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Retail Market Viewpoint

Nigeria – Q4: 2018

2018 in Review and Key Factors to Watch in 2019

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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.

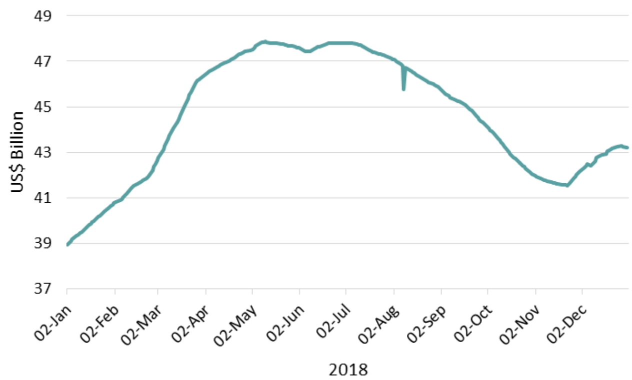
Brent Crude Price

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.

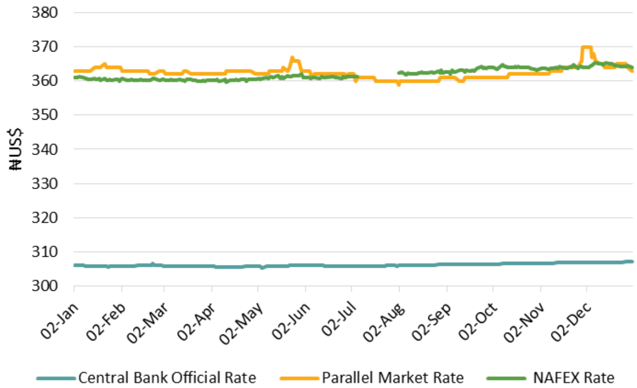
Nigerian Stock Exchange All Share Index

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



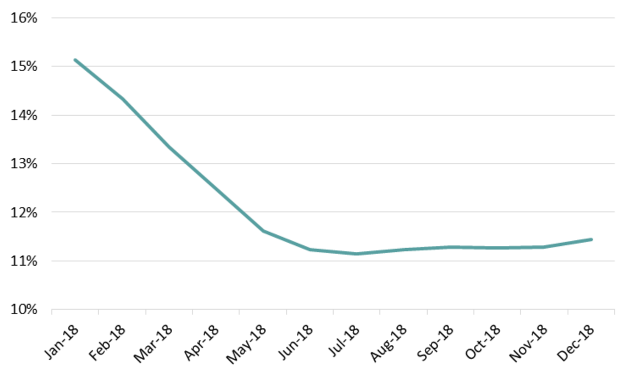
Source: Central Bank of Nigeria; Aboki fx, FMDQ

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 utility 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

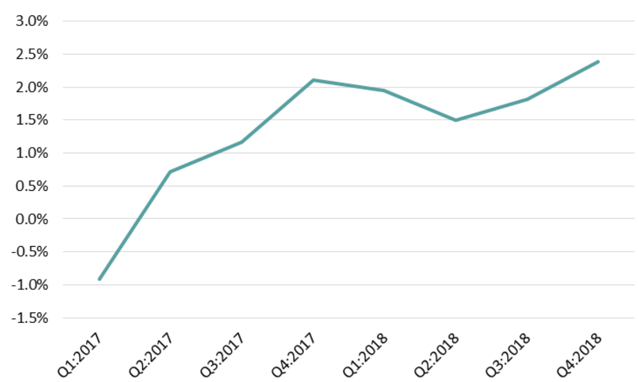


Source: National Bureau of Statistics

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

Retail Market

2018 was a challenging year for the retail market, although less so relative to 2016 and 2017 at the heart of the economic recession. Many landlords in the market have been increasingly open to tenant-friendly leasing options in an attempt to drive occupancy levels, while tenants have had to re-strategize their businesses to stay afloat and continue operating within malls.

International interest in Nigerian retail did not wane although these brands were mostly interested in franchise agreements with experienced local operators. Purchasing power remained generally stagnant and consumer confidence continued to plummet in the first half of the year.

Occupier Viewpoint

As the year progressed the frequency of enquiries for formal retail space increased, notably in the Fashion and Accessories as well as Food and Beverage (F&B) categories. Enquiries hovered around 30m² to 60m² from both local and international retailers. F&B also recorded the highest level of concluded transactions in the year.

2018 saw the introduction of a number of international brands such as Pinkberry, Krispy Kreme and Pizza Hut. Outside of F&B, in other segments such as Beauty, Fashion and Accessories, very few international brands entered the market.

Leisure retail gained significant traction in 2018 with the consolidation and relative success of brands such as Rufus and Bee, Upbeat and the various Filmhouse cinema additions in the market. Landlords have become more sensitive to the fact that F&B offerings

are not a strong enough influence to increase footfall and dwell time at malls thus a more diverse tenant mix with child-friendly offerings for example have been perused.

In 2018 local retailers found it necessary to implement creative measures for running their businesses not just in malls but within other retail offerings such as neighbourhood plazas or highstreet retail. This ranged from aggressive marketing to consolidate brand loyalty as well as exploring cost effective means of operations (for example locally sourced goods as opposed to 100% importation of goods). Tenants that were successful in adopting cost effective strategies as well as brand distinction in the market were able to retain occupancy within malls and expand their footprint despite stagnant purchasing power and crawling consumer confidence.

Core Market

Activity in the core market experienced very gradual growth in 2018. The year started off bleak following the negative effects of the recession in previous years, however, some malls began to record an uptick in foot traffic although basket size has yet to bounce back.

The core market also remained the first destination for international brands entering the Nigerian retail market and performed relatively better than secondary market locations.

Halfway through the year, asking rentals began to stabilise within certain malls. Some landlords that initially offered discounted rents to drive up occupancy levels began to revise those rates upwards.

Average asking rents for 50m² - 200m² ranged between $30/m²/months – $70/m²/month as at the final quarter of the year. Transactions, however, are still largely treated on a case-by-case basis and achievable rents tend to fall below this average.

Secondary Market

The secondary market is primarily a locally driven market with only a handful of international retailers present. Coupled with an even more contracted purchasing power relative to consumers in the core market, the retail landscape has been challenging.
In order to keep existing tenants and attract new ones landlords have had to offer concessions and discounted rental rates. 2018 also saw shorter lease terms for retailers in certain malls in both the secondary and core markets who were interested in a test run of the mall model before making a longer term commitment. Hybrid Naira/US$ leases continue to be prevalent, acting as an additional incentive.

Average asking rents for malls in secondary locations were constant in the final quarter of 2018 ranging between US$15/m²/month – US$25/m²/month for spaces between 50m² – 200m².

Net Average Asking Rent (US$/m²/month)	
Core Locations*	30 – 70
Secondary locations^	15 – 25

Note: Rental figures are for 50m² to 200m²
**Lagos & Abuja; ^Rest of country*
Source: Broll Database

Outlook

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

Secondary Market Strategies: in 2019, an increase in creative strategies to drive occupancy levels in secondary locations is anticipated. One of which is targeted marketing as well as mothballing in some locations to keep operational costs down and increase foot traffic in active sections of the malls.

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. 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 which may lead to reduced consumer confidence and purchasing power.

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

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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

Executive, Investor Services
Nigeria
Gavin Cox
+234 808 598 1236
gcox@broll.com.ng

Head, Investor Services
Nigeria
Ann Nvene
+234 808 2147 983
anvene@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