-qualified for refinancing having conformed to the NMRC's Uniform Underwriting Standards ("UUS").

The structure of the refinancing by NMRC differs slightly from the typical securitization in that instead of an outright purchase (true sale) of the receivables from the qualifying mortgage portfolio of the participating ML's; NMRC will be assigned security interest over the receivables. Therefore, NMRC holds only a beneficial interest over the receivables while the credit risk is retained by the ML with NMRC having full recourse to it where there is a failure of the security.

NMRC will on-lend such amount as is proportionate to the book value (less unearned interests and subject to a 25% over-collateralization margin) of each participating ML's pool of qualifying mortgage assets.

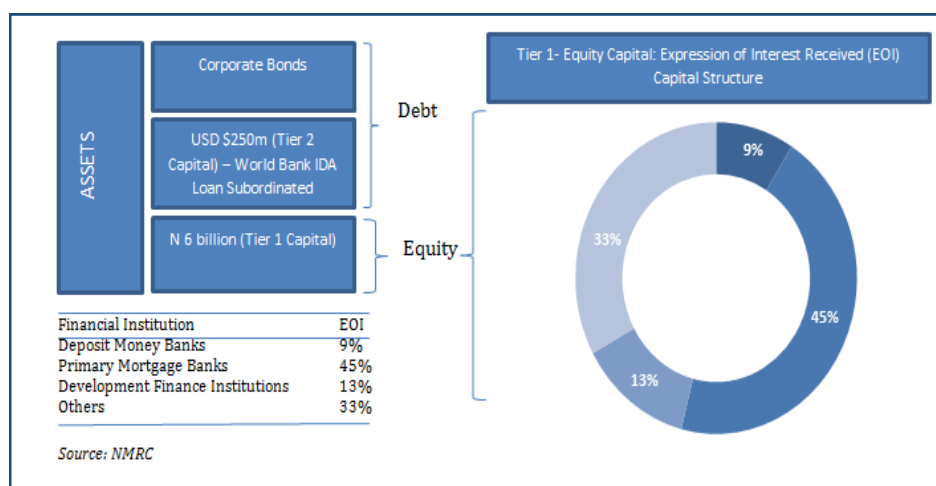
Being a new company, the NMRC cannot on the strength of its balance sheet access the capital market to raise funds. Furthermore the investing public has little knowledge and understanding of the mortgage asset class – which is the crux of NMRC's business and its primary repayment source. Given the time required for the asset class to mature, the structure of NMRC's bonds issue would require a considerable amount of credit and structural enhancement to boost its ratings and make it attractive to investors. To this

end, it is expected that in the Company's first 5 (five) years of operation, all bonds issued by it would be backed by the full faith and credit of the FGN thereby totally de-risking the bonds and qualifying the Issue for an "AAA" credit rating as is typically assigned to FGN guaranteed instruments. Each tranche of bonds issued will also be secured against NMRC's interest over the underlying pool of mortgages to be refinanced with the proceeds of the bond. NMRC will create a security interest over the receivables (including the principal sum and interest repayments from the underlying mortgage loans) with FGN being the senior secured creditor - having guaranteed the bonds to the full extent of the issue; investors would have a direct recourse to FGN whilst FGN first right of recourse to the pool of mortgage receivables.

After the initial 5 (five) years, it is expected that the mortgage asset class would have seasoned (the market would have enough information with which to independently assess its performance), investors would have a better understanding of the mortgage market and NMRC would also be able to access the capital market on the strength of its balance sheet without support from FGN.

RISK MITIGATION AND INSURANCE

To mitigate against credit risk, NMRC's refinancing model has been structured as an on-



lend facility to MLs, the pool of mortgages to be refinanced will remain on the balance sheet of the MLs. NMRC will only acquire a beneficial interest over the receivables from the refinanced mortgage while retaining the right of full recourse in the case of delinquent mortgages.

This precludes the NMRC from the responsibility for servicing the loans or having to conduct due diligence on the borrowers. Further, all refinancing undertakings will be collateralized to the tune of 125% allowing for the 25% over-collateralized margin to be used to absorb any potential losses.

In a bid to preserve the underlying collateral backing each refinancing transaction; NMRC is currently engaging with the Nigeria Deposit Insurance Corporation to acknowledge that NMRC will rank above other creditors of participating MLs in the event of winding up. This priority status is expected to minimize any possible repayment risk should the MLs go into insolvency as well as to keep the receivables from the hands of other creditors or depositors as it were. Also noteworthy is the requirement in the UUS document mandating all qualifying mortgage loans to be insured against repayment risk.

D. POLICIES, REGULATIONS AND TRAINING

Outside of its core function; the NMRC continues to support the Mortgage industry by driving policy formulation and advocacy in all areas related to land, housing and urban development. The role of the Company in deepening the housing finance sector and standardization of mortgage practices is not just commendable but also enviable.

UNIFORM UNDERWRITING STANDARDS

NMRC has championed the standardization of mortgage practices and also prepared the Country for the effective take off of an efficient secondary market through the introduction of the UUS.

The UUS seeks to standardize mortgage lending processes. It sets the criteria for the origination of mortgages that will qualify to be refinanced by the NMRC. It balances the need for responsible lending with the Lenders with the need to secure loan repayment and minimize losses. Though only persuasive in its application (given that MLs may still originate non-conforming mortgages), the UUS now sets the industry standard, making the mortgage banking landscape more competitive.

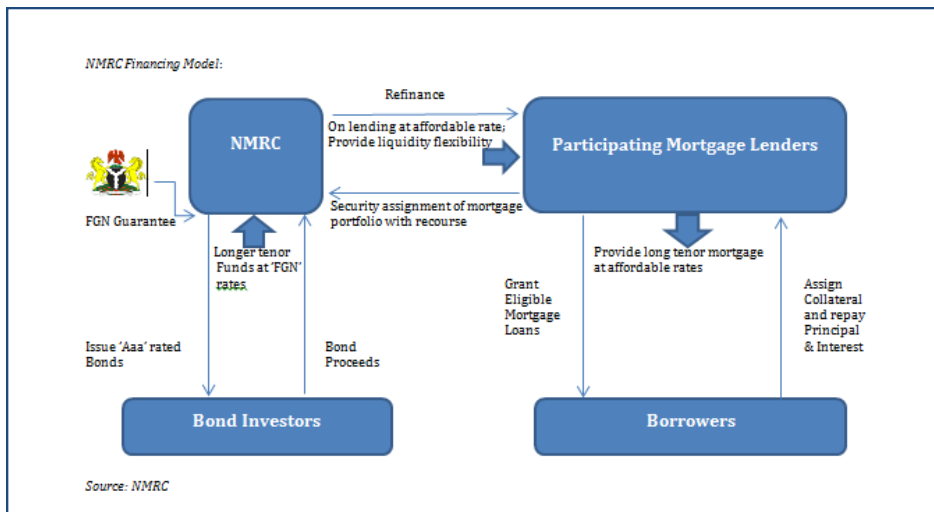
MODEL MORTGAGE AND FORECLOSURE LAW

In recognition of the lack of an efficient legal framework for foreclosure which remains one of the biggest growth inhibitors in the Nigerian Mortgage Market, the NMRC kick started

the process of drafting a Model Mortgage and Foreclosure Law in consultation with key industry stakeholders such as the Ministries of Justice in all States of the Federation, the Mortgage Bankers Association of Nigeria, top real estate lawyers, the FMLH and the CBN.

The Model Law amongst others is expected to address the key issues which have plagued the Mortgage Sector over the last 4 (four) decades. The key objectives of the Model Law include to:

- Fast-track the process for creating and



registering legal mortgages;

- Ensure timely and efficient resolution of mortgage disputes;
- Reduce the cost of obtaining Governor's consents and other taxes incidental to mortgage transactions;
- Create an efficient foreclosure and enforcement process for mortgage securities; and
- Promote the uniformity in the implementation of foreclosure processes in all States of the Federation.

It is expected that the Model Law once finalized will be adopted and passed into law in all the States of the Federation.

TRAININGS

In its bid to support all three components of the National Housing Finance Programme, the NMRC has continued to engage with and educate stakeholders down the value chain (including ML's, housing developers, Government Departments and Agencies, artisans and other professionals within the housing finance sector) on the different aspects of the Programme and the specific role NMRC plays in delivering quality and affordable housing to Nigerians and provides capacity building for other stakeholders to effectively participate in the on-going reform

E. BENEFITS AND OPPORTUNITIES

NMRC's role is very crucial to the success of the NHFP; being the key driver and chief implementer of majority of its strategies, its continued drive will deliver benefits to the housing value chain as a whole. We expect that within the first few years of its existence; the NMRC would have delivered to the Nigerian populace the following benefits and opportunities:

INTEREST RATE REDUCTION

Given its financial intermediation role, NMRC would become the primary source of funding for ML's giving them access to cheaper and longer tenured funds. Once the cost of funds is reduced a converse reduction in interest rates is expected.

EMPLOYMENT

One of the social values that the NMRC has the capacity to deliver is mass employment. Other than the direct employment opportunities that would open up within the Company, rate of origination of mortgages would expand along with manpower required within the mortgage sector. Furthermore, as the supply side seeks to increase production output to meet the rising demand, a lot of job opportunities will open up for professionals and artisans who serve the construction industry.

INCREASE IN MORTGAGE ORIGINATION AND HOME ACQUISITION

In response to the increased origination capacity of ML's many more Nigerians across the social strata will have access to cheaper, long term mortgages.

INCREASED HOUSING CONSTRUCTION OUTPUT

As the demand for housing grows, the supply side of the housing value chain will be positioned to increase its delivery capacity. Cur-

rently over 66,000 Nigerians have applied for mortgages under the NHFP first 10,000 affordable housing programme. The FGN has therefore tasked local developers to deliver the sufficient housing stock to meet the demand of the existing pipeline of applicants.

RESTORING INTEGRITY IN THE MORTGAGE/HOUSING FINANCE SECTOR

The introduction of the UUS and other regulatory interventions of the NMRC help to minimize unconscionable practices amongst MLs, thereby restoring integrity in the sector.

ENHANCE TECHNOLOGY INFRASTRUCTURE AND DATA COLLECTION

The advent of the NMRC and the need for technology integration with participating ML's has resulted in a total upgrade of the technology infrastructure for the mortgage sector. It

is expected that this will enhance efficiency and transparency within the sector. It also puts the NMRC in a position to act as a platform of data and information collection for the sector, this being a critical element for building a successful secondary market.

SOCIAL INCLUSIVENESS

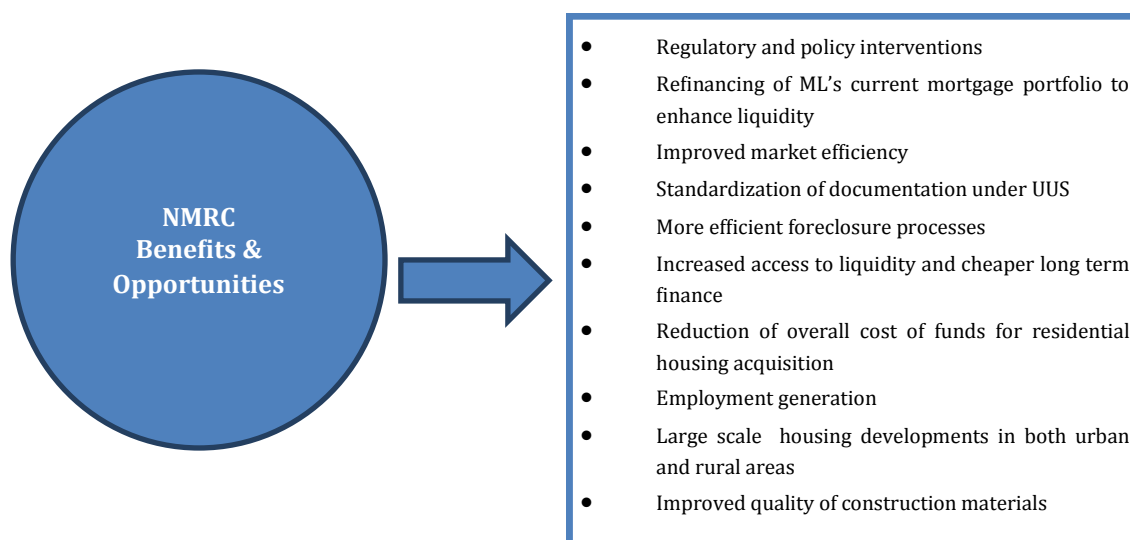
In the implementation of its intervention within the housing sector, the NMRC has been mindful to cater to the needs of Nigerians across different social strata. The UUS recognizes and has provided separate underwriting regimes for salaried employees, civil servants and self-employed borrowers. Mortgage origination is also expected to cut across all States of the Federation.

ECONOMIC DEVELOPMENT

Whilst the NMRC has an extensive social impact its economic impact is even more far reaching. It is expected that the housing reforms will stimulate aggressive economic growth across the land, housing, finance and related sectors. It is expected that the total contribution of the Real Estate Sector to the Nation's GDP will increase in geometric progression over the next 5 (five) years.

F. CONCLUSION

The years ahead are very exciting times for the Nigerian Housing Sector. The NMRC being a principal catalyst has the capacity to deliver on the social, developmental and economic benefits which the NHFP of the current administration has pledged to deliver.



"...It also puts the NMRC in a position to act as a platform of data and information collection for the sector, this being a critical element for building a successful secondary market."

Nigeria Real Estate Guide is a publication of Detail Commercial Solicitors, a commercial law firm based in Lagos, Nigeria. DETAIL has an active Real Estate and Construction Practice known for providing bespoke legal solutions on diverse transactions including finance; construction and projects; portfolio investment; mortgages and hypothecations; trusts and estate planning; regulatory compliance amongst others.

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