broll Property Intel

Progressive property people.

Office Market Viewpoint

Nigeria – Q4: 2018

2018 in Review and Key Factors to Watch in 2019

Facilities Management | Occupier Services | Property Auctioneering | Property Broking | Property Intel
Real Estate Investor Services | Shopping Centre Management | Training & Skills Development | Valuation & Advisory Services

Botswana | Cameroon | Ghana | Ivory Coast | Kenya | Madagascar | Malawi | Mauritius | Mozambique | Namibia | Nigeria
Réunion | Seychelles | South Africa | Swaziland | Uganda | Zambia

info@broll.com | www.broll.com

Economic Overview

The Nigerian economy performed relatively better in 2018 than 2017. However, towards the end of the year, there were some renewed signs of weaknesses in the economy's recovery path. In 2019, Nigeria's economic growth prospects could be at risk as the 2019 Budget is pegged at an oil benchmark rate of US$60/barrel which is optimistic given the shift in Brent Crude price trajectory in 2018.

GDP Growth Rate
Q4:2018 – 2.38%

Exchange Rate
Dec 2018
1US$ - ₦307

Interest Rate
Dec 2018 – 14%

Inflation Rate
Dec 2018 – 11.44%

Brent Crude ended the year on a disappointing note, with the market reaching its peak of US$86.29/barrel in October (its highest level in 4 years) before closing the year at US$53.8/barrel. This significant decline has been attributed to renewed oversupply concerns from both shale and OPEC producers and the threat of a potential trade war leading to fears over global growth. Further downside risk to the oil price remain high in 2019.

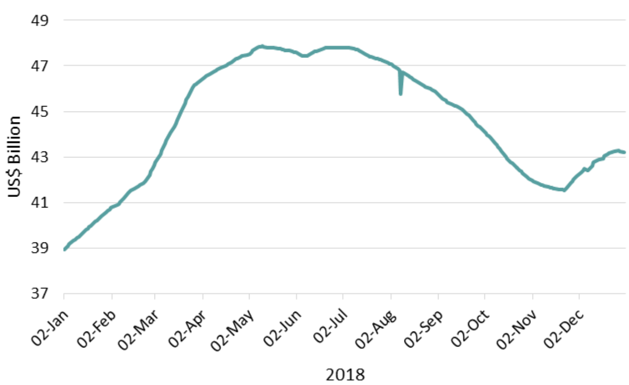
Brent Crude Price

Source: Bloomberg

Forex Reserves and the Stock Market

The pace of forex reserve accretion mirrored the movement of oil prices in the global markets to an extent in 2018. However, when speculation begun to hit the market about an oversupply of oil as well as the spike in domestic demand for forex in the Q3 2018, The Central Bank of Nigeria (CBN) was increasingly constricted in its ability to ramp up reserves as seen below. Forex reserve levels closed the year higher at US$43.20 billion, 11% up year-to-date (YTD).

Nigeria Foreign Reserves



Source: Central Bank of Nigeria

The stock market was a clear reflection of investor sentiment in the Nigerian economy's recovery in 2018. As shown below, the market shaved off a significant chunk of its value closing 18% lower YTD at 31,430.5 points. Reduced portfolio confidence in the country's economic policies, especially its forex policies, played a role in the stock market decline.

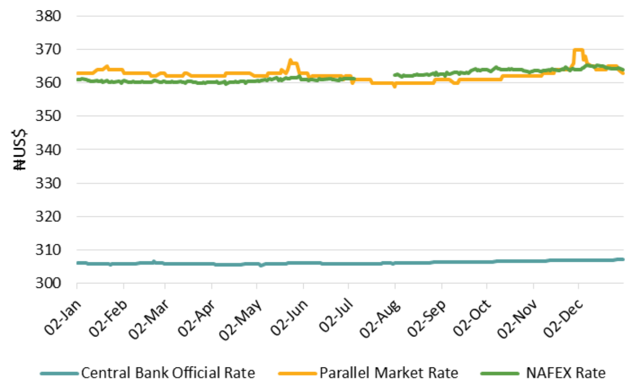
Nigerian Stock Exchange All Share Index

Source: Bloomberg

Exchange Rate

The exchange rate remained fairly stable in 2018 in key market segments. YTD, there was a very marginal depreciation of 0.3% in the Official Rate closing the year at ₦307/US$. The parallel market and Nigerian Autonomous Foreign Exchange Fixing (NAFEX) segments fluctuated against each other with the parallel market starting the year slightly higher than the NAFEX market only to have the reverse by year end. The NAFEX rate depreciated by 0.8% YTD, closing the year at ₦364/US$, while the Parallel Market remained stable at ₦363/US$.

Foreign Exchange



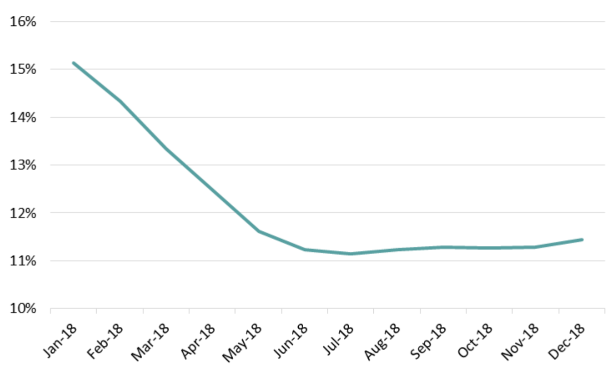
Source: Central Bank of Nigeria; Aboki fx, FMDQ

Inflation and Interest Rates

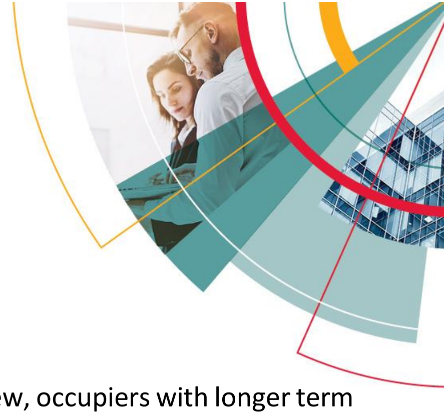
The headline inflation rate in 2018, sustained dramatic declines in the first half of the year, before reversing its 18 month downward trend in August. Since then, the inflation rate has hovered around 11% with marginal movements upwards and downwards. At year end, inflation stood at 11.44%, a huge decline from 15.13% in January 2018.

Inflationary pressures from higher food, housing and utilities costs aided the spike in inflation at the tail end of 2018. This prompted the Monetary Policy Committee of the CBN to leave the benchmark interest rate unchanged at 14% in January 2019 in an attempt to clamp down on future inflationary spikes.

Headline Inflation Rate



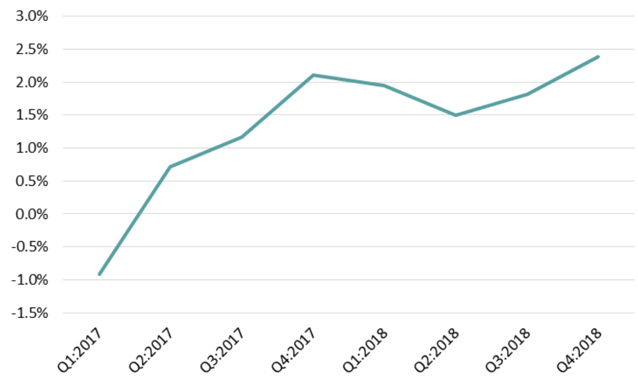
Source: National Bureau of Statistics



Gross Domestic Product (GDP)

GDP growth in 2018 was positive, averaging 1.93% for the year overall. The highest growth rate was evident in the last quarter of the year at 2.38%. Even though this growth is low, this is an improvement in comparison to quarterly figures recorded in 2017, as well as in comparison to the 2017 overall rate of 0.82%. The non-oil sector grew by 2.70% as at Q4:2018 while the Oil sector declined by -1.62%, however for 2018 overall, non-oil and oil grew by 2.00% and 1.14% respectively.

GDP Growth Rate



Source: National Bureau of Statistics

Office Market

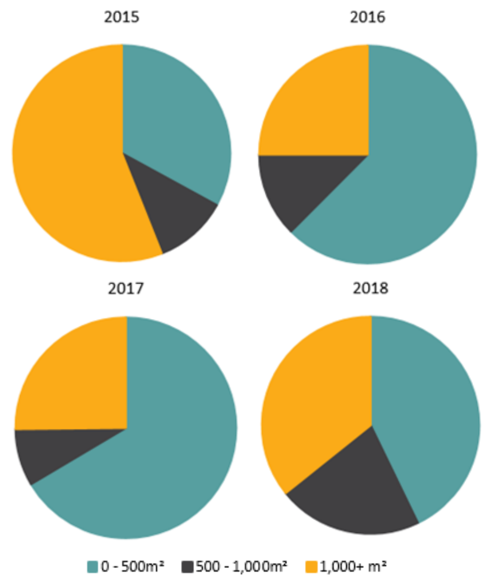
Occupier Viewpoint: 2018 in Review

2018 saw a significant amount of activity relative to the previous year, especially as the economy emerged from recession a moved to a path to an economic recovery. The level of enquiries for office space increased in 2018 with a more diverse profile of tenants in the tech, finance, oil and gas, FMCG, aviation and pharmaceutical industries.

In the quarter under review, occupiers with longer term horizons continued to enhance their presence in the market with a number of signed leases being for more than 1,000 m², which deviates from the smaller sized office transactions in previous years. Approximately 14,500m² of A-grade space was taken-up in the Ikoyi market in Q4:2018 alone. This move by investors occurred irrespective of the elections scheduled to take place in February 2019, highlighting less risk aversion to the aftermath of the elections relative to the previous electoral cycle of 2015.

2018 also witnessed a slight evolution of occupier requirements for lease acquisitions. An increased number of tenants have started looking at flexible, serviced office options, especially small scale new entrants seeking flexibility to either expand or exit the market as and when required. Co-working space requirements rose and service operators were operating at full or near full capacity (service providers are primarily local providers, operating in standalone converted residential properties or B- to C-grade office buildings).

Transaction size profile



Source: Broll Database

broll Property Intel

Progressive property people.

Landlord Viewpoint

In 2018, landlords were increasingly sensitive to the existing oversupply of stock in the market and as such strategic leasing options had to be devised in order to attract tenants to their buildings. These leasing options included attractive financial incentives such as extended rent-free periods as high as 12 months, longer beneficial occupation (BO) periods of 6 months and tenant fit out allowances of as high as US$400/m².

Therefore, although asking rentals remained constant for much of 2018, net effective rents (base rents net of incentives) fluctuated below asking rents.

The median average asking rent for A-grade offices in Ikoyi remained constant at US$750/m²/annum in Q4:2018. In the Victoria Island commercial node, the median average asking rent also remained fairly constant at US$650/m²/annum.

Vacancy rates in A-grade buildings are currently down to 59% and 54% in Ikoyi and Victoria Island respectively.

Median average Asking Rental (Net/m²/annum)		
Region	A-grade	B-grade
Ikoyi	US$750	US$600
VI	US$650	US$450
Lekki	US$240	₦70,000
Ikeja	US$325	₦45,000
Lagos Island	-	₦30,000
Abuja	-	₦65,000

Source: National Bureau of Statistics

Outlook

Key factors to watch in 2019 and their potential impact on the office market, include but are not limited to:

Oil Prices: the outlook for oil prices is one embedded in risk, with Goldman Sachs cutting down its oil price outlook in 2019 to US$62.50/barrel from a previous prediction of US$70/barrel. Moreover, with the economy still heavily dependent on oil revenues to sustain economic activity, a slowdown in oil prices could have adverse effects on economic activity. With economic activity contracting, office market activity, which moves in tangent with the economic cycle, is also very likely to be negatively affected.

Local Currency: A possible devaluation in the local currency by year end could introduce transactionary risk impacts in the form of increased occupational costs within malls as well as higher product prices for retailers if goods are imported.

broll Property Intel

Progressive property people.

Intel Report Contact Details

Divisional Director
Broll Property Intel
Elaine Wilson
+27 11 441 4083
ewilson@broll.com

Researcher
Daniella Martino
+27 11 441 4075
dmartino@broll.com

Head Property Intel
Nigeria
Nnenna Alintah
+234 812 449 4825
nalintah@broll.com.ng

Researcher
Amaka Ajaegbu
+234 809 172 5155
aajaegbu@broll.com.ng

CEO, Broll Property Services
Nigeria
Bolaji Edu
+234 812 628 7751
bedu@broll.com.ng

Head, Brokerage
Nigeria
Babafenwa Omoniyi
+234 1 270 1889
obabafenwa@broll.com.ng

Head Office & Country Contact Details

Broll Property Group (PTY) Ltd (Head Office)
Physical Address: 61 Katherine Street, Sandown Ext. 54, Sandton.
Phone: +27 11 441 4000
Fax: +27 11 441 4452
Email: info@broll.com
LinkedIn: Broll Property Group
Twitter: @Broll_insights
Website: www.broll.com

Broll Botswana
Physical address: 1st Floor, The Hub, iTowers, Gaborone.
Phone: +267 398 1973
Email: botswana@broll.com

Broll Ghana
Physical address: 7th Floor, Ridge Tower, 6th Avenue, Ridge, Accra.
Phone: +233 302 672 888
Email: ghana@broll.com
Website: www.brollghana.com

Broll Indian Ocean (Madagascar, Mauritius, Seychelles & Réunion)
Physical address: Suite 2IJ, 2nd Floor, Raffles Tower, Ebene.
Phone: +230 468 1222
Email: indianocean@broll.com
Website: www.broll-io.com

Broll Kenya
Physical address: Westlands Business Park, Acacia Block, Ground Floor, Waiyaki Way, Nairobi.
Phone: +254 712 668 448
Email: kenya@broll.com
Website: www.broll.co.ke

Broll Malawi
Physical address: Kabula House, Ground Floor, Chilembwe Road, Blantyre.
Phone: +265 184 3311
Email: malawi@broll.com
Website: www.broll.co.mw

Broll Mozambique
Physical address: Rua Mateus, Sansao Muthemba, Maputo.
Phone: +258 21 496 852
Email: mozambique@broll.com
Website: www.broll.co.mz

Broll Namibia
Physical address: Zanlumor Building, 2nd Floor, Post Street Mall, Windhoek.
Phone: +264 6 137 4500
Email: namibia@broll.com
Website: www.brollnamibia.com.na

Broll Nigeria
Physical address: 6th Floor, ED Building, 47 Marina, Lagos Island, Lagos.
Phone: +234 1 270 1890
Email: nigeria@broll.com
Website: www.broll.com.ng

Broll South Africa
Physical address: 61 Katherine Street, Sandown Ext. 54, Johannesburg.
Phone: +27 11 441 4000
Email: info@broll.com
Website: www.broll.com

Broll Uganda
Physical address: The Acacia Mall, 4th Floor, Plot 14-18 Cooper Road, Kampala.
Phone: +256 312 531 500

Broll Zambia
Physical address: Manda Hill Mall, Cnr Great East and Manchinchi Roads, Lusaka.
Phone: +260 21 125 5550
Email: zambia@broll.com
Website: www.broll.co.za