broll

Property Intel

Progressive property people.

NIGERIA SNAPSHOT

Q3:2018

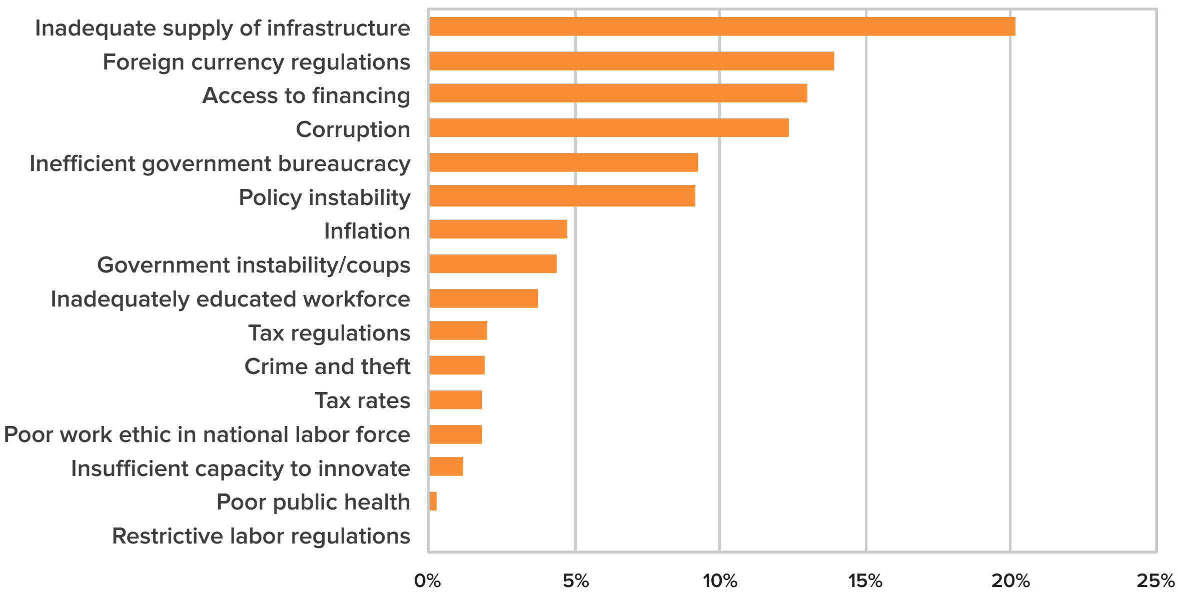
Economic Overview

The Nigerian economy has sustained five consecutive quarters of positive growth, effectively pulling the country out of a recession. However, this recovery has been relatively slow in comparison to previous recessions, with low growth rates anticipated. Other macroeconomic fundamentals, such as inflation and forex stability, have also generally performed well since 2017. However, economists and investors are concerned about recent shifts in the general progress of the economy, as a notable slowdown in the pace of recovery is raising some red flags. Are these signs of a turning point in the general economic trend that took off in 2017, or rather a blip in the trend?

Nigeria's economy grew by 1.5% in the second quarter of 2018, with the International Monetary Fund (IMF) predicting a full year growth rate of 1.9%. Nonetheless, the pace of growth is slowing as GDP growth has declined from levels recorded in Q1:2018, edging investors and other stakeholders towards a cautiously optimistic view on the economy's recovery prospects. This is attributable to the country's persistent dependence on oil revenues to drive growth, with no real improvements in employment and aggregate demand.

The pace of increase in consumer prices has slowed dramatically, relative to recessionary levels in 2016/2017. Year-on-year (y-o-y) inflation has declined to 11.28% as at September 2018, a stark difference from the 15.91% recorded the previous year. However, inflationary levels have begun to pick up, as seen with a rise to current levels from 11.14% recorded in July 2018. This has reinforced the Central Bank of Nigeria's (CBN) decision to maintain the Monetary Policy Rate (MPR) at 14% so as to enable the economy to withstand any consequences of further increases in the consumer price level.

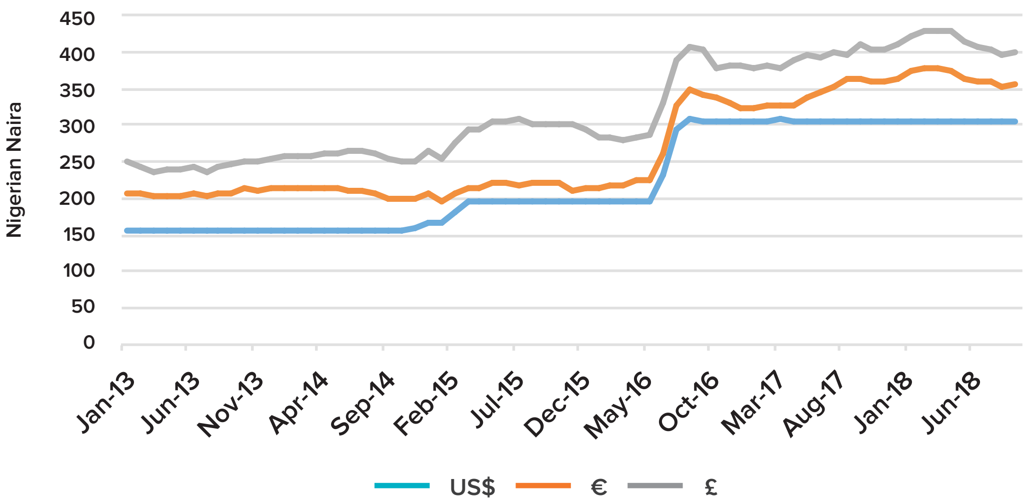
Problematic Factors for Doing Business



Source: World Economic Forum

Foreign exchange reserve levels have also increased in the past year, majorly attributable to the CBN's aggressive forex policy. The capacity of the CBN to execute further accretion in reserve levels is largely dependent on the performance of the global and domestic oil markets. Therefore, reserve levels have fallen in recent times as production levels worryingly decline. Nonetheless, reserves are up 13% year-to-date (y-t-d) and 34% y-o-y. With well over $9billion (y-t-d) in intervention in key forex market segments, dollar liquidity has kept Naira values relatively constant. NAFEX, parallel market and the official market rates all closed Q3:2018 at ₦363.92/US$, ₦361/US$ and ₦306.35/US$ respectively. This is despite the fact that emerging market currencies are falling. The stock market is a better illustration of investor sentiment about the economy, with the market closing Q3:2018 at 32,766 index points, 14.5% lower y-t-d.

Exchange Rate – Official Market



Source: CBN

Facts about Nigeria

Size: 923,768km²
Capital City: Abuja
Total Population: 196.2million (2018 est)
Youth Dependency: 82% (2017)
Elderly Dependency: 5% (2017)
Internet Users: 49.5 per 100 people (2018 est)

GDP Growth: 1.5% (Q2:2018)
GDP Growth Forecast: 1.9% - 2.1% (2018 est)
Inflation Rate: 11.28% (Sept 2018)
Interest Rate: 14% (Sept 2018)
Ease of Doing Business Ranking/190: 146 (2019)
Global Competitiveness Ranking/137: 125 (2017/2018)

Retail Market Overview

The ripple effect of improved macroeconomic conditions from recessionary levels has yet to have a significant impact on the recovery of the retail market. The rise in oil prices has helped to boost forex inflows and exchange rate stability, but has also contributed to inflationary pressures in the market. Renewed signs of weakness in the wider economy have made investors increasingly cautious in their investment decisions. Over the last 12 months, underlining trends have persisted. These include contracted purchasing power, high tenant turnover rates, high rental and operational costs and an oversupply of mall space. Landlords continue to offer financial incentives in order to drive up occupancies within their malls.

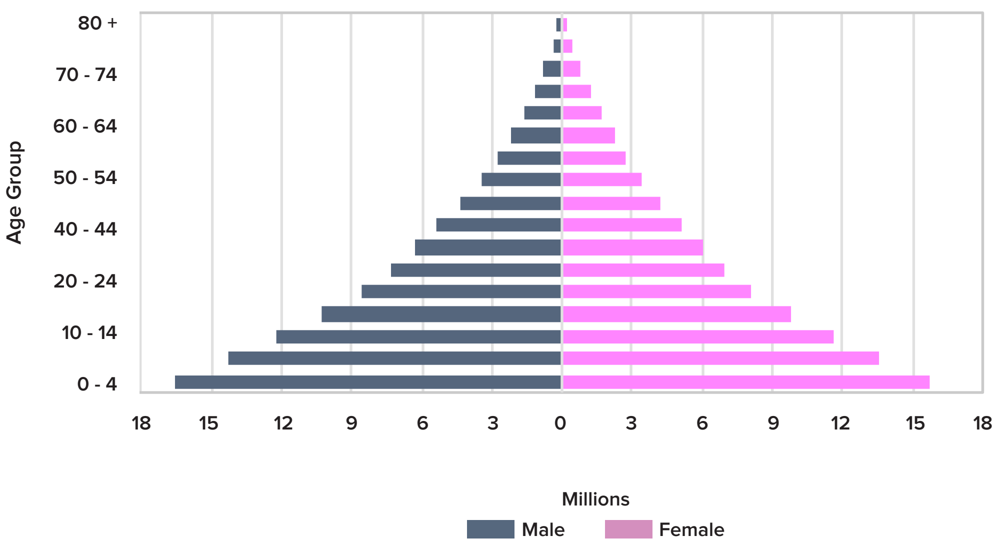
The exchange rate is one of the defining factors for tenancy in malls, beyond base rents and service charges. With retailers becoming more informed with regards to market dynamics and seeking competitive leasing terms, some malls have operated under tenant-friendly exchange rates, which are typically close to official market rates. However, a number of such malls have recently revised these policies, now operating under rates that are close to secondary market (parallel market) rates. This is likely to have a negative impact on existing and prospective tenants in regards to rental obligations.

International brand interest in the retail market is unrelenting, however, these brands are seeking experienced local franchise operators to collaborate with. The challenge here is that many local franchisees are not financially able to take on new brands within their portfolios. Nonetheless, within the first three quarters of 2018 , there have been market entrants from Europe and North America in premises measuring less than 50m^2.

Leisure retail offerings are becoming increasingly vital in differentiating malls in the market. Therefore, landlords are incorporating more family-friendly offerings, cinemas and arcades to capture changing consumer preferences. With regards to new developments, very few malls (+-10,000m^2) are currently in the pipeline in the core and secondary markets, with the focus being on smaller design concepts that are specifically tailored to the demographics within the mall's catchment area.

Currently, average asking rental prices for 50m^2 - 200m^2 of prime retail space hover around US$30 – US$70/m^2/month in the core markets of Abuja and Lagos. In secondary market locations, average asking rental prices range between US$15 – US$25/m^2/month. Transactions are ultimately conducted on a case-by-case basis and achievable rents could fall well below the average.

Population: 2017



Source: Population Pyramid

Office Market Overview

A relative improvement in office market dynamics has been evident in the first three quarters of 2018 This is attributable to reduced risk aversion by investors. However, the market remains a tenants' market with landlords having to offer favourable leasing terms to drive occupancy levels. Although, there are definitive features in the market that drive notable premiums at some buildings, such as location, quality of build, amenities, and so on.

A trend that continues to consolidate itself in the market is the rise in demand for more turnkey office options by blue-chip and large corporates. This development is largely attributable to preferences by corporates to mitigate initial capital outlay of which fit-out and furniture costs constitute a significant portion, especially in prime grade buildings.

The oil and gas sector recorded the highest number of enquiries within the first nine months of the year, which is attributable to the performance of oil in the global and domestic markets. Other industries that have also contributed to the level of activity include FMCG, Pharmaceutical, Technology, Finance and Consulting, with space requirements from as low as 200m^2 to as high as 2,000m^2, although average occupier demand for space ranges from 200m^2 – 500m^2. Turnaround time from enquiry stage to the closing of the transaction is still lengthy, typically 12 to 18 months, depending on the profile of the client and the industry in which they operate.

Average asking base rentals for office space within the core markets have remained fairly constant in the past six to eight months, ranging from approximately US$50/m^2/month to US$70/m^2/month for A-grade buildings and US$33/m^2/month to US$50/m^2/month for B-grade properties. As landlords are effectively price takers in the market, financial incentives by means of fit-out allowance, longer beneficial occupation periods and rent-free periods tend to discount the rent being paid by the tenant; i.e. net effective rent (base rent minus incentives).

It is anticipated that activity in the office market will continue to improve, albeit at a very gradual pace. This can be attributed to the lingering uncertainty about the economy's growth and employment prospects. Vacancy levels are expected to rise, especially with the delivery of over 40,000m^2 of prime space over the next six to 12 months. With a shallow pool of existing corporates in the market, competitive leasing strategies are set to persist.

Industrial Market Overview

The sector's performance has been generally mixed although underlying challenges such as inadequate infrastructure and stalling growth persist. There have been some notable properties that have come onto the market for sale by large corporates in the past six to 12 months, adding to the current oversupply in the market. Nonetheless, there are stakeholders that are successfully operating in the market despite these bottlenecks, with emphasis on industrial activity in areas such as the Lagos Free Trade Zone.

There is a strong demand for efficient and quality industrial facilities, however, there is a mismatch between demand and supply of stock in the market. Most of the existing facilities are dated and designed with low eave heights, as well as inadequate yard size, which do not meet the quality and standards required by many corporates. Over the years, the case for allocating much needed investment capital towards developing new industrial parks has been less convincing from an investors' viewpoint. As such, the development appetite in the industrial market has been much less aggressive relative to the office, retail and residential sectors. High land costs in desired locations such as Lagos, as well as weak infrastructure, reduce the sector's investment potential. These factors reinforce the current rentals in the market, which range from US\$1/m^2/month to US\$6/m^2/month. The new build market, which is typically characterised by newer properties that are close to global standards, is predominantly owner-occupied.

Over the coming years, increased activity in the industrial sector will hinge on sustainable policies to revive the industrial and manufacturing base of the country. This would be strengthened by investment into adequate attendant infrastructure (roads, rail, ports, power, etc.) which could lead to the repositioning of the sector.

Market Indicators (Lagos) – Q3:2018

	RETAIL	OFFICES			INDUSTRIAL
	Prime Space (50m^2 - 200m^2)	A-grade	B-grade	C-grade	Prime Space
Demand - Next 6 Months (Up/Down/Stable)	▶	▶	▼	▶	▶
Supply - Next 6 Months (Up/Down/Stable)	▼	▲	▶	▶	▶
Average Net Asking Rent (US\$/m^2/month)	30 - 70	50 - 70	33 - 50	5 - 15	1 - 6
Average Vacancy Rate (%)	20%	70%	n/a	n/a	n/a
Average Yield (%)	8% - 10%	8.5% - 9.5%	10.5% +	n/a	10% - 12%

Source: Broll Database

broll Property Intel

Progressive property people.

Bolaji Edu
CEO - Broll Nigeria
@ bedu@broll.com.ng
+234 1 270 1890

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

Researchers
Nnenna Alintah
Amaka Ajaegbu
Daniella Martino

Broll Property Group (Head Office)
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 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 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.zm

intel@broll.com | www.broll.com