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ESTATE SURVEYORS + VALUERS
25TH ANNIVERSARY

THE NIGERIA REAL ESTATE REPORT 2018

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Acknowledgment

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We might not be able to comprehensively list the names of everyone who participated in making this report see the light of day, but rest assured that we are most grateful and look forward to more fruitful engagements with you going forward.

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Executive Summary

Nigeria went through uncertain times in 2017, heightened by a blanket of silence from Aso Rock over the health of President Muhammadu Buhari and macro-economic policies that did not promote free market exchanges, such as the foreign exchange control that turned out to be counterproductive. The micro-economy suffered as a result. Many companies downsized and laid off staff members. Other companies closed shop and left Nigeria.

The first three months of 2017 ending March were marked by various levels of political intrigues and a sense of déjà vu. This sprang from the fact that President Muhammadu Buhari, was flown abroad to seek medical treatment and gave no firm date for his return.

The 74 year old, left Abuja on January 19 for medical treatment in Britain. He had originally planned to stay 10 days but his stay was extended based on medical advice. This deepened suspicion that his health might be worse than officials were publicly admitting.

President Buhari returned on March 10 after about 40 days but again on the 5th of May, went back to London on medical grounds, after an initial visit that lasted 49 days, from January 20.

At the micro-economy level, banks' average lending rate to manufacturers rose to 22.65 percent in the first half (H1) of 2017 from 21.40 percent charged in the corresponding half of 2016, a survey carried out by the Manufacturers Association of Nigeria (MAN) showed. This represented 1.25 percentage point increase over the period.

According to the report, lack of high cost of credit were major bottlenecks to the manufacturing sector in the period under review, urging the Federal Government to fast-track the Development Bank of Nigeria (DBN) to free funds to the real sector.

“It is important to fast-track the recapitalisation of the Bank of Industry (BoI) to enable it to meet up with huge credit demands of the industrial sector,” the report says.

MAN stressed the need for the government to open up access to various development funds created by the Central Bank of Nigeria (CBN) such as the N220 billion Micro, Small and Medium Enterprises Development Fund (MSMEDF) and the N300 billion Real Sector Support Facility (RSSF) by relaxing stringent conditions denying manufacturers access to these funding windows.

Executive Summary

"It is critical to intensify the implementation of the Moveable Collateral Registry and Credit Reporting system which were recently passed into law," MAN says.

Nigerian manufacturers were hard hit by high cost and short tenor of funds in the country, which were clogging the wheel of factory expansion across the country. The government-led DBN was yet to start operations.

Development banks such as the BoI provide funds at six to nine percent interest rate, but they were hurt by shortage of funds in the face of high demand by manufacturers, food processors and players in the creative industry.

The growing confidence in the Nigerian investment market and the wider economy will ultimately translate into increased demand for goods and services, including real estate space.

Across the country, the supply of housing is relatively fixed despite government's concerted efforts since independence to ensure adequate housing for all Nigerians. These efforts to cater for the housing needs of an average Nigerian has not yielded many results over the years. For instance, between 1974 and 1980, there was the plan to deliver 202,000 housing units to the public, but only 28,500 units representing 14.1 percent was delivered.

Also, out of 200,000 housing units planned to be delivered between 1981 and 1985 only 47,200 (23.6 percent) were constructed. Under the National Housing Fund (NHF) programme initiated in 1994 to produce 121,000 housing units (within the same year) in state capitals where dearth of housing was acute, it was reported that only 1,114 units (less than 1 percent) were completed at Kado Estate in Abuja.

From Late 2000s to date, this sector has seen what could be termed phenomenal growth. But this growth has been largely skewed towards a narrow market, catering to a very tiny segment of the population – the upper and upper-middle class who can afford what the market offers.

For 2018, there are already signs of growth in the macro-economic environment. Factors such as the investors and export foreign exchange (IEFX) window introduced in the second quarter of 2017, increased oil prices and stronger production numbers are gradually translating into improved business and consumer confidence. This will rub off on the real estate market.

01

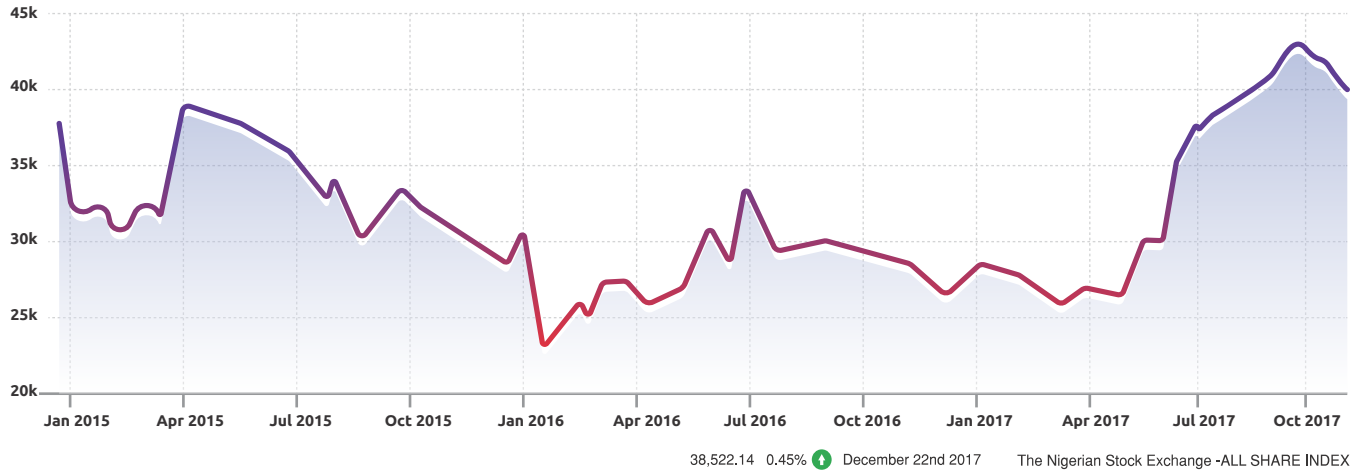
Political Review

- Introduction
- President Buhari goes on medical leave
- Identity politics
- Impact of Presient Buhari's performance on Real Estate

Introduction

Upon President Muhammadu Buhari's inauguration, May 29, 2015 markets expecting a quick fulcrum to reforms cheered the new administration amid a wave of optimism.

On Tuesday, April 2, 2015, the stock market recorded a historic gain, with the All Share Index soaring by unprecedented 8.40 percent or 2,635.32 basis points, to close at 34,380.14. The market capitalisation of listed equities rose a record N904 billion on the same day to close at N11.621 trillion.

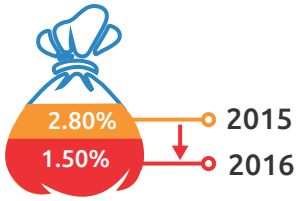


Stocks then went on a run of 10 straight days of gains as all key sub indices on the Stock Exchange rallied.

Analysts linked the gains to the optimism that President Buhari and his new All People's Congress (APC) will be good for the Nigerian economy.

Two years and some months down the line that optimism largely faded. Nigerians faced the worst economic crises since 1991 as the negative fallout from the collapse in oil prices that began in 2014 got exacerbated by unorthodox policy choices.

Economic growth in 2015 of 2.80 percent was the lowest since the return of democracy in 1999 as capital controls and the hard dollar peg imposed by President Buhari deterred foreign investors and led to large job losses in the manufacturing and services sectors.



In 2016 the economy contracted by 1.50 percent, the first negative growth rate since 1991. The rigid naira foreign exchange rate imposed by the government also failed to slow inflation which at 17.20 percent, represented a near doubling of the Consumer Price Index (CPI) from early 2016 levels.

Nigeria's policy choices on foreign exchange (FX) led to the ejection of the country from two major bond indices, the JP Morgan Emerging Market (EM) Index and the Barclays EM bond index.

The currency (N) also began to exchange for the dollar at the widest premium ever, between the official rate at (N305/$) and parallel market rate at (N480 – N520/$). The CBN's insistence on selling scarce dollars at a non-market determined rate of N305/$, combined with lower oil output due to attacks on infrastructure, led to Nigeria's gross FX reserves falling to a near 10 year low of $24 billion.

Nigeria's unemployment rate rose to 13.90 percent in the third quarter of 2016 from 9.90

percent in Q3 2015, while the underemployment rate (those working but doing menial jobs not commensurate with their qualifications, or those merely working for few hours) jumped to 19.10 percent in the period, according to data from the National Bureau of Statistics (NBS).

Youth unemployment was at a staggering 42.20 percent. The Nigerian Stock Market fell for two consecutive years 2016 (6.2%) and 2015 (-17.40%).

The International Monetary Fund (IMF) forecast that the economy will expand by 0.80 percent in 2017, which is below population growth rate of about 3 percent implying negative per-capita income growth. Average incomes in Nigeria fell by about 18 percent in 2015 to $2,550 per annum, from over $3,000 in 2014, according to World Bank and IMF estimates.

UNEMPLOYMENT RATE

Q3 2015	Q3 2016
9.9%	13.9%

UNDEREMPLOYMENT RATE

Q3 2015	Q3 2016
17.4%	19.7%

Data Source: National Bureau of Statistics (NBS)

President Buhari goes on medical leave

The first three months of 2017 ending March were marked by various levels of political uncertainty and a sense of déjà vu. This sprang from the fact that President Mohammadu Buhari, was flown abroad to seek medical treatment and gave no firm date for his return.

The 74 year old, left Abuja on January 19 for medical treatment in Britain. He had originally planned to stay 10 days but his stay was extended based on medical advice. This deepened suspicion that his health might be worse than officials were publicly admitting.

Yemi Osinbajo (SAN), Vice President as Acting President held in Buhari's absence, cabinet meetings and finished work on an economic reform plan needed to secure a World Bank loan to help to plug a deficit caused by low oil revenues.

President Buhari returned on March 10 after about 40 days but again on the 5th of May, went back to London on medical grounds, after an initial visit that lasted 49 days, from January 20.

The prospect of Mr Osinbajo, a 60-year-old Christian, serving out the remaining two years of Buhari's term raised the specter of sectarian tension in a country that has seen plenty of it in the past. Succession jitters also heightened concern about government paralysis at a time when the economy was in recession.

Identity politics

Identity politics was also on the march across the world, in Europe, Asia, and America. Amid clamour from Scots Nationalists, Catalan and Kurdish separatists among others, was a voice from South-Eastern part of Nigeria, all too familiar 50 years ago but largely forgotten since.

In the 1960s, Igbo separatists, under the banner of a half yellow sun, tried to break away from Nigeria, and at times chaotic state. Hundreds of thousands died in their ensuing attempt to create the state of Biafra, many from starvation. For a generation, images of the swollen bellies of children suffering from Kwashiorkor came to define the betrayed hopes of the continent in the aftermath of independence from colonial rule.

Those alarm bells rang again in the region as extremists in Eastern Nigeria contemplated provoking another armed struggle while more moderate Igbo nationalists called for a new settlement within the Federation.

Muhammadu Buhari, the President, who fought as a young officer in the civil war, said he would not let fringe groups with no interest in peace hijack efforts at dialogue. In September, his deputy, Yemi Osinbajo,

accused those calling for Biafra of doing so for purely selfish reasons, trying to use same as leverage to win concessions from the State.

The Nigerian Army announced on September 7 that it was embarking on Exercise Egwu Eke II (Python Dance II) in the South-East States of the country from September 15 to October 14, 2017, citing "the mindless assassinations (even in religious places), attack on security personnel, theft of weapons, armed banditry, kidnapping, cultism and violent agitations, as well as other security challenges that had recently become prevalent" in the region.

In Abia State, however, the military exercise resulted in violent clashes between Indigenous People Of Biafra (IPOB) members and men of the Nigerian Army, causing pandemonium especially in major parts of Aba, crippling commercial activities in the area, and leading to a number of deaths.

For the entire week all the markets and shops within the city centre as well as commercial banks were completely shut down. The roads of Aba town, which were usually a beehive of activities, were deserted as most residents remained indoors out of fear.

To prevent the tension from escalating and to ensure peace, the state governor, Okezie Ikpeazu, imposed a dusk to dawn curfew in Aba, which lasted for about five days.

As the tension subsided and commercial activities gradually returned, businesses in the city looked back at what they had lost.

Daily losses were estimated at hundreds of millions in Naira.

Managing this situation is far from easy. Part of what makes it so explosive today is the scale of public disaffection, the frustration of the young and underemployed and the way that is amplified by social media.

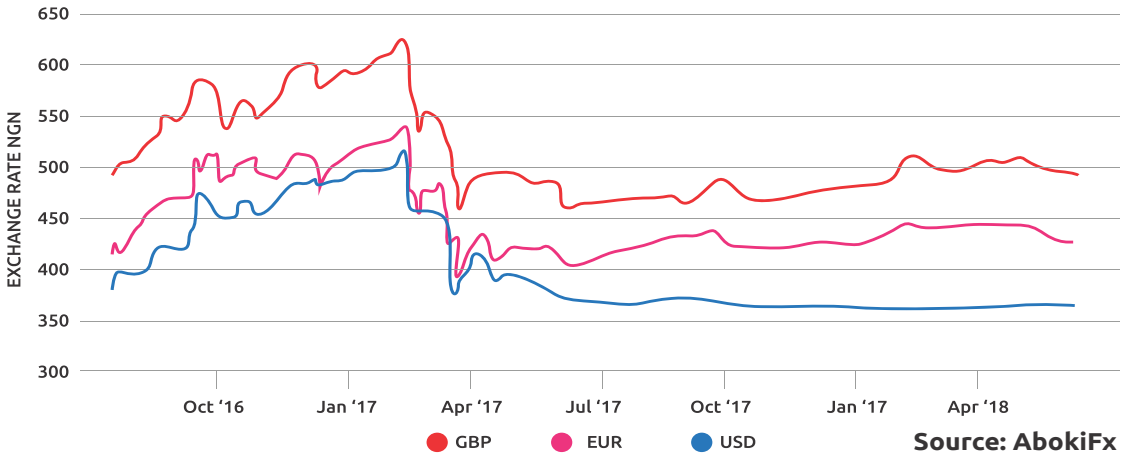
Identity politics, otherwise known as tribalism, has a grim record in Africa. Where it has led to secession, such as in South Sudan, the results have mostly been disastrous – except for a minority of the well-connected with access to patronage within the new state.

When the civil war ended in Nigeria in 1970, General Jack Gowon, then military head of state, declared that there were no victors, no vanquished but in reality during the oil boom that followed, there were victors: a tiny elite across regional and religious lines, that delivered little but took a lot. And there were losers, too, also from across the country, who watched a party unfolding to which they were not invited.

When President Buhari was elected in 2015, it was on a wave of populism against the corruption and cult of mediocrity championed by that elite. Change has been slow. President Buhari has been unwell, vested interests have thrown up roadblocks. Some power brokers now smell an opportunity. The political godfathers in the east, who won big under the previous government of Goodluck Jonathan, backed the wrong horse in 2015 and have been frozen out.

Impact of President Buhari's performance on real estate

For a long time to come, President Muhammadu Buhari's first two years in office will be remembered for the wrong reasons. For the real estate sector, the absence of policies and clear direction which pushed the economy into recession, impacted negatively on the take up of properties.



Source: AbokiFx

The rise in the exchange rate of the naira to the dollar made many on-going developments no longer viable, forcing many developers to return to the drawing board to rethink their projects. Rents had to be reviewed downwards for many commercial and residential properties amidst rising vacancies, rents default and rising costs of construction.

Every sector was negatively impacted and real estate was not spared. Every real estate subsector from residential, retail, office space to industrial was hit with reduced demand for space, high vacancies, declining rents and capital values.

Demand for real estate products came down sharply as families concerned themselves more with feeding and other life's necessities.

Companies were more concerned with day - to-day survival than expanding operations or changing address.

In addition to the high vacancy rate in highbrow locations such as Ikoyi and Victoria Island in Lagos, and Maitama, Asokoro and Wuse in Abuja, cases of rental default were commonplace mostly in middle class settlements where company executives and bankers who populate such locations had lost their jobs or have had their salaries slashed due to economic headwinds.

The sector saw slower activity in investments, especially due to government's high borrowing rates in fixed income instruments, which made it difficult for real estate yields in the short term to compete as investor appetite shifted to investments with higher yields and less risk.

There was, however, a positive take away from this sector which could be credited to the President Buhari administration. In spite of its imperfections, lopsided, skewed and selective approach, the anti-corruption crusade of the President Buhari administration brought some level of sanity and discretion into the real estate market which is, cautiously, undergoing self-correction.

02

Macro Economy Review

- Introduction
- Exit from Recession and Economic Recovery
- Nigeria's Revenue Accrual in 2017
- Economic Growth and Recovery Plan

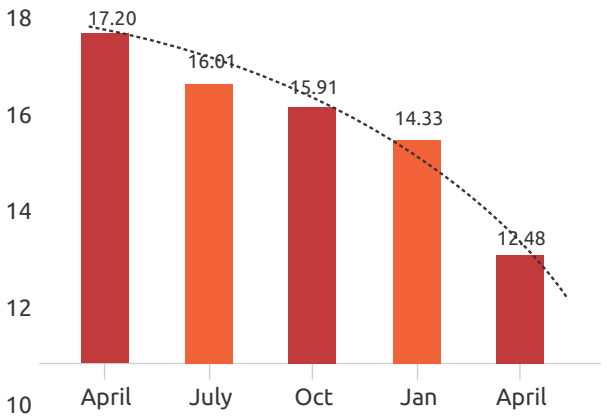
Introduction

In 2016 Nigeria's economy had contracted by 1.50 percent, the first negative growth rate since 1991. In the first quarter, 2017 report released by the National Bureau of Statistics (NBS), May 23, Nigeria, Africa's largest economy, started showing signs of recovery from its economic recession.

Gross Domestic Product shrank 0.50 percent in the first three months ending March, held down by an uncertain oil sector and slowing agricultural expansion. The period marked the second successive quarter of milder contraction, following a 1.70 percent retreat in the final quarter of 2016.

Foreign-currency shortages fueled by falling oil exports caused inflation to accelerate every month for more than a year until January. But the index has since slowed, while optimism for an economic rebound has grown. Headline inflation in April was 17.20 percent slowing for the third consecutive month to 15.98 percent in September. Inflation in December, 2017 was 15.37 per cent, according to the National Bureau of Statistics.

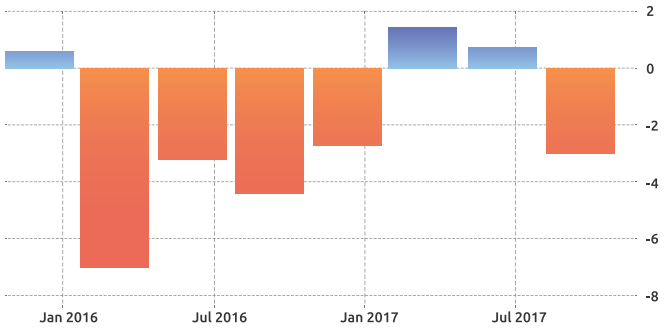
Nigeria Inflation Rate 2017



Source: Tradingeconomics.com, NBS

Manufacturing turned positive for the first time since the fourth quarter of 2015, following a 1.30 percent growth year-on-year. Improved foreign exchange liquidity helped return the sector to growth, according to Femi Jacobs, Chairman of the Manufacturers Association of Nigeria (MAN).

NIGERIA MANUFACTURING PRODUCTION



Data Source: Tradingeconomics

Manufacturers' growth was consistent with the improving Purchasing Managers Index (PMI), which rallied to 58 points in April, according to FBN Quest. Growth in critical sectors that create jobs was impressive which was positive for the economy.

The oil sector contracted 11.60 percent from a year earlier, a sixth straight quarter of decline, while agriculture, which contributed 24 percent of GDP, expanded 3.40 percent, the slowest pace since the first three months of last year, the NBS noted.

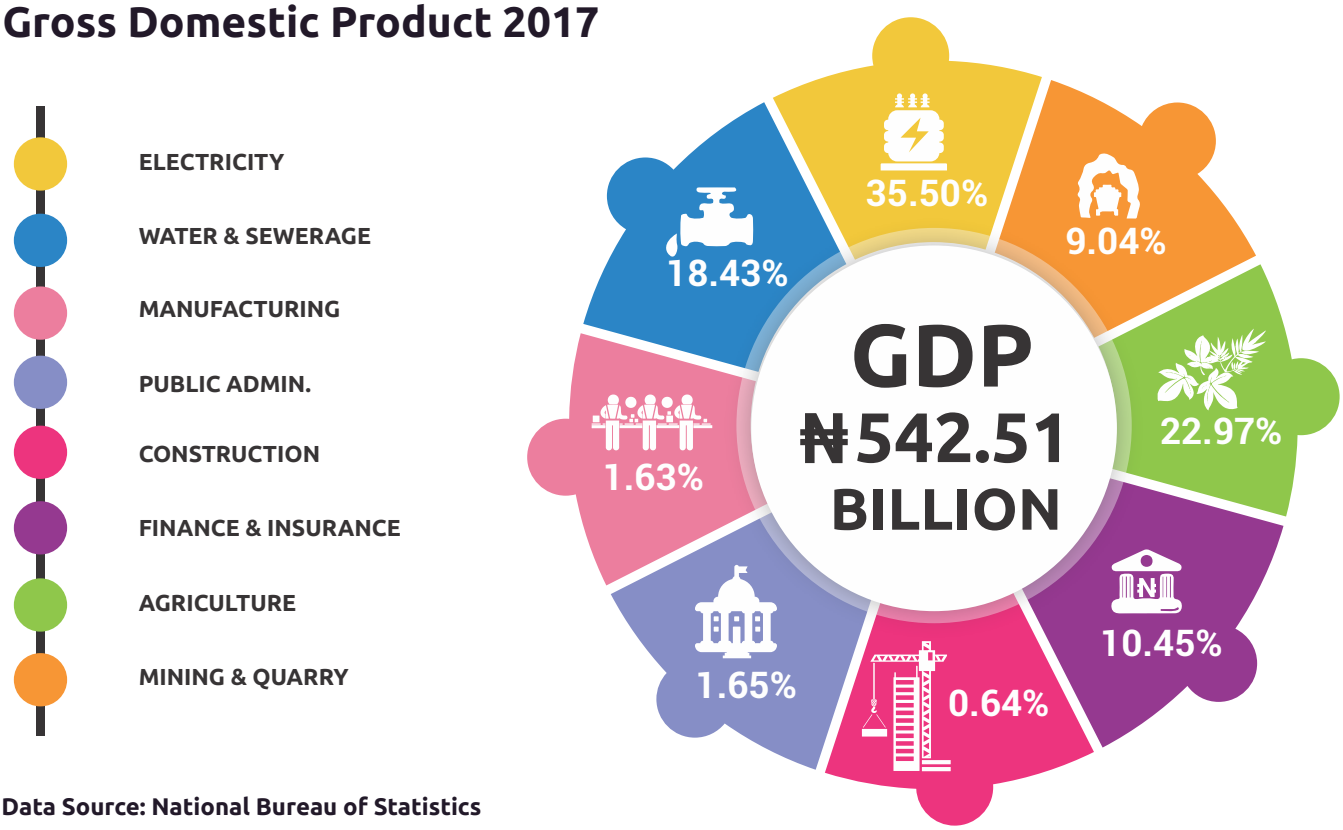
With a population growth rate of close to 3.00 percent, the implication of the economy continuing to shrink is that Nigerians are getting poorer, and poverty is increasing, according to Andrew Nevin, Chief Economist at Price Waterhouse Coopers (PWC).

The Nigerian economy needs to grow at least 5 percent for progress to be made. This is only possible with an investment led recovery. It is estimated that Nigeria requires at least N25 trillion- N30 trillion of annual investment to reach a GDP growth rate of 5-7 percent.

Exit from Recession and Economic Recovery

Nigeria was able to exit its longest economic slump since 1991 largely due to a rise in agricultural output, mining and financial services. However, the recovery fell far short of the output gap, suggesting that this may be more of a statistical blip, than the beginning of a sustained upward swing.

Gross Domestic Product 2017



Data Source: National Bureau of Statistics

The output gap is an indicator of the difference between the actual output of an economy and the maximum potential output of the economy, expressed as a percentage of gross domestic product (GDP).

Gross domestic product in Nigeria, advanced for the first time in six quarters in the three months ended June, 2017 from a year earlier, growing 0.55 percent, the National Bureau of Statistics (NBS) said.

Expert views suggest this is not at all a robust GDP growth rate because it still falls far short of the growth rates the Nigerian economy should be achieving.

The agricultural sector which contributes 22.97 percent to GDP, grew by 3 percent from a year earlier, mining and quarrying, which makes up 9.04 percent of GDP, expanded by 1.65 per cent, while the finance and insurance sector (3.33 % of GDP) grew by 10.45 per cent in the second quarter of 2017 to N542.51 billion in real terms.

The financial institutions sub-sector grew by 11.78 per cent year-on-year and 4.58 per cent quarter-on-quarter, to N457.72 billion; the insurance sub-sector expanded by 3.79 per cent year-on-year and 27.70 per cent quarter-on-quarter, to N84.78 billion.

The financial sector had slumped by 1.91 per cent in the second quarter of 2016 versus the first quarter, as its contribution to real GDP was N491.16 billion in the quarter, compared to the previous quarter. The oil industry climbed 1.60 percent, the first time since Q4, 2014.

The water supply, sewerage, waste management, remediation sector, grew by 18.43 per cent in real terms. Public administration, manufacturing, and construction completed the league of growth sectors, as they expanded 1.65 per cent, 1.63 per cent, 0.64 per cent, and 0.13 per cent.

Nigeria improved its foreign-currency liquidity by introducing a trading window for portfolio investors at market-determined rates, and later by allowing commercial banks to quote the Nafex rate that is now close to pricing on the black market. Before this, the CBN regularly intervened to keep the naira at about 315 per dollar, even after months of abandoning a N197-199 per dollar peg.

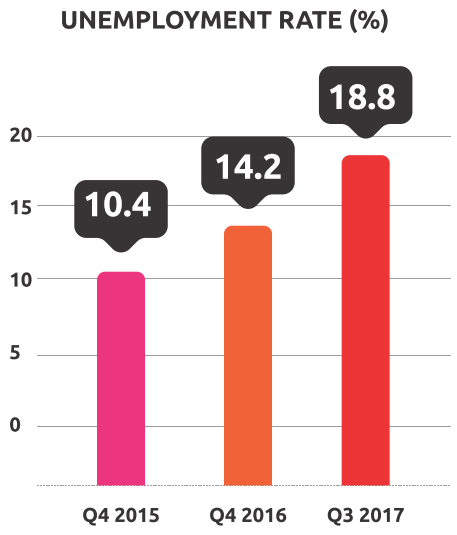
The economy was dragged down by the transportation and storage sector that contracted by 6.18 per cent, the highest year-on-year slump by any sector in the economy.

Accommodation and food services and the real estate sectors shrank 4.05 per cent and 3.53 per cent, while professional, scientific, and technical services declined by 1.72 per cent.

Information Communication Technology, which makes up 12.39 percent of GDP also contracted by 1.15 percent.

While the International Monetary Fund (IMF) forecast growth of 0.80 percent for 2017, as output of oil climbed, and supply of foreign currency needed by manufacturers to import inputs continued to improve, it was not enough to lift millions of Nigerians out of poverty, with a population growth rate still north of 2.00 percent per annum.

The Central Bank of Nigeria (CBN) kept its main lending rate at a record high of 14 percent since July 2016 to support the Naira and to fight inflation that was at 15.37 percent as at December, 2017 still almost double the single digit inflation target of 9.00 percent of the CBN.



Nigeria's unemployment rate rose to 14.20 per cent in the 4th quarter of 2016, the National Bureau of Statistics (NBS) said in June. Youth unemployment rate in Nigeria averaged 21.73 percent from 2014 to 2017 reaching an all-time high of 33.10 percent in the third quarter of 2017.

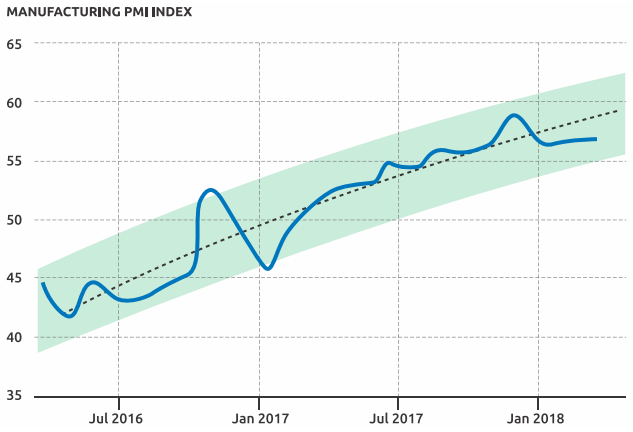
The service sector, which is the largest contributor to economic activity in Nigeria, remained stuck in recession despite the country's narrow exit. Analysts were however positive that the marginal economic growth recorded in the second quarter was going to be sustained in the third and last quarters of the year, to deliver an overall positive growth for the economy.

There was optimism for sustained economic growth despite the figures from the NBS showing that economic activity in the services sector, which accounts for 53.73 percent of the Gross Domestic Product (GDP) as of the second quarter of 2017 remained, stuck in recession.

The services sector contracted 0.85 percent (year-on-year) in the second quarter, despite overall economic growth of 0.55 percent. This was the sixth straight quarter of contraction recorded by the service sector since the second quarter of 2016-when it slowed 1.25 percent, according to data sourced from the second quarter NBS report.

The service sector was dragged down by a sizeable contraction in the telecommunication sector, which shrank by -2.90 percent and trade, which also contracted by -1.62 percent.

The contraction in the service sector underlined the fragility of the country's economic recovery, beyond an increase in oil output.



Source: Tradingeconomics.com

Godwin Emefiele, Governor of the Central Bank of Nigeria (CBN), warned that Nigerian was experiencing a fragile economic recovery and could fall back into recession, unless there were bold monetary and fiscal policies to aid economic growth.

Emefiele stated that available forecasts of key macroeconomic indicators point to a fragile economic recovery in the second quarter (Q2) of the year, urging a fast tracking of reforms to boost growth.

"The Monetary Policy Committee also cautioned that the recovery could relapse into a more protracted recession, if strong and bold monetary and fiscal policies are not activated immediately, to sustain it. Thus, the expected fiscal stimulus and non-oil federal receipts, as well as improvements in economy-wide non-oil exports, especially agriculture, manufacturing, services and light industries, all expected to drive the growth impetus for the rest of the year, must be pursued relentlessly," Emefiele had urged.

Nigeria's Revenue Accruals In 2017

Nigeria had set for itself an ambitious expenditure target for 2017, but the revenues to support the expenditure plan did not meet up to its expectations. The only revenue source, which held its ground, was crude oil sales, whilst all other revenue streams fell off their set targets.

By the end of 2017, the Federal Inland Revenue Service (FIRS) had generated a total of N4 trillion in revenue, an increase of 21.80 percent compared with N3.31 trillion in 2016. A breakdown of the revenue generation shows that N1.52 trillion was oil, while N2.51 trillion was generated from the non-oil sector of the economy.

Data published by the National Bureau of Statistics (NBS) shows that only crude oil sales exceeded their set target for the year,

which was expected, considering the higher than budgeted crude oil prices for the year. However, the downside is that, besides crude oil sales revenues, all other revenues that accrue to the government fell.

Based on the 2017 budget, crude oil sales revenues were supposed to bring in an average of N1.68 trillion, which comes to average monthly revenue of N140 billion or cumulative revenues of N982 billion from January to July 2017. Data from the NBS shows that the cumulative revenues from crude oil sales between January and July 2017 was N1.07 trillion, about 8.80 percent higher than the set target for the period.

Total revenues expected from gas sales for 2017 was N545 billion, based on which the government expected to get to N318 billion in the first seven months of the year. As at July, 2017 revenues from gas sales were N86 billion, representing a shortfall of N232 billion or 73 percent of projected revenue.

Revenues from royalties on oil and gas exploration were also disappointing. While the government expected revenues of N525 billion to be earned from royalties within the first seven months of the year, actual revenues that came in at the end of July stood at N263 billion, a shortfall of N262 billion or 50 percent.

The significant shortfall in gas revenues is largely considered a gas territory with some oil.

This means that the country is very far away from monetizing its huge oil resources.

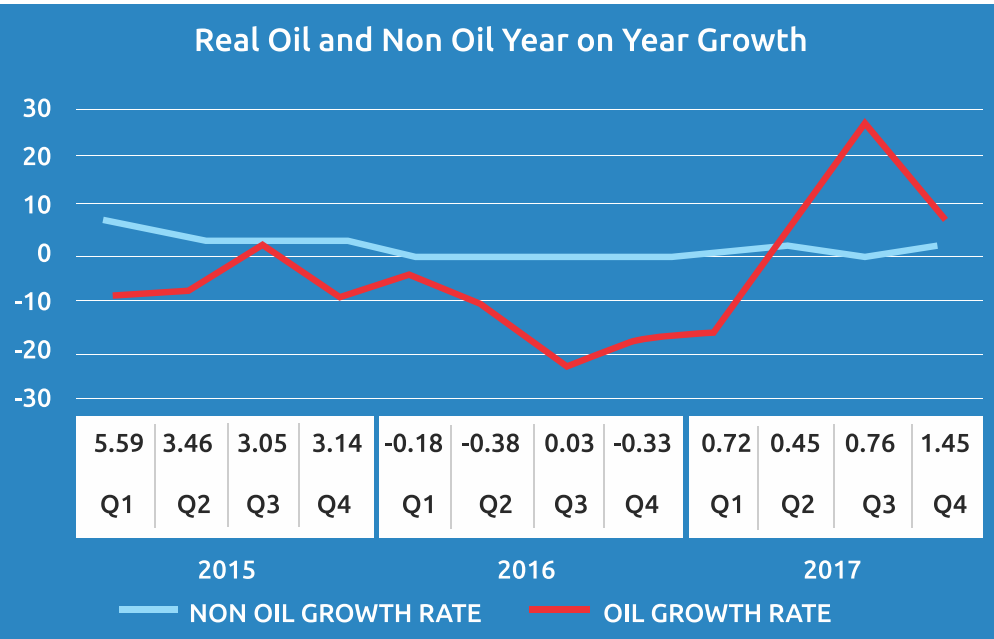
The government also saw a shortfall in Petroleum Profit Tax (PPT) and Gas tax. While revenue expectations from PPT was N728 billion, actual revenues in the first seven months of the year was N524 billion, representing a shortfall of N204 billion or 28 percent.

The fall in other sources of crude oil revenues led to a N1.16 trillion or 37 percent shortfall in gross oil revenues in the first seven months of 2017. Expected oil revenues for the first seven months of the year was N3.11 trillion but actual gross oil revenues for the period was N1.95 trillion.

On the non-oil side, revenues also suffered. Expected revenues from excise taxes and fees, import duty and other Customs revenue was N418 billion but actual revenues as at end of July stood at N349 billion, a 16 percent shortfall. Also expected revenues from Company Income Tax was N1.02 trillion but actual revenues as at end of July was N650 billion, a shortfall of N366 billion or 36 percent.

ITEMS	Annual	Expected Monthly Average	Expected JAN - JUL	JULY
	₦ Billion	₦ Billion	₦ Billion	₦ Billion
Crude Oil Sales	1,683.288	140.274	981.918	188.149
Gas Sales	544.468	45.372	317.606	29.689
Rent	1.674	0.140	0.98	0.044
Gas Flared Penalty	4.727	0.394	2.758	0.184
Royalties Oil & Gas	899.824	74.985	524.895	41.593
Miscellaneous Pipeline Fees, etc.	951.636	0.488	3.146	2.669

Crude Oil Revenue **Data Source: NBS**



Data Source: National Bureau of Statistics

The cumulative shortfall in non-oil revenues for the period was N436 billion. In the first seven months of the year, the total shortfall in net federation revenues was N1.98 trillion, which is 50 percent lower than N3.96 trillion that the government expected would come in within the period.

The Federal Government share of total revenues for the period was N1.04 trillion about 50 percent lower than the budgeted revenue expectation of N2.09 trillion in the period.

The picture that emerged from the NBS data is that of an oil dependent economy suffering from the after effect of the significant loss in crude oil production in 2016. While crude oil sales recovered in 2017, the oil exploration companies were yet to fully recover from 2016.

Non-oil revenues also took a hit from last year's recession. Many companies saw their profit drop or run into losses in 2016. The post-recession effect is seen in the drop in taxable income in 2017. Excise taxes and other customs duties have also largely dropped on the back of a decline in imports due to a weaker naira, increased local sourcing by companies and the foreign exchange scarcity that hit companies in 2016.

The big banks already seemed to have recovered fast but the smaller Tier II banks still struggled and clearly needed more time to recover.

Some of the large manufacturers were also recovering but may also need more time especially in the face of weaker consumer purchasing power. Many Small and Medium Enterprises (SME) that went down with the recession needed even a longer period to come back into the system as many of them depend on the bigger players in the economy to thrive.

For the revenue authorities, this meant the current revenue challenges will extend into 2018 and possibly late 2019 when the economy is expected to start gathering steam again.

The government can however hasten that recovery with fundamental reforms in key economic sectors especially in power, oil and gas. But that is unlikely to happen now with election dates set. It is therefore not surprising that the government has taken the easier option of raising debts, a good portion of which is supporting recurrent expenditure largely due to the dwindling revenues which actually needs a long term fix with critical reforms.

Economic Growth and Recovery Plan

Nigeria's ERGP released in March, is a four year programme that aims to boost growth rate to 7.00 percent by 2020 through lifting oil output, opening farmlands and increasing investment in power, roads, rail and ports.

Stabilze The Macro-economic Environment

- Align monetary trade and fiscal policies
- Accelarate non-oil revenue generation
- Drastically cut cost
- Privatize selected public enterprises/ assets

Achieve Agriculture and Food Security

- Deliver on agricultural transformation

Ensure Energy Sufficiency in Power & Petroleum Products

- Urgently increase oil production
- Expand power sector infrastructure
- Boost local refining for self-sufficiency

Improve Transportation Infrastructure

- Deliver targeted high priority transportation projects
- Enable private sector financing of infrastructure

Drive Industrialization Focusing on SMEs

- Improve ease of doing business
- Accelerate national industrial revolution plan implementation

The plan which targets to restore the economy through sustained growth between 2017 and 2020, seeks to grossly reduce inflation rate from an all-time high of 19 percent to a single digit. It also targets to restore growth by ensuring the GDP improves significantly by 2.19 percent in 2018, and 7.00 per cent at the end of 2020 especially through agriculture.

The new plan also aims to boost the power situation in Nigeria with 10 GW of operational capacity by 2020 as well improve the energy mix, including through greater use of renewable energy.

It also projects that the country would become a net exporter of refined petroleum products by 2020, amongst other things.

03

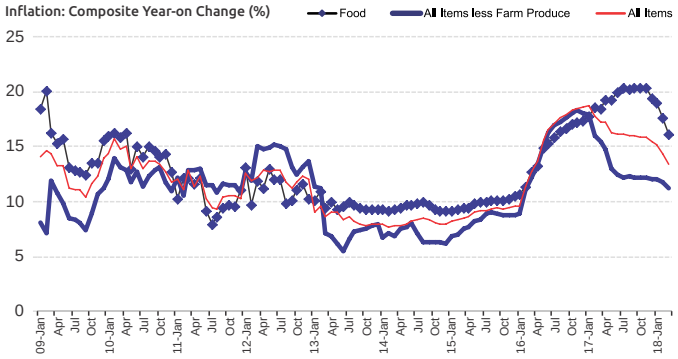
Micro Economy Review

- Introduction
- Solid minerals
- Oil and Gas
- Telecommunications sector
- The Nigeria Stock Exchange
- The Nigerian Banking Sector
- Agriculture sector
- Other commodities

Introduction

Macroeconomic headwinds prevalent in Africa's most populous nation affected both the availability and cost of factors of production, which led to individual buyers, sellers and business owners having to make tough choices in the allocation of scarce resources.

For most Nigerian workers, their wages remained stagnant and in some cases declined in the face of rising cost of living. However, the lean resources of both the State and Federal Governments meant their desire for a higher minimum wage was not going to be met soon.



Data Source: National Bureau of Statistics

While Nigerian workers may want to compete globally skill wise, they were faced with the reality that their wages remained largely stagnant in the last one year, even as the rate of inflation increased from 15.58 percent in May of 2016 to 17.26 percent in March 2017 and back to 15.94 percent and closed the year, 2017 at 15.37 percent. While the overall inflation index has been declining, food inflation, which captures the increase in food prices, maintained a consistent rise since 2016, from an average of 14.86 percent in May of 2016 to a March 2017 end close of 18.44 percent.

Signs that workers were under significant pressure were seen in the items that saw significant increase in prices. These included; housing, water, electricity, gas and fuel, education, food and alcoholic beverages, and footwear.

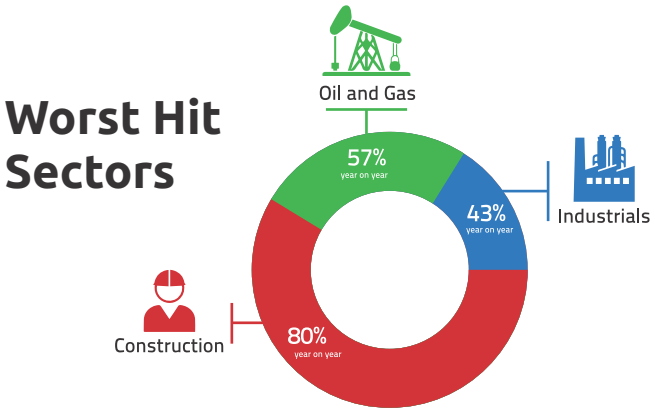
Other items that witnessed significant increase in prices were bread, cereals, milk, meat, potatoes and yam tubers as well as cheese and eggs, putting further pressure on family incomes.

Instead of increasing salaries, many companies in the private and public sectors were forced to downsize their workforce as the economic conditions under which they operated deteriorated.

Capital expenditure by Nigeria's largest firm's fell 25 percent in 2016 as a raging recession and slumping company profits led businesses to put a tight hold on spending amid rising inflation and falling demand. This spilled over into 2017.

Investment in property, plants and equipment by the 30 largest listed firms on the Nigerian Stock Exchange (NSE), or the NSE – 30 slumped from N573 billion in 2015 to N430 billion in 2016.

Worst hit sectors included oil and gas, down 57 percent year on year, construction was down 80 percent and industrials down 43 percent, according to data compiled by analysts.



Understandably, in a period of recession businesses do not expand their capacity. Most of the businesses could not engage in expansionary investment. Besides, there was severe dollar scarcity in 2017 and most of the firms would have deferred their capital expenditure plans.

A near 50 percent slump in the average price of crude oil between 2015 and 2016, led to a 36 percent naira devaluation in June 2016 as the Central Bank of Nigeria (CBN), finally succumbed to pressure and adjusted its naira – dollar peg.

The devaluation meant property and equipment (which are mostly imported) became more expensive for firm's to buy amid a slowdown in the economy and weaker company profits.

Nigeria's economy contracted by 1.50 percent in 2016, the first negative growth rate since 1991 while after tax profit for the NSE-30 firms which make up some 90 percent of equity market capitalisation slid 3 percent.

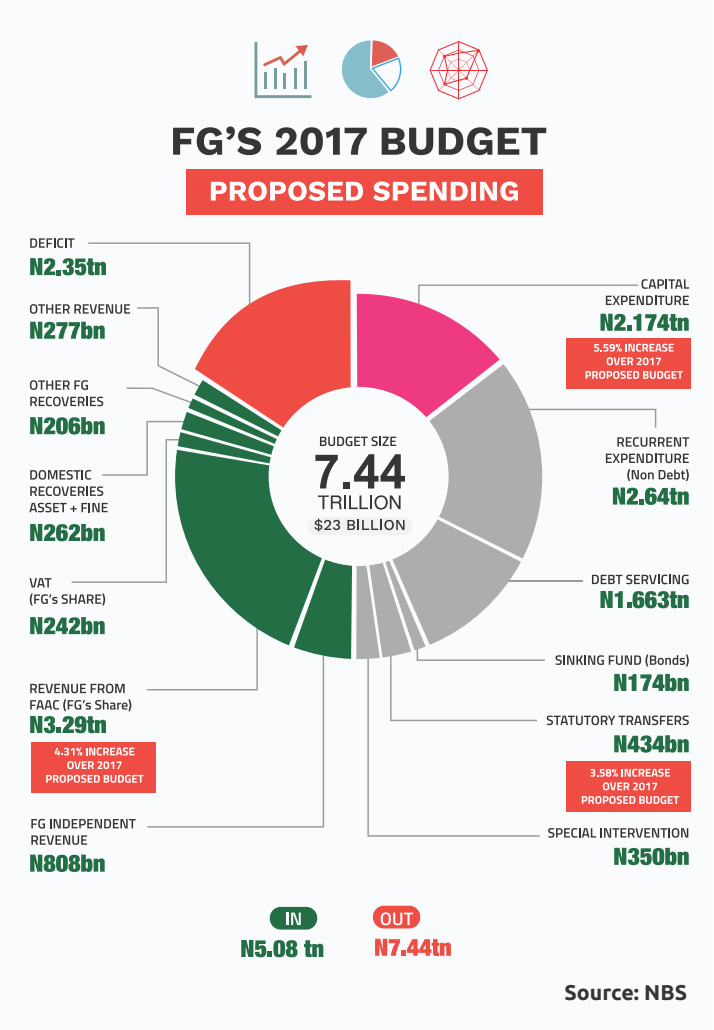
Companies held off spending as concern over the outlook for the Nigerian economy and policy choices mounted.

Foreign exchange limitations posed challenges for corporates' day-to-day operations, capital expenditure (capex) and financing activities, Moody's Investors Service said in a report on Nigerian corporates.

The rigid foreign exchange rate imposed by the government for most of 2015 failed to slow inflation which at 16 percent had essentially doubled since early 2016.

Over two years, dollar usage in the economy almost halved, with Nigeria's non-oil sectors struggling to adjust to limited dollar liquidity, given the typically high import content of inputs and the delay associated with sourcing domestic substitutes, according to Moody's.

The Federal Government headed by President Muhammadu Buhari had proposed spending a record N7.40 trillion ($23 billion) in 2017.



Whilst impressive the figure is still equivalent to less than 10 percent of nominal GDP estimated at N125 trillion for YE 2017 by the International Monetary Fund (IMF).

Organisations such as Conoil (-91%), Julius Berger (-80%), Forte Oil (-60%), Dangote Cement (-47%) and Seplat Petroleum Development Corporation (-45%) had some of the steepest decline in capital spending in 2016 as they cut costs and pursued greater operational efficiencies.

Solid Minerals

Nigeria has over 44 solid minerals ranging from precious metals to kaolin, barite and limestone. Other mineral assets include gold, iron ore, baryte, bitumen, lead, zinc, tin and coal.

The sector contributes 0.46 percent to GDP. At the inception of the Government at the centre it stated clearly that it would revive the solid minerals sector to make it a reliable foreign exchange and tax earner and to create millions of jobs.

However, this does not seem to have worked the way the government deemed. It soon became clear that the sector is capital intensive and requires heavy investment at the exploration stage before meaningful revenue or Forex can be earned. Apart from being capital intensive, it is long-term and can take close to a decade to yield results.

Part of the problem is that Nigeria is not known by investors as a mining destination. Countries such as South Africa, Democratic Republic of Congo, Ghana, Tanzania and Zimbabwe are known as mining destinations, having developed mining infrastructure and attracted investors to exploration and mining.

African Countries With Mining Facilities

The basic challenge, therefore, as confirmed by mining experts, is that investors are not interested because they do not know what to expect because of the opaque nature of the industry.

In a report developed by Pricewaterhouse Coopers (PwC), a professional services firm, in 2015 entitled, 'Developing the Solid Minerals sector: Quick Wins for the New Government', the firm stated that the immediate past government achieved 100 percent aerial geo-physical survey of the country, going by data at the then Ministry of Mines and Steel Development for would-be miners. However, the firm was careful to explain that this does not provide reliable details of the estimated quantity of the nation's solid minerals, which can only be achieved by more detailed geo-science data gathering.

Another challenge is funding. Kayode Fayemi, Minister of Solid Minerals Development, unveiled a road map for the solid minerals sector and announced securing a $150million loan from the World Bank for the Mineral Sector Support for Economic Diversification (MSSED or MinDiver) programme. He also launched a N5 billion mining fund, domiciled in the Bank of Industry (BoI), for artisanal miners. However, artisanal and small-scale miners are struggling to provide collaterals for the intending financiers. Major players in the sector say they need N2 trillion to keep the sector rolling in the next 30 years, an amount that will not be easy to come by.

The euphoria which attended the solid minerals sector at the commencement of President Muhammadu Buhari's government is waning as the reality is dawning.

States that were asked to partner with the private sector to explore abundant solid minerals within their jurisdictions are now prostrate, as none of them has successfully announced earning revenue or forex from solid minerals, which necessitates their monthly shuttle to Nigeria's capital, Abuja, for federal allocation.

An Australian private mining syndicate announced in August 2016 that it made a potentially 'world class and highly unusual' nickel discovery in a town near Kaduna, Nigeria.

However, nothing has been said about exploration of the mineral or private sector investment, many months after. Basically, foreign investors are yet to demonstrate interest in Nigeria's mining sector.

Experts say Nigeria needs to embark on road shows and educate investors about what is available. However, it is important to know what is on ground through data before wooing these investors.

Oil and gas

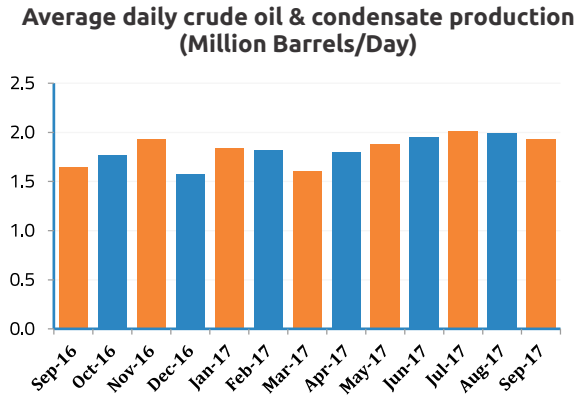
Shale oil producers significantly impacted oil and gas industry ramping up production following an Organisation of Petroleum Exporting Countries (OPEC) deal on November 30, which cut members production by 1.20 million barrels per day beginning from January 1, 2017. Shale producers in the United States of America have a break-even cost of between $20 and $55.

Unlike in the past where it took weeks for shale producers to mobilise to their platforms, advanced fracking technology is letting them achieve this in a matter of days and they are poised to take advantage of price rebounds from the OPEC deal.

In the nine months ending September, 2017, the Federal Government has halted the crisis in the oil and gas sector and set it on the path of sustained growth and development.

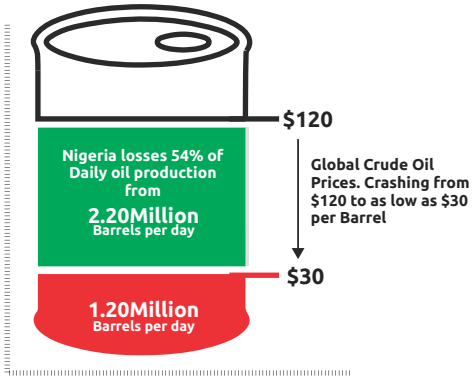
This was achieved with the resolution of the perennial Niger Delta crisis through government's adoption of collaboration, intervention and partnership strategies to calm restive communities in the region.This effort paid off, with oil production increasing from 1.20 million bpd to between 2.2-2.3 million bpd, including condensate.

The sector has over the years, been known



to encounter daunting challenges in form of ineffective regulation, concentration and control of petroleum resources within limited set of license holders, Joint Venture funding issues, high operating costs, unsustainable importation of petroleum products, limited refining capacity, insecurity in the Niger Delta and dilapidated midstream oil network as a result of systemic inefficiencies and vandalism.

At the beginning of 2016, the country faced challenges posed by crashing global crude oil prices, which dropped from about $120 per barrels to as low as less than $30 per barrel. The situation was worsened by the spate of militant attacks and pipeline vandalism in the Niger Delta, resulting in the country losing over 54 percent of its daily oil production, from about 2.20 million barrels to about 1.20 million barrels.



Crude Oil Price 2016

A cursory look at the oil and gas sector in the past indicates that the industry faced the challenge of an unstructured and unprofitable Nigerian National Petroleum Corporation (NNPC) that was in dire need of understanding its purpose; huge subsidy and foreign exchange distortions arising from the cut in oil production and reduction in crude oil prices as well as shrinking national oil reserves.

There was also the issue of shortage of petroleum products supply which was a regular occurrence, resulting in long queues of anxious motorists at filling stations as a result of uncertainty in products availability. However, in the last months, the Federal Government has mid-wifed the establishment of the National Petroleum Policy to set the medium to long-term parameters and targets for industry strategies and policies on oil resources, including oil reserves growth and utilisation.

Other milestones that happened during the year under review included the approval of the National Gas policy, to define the strategies for harnessing and development of the country's gas resources, elevate gas from being a subsidiary of oil, and giving it the practical expression of Nigeria as a gas territory.

Also, new joint venture arrangements were approved by the Executive Council of the Federation, to modulate how the operating companies pay cash calls, to promote new investment while freeing government from Joint Venture funding obligations.

Appropriate fuel pricing framework was created, which facilitated the immediate disappearance of fuel queues at filling stations across the country. Since then, refined petroleum products consumption has dropped from over 50 million litres per day to average of 28 million litres, creating certainty and peace in the operating environment.

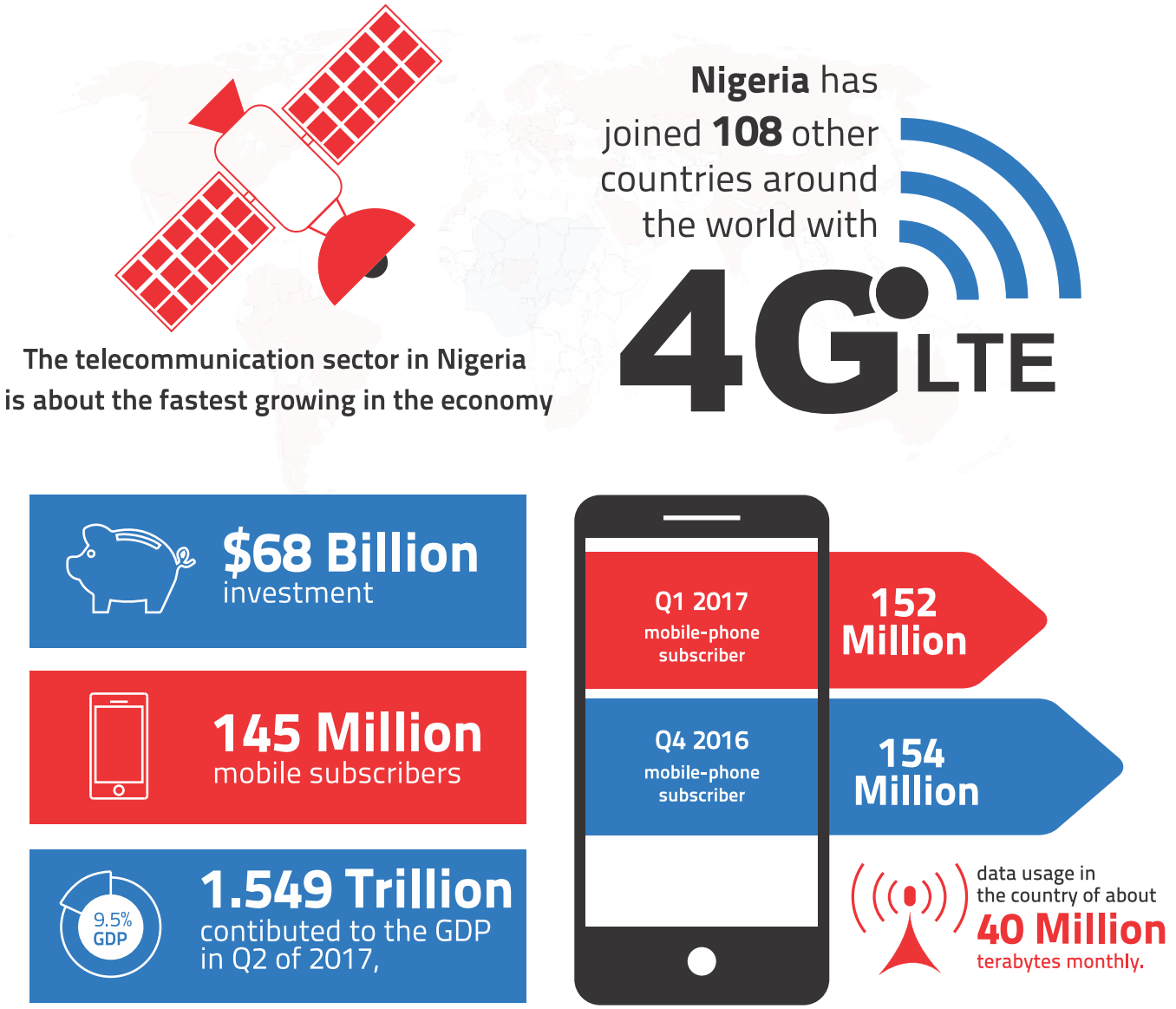
During the year under review, there were a lot of policy formulations and conversations more than action. It is pertinent that the Federal Government continues to work hard at providing an enabling environment for the private sector to thrive in Nigeria and also take bold steps on policy issues and implementation. The oil and gas industry equally witnessed the development of fuel receptor terminals where ships laden with petroleum product up to 100,000 metric tonnes can anchor.

There was also positive news in the production end of oil and gas industry as Shell Petroleum Development Company (SPDC) during this period under review restarted the Trans-Forcados crude export pipeline which was first attacked by the Niger Delta Avengers in February 2016, the first attack on a subsea pipeline in the country.

A spill that occurred on February 14, 2016 on the subsea crude oil export pipeline, had forced Shell to declare force majeure on Forcados liftings a week later.

Telecommunications sector

The telecommunication sector in Nigeria is about the fastest growing in the economy, having recorded over $68 billion investments with over 145million mobile subscribers, and contributed N1.549 trillion to the country's Gross Domestic Product (GDP) in Q2 of 2017, according to the National Bureau of Statistics (NBS).



With this, there is a ray of hope for the sector and experts have said that it has the potential to continue to boost the country's economy, noting however, that lack of political will, tough operating environment and policies are somewhat constituting clogs in the wheel for the sector to realise this potential.

The sector also raises hope of growth in the economy by adding substantially more to the country's GDP almost every quarter. During the second quarter of 2017, the sector contributed 9.50 percent to the GDP, up from its 9.10 per cent contribution in the first quarter of the year. However, the sector contracted by minus 5.68 percent in the

third quarter of 2017 from minus 1.92 percent in the second quarter of 2017 and 0.95 in the third quarter of 2016.

For the first time in the industry, regulators waded into the groans of telecoms consumers by calling operators to order on the series of subscribers complaints from poor quality of services, frequent congestion of network, getting unsolicited text messages, paradox of spasm messages from service providers, unexplained deductions being made without the consent of the subscribers, under declaration of tax and under payment of tax by companies which had impacted negatively on consumers' satisfaction.

In order to further facilitate roll out of telecommunication and internet services, the Nigerian Communications Commission (NCC) conducted several auctioning of free spectrum, including the2.3 gigahertz (GHz) spectrum frequency and the 2.6GHz which was open to bidding for operators who needed to use this frequency to roll out 4th Generation Long Term Evolution (4G LTE) services in the country, MTN was declared the winning bidder of the latest spectrum auction.

With this, Nigeria has joined 108 other countries around the world that have rolled out LTE on this frequency, further deepening broadband penetration in the country. The commission said it offered the spectrum for sale to meet the demand for additional spectrum by operators and to help them achieve 4G.

Industry players are hoping to achieve more in the telecoms sector, especially as the Federal Government has disclosed that processes have commenced for the licensing of broadband services on the 5.4 GHz spectrum bank and allocation of 70/80 GHz band (E-Band).

With the roll-out of high speed cellular networks, WiFi and broadband networks within Nigeria, utilisation should increase as Internet of Things (IoT) becomes a reality.

A recent report by Ericsson shows that Nigeria had the fifth largest mobile subscription growth in the world in the first quarter of 2017, with over 3 million new subscriptions even as the number of mobile subscriptions surpasses the number of the country's population, trailing behind India who grew the most in terms of net additions during the quarter with more than 43 million, China with more than 24 million, Indonesia with 10 million and Pakistan with 5 million respectively. The speedy growth rate proves that Nigeria is truly a mobile first nation.

Etisalat Nigeria debt default to a consortium of Nigerian banks was the major fallout from the dollar shortage crises and economic meltdown that faced Africa's largest economy.

Luckily for the beleaguered banking sector and financial system it did not amount to a systemic threat to operations.

The Nigerian Stock Exchange

Activities at the Nigerian Stock Exchange (NSE) took sluggish steps and dragged into the second quarter with investors buying a diverse group of stocks and selling others.

As the second quarter (Q2) of trading got underway on the floors of the NSE, a close examination revealed the best and worst performers, reflecting trends and the health of Nigeria's economy.

The best performing stocks were a diverse group that included two major banks Stanbic IBTC Plc and UBA Plc up 24 percent and 16.80 percent respectively, Oando Plc up 25 percent, Okomu and Presco Plc up 30.72 percent and 17 percent respectively and Lafarge Africa up 16 percent.

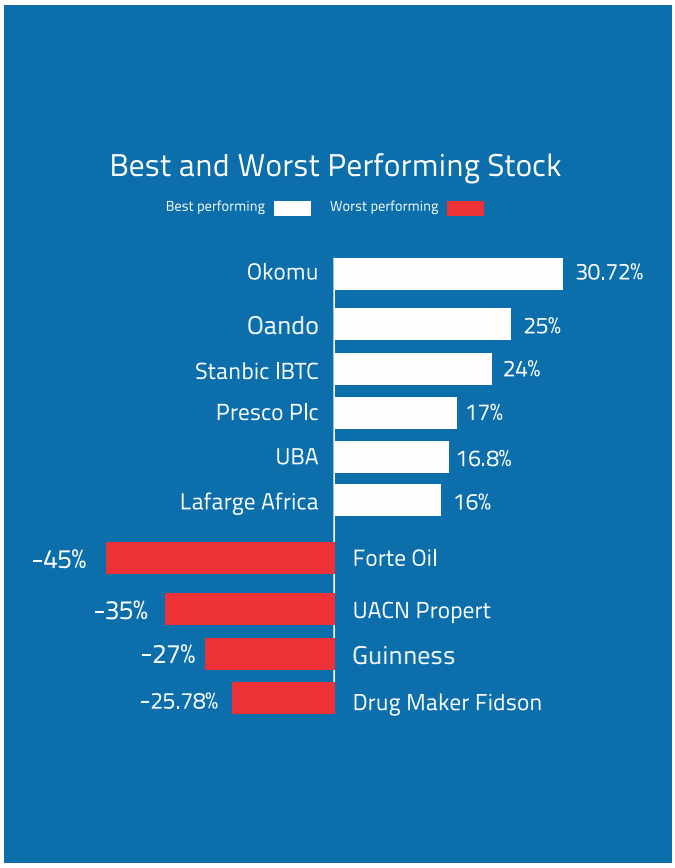
The worst performers were also a diverse group of companies including Forte Oil (-45%), Guinness (-27.69%), Drug maker Fidson (-25.78%) and UACN Property (-35 %).

Still in the second quarter of 2017 Nigeria's top 30 listed firms earned N612 billion, which means they were enjoying a healthy growth in their profits despite a struggling economy.

Net income for the NSE – 30 which tracks the top 30 listed firms on the Nigerian Stock Exchange (NSE) in terms of market capitalisation and liquidity, spiked by 78 percent in June 2017 to N610.77 billion, from N345.91 billion in the comparable period of 2016.

"Due to the improved liquidity in the foreign exchange, the companies did not have to make any significant provisions, which helped stabilise their bottom lines, said Ayodeji Ebo, Managing Director and Chief Executive Officer of Afrinvest Securities Limited.

"For banks, the trade cycle has contracted from an average of nine months to less than six months, which has resulted in improved turnover. We expect them to maintain the momentum."

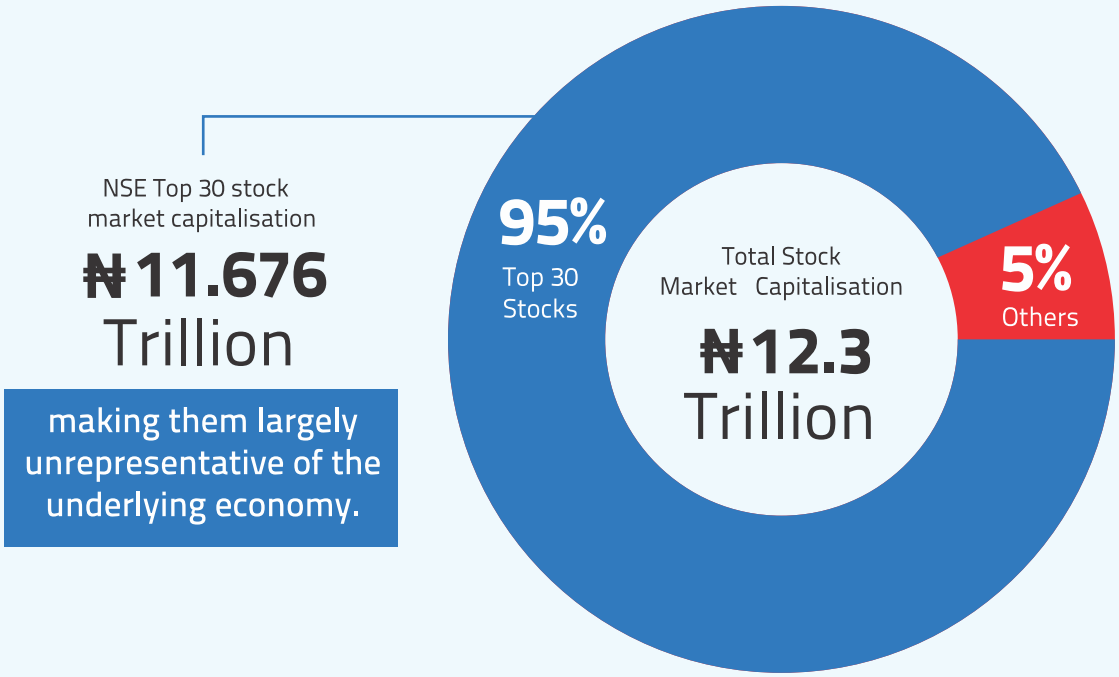


The NSE top 30 stocks have a market capitalisation of N11.676 trillion, equivalent to 95 percent of the total stock market capitalisation of N12.3 trillion, making them largely unrepresentative of the underlying economy.

Dangote Cement Plc alone took up a big chunk of that capitalisation, accounting for about 27.30 percent of the market. In the period, the top five listed firms saw a surge in profits, including Dangote Cement Plc by 39 percent, Nigerian Breweries Plc (+25%) Guaranty Trust Bank Plc(+17%), Nestle Plc (+2,988%) and Zenith Bank Plc (+112%).

Profit growth for the firms comes despite sluggish economic expansion which saw Gross Domestic Product (GDP) rising by only 0.55 percent for the same period, the first positive growth recorded by the country in five quarters.

Stock Market Capitalisation



Top five listed firms saw a surge in profits

+2,988% +112% +39% +25% +17%

The growth in corporate profit was underpinned by the financial sector, as all the lenders recorded double digit growth, all credit to improved yields in the loan book that drove interest income.

Major players in the oil palm industry, Okomu Plc (+73%) and Presco Plc (+84%) saw profits spike on the back of the devaluation of the currency and the ban on palm kernel oil, which undermined the sales of competitors.

Fast Moving Consumable Goods (FMCG) firms were also in a growth spurt in the period under review, as a hike in the price of key products underpinned sales.

Oando Nigeria Plc, with profit growth of 117 percent, Lafarge Africa Plc (+165%), International Breweries Plc (+182%), Transnational Corporation of Nigeria (+154%) Guinness Plc (+195%), and Julius Berger Plc (+120%), reverted to the path of profitability in 2017 after an economic downturn plunged them into a loss position in 2016.

However, most downstream oil and gas firms saw profits dip in the Q2, 2017 period, including NSE-30 firms, Total (-48%) and Mobil(-43%) as the decision by the Federal Government to make the Nigerian National Petroleum Corporation (NNPC) sole importer of petroleum products crimped cash flow.

While an improvement in corporate profits and stock markets is usually a leading economic indicator, the skewed nature of the Nigerian Stock Exchange and dominant positions of the NSE 30 firms make this largely not the case, as large sectors of the economy, such as telecommunications (ICT) which are not listed on the bourse, remained mired in recession.

The ICT sector, which makes up 12.39 percent of GDP, contracted by 1.15 percent in Q2 2017. Firms operating in the sector including MTN and Etisalat Nigeria (now 9 Mobile) have had challenging operations in 2016, with MTN reporting a loss and Etisalat (9 Mobile) defaulting on debt obligations to creditors.

The introduction of the Investors' and Exporters' window and the subsequent liberalisation of the foreign exchange market was a boon for the large firms listed on the Stock Exchange.

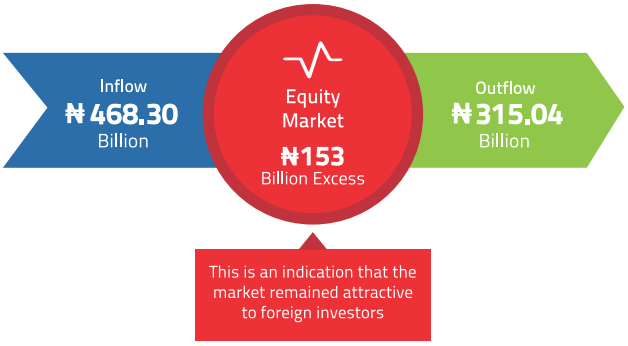
The International Monetary Fund (IMF) forecasts growth of 0.8 percent this year, as output of oil climbs, and supply of foreign currency, needed by manufacturers to import inputs, continues to improve. The Nigerian All Share Index gained 33.70 percent since the start of the year, underpinned by gains in the banking sector and industrial stocks.

Seven Up Bottling Plc with a slide in profit growth (-416%) and Seplat Petroleum Development Corporation (-36%) bucked the trend to record losses of N2.45 billion and N8.45 billion for the period, respectively.

Overseas demand is also helping to drive profit growth for Nigerian corporates with firms like UBA Plc, Dangote Cement Plc, getting up to 30 percent of their revenues from the rest of Africa operations.

In the third quarter (Q3) of 2017 foreign inflows into the Nigerian equities market remained higher at N468.30billion as against N315.04billion outflow, an excess of N153billion as at September 30, 2017. This is an indication that the market remained attractive to foreign investors looking at same period in 2016 when foreign inflow stood at N203.83billion while outflow was N209.31billion.

Q3 2017
Foreign Inflow and Outflow



While Nigeria's economy which exited recession shows potential for further growth and crude oil production her main source of dollar revenue recovered, foreign investors remained upbeat during the year under review, with regards to some of the nation's listed stocks.

The nation's stocks further attracted foreign investors as foreign market maintained stability amid continued effectiveness of the Investors' & Exporters' (I&E) window through which the Central Bank of Nigeria sold foreign exchange.

According to the Nigerian Stock Exchange (NSE) trading figures polled from major custodians and market operators on their Foreign Portfolio Investment (FPI) flows, total transactions at the Stock Exchange significantly decreased by 67.36percent from N396.86billion recorded in August 2017 to N129.52 billion (about $0.42billion) in September 2017.

Highlights of the domestic composition of transactions on The Exchange between January and September 2017 show the institutional composition of the domestic market decreased by 85.46percent from N149.41 billion recorded in August to N21.72billion in September 2017.

This indicates a higher participation by institutional investors over their retail counterparts.

Analysts had expected the performance of the equity market in September to be dictated by a tackle-trade between the bulls and bears, given the dearth of bullish triggers in the market and barring any undesirable event that may spark a negative reaction.

The aggregate value of transactions from January to September 2017 increased by 78.60 percent, from N927.08billion recorded in 2016 to N1.655trillion in 2017. Foreign investors outperformed domestic investors by 8.13percent. Total foreign transactions decreased significantly by 59.55percent from N208.34billion recorded in August 2017 to N84.27billion in 2017. Total domestic transactions also decreased by 68.77percent from N188.52 billion to N45.25billion within the same period.

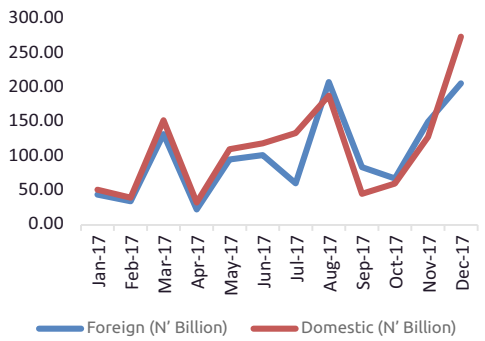
In the fourth quarter (Q4) of 2017, investors remained bullish on Nigerian stocks with sound fundamentals which made the bourse performance indicator eclipse that of two other major African bourses–Nairobi and Johannesburg Stock Exchanges.

The three stock markets benchmark indices show the Nigerian Stock Exchange (NSE) All-Share Index (ASI) recorded highest gain year-to-date (ytd) at +37.05percent; Nairobi All Share (+16.56percent); and Johannesburg Stock Exchange Africa All Share index (+11.29 percent).

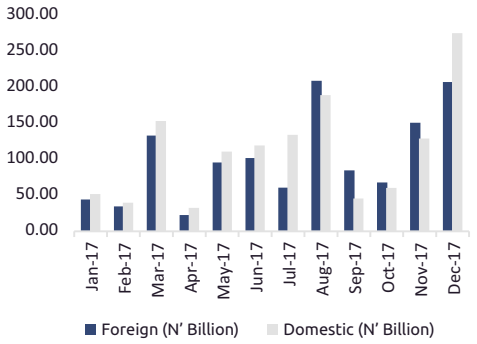
Amid record days of upward and downward price swings in the trading week to October 6, investors in Nigerian stock market saw the value of their investments rise further by over N280billion.

Research analysts at another Lagos-based investment firm, FBN Quest who recalled that the Lagos bourse was still in negative territory year-to-date (ytd) in early May, said the surge was driven largely by the offshore investor's response to Nigeria FX window for investors and exporters (NAFEX).

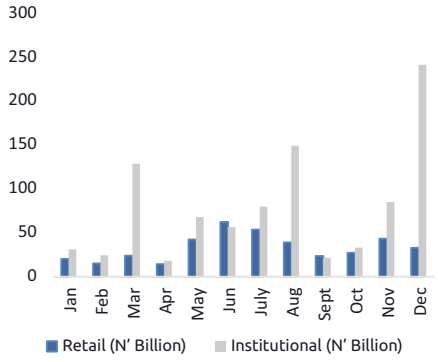
Domestic & foreign portfolio participation in equity trading



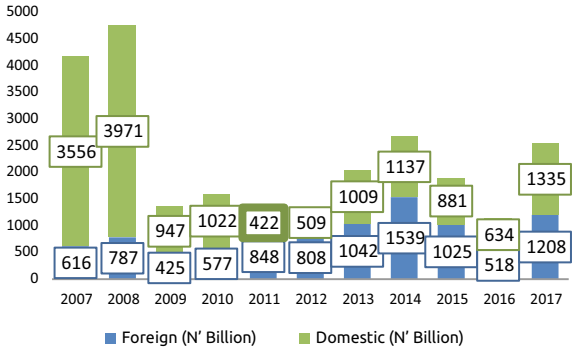
Foreign vs Domestic Trend Jan - Dec 2017



Foreign vs Domestic Market Share Jan - Dec 2017



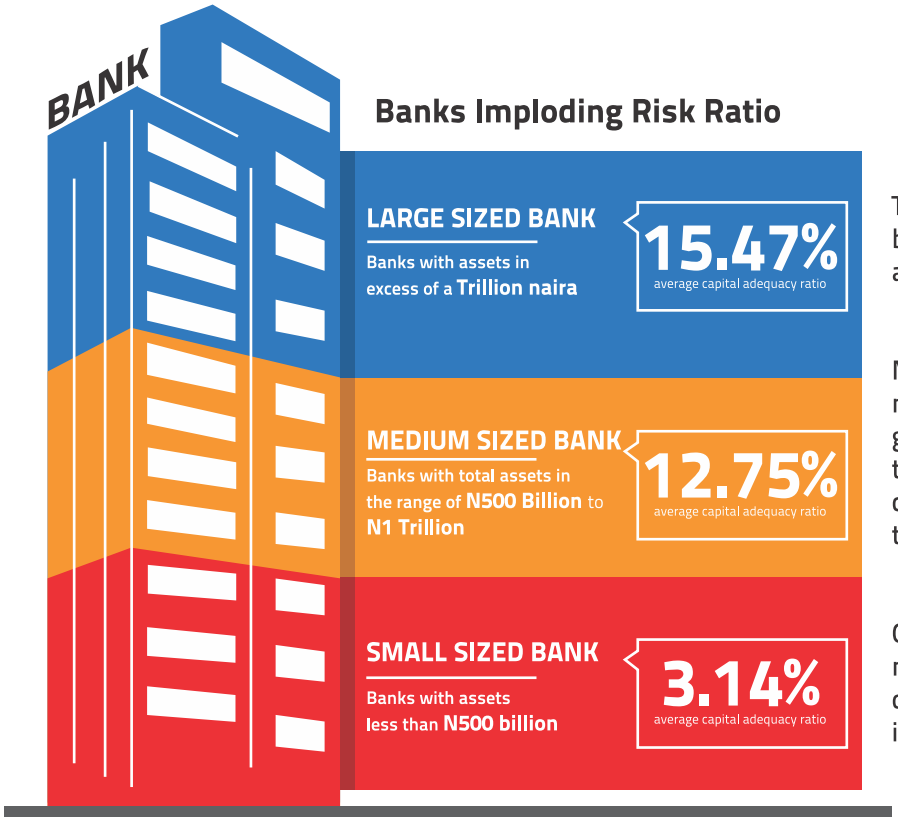
Retail vs Institutional Jan - Dec 2017



Foreign/Domestic Trend 2007 - 2017

The Nigerian banking sector

A major concern among people familiar with the banking sector was there possibility that the banks would need another bail out in 2017. The last major bail out had happened in 2010 when the Asset Management Corporation of Nigeria (AMCON) acquired the non-performing loans of troubled Nigerian banks. Banks had built up an unsustainable bad loan portfolio after crude oil prices crashed in 2007 and 2008, which affected Nigerian banks that were excessively exposed to both the stock market and downstream oil sectors of the Nigerian economy.



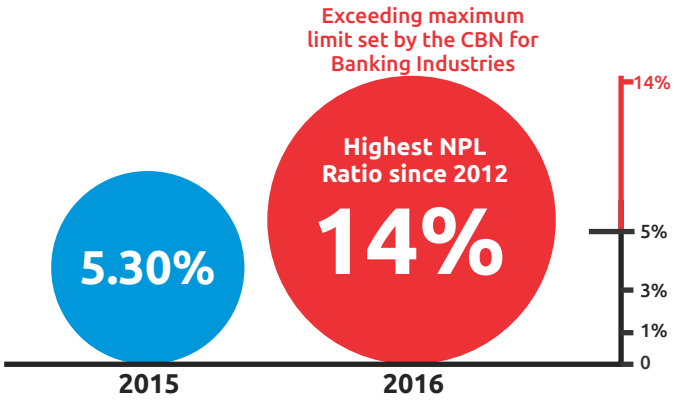
This indicates that the bigger the bank is, the higher the capital adequacy position.

Medium and large sized banks are not in immediate danger, which is good news as the CBN notes that the large sized banks actually control 88 percent of the loans in the Nigerian financial system.

Only the small banks are in urgent need to boost their capital position despite the sharp rise in bad loans in the industry.

Years down the line, Nigerian banks are once again struggling with rising non-performing loans on their books fueled again by a sharp fall in crude oil prices. The extent of bad debts on the books of banks were exposed when the Central Bank of Nigeria (CBN) on April 5, 2017 released its financial stability report showing that the non-performing loans (NPL) of banks had risen sharply in the last year.

From an average NPL ratio of 5.30 percent in December 2015, the NPL ratio of Nigerian banks closed 2016 at 14 percent. This is the highest NPL ratio level since 2012 and already twice higher than the 5 percent maximum limit set by the CBN for the banking industry. Further indicators of trouble in the banking industry included the fact that the ratio of regulatory capital to risk weighted assets at 13.90 percent is at a five year low while non-performing loans net of provisions to capital had also risen to a five year high of 38.40 percent.



But not all banks were at risk of imploding from the rising bad loans in the banking industry. The small banks, defined by the CBN as banks with assets less than N500 billion are the most affected as their average capital adequacy ratio now stood at 3.14 percent. Medium sized banks, defined as banks with total assets in the range of N500 billion to N1 trillion have average capital adequacy ratio of 12.75 percent, above the 10 percent minimum set by the CBN while large sized banks, defined as banks with assets in excess of a trillion naira, have capital adequacy ratio of 15.47 percent. This indicates that the bigger the bank is, the higher the capital adequacy position.

The implication is that only the small banks are in urgent need to boost their capital position despite the sharp rise in bad loans in the industry. The medium and large sized banks are not in any immediate danger, which is good news as the CBN notes that the large sized banks actually control 88 percent of the loans in the Nigerian financial system.

Loans to the oil and gas sector make up 29.95 percent of total banking industry credit according to the CBN. Manufacturing is the next highest with 13.41 percent of total industry credit. Cumulatively both sectors, which are quite sensitive to crude oil prices control 43.36 percent of banking industry loans.

Rising crude prices and increasing crude oil production have a positive impact on the oil and gas sector in form of higher earnings for firms operating in the sector. It will increase their capacity to service their debts, most of which have been restructured in the face of lower crude oil prices.
Higher crude oil prices will also be positive indirectly for the manufacturing sector. It would boost the country's external reserves, and the CBN's capacity to support the foreign exchange demand of manufacturers which have struggled recently to have enough foreign exchange to support their operations.

What is clear from the CBN financial stability report is that the health of Nigeria's financial sector, like the Nigerian economy, continues to be closely tied to the direction of crude oil prices in the international markets. Chances of a potential crisis in the banking sector will be significantly alleviated if crude oil prices keep rising or stay at current levels of above US$50. Without rising crude oil prices, some banks will struggle. Oil prices closed at $66.87 per barrel as at December 2017.

Agricultural sector

With the collapse of global oil prices at the international market Nigerian economy plunged into a 25 year low in 2016, renewing focus on the agricultural sector as the country attempts to diversify its economy away from oil.

Agriculture which was neglected became an option for diversification owing to its vast potentials that can drive a more sustainable economic growth in Africa's most populous nation in terms of job creation and revenue diversification.

As a result, the government devoted a lot of energy at deepening agriculture with initiatives such as the Anchor Borrowers Programme (ABP), placing ban on importation of some agro commodities and setting goals for the attainment of self-sufficiency in major crop production.
AuduOgbeh, Minister of Agriculture and Rural Development while speaking at the inauguration of the technical working group for the country's Agricultural Roadmap in 2016, emphasised that the decline in global oil prices had made it imperative for the country to diversify the economy, with agriculture as a major option.

So far, the government has shown its commitment to the sector by increasing the budgetary allocation to the sector by 60.70 percent. The government spent N123.40 billion on the sector in the 2017 financial year; with capital projects accounting for N91.60 billion while recurrent expenditure gulped N31.80 billion.

Due to the late passage of the 2017 budget, not enough had been expended as at October 2017, and not much by way of innovation has come to the sector, especially from the government.

Also, the government has failed to address some of the fundamental problems that are inherent in its quest for diversification. One of the greatest problems confronting rural farmers and communities in Nigeria is the absence of critical infrastructure such as 'motorable' roads.

Nigeria continues to suffer low levels of agricultural productivity as a result of infrastructural deficit across the country. Due to the deplorable state of roads, farmers have to grow only what they can eat or the extra they can carry on their heads to nearby markets or collection centres.

Most times, the surplus gets rotten in storage in the villages or during transit as a result of many hours or days spent in transporting the foodstuffs to where they are needed due to bad roads.

Meanwhile, urban dwellers have to spend very large percentage of their income to buy food. This is because the food that gets to the towns and cities are far more expensive than what the poor struggling farmers would have sold them.

The high prices of these commodities are blamed on the middlemen but they are also quick to point out that they incur huge costs transporting the food as a result of bad roads.

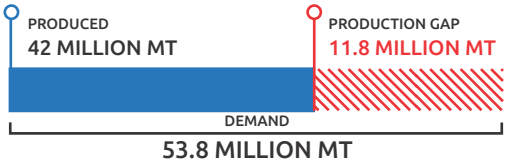
Apart from the impact of Boko Haram in the North-East, that has displaced thousands of agrarian communities, farming activities also came under threat in the middle belt region and other regions in Nigeria due to conflicts between farmers and herdsmen.

The attacks by herdsmen in Benue, Enugu, Bayelsa, Ekiti and Adamawa among others impeded agricultural output in the affected states.

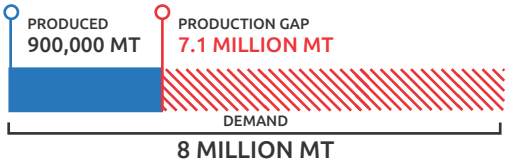
Farm produce and demand data

Data is measured in Metric Tons (MT) Per Annum

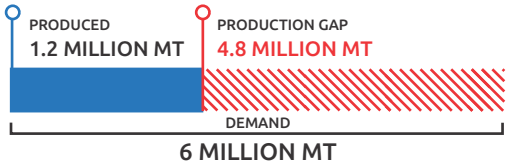
Cassava



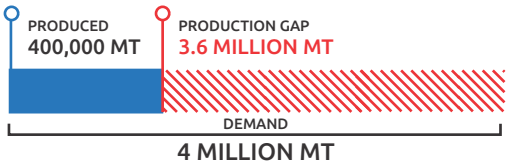
Iris Potato



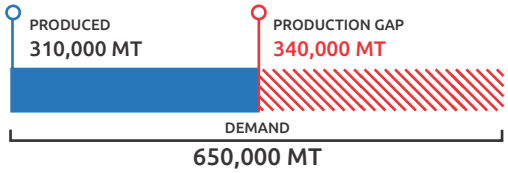
Sweet Potato



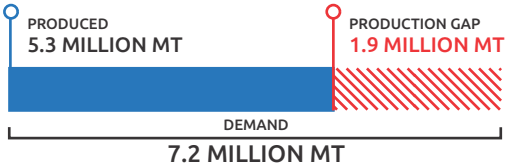
Wheat



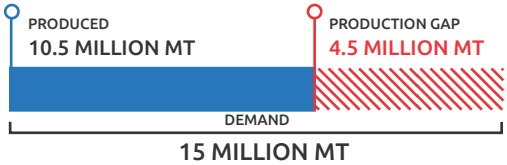
Ginger



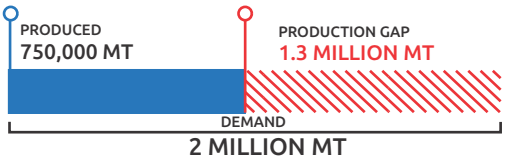
Rice



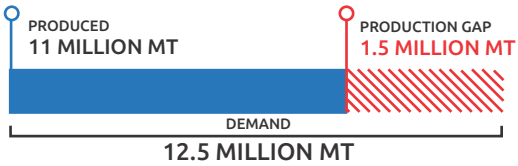
Maize



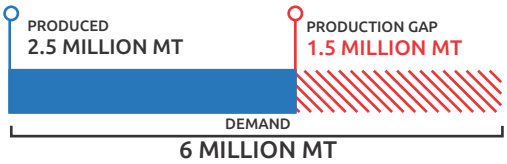
Soyabean



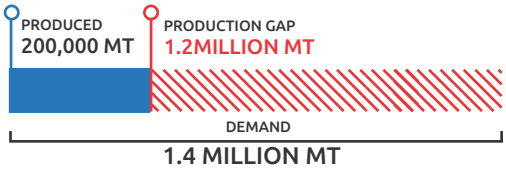
Sorghum



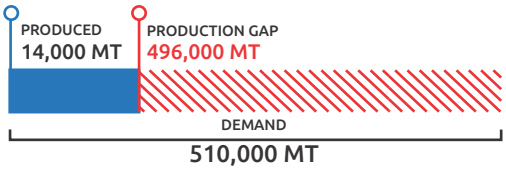
Tomatoe



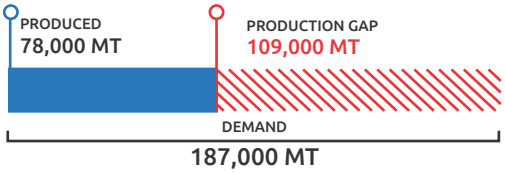
Shea Nut



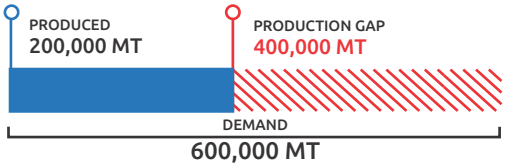
Castor



Acha



Sesame



Rising cost of farm inputs such as improved seeds, fertilizers and poultry feeds were high as a result of dollar crisis for most part of 2017; debts owed fertilizer suppliers and shortage of quality seeds.

Tomato price doubled as a result of a pest infestation called Tuta Absoluta, which kept recurring as a result of shortage of improved seeds and lack of preventive measures.

Nigeria's population is rising rapidly but food production is not moving in the same trajectory, sparking fears of food insecurity.

Nigeria is populated by 182 million people who must be fed with staple foods ranging from yams, rice, cassava to beans, bananas and tomatoes.

However, there is still much demand-supply gap in most of the staple foods, even as the population growth rate stands at 2.60 percent per annum. The country's population is projected to surpass the 300 million people mark by 2050, according to The World Population Prospects 2017.

Latest data from the Agriculture Ministry show that Nigeria is the largest producer of yam with 40 million metric tons per annum but yam demand in the country is 60 million metric tonnes per annum (MT), leaving a gap of 20 million MT.

Nigeria produces 42 million MT of cassava but has a demand of 53.8 million MT of the crop, leaving a gap of 11.8 million MT.

National supply for Irish potato is put at 900,000 MT per annum but with a demand of 8million MT and a gap of 7.1 million MT.

Similarly, local production of sweet potato is estimated at 1.2 million MT, while demand is 6million MT, leaving a gap of 4.8 million MT.

More so, Nigeria produces 400,000 MT of wheat annually but with a demand of 4 million MT, which leaves a gap of 3.6million MT.

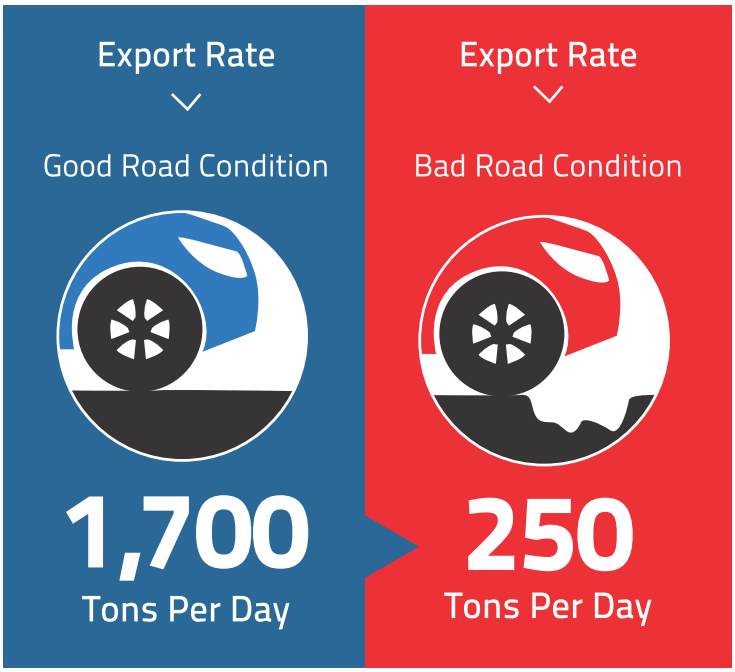
Other commodities

Export of Nigeria's major commodities such as cashew, cocoa, sesame seeds, ginger, hibiscus flower, gum arabic and shea nuts has dropped by 85.29 percent on the back of the worsening state of Apapa and Tin Can roads as well as handling charges at the ports, according to cashew and cocoa producers in the country.

It is important to note that most of these commodities are all perishable and if not shipped on time will perish, meaning great loss of income, livelihood and export revenue for both exporters and the nation.

A cross-section of exporters surveyed for this report said drivers idled away on Apapa Road in Lagos waiting in their trucks for seven to 10 days, stressing that those that have taken loans to finance their exports now find it difficult to meet their financial obligations due to the delays.

They contended that transaction cycles for export took longer than necessary and foreign buyers have started questioning the integrity of contracts they entered into with Nigerians.



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04

Real Estate Review 2017

- General Overview
- The Nigerian Real Estate Market in a Recession
- Land Administration gets better with technology
- Residential Real Estate
- Retail Real Estate
- Commercial Real Estate
- Virtual offices, co-work space gained traction
- Hospitality
- Agricultural Real Estate

General Overview

Nigeria's real estate market offers reasons for both pessimism and optimism depending on the prism through which it is viewed. Some level of pessimism kicks in when the market is viewed as burdened with an oversupply and high vacancy rates on one hand. However, optimism returns when one looks at the market through a prism of seemingly overwhelming supply deficit and an embarrassing low home-ownership level on the other hand.

In numbers, an estimated 17 million housing unit's deficit co-exists with almost 50 percent vacancy rate in the same market. This could be explained by the fact that, over the years, the sector has experienced a fundamental shift from being public sector-driven to the private sector which is holding the fort, at the moment, in the various segments of the sector including residential, commercial, industrial and retail.

17 MILLION

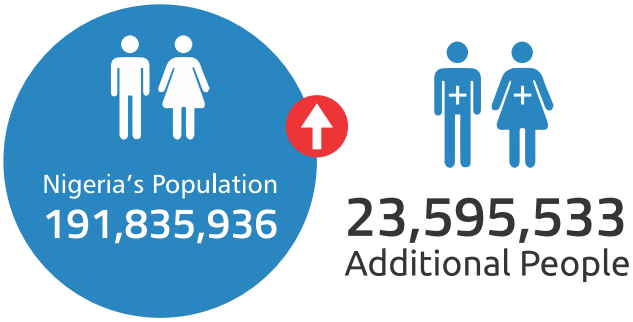
Housing Unit Deficit co-exist with almost

50%

Vacancy Rate

However, since 2006 when the United Nations Agency on Human Settlement (UN-HABITAT) made its declaration on housing deficit in Nigeria which it estimated at 17 million units, the figure has remained static as if the country is a stagnant society where there is neither increase nor decrease.

The Nigerian Building and Roads Research Institute (NBRRI) has faulted this, saying the figure is no longer tenable because, if anything, the population of the country has shifted. Quoting findings by Worldometer, 2017, the Institute notes that from 2012 to date, Nigeria's population has increasedfrom 168,240,403 to 191,835,936 which is 23,595,533 additional people.



The World Bank in 2013 stated that in order for Nigeria to keep up with the demand for housing, 700,000 houses annually are required to match growing population and urban migration. However less than 100,000 houses are being built annually in the country.

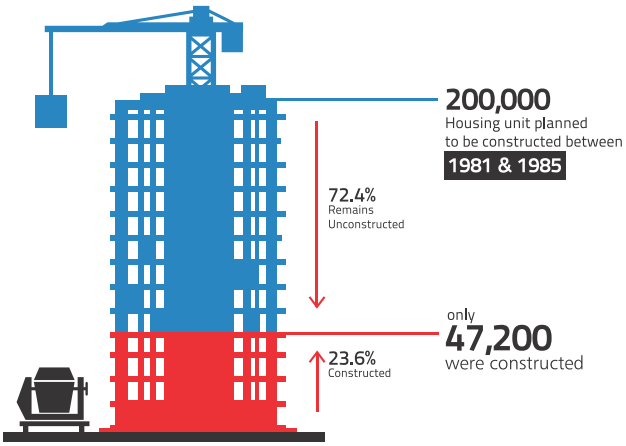
With a population estimated at 180 million, a housing deficit put at 17 million units by the United Nations over a decade ago, a home ownership level that is a little above 10 percent of the nation's population, the market fundamentals are not only strong, but also compelling, yet the narrative is negative.

Despite occasional stop-gaps posed by challenging economic conditions, this sector has grown in nominal terms. The retail segment, for instance, has witnessed what could be termed a revolution. Hakeem Ogunniran, the Managing Director of UAC Property Development Company (UPDC) Plc, noted that from a zero base, the retail

market has attracted foreign direct investments estimated at $3 billion deployed to the development of about 20 shopping malls and centres in Nigerian cities. The same thing has happened in commercial office space which has attracted so much investment interest that today there is an oversupply. The major cities of the country, especially Lagos, have their skylines dazzled with office towers rising between 15 and 25 floors.

Across the country, the supply of housing is relatively fixed despite government's concerted efforts since Independence to ensure adequate housing for all Nigerians. These efforts to adequately cater for the housing needs of an average Nigerian has not yielded serious results over the years. For instance, between 1974 and 1980, there was the plan to deliver 202,000 housing units to the public, but only 28,500 units representing 14.10 percent was delivered.

Also, out of 200,000 housing units planned to be delivered between 1981 and 1985 only 47,200 (23.60 percent) were constructed. Under the National Housing Fund (NHF) programme initiated in 1994 to produce 121,000 housing units (within the same year) in state capitals where dearth of housing was acute, it was reported that only 1,114 units (less than 1 percent) were completed at Kado Estate in Abuja.

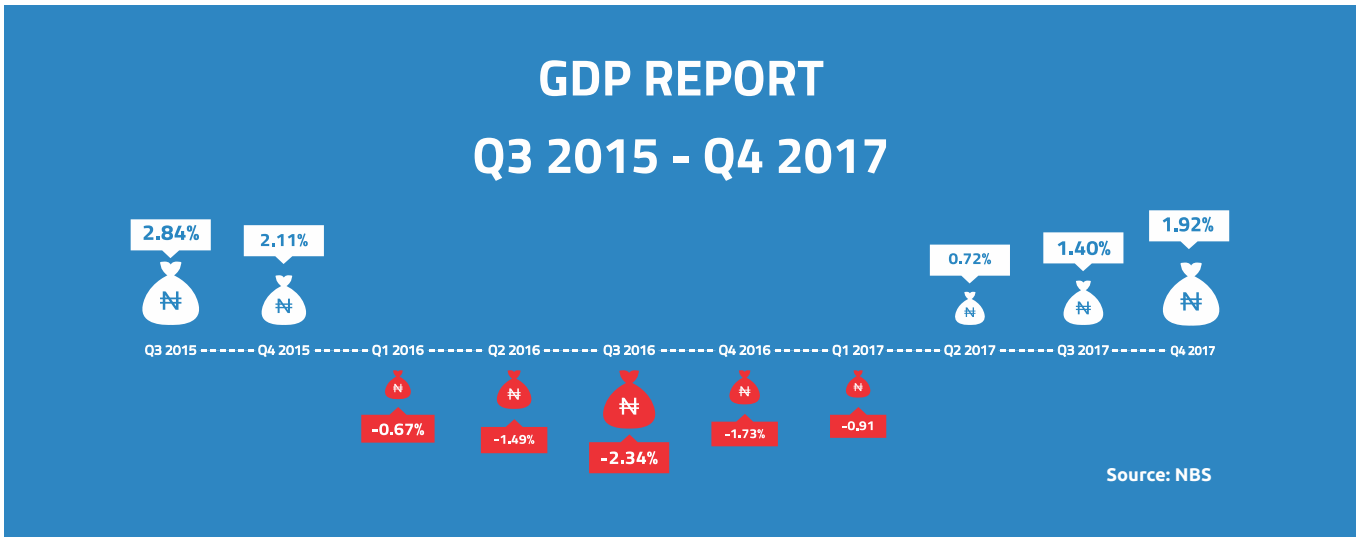


The Nigerian Real Estate Market in a Recession

Nigeria slipped into recession, when growth figures published by the National Bureau of Statistics (NBS) showed the economy contracted 2.06 percent between April and June, 2016. The country had at that point seen two consecutive quarters of declining growth, the usual definition of a recession.

Twelve months afterwards, ending April, 2017 analysts started pointing to signs of improvement but without any visible impact on commodity prices, which had taught Nigerians some hard lessons. Arguably, in no other sector of the economy are these lessons more impactful than real estate where developers were, increasingly, coming to terms with realities and the fact that it was no longer business as usual.

Pre-recession, Nigeria had one of the most burgeoning real markets in the world where developers offered products that had no consideration whatsoever for buyers' legitimate earnings or buying power. Houses were put on the market for prices that smacked of profiteering, thereby scaring away real buyers and courting people with 'easy' money who bought in order to store value.



With the recession came changes that required developers to reappraise their investment strategies. This was heightened by the Federal Government's anti-graft war which affected inflow of funds from some opaque sources which distorted every consumer market especially the real estate market.

As the recession tightened the noose around the economy the purchasing capacity of Nigerians across all social strata took some beating, heading southward. Even those who had the capacity to buy withheld their money. Some moved their money offshore and there was virtually a halt in development activities in real estate. However, for those who took the initiative to stay focused and continue investing amid the recession, it remains a positive thing for them, given the current economic recovery and rising demand.

The recession and anti-graft war led to some form of curtailment of supply to the market, which is a positive thing. The market would reflect better economic thinking and rationality based on demand going forward. In the past, some developments were undertaken without little regard for market fundamentals, these suffered more during the recession, while those who undertook developments considering important factors did fairly well.

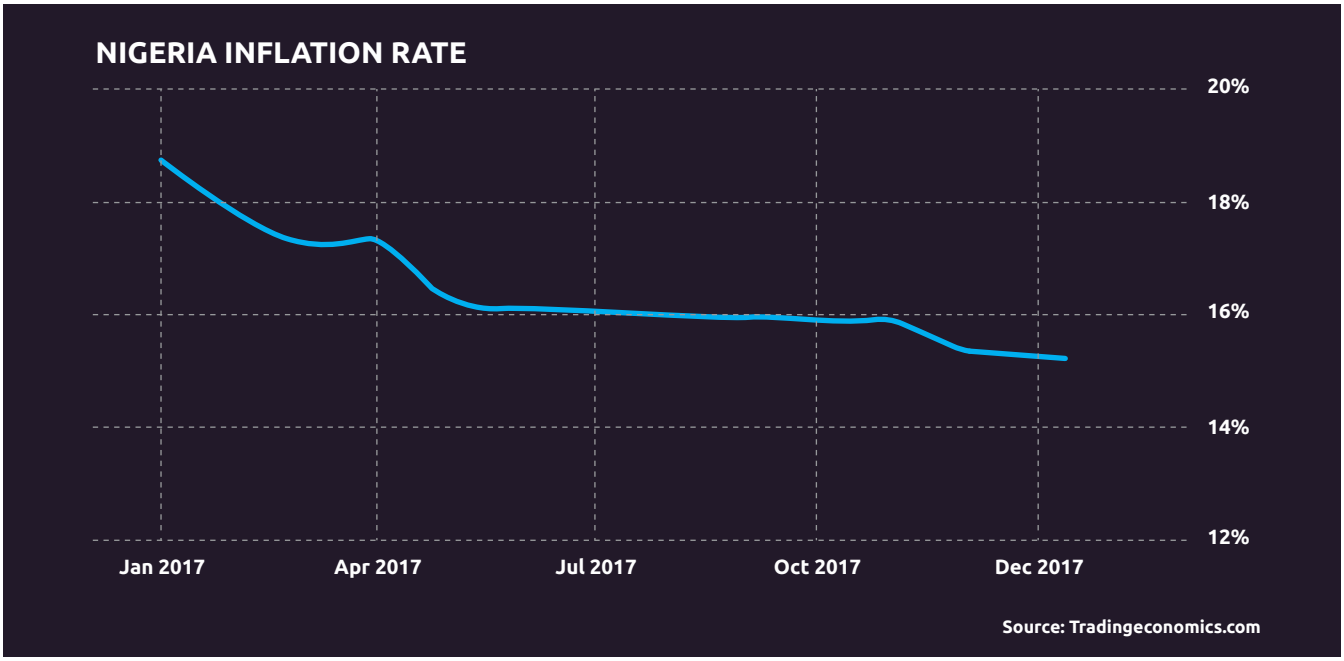
Future developments will take into account property and aesthetics as a last consideration.

Progressively, the Nigerian real estate market adjusted towards a positive trend as the economy of the country entered recovery territory, which led to increased activity in the real estate sector generally.

The economy picked up in the second quarter of 2017, according to the Gross Domestic Product (GDP) data from the NBS. There was a relative stability in the foreign exchange market, which remained largely volatile for the better part of the last quarter of 2016 and the first quarter of 2017.

The intervention by the Central Bank of Nigeria (CBN) in the forex market resulted in the naira appreciation, leading to a significant convergence between rates offered on both the official and parallel markets. At the parallel market, the naira appreciated by around 26 percent, from a peak of N516/US$ to N380/US$ as at the end of the first quarter of 2017 and closed at $365 in December, 2017.

Similarly, headline inflation dropped from 18.71 percent at the beginning of 2017 to 15.94 percent as at September 2017 according to Nigeria Bureau of Statistics, raising both investor confidence and consumer purchasing power and closed the year at 15.37 percent.



The real estate market, which remained comatose at the peak of the almost 13-month recession in the country with rising vacancy rate, subdued demand and falling prices, started responding to the developments in the economy. There has been a 4.00 percent improvement in the vacancy factor index (VFIX) as demand for properties picked up gradually.

Headline vacancy rate as at the first quarter of 2017, according to the VFIX stood at 73.3 percent. The VFIX is an indicator of the state of the real estate markets in the upper class neighbourhoods of Lekki, Victoria Island and Ikoyi. These areas are proximate to the central business district (CBD) or downtown areas of the Lagos metropolis.

Some of the challenges that persist include the high cost of borrowing which limits inflow of external funds in the real estate market. Local investors however continue with their developments. They have been quite bullish in commercial office development.

98,960+

square metres of office space are expected to come into the market

A survey of active players in the market conducted by Ubosi Eleh + Co shows that, over the next 12 to 24 months, approximately 98,960 square metres of office space is expected to come into the market with 63,640 square metres of them intended to have been added to the market by the last quarter of 2016.

This segment of the market is still struggling with low demand and over supply. In Ikoyi, asking rents for this class of assets are averaging $600 to $850 per square metre per annum, representing 2 percent lower than Q2 2016 rents while achievable rents in this location are 8 percent to 15 percent below asking rents.

In Victoria Island, average asking rents follow Ikoyi pattern, easing by 6 percent to $780 per square metre per annum in Q1 2017; achievable rents here are 10 percent to 20 percent below asking rents.

Positive outlook for the economy translated in reduction of vacancy rates on Admiralty Way in Lekki. A creative trend taking place is that residential properties have been converted to mixed use. Ubosi Eleh + Co survey shows that this is attributable to the fact that available commercial buildings do not meet up-takers specifications – either in terms of location, size or cost. So, people

convert residential units to commercial use as businesses spring up to service neighbourhoods.

The CBN constantly intervened in the forex market, which improved its relative stability over several months in 2017. In addition, the stock market rallied more often in 2017, buoying investors' confidence and optimism about improvement in the fortunes of Nigeria's real estate sector.

The foreign exchange and the stock markets are strong economic indicators that reflect the health and performance of an economy. Real estate investors reason that the improvement seen in their performance indicates that the economy is looking up, which is good for the sector.

The interventions of the Central Bank of Nigeria in the forex market resulted in the appreciation of the Naira, to the point of a convergence between rates offered on both the official and parallel markets. At the more accessible parallel market, the Naira appreciated by around 26 percent, from a peak of N516/US$ to N360/US$ as at the end of the last quarter of 2017.

In the third quarter of 2017, the move for a convergence in the foreign exchange market had intensified triggering a new stock market rally.The FMDQ OTC Securities Exchange which oversees interbank trading, in August, 2017 asked lenders to publish quotes reflecting trades in the Investors' & Exporters' FX (NAFEX) Window, an indication that Nigeria was gradually moving closer to a single naira forex rate, as banks use the Nigerian Autonomous Foreign Exchange Rate (NAFEX).

According to an International Monetary Fund (IMF) Fund's report, the global productivity growth for 2017 was projected to show improvement, compared to 2016, adding that economic activities in both advanced economies and emerging market & developing economies (EMDEs) are expected to accelerate in 2017, with global growth for the zones projected at 3.40 percent and 3.60 percent respectively, compared to 2.40 percent and 2.50 percent in 2016.

The IMF's revised 2017 forecast for Nigeria predicted a positive growth for the economy and positive indicators in the year, due largely to increased oil production, security, improvement in the oil rich Niger Delta, the recent intervention of the Central Bank of Nigeria in the forex market, and inflation dropping from 18.71 percent at the beginning of 2017 to 15.94 percent as at September 2017 and 15.37 percent by the year end according to the National Bureau of Statistics.

On the back of these developments, real estate is beginning to see positive traction. The forex market was its major problem, bearing in mind that most of the components of construction materials are imported. With the economy in terrible shape, the purchasing capacity of the people went down. Even those who had the capacity to buy, withheld their money.

A stable, liquid forex market means revenue is beginning to improve and investors can get money to do their businesses. Besides, financial institutions are sending letters to borrowers, asking them to come and borrow.

Land Administration Gets Better With Technology

Real estate developers, industrialists and small scale businesses had cause to rejoice because the Lagos State Government in collaboration with Thomson Reuters, deployed the Geographical Information System (eGis) in its Integrated Land Administration and Automation system with the aim of easing land title registration in the state. Kaduna state is also in the process of going digital in its land administration processes.

The new technology, which is coming through the State's Land Bureau, aimed to hasten the process by reducing human interface. This will, hopefully, save time and drastically reduce the pains of the past. It is hoped too that the new technology would, in the long run, reduce house prices in the state which is struggling to close its over three million housing units deficit through private sector partnerships.

Lagos has a large and growing population with fast-paced urbanisation. As its population increases, the need to upgrade existing systems and introduce new ideas that will ensure availability of land for various competing needs becomes expedient. This partly explains the reason for the new technology.

In its innovative approach to ease the process of transactions on land and related matters, the State has also introduced the 'Land Administration Campus' to help create a one-stop-shop where the office of the State Surveyor General, Ministry of Physical Planning and Urban Development and Land Bureau are located within a complex.

With the introduction of the eGis under the Land Registry, Lagos State showed its readiness to provide rights to land, that is, land title that guarantees and validates ownership while providing a reliable record about ownership of and interests affecting land, and at the same time maintain a secure repository of all land documents in Lagos.

Nevertheless, it is hoped that the improvement in the Land Registry and Land Bureau in land administration and management will lead to better access to formal credit, higher land values, higher investment and income in land which, in turn, would create wealth for both the state and residents.

Residential Real Estate

In the course of 2017, activities in residential housing development, especially at individual and informal levels were estimated to have dropped by at least 30 percent of the current annual output of between 1,000 and 1,200 units.

The real estate market is a strong economic indicator, showing the health or lack of it in an economy. Since the fourth quarter of 2015 when the Nigerian economy took a turn for the worse, activities in the real estate sector have slowed with some projects completely abandoned.

Many corporate organisations, households and individuals, who are consumers of real estate products, have had their income crimped through job losses, salary cut, low productive capacity or outright shut down of operations in the case of organisations. All these have affected demand negatively.

To continue to stay in business, developers are reviewing the size of their projects, scaling them down significantly. Homes are getting to be smaller with smaller room sizes in order to lower costs. Quality reduced drastically in terms of materials and finishing.

There is however a positive side to the present state of the economy as it relates to real estate. There will be a marginal 10-15 percent increase in rental values of flats as more people squeezed by the economy are downsizing from duplexes and detached houses to flats.

In the highbrow neighbourhood, rents are paid in dollars but with the crisis in the foreign exchange market, dollar based rental properties have continued to get realistically priced by being redenominated in Naira or much lower dollar asking rents. Dollarised rents were seriously reduced or renegotiated much lower than before, sometimes as much as 50 percent reduction.

However, many legacy landlords indicated they would rather leave their properties empty than drop their rents.

Innovative trends have also emerged in the commercial real estate space to manage rent. Where rent is $800 per square metre, the landlord may decide to give back, say 30percent of this to the tenant as fit out allowance.

The rent remains $800 but the tenant pays effectively $500 per square metre. The advantage of this is that when the market strengthens, renegotiation starts from $800, not $500.

The middle class neighborhoods and gated estates on the Lagos Mainland and Island retain rental values even though capital values have dropped marginally. Shonibare Estate, Maryland Estate, Cappa Estate, certain streets in GRA Ikeja like Oduduwa Streets, Herbert Macaulay Crescent, all in Lagos, remain strong in spite of the economic downturn.

In many of these neighbourhoods, strong neighbourhood associations are evolving with the aim of to providing facilities, services and livable environment. From the annual dues paid by residents, the associations maintain and provide more facilities such as security and other services. The overall effect is that properties within those locations command between 5 and 10 percent higher rental and capital values than others.

RESIDENTIAL RENTAL VALUES
(Amount in Naira)

LOCATION	DECEMBER 2016			DECEMBER 2017		
LAGOS	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow
Victoria Island	5,000,000	10,000,000	----	6,000,000	10,000,000	----
Ikoyi/Banana Island	6,000,000	12,500,000	7,000,000	6,000,000	15,000,000	8,000,000
Lekki Scheme 1	3,000,000	7,000,000	3,000,000	3,500,000	8,000,000	4,000,000
Oniru	4,000,000	6,500,000	5,000,000	4,500,000	7,000,000	5,500,000
Dolphin	2,500,000	3,500,000	----	3,000,000	4,000,000	----
Festac/Amuwo Odofin	1,000,000	2,000,000	1,300,000	900,000	1,800,000	1,200,000
Apapa GRA	3,000,000	5,000,000	3,500,000	2,500,000	3,500,000	3,000,000
Anthony/Ilupeju/Gbagada	1,400,000	2,500,000	1,800,000	1,400,000	2,800,000	1,700,000
Allen Avenue/Opebi	1,500,000	2,500,000	2,000,000	1,400,000	2,300,000	1,800,000
Surulere, Bode Thomas/Adeniran Ogunsanya	1,500,000	2,800,000	1,700,000	1,500,000	2,500,000	1,500,000
Yaba, Herbert Macaulay	1,500,000	2,700,000	1,800,000	1,300,000	2,500,000	1,500,000
GRA Ikeja/Shonibare	4,000,000	8,000,000	4,500,000	4,000,000	7,000,000	5,000,000
Ogudu GRA	1,300,000	3,500,000	2,000,000	1,200,000	3,000,000	1,600,000
Magodo	1,200,000	3,000,000	1,500,000	1,400,000	3,000,000	1,700,000

LOCATION	DECEMBER 2016			DECEMBER 2017		
ABUJA	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow
Asokoro/Maitama	3,500,000	8,000,000	----	3,500,000	8,000,000	----
Wuse II	2,500,000	8,000,000	----	2,500,000	8,000,000	----
Wuse Zones	1,500,000	4,500,000	1,800,000	1,500,000	4,500,000	1,800,000
Garki	1,500,000	4,500,000	----	1,500,000	4,500,000	----
Suleja	700,000	900,000	850,000	700,000	900,000	850,000

RESIDENTIAL RENTAL VALUES

(Amount in Naira)

LOCATION	DECEMBER 2016			DECEMBER 2017		
IBADAN	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow
Oluyole Estate	500,000	800,000	600,000	600,000	800,000	600,000
Bodija	600,000	1,000,000	-----	800,000	1,000,000	-----
Iyaganku GRA	800,000	1,500,000	1,000,000	900,000	1,700,000	1,000,000
Samonda	900,000	2,500,000	-----	1,000,000	3,000,000	-----

LOCATION	DECEMBER 2016			DECEMBER 2017		
ENUGU	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow
GRA Enugu	700,000	1,500,000	700,000	1,200,000	2,500,000	1,500,000
Independence Layout	600,000	1,000,000	750,000	800,000	1,500,000	1,200,000
Achara Layout (Uwani)	250,000	650,000	800,000	400,000	1,500,000	800,000
Emene	250,000	800,000	600,000	400,000	1,200,000	700,000

LOCATION	DECEMBER 2016			DECEMBER 2017		
PORT HARCOURT	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow
GRA Port Harcourt	1,800,000	3,500,000	2,500,000	1,800,000	3,500,000	2,500,000
Trans Amadi	1,500,000	2,500,000	2,000,000	1,500,000	2,500,000	2,000,000

LOCATION	DECEMBER 2016			DECEMBER 2017		
KADUNA	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow	3 Bedroom Flat	4/5 Bedroom Detached House	3 Bedroom Bungalow
GRA	1,300,000	2,000,000	1,500,000	1,500,000	2,300,000	1,500,000

CAPITAL VALUES
(Amount in Naira)

LAGOS

IKEJA	LAND VALUE PER SQUARE METRE (₦)
Opebi/Allen	85,000 - 110,000
Oregun	70,000 - 75,000
Adeniyi Jones	85,000 - 95,000
Oba Akran	155,000 - 230,000
Ogba	45,000 - 60,000
GRA Ikeja	150,000 - 200,000
CBD/Alausa	95,000 - 110,000
Maryland/Ilupeju/Gbagada/Anthony	65,000 - 95,000
APAPA	**LAND VALUE PER SQUARE METRE (₦)**
GRA	80,000 - 100,000
YABA	**LAND VALUE PER SQUARE METRE (₦)**
Palmgrove	62,000 - 70,000
Shomolu	30,000 - 38,000
Akoka	38,000 - 54,000
Ebute Metta	38,000 - 47,000
Herbert Macaulay	80,000 - 95,000
Onike Iwaya	38,000 - 47,000
FESTAC	**LAND VALUE PER SQUARE METRE (₦)**
Residential Area	45,000 - 55,000
Satellite Town	45,000 - 55,000
OGUDU / MAGODO	**LAND VALUE PER SQUARE METRE (₦)**
Ogudu GRA	120,000 - 150,000
Magodo GRA	100,000 - 135,000
IKORODU	**LAND VALUE PER SQUARE METRE (₦)**
Ikorodu (Residential)	15,000 - 23,000
Mile 12/Ketu	23,000 - 47,000

CAPITAL VALUES
(Amount in Naira)

LAGOS

BANANA ISLAND IKOYI	LAND VALUE PER SQUARE METRE (₦)
Ikoyi (Mixed Use)	350,000 - 400,000
Banana Island	350,000 - 450,000
Ikoyi (Residential)	300,000 - 350,000
VICTORIA ISLAND COMMERCIAL	**LAND VALUE PER SQUARE METRE (₦)**
Victoria Island Residential	300,000 - 350,000
LEKKI	**LAND VALUE PER SQUARE METRE (₦)**
Lekki Phase 1	150,000 - 180,000
Agungi	40,000
Lekki Phase 2	15,000
VGC	140,000

PORT HARCOURT

	LAND VALUE PER SQUARE METRE (₦)
Peter Odili Road	60,000 - 65,000
Abuoloma	60,000 - 65,000
Ikwerre Road	55,000 - 65,000
Stadium Road	45,000 - 55,000
Old Aba Road	30,000 - 40,000
Airport Road	20,000 - 30,000
Rumuokwurusi	25,000 - 85,000
Mile 1 Diobu Mile 3	40,000 - 50,000
Total Village	75,000 - 85,000
GRA Phase 1, 2, 3	75,000 - 110,000
Rukpokwu/Rumuodomaya/Eliozu & Environs	25,000 - 45,000
Agip Estate/Ada George & Environs	45,000 - 55,000

CAPITAL VALUES
(Amount in Naira)

ENUGU	LAND VALUE PER SQUARE METRE (₦)
GRA	25,000 - 40,000
New Haven	50,000 - 70,000
Independence Layout	54,000 - 65,000
Ogui/Uwani/Agbani Road	25,000 - 40,000
Uwani	15,000 – 20,000
Ogui New Layout	25,000 - 35,000

ONITSHA	LAND VALUE PER SQUARE METRE (₦)
Zone A, B, C	40,000 - 110,000
Odoakpu/Muodebelu	17,000 - 30,000
New Market Road/Old Market Road	85,000 - 125,000
Fegge/Fegge Housing Estate	25,000 - 50,000
GRA	40,000 - 85,000

AWKA	LAND VALUE PER SQUARE METRE (₦)
Agu Awka	10,000 - 15,000
Awka Main	20,000 - 50,000
Zik Avenue	50,000 - 90,000

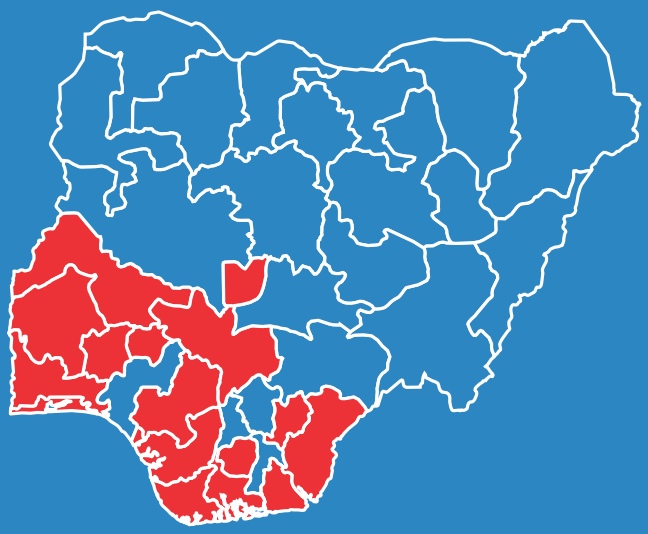
CAPITAL VALUES
(Amount in Naira)

ABUJA	LAND VALUE PER SQUARE METRE (₦)
Maitama	200,000 - 250,000
Wuse 2	150,000 - 200,000
Wuse 1	80,000 - 100,000
Asokoro	150,000 - 180,000
Central Area	100,000 - 250,000
Garki 1	70,000 - 100,000
Garki 2	80,000 - 100,000
Jabi	120,000 - 150,000
Utako	120,000 - 150,000
Kaura	30,000 - 35,000
Durumi	40,000 - 45,000
Lokogoma	20,000 - 25,000
Kubwa	10,000 - 15,000
Karu	7,000 - 10,000
Kurudu	2,000 - 3,000
Lugbe	6,000 - 10,000
Kyami	3,000 - 5,000

Initiatives to provide affordable housing

One affordable housing initiative worth mentioning is Easy Home by Lafarge Africa Plc, Africa's leading housing and infrastructure solutions company. This is meant for low income earners who generally find it difficult to build or buy homes within a short period of time.

The Easy Home's Journey So Far



32 Cities in Nigeria

30,000+ Beneficiaries in less than 4 Years

Over **445,000** People Impacted

Targeting **25 Million** People by **2030**

Affordable housing is used in several contexts, but it is chiefly associated with low cost housing. In most economies, especially in a challenging one like Nigeria's, low income earners normally build their homes bit-by-bit for upwards of five to 10 years, not by choice but by circumstances that they cannot easily control. Lafarge's Easy Home initiative is out to take care of this.

Officials of the company explain that Easy Home seeks to not just meet the need for affordable housing, but also ultimately accelerate its delivery to a three-month to two-year period, depending on the capacity of whoever has the need.

Easy Home is an ambitious housing solution which involves 25 countries globally. In 2016 alone, over 445,000 people were impacted and it is targeting to impact 25 million people by 2030. In Nigeria, about 30,000 people have benefited from the initiative and still counting.

Easy Home looks at how people build facing the challenges of finance, artisans, project execution and land acquisition. It offers builders the opportunity to leverage its

partnerships such as the one it has with Lapo Micro-finance Bank which provides housing finance for those that come through this initiative.

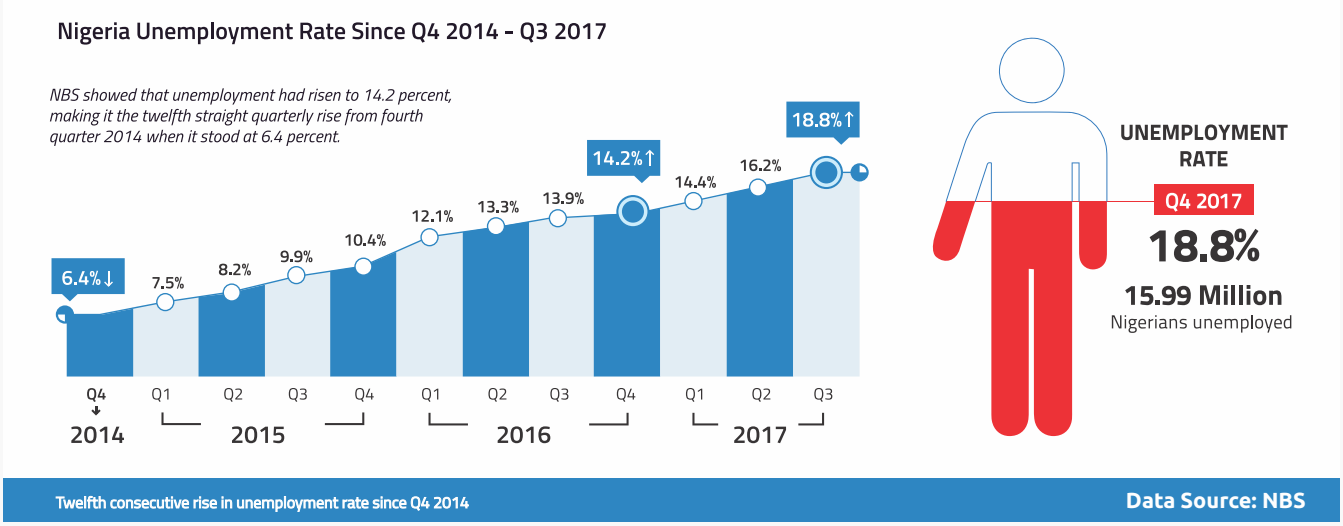
Within the three years of operation, the Easy Home has impacted people in some states of the federation including Lagos, Ogun, Oyo, Kwara, Ondo, Osun, Nasarawa, Niger, Calabar, Abia, Akwalbom, and Rivers. It has enabled about 10 percent of its beneficiaries to build business structures such as shops, schools, clinics, bakeries, etc and is creating opportunities for these businesses to generate billions of naira and thousands of jobs, according to a BusinessDay (Media Limited) real estate report.

Retail Real Estate

The retail market was sluggish, there were some positive indicators such as sustained demand for basic consumer goods and entertainment amid economic downturn but a general view and analysis of the market shows it was indeed a struggle for the market as trading numbers remained low and space uptake even slower.

Unemployment, which has reduced consumer purchasing power drastically, is a major factor that has changed the retail market story. While employed consumers were still under pressure from shrinking purchasing power of their salaries, recent figures from the NBS showed that unemployment had risen to 14.20 percent, making it the eighth straight quarterly rise from second quarter 2015 when it stood at 6.40 percent.

Average incomes in the country fell by about 18 percent in 2015 to $2,550 per annum, from over $3,000 in 2014, according to World Bank estimates.



"In the third quarter of 2016, real year on year growth in household consumption deteriorated, from a (revised) decline of -0.7%, to a decline of -2.0%. This reflects the continuing difficulties that consumers have faced in recent quarters, with rising unemployment, and high inflation eroding purchasing power," the National Bureau of Statistics (NBS) said in its latest GDP by expenditure report for Q3, 2016, released in June 2017.

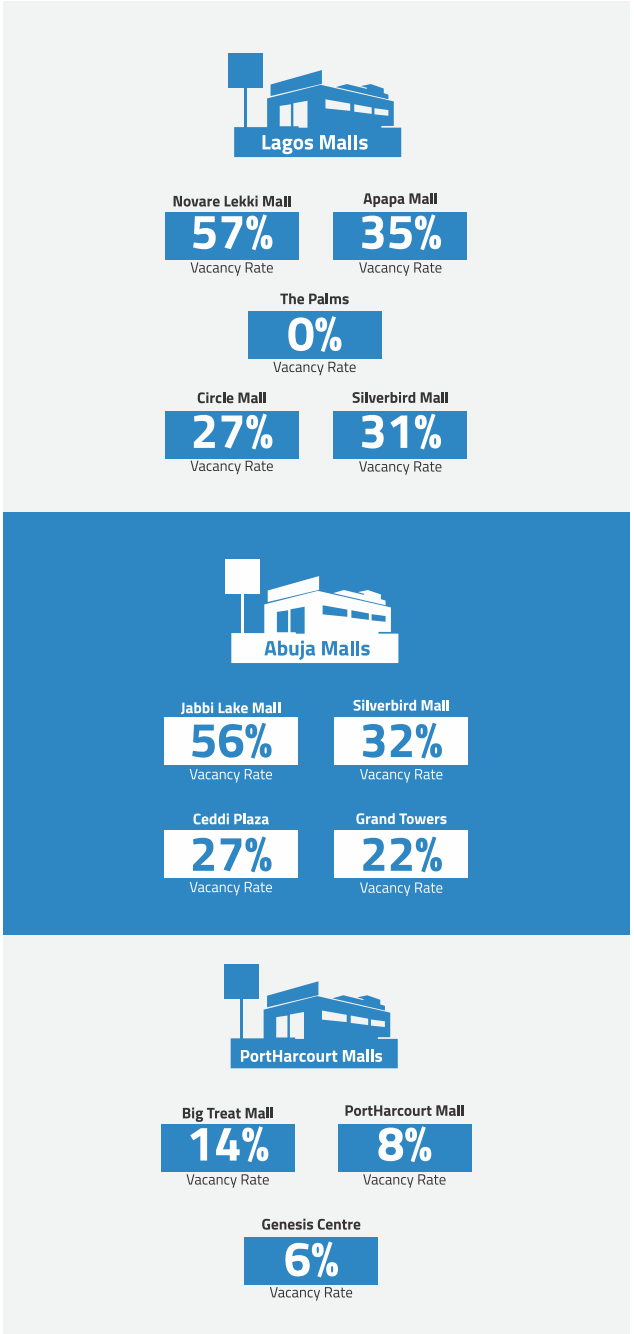
Nigeria's biggest malls sat half empty, as they continued to suffer from the impact of the country's first recession in 29 years. Rising unemployment and inflation rates have shown in significant decline in footfalls in the big malls, leading to high vacancy rates.

Big malls in the three major cities of the country, including; Lagos, Abuja and Port Harcourt, were the hardest hit by the economic recession. Novare Lekki Mall, a 22,000 square metre retail facility had a 57 percent vacancy rate as at June 2017, slightly reduced from the 63 percent figure recorded in December 2016.

This is followed closely by Jabi Lake Mall in Abuja, whose vacancy rate by the first half of 2017 was estimated at 56 percent. The mall, a 30,000 square metres shopping outlet, which sits on about 48,000 square metres of land, is a joint venture project between Act is Nigeria (a private equity firm) and Duval Properties.

Analysts attribute the rising vacancy rate in this mall and others in the Federal Capital Territory (FCT) including; Ceddi Plaza with 27 percent vacancy rate, Grand Towers, 22 percent; and Silverbird Entertainment Centre, 32 percent, to the lower purchasing power in the economy and the high political risk of the FCT. Times were really hard for retail centres in prime locations, and worse for the newly delivered malls where achievable rents had fallen by up to 20 percent below asking rents.

Vacancy rates in Port Harcourt malls



averaged almost 10 percent, as the three malls in the city, namely Big Treat, Genesis Centre and Port Harcourt Mall, recorded 14 percent, 6 percent and 8 percent vacancy rates respectively. These vacancies were a reflection of the consumer's reduced of oil, which is a major wealth driver in Port Harcourt.

In Lagos, however, while Apapa Mall, Circle Mall and Silverbird Mall also took hits, with vacancy rates at 35 percent, 27 percent and 31 percent respectively, The Palms has continued its no vacancy rate, with a client-friendly pricing. It has also welcomed global

clothiers, Tommy Hilfiger, which has given shoppers more variety.

Total gross leasable area for Lagos modern retail stood at about 118,000 square metres of space. Investors are constrained with increasing this space because of unavailability of the right land size at the right price.

Given the market conditions prevalent in 2017 and difficulties finding large land sizes of about 50, 000 square metres and above retail developers resorted to smaller mall developments of 15, 000 square metres or less. Shoprite, the anchor tenant of choice with seven branches currently across Lagos was so constrained and cut back on its growth ambitions.

Scarcity and high cost of land in major cities are part of the reasons for the growth of the retail market in what is now known as second tier cities of the country.

Resilient Africa is a South African firm that is in Nigeria with the intention to develop as many malls as they can within the shortest possible time, but has chosen to operate outside Lagos due to land constraints.

Eddie McDonald, the company's CEO, has argued "we are constrained by land availability in the big cities, especially in Lagos. Lagos can accommodate 20 malls but the problem is in finding the land. We cannot get the right land size at the right price to build the kind of mall we have in Owerri and even where you find one, the price will be too high."

Land value in Lagos, according to him, is way too high to afford for retail development. "If we have to build in Lagos at that high cost of land, the rents will be too high and that will pose a big challenge to prospective tenants" he said.

Furthermore, new malls face challenges of low trading numbers and slower uptake of space. Headline rents in prime locations stand at around $700 – $900 per square metre per annum, however in recent times; achievable rents have fallen by up to 20 per cent below asking rents.

Absence of adequate number of occupiers to fill spaces in large shopping malls was a disincentive to investment and development of retail market in Africa, experts at a global real estate forum said.

Though Africa, especially Nigeria, in the past decade, witnessed what looked like a revolution in the retail segment of the real estate sector, it is still challenged by liquidity issues, hence the need for developers/investors to rethink the current model of building sophisticated malls.

A consensus view at the African Chapter of Global Real Estate Institute (GRI), Club, meeting which held in London, April 2017, revolved around crafting adaptive models comprising more strip malls, which may be better suited for a number of African countries, considering their current level of development.

Investment in African real estate market from international investors has slowed down in the past couple of years. Investment inflow from South Africa, particularly, has reduced as attention has turned to Eastern Europe, experts at the GRI Club meeting pointed out. Among the factors driving the dearth of capital inflow is a lack of liquidity in the Nigerian real estate market and it may be tough for a secondary market to commence soon.

Part of the solutions to this problem is the need for capital from local institutions in order to avoid the current reliance on foreign investment; capital investment from local institutions like pension funds, insurance companies, and capital market, through channels such as Real Estate Investment Trusts (REITS) should be boosted to enhance the market.

RETAIL RENTAL FOR SPECIFIC LOCATION
(Amount in Naira)

LOCATION	DECEMBER 2016	DECEMBER 2017
IBADAN	Warehouse Per/Sqm	Warehouse Per/Sqm
Oluyole Estate	3,000	3,500
Bodija	3,000	3,500
Iyaganku GRA	3,000	3,500
Samonda	3,000	3,500
PORT HARCOURT	Warehouse Per/Sqm	Warehouse Per/Sqm
GRA Port Harcourt	22,000	22,000
Trans Amadi	18,000	20,000
ABUJA	Office Per/Sqm	Office Per/Sqm
ASOKORO/MAITAMA	35,000/M2	35,000/M2
Wuse II	35,000/M2	35,000/M2
Wuse Zones	25,000/M2	25,000/M2
Garki	25,000/M2	25,000/M2
Central Area	30,000/M2	30,000/M2
ENUGU	Warehouse Per/Sqm	Warehouse Per/Sqm
GRA Enugu	10,000/sqm	10,000/sqm
Independence Layout	10,000	10,000/sqm
Achara Layout (Uwani)	7,000/sqm	8,000/sqm
Emene	6,000/sqm	6,000/sqm
KADUNA	Warehouse Per/Sqm	Warehouse Per/Sqm
Kaduna commercial	8,000	10,000

Commercial Real Estate

Ikoyi and Victoria Island led commercial real estate resurgence in 2017. In spite of the ravaging impact of economic recession, the Nigerian commercial office space segment of the real estate market remained upbeat with many Grade A office buildings coming to the market and many others in various stages of construction and completion.

Ikoyi and Victoria Island are the most active sub-markets for institutional Grade A supply in Lagos. New developments, which leased or were due to be delivered in 2017, included The Wings Towers, which is now in the market offering 27,500 square metres; Nestoil Tower, 7,500 square metres; Madina Tower, 8,300 square metres, and Civic Centre Towers, 8,096 square metres, all in Victoria Island.

In Ikoyi, particularly on Kingsway Road, there are a good number of developments, including The Heritage Place, which are already in the market with 15,631 square metres, and Alliance Place still under construction with a promise to deliver 6,670 square metres. Others are the Kingsway Tower, 12,000 square metres; Temple Tower, 14,000 square metres; BAT's Rising Sun, 10,000 square metres, and Lake Point Towers, 13,400 square metres.

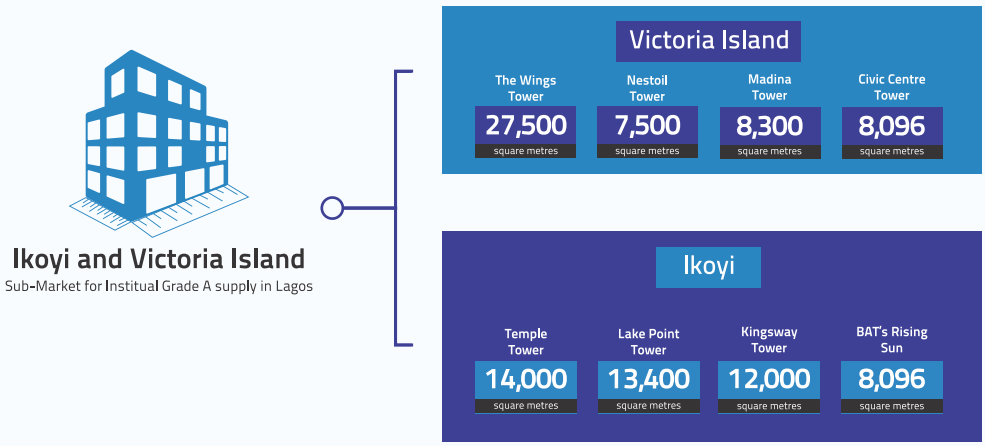
Before now, Ikoyi was known for its residential buildings with their Victorian architecture, but changing business dynamics have altered all that. Kingsway Road became one of the most desirable, most sought after office space address in Lagos.

Grade A office buildings are always targeted by international oil companies (IOCs), institutional investors and corporate clients who can afford the rents or the lease sums charged per square metre and, in many cases, in dollars making them products for a narrow market.

There has been an over-supply to the market, leading to significant drop in rents in the major cities of the country. While Garki 11 in Abuja is leading the pack in rent drop, Yaba, Lagos which has become the Indian Silicon Valley in Lagos, is leading office rents increase at 67 percent.

In Abuja Central Business District, rents dropped from N80/$0.28 in 2016 to N57/$0.17 in 2017, representing -29 percent drop; Garki 11 was N25/$0.09 in 2016, but dropped to N21/$0.06 in 2017, giving a 16 percent decline. In Port Harcourt, office space was rent on Olu Obasanjo Way at N20,000/$0.07 per month, but dropped 20 percent to N16,000/$0.04 per month in 2017.

In Lagos, whereas there was a rent increase of 67 percent in Yaba from N15,000/$0.04 in 2016 to N25,000/$0.07 as at June 2017, there was a significant drop in Lagos Island



where tenants enjoyed a 25 percent drop from N28,000/$0.08 in 2016 to N21,000/$0.06 per month.

This sub-market has continued to see increased supply, but at a slower rate. Analysts however observe that forces of demand and supply would subsequently force not only rents to go down, but several other terms and payment structures have to be relaxed and rejigged in the face of a slowly recovering economy.

The challenges in the economy and the drastic fall in the oil prices in the international market have had the combined effect of slowing business, lowering productive activities and also reducing demand for such space; especially at the size and price they are delivered to the market, leading to competition by developers and landlords to attract potential tenants. Intensity of competition in the market has increasingly brought some efficiency into construction.

The market is no longer what it used to be as average asking rents for these developments are now on the downward trend in Ikoyi, averaging $600 – $850 per square metre per annum, which is about 2 percent lower than the second quarter 2016 rates. Achievable rents are 8 percent to 15 percent below asking rents.

Average asking rents in Victoria Island follows Ikoyi trend, easing by 6 percent to $780 per square metre per annum. Achievable rents are 10 percent to 20 percent below asking rents.

This situation may worsen as it is expected that, over the next 12 to 24 months, approximately 98,960 square metres of office space is expected to come into the market with 63,640 square metres of that space intended to have been added to the market by fourth quarter 2016.

Because of these challenges, developers are offering interesting concessions to woo tenants. These range from reduction in lease period, rent holiday and payment of naira equivalent of dollar-denominated rents, to energy efficiency, which cuts down on energy cost.

The Heritage Place, which is Nigeria's first green building, is a typical example of this. Leadership in Energy and Environmental Design (LEED) certifies the 14-floor office building, and it is designed to achieve, at least, 20 percent more energy savings than a comparable building in Nigeria.

Construction activities continued at various project sites in highbrow locations in Lagos and other prime locations across the country. Unlike many residential real estate project sites, where activities nose-dived, the cranes are still rising and falling at many commercial office building sites, such as the Alliance Place, a 13-floor office tower that will be delivering 6,670 square metres to the market.

Investors are still pushing on with developments. Though work is currently on hold on the 18-floor Dangote Head Office in Ikoyi and the 17-floor Greystone Tower in Victoria Island, for undisclosed reasons, construction activities are upbeat on Kingsway Towers in Ikoyi, Madina Towers in Victoria Island, Atlantic Resort in Oniru, Trinity Towers also in Oniru, World Trade Centre in Abuja, which will rise 15 floors, 15 floors, 16 floors, 26 floors and 22 floors respectively.

As regards the funding of the ongoing projects during a credit squeeze in the economy, most of the contracts were for their funding had been signed before the recession, with tenure commitments. These funds came from off-shore institutional equity investors, backed by pension funds and real estate investment trusts (REITs).

COMMERCIAL RENTAL FOR SPECIFIC LOCATION
(Amount in Naira)

LOCATION	DECEMBER 2016	DECEMBER 2017
LAGOS	Office Space Per/Sqm	Office Space Per/Sqm
Victoria Island	$600/psm	$600/psm
Ikoyi/Banana Island (A Class)	$600/psm	$600/psm
Lekki Scheme 1	50,000/Sqm	60,000/Sqm
Ikoyi/Banana Island	80,000/Sqm	85,000/Sqm
Festac/Amuwo Odofin	15,000	15,000/Sqm
Apapa GRA	30,000	25,000/Sqm
Anthony/Ilupeju/Gbagada	22,000	20,000/Sqm
Allen Avenue/Opebi	25,000/Sqm	25,000/Sqm
Surulere, Bode Thomas/Adeniran Ogunsanya	20,000/sqm	15,000/sqm
Yaba, Herbert Macaulay	18,000/ sqm	18,000/sqm
GRA Ikeja/Shonibare	35,000/sqm	30,000/sqm
Ogudu GRA	20,000/sqm	16,000/sqm
Magodo	18,000/ sqm	15,000/sqm
Oniru	60,000/ sqm	60,000/sqm
PORT HARCOURT	Office Space Per/Sqm	Office Space Per/Sqm
GRA Port Harcourt	22,000	22,000
Trans Amadi	18,000	20,000

COMMERCIAL RENTAL VALUES

(Amount in Naira)

LOCATION	DECEMBER 2016	DECEMBER 2017
LAGOS	Office Space Per/Sqm	Office Space Per/Sqm
Victoria Island	$600/psm	$600/psm
Ikoyi/Banana Island (A Class)	$600/psm	$600/psm
Lekki Scheme 1	50,000/Sqm	60,000/Sqm
Ikoyi/Banana Island	80,000/Sqm	85,000/Sqm
Festac/Amuwo Odofin	15,000	15,000/Sqm
Apapa GRA	30,000	25,000/Sqm
Anthony/Ilupeju/Gbagada	22,000	20,000/Sqm
Allen Avenue/Opebi	25,000/Sqm	25,000/Sqm
Surulere, Bode Thomas/Adeniran Ogunsanya	20,000/sqm	15,000/sqm
Yaba, Herbert Macaulay	18,000/ sqm	18,000/sqm
GRA Ikeja/Shonibare	35,000/sqm	30,000/sqm
Ogudu GRA	20,000/sqm	16,000/sqm
Magodo	18,000/ sqm	15,000/sqm
Oniru	60,000/ sqm	60,000/sqm
PORT HARCOURT	Office Space Per/Sqm	Office Space Per/Sqm
GRA Port Harcourt	22,000	22,000
Trans Amadi	18,000	20,000
ENUGU	Office Space Per/Sqm	Office Space Per/Sqm
GRA Enugu	10,000/sqm	10,000/sqm
Independence Layout	10,000	10,000/sqm
Achara Layout (Uwani)	7,000/sqm	8,000/sqm
Emene	6,000/sqm	6,000/sqm

COMMERCIAL RENTAL VALUES

(Amount in Naira)

LOCATION	DECEMBER 2016	DECEMBER 2017
IBADAN	Office Space Per/Sqm	Office Space Per/Sqm
Oluyole Estate	3,000	3,500
Bodija	3,000	3,500
Iyaganku GRA	3,000	3,500
Samonda	3,000	3,500
ABUJA	Office Space Per/Sqm	Office Space Per/Sqm
ASOKORO/MAITAMA	35,000/M2	35,000/M2
Wuse II	35,000/M2	35,000/M2
Wuse Zones	25,000/M2	25,000/M2
Garki	25,000/M2	25,000/M2
Central Area	30,000/M2	30,000/M2
KADUNA	Office Space Per/Sqm	Office Space Per/Sqm
Kaduna commercial	8,000	10,000

COMMERCIAL CAPITAL VALUES (LAGOS)

(Amount in Naira)

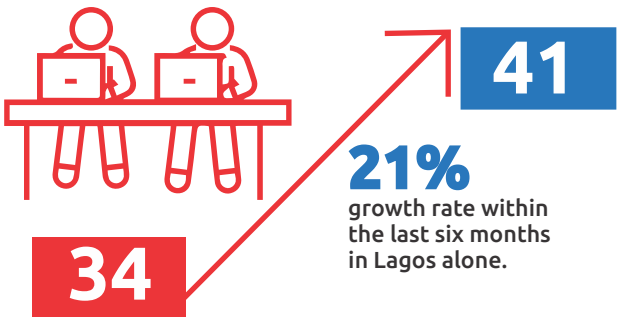
IKORODU	LAND VALUE PER SQUARE METRE (₦)
Ikorodu (Commercial)	38,000 - 47,000
APAPA	**LAND VALUE PER SQUARE METRE (₦)**
Commercial/Industrial Area	120,000 - 150,000
FESTAC	**LAND VALUE PER SQUARE METRE (₦)**
Commercial Area	80,000 - 100,000
VICTORIA ISLAND COMMERCIAL	**LAND VALUE PER SQUARE METRE (₦)**
Adeola Odeku/Ajose Adeogun/Akin Adesola/ Ahmadu Bello Way/Amodu Ojikutu/ Walter Carrington	400,000 - 450,000
IKEJA	**LAND VALUE PER SQUARE METRE (₦)**
Commercial/Industrial Area	150,000 - 200,000

Virtual office, co-work space gain traction

Prime office space investors and developers were up against a new wave of competition thrown up by promoters of co-working or work-place destinations which are fast gaining traction in Nigeria.

This sub-market has also seen a good number of residential buildings converted to commercial office space. Some corporate organisations and individuals, pressed hard by the economic headwinds, have converted part of their residences into offices to save cost, thus shrinking demand for new office space.

Co-working sub-market has grown so big



Co-working spaces have become a major phenomenon pushing down the upfront cost small and medium sized companies need to spend on space. A new report on the performance of real estate in Nigeria in the first six months of 2017, noted that the co-working sub-market has grown so big, increasing by 21 percent to 41, up from 34 within the last six months in Lagos alone.

Also known as virtual office, co-work or work-place destination has come to stay in Nigerian property market with very encouraging outlook.

A couple of years ago, the growth of the virtual office was negligible and posed no major concern to players in this real estate space but as years went by, demand began to increase and became quite visible in April 2016.

Among the real estate sub-markets, the commercial office space appears to have received more shocks from the negative economic headwinds. But this is understandable. Corporate users of this real estate product are cutting costs and have, therefore, become unwilling to take up new or expensive space due to recession. The volatile foreign exchange market has been another undoing for this sub-market where for many, rents are charged in dollars.

Hospitality

While the Nigerian hospitality industry leads the West African region in the number of hotels in the pipeline across 15 international brands, the industry risked delay of over 50 hotels under construction due to funding issues and poor economic outlook of the country that discouraged willing investors, especially foreign direct investment (FDI).

The delay was expected to be a big setback on the delivery of 5,000 additional rooms to the current 9,000 rooms on offer in the Nigerian market, and also may hinder the industry from realizing the projected $507 million revenue in 2020.

While Nigeria has by far the greatest number of rooms in the pipeline in West Africa, W Hospitality Group, a vital strategic advisor to the Africa Hotel Investment Forum (AHIF), feared that the economic crunch experienced in Nigeria was going to impact negatively on the realization of the projects in the pipeline as delays and cancellations were imminent.

Going by the country's economic outlook, some hospitality experts thought investments in the industry were shrinking or at a standstill . This is because most investors were discouraged by the economic outlook, as the failure of the present government to give them economic direction earlier in the administration and this made most of them to slow down further investment in the country.

Beyond Marriot Hotel in Ikeja GRA that is nearing completion, the two Hilton hotels at Airport Road and Ikoyi in Lagos are still at the groundbreaking level, Construction at Marriot on Ozumba Mbadiwe is still skeletal, whilst about three five-star hotels expected at Eko Atlantic are yet to take off. The Starwood luxury brand at Ikoyi is resting for now, among many hotel projects that have not taken off in Abuja, Port Harcourt and Kaduna.

So, the economic outlook needs to improve

for more investments to flow in with needed funding for the completion of these seemingly abandoned hotel projects.

However, going by PwC's sixth edition Hotels Outlook 2016 – 2020, revenue from hotel room accommodation in South Africa rose 8.10 percent in 2015 to R14.20 billion, reflecting an increase in stay unit nights and a 6.50 percent rise in the average room rate.

South Africa Hotel Room Revenue

R 14.2 Billion

Average Room Rate

2015

6.5%

PwC's sixth edition Hotels Outlook 2016

South Africa's hotel industry was growing amid the country's weak economy occasioned by the devaluation of the rand, but there were also argument that the Nigerian Naira was also devalued, yet foreign investors had failed to take advantage of their high purchasing power to invest in the sector as obtainable in the South African hospitality industry.

Going by PwC's sixth edition Hotels Outlook 2016 – 2020, which reported that room revenue in South Africa, Nigeria, Mauritius, Kenya and Tanzania rose 6.70 percent in 2015, the largest gain since 2011, potential investors might be pushing their investments to Mauritius, Kenya, and Tanzania where the economies though not too big, are however stable instead of Nigeria with all the big names but with much larger operating risks.

Agricultural real estate

Demand for farmlands increased considerably, driven by government's heightened campaign on agriculture, as well as the economic downturn which caused many Nigerians to turn to enterprises requiring minimal imported input, which present high end user demand.

It is also a fall-out of people's response to the massive job losses attending the downturn in the economy in 2016 through 2017.

Nigeria's economy fell to a 25-year low in 2016, after oil revenues collapsed and officials have picked unwavering interest in the agricultural sector as the country attempts revenue diversification. This brought about government's renewed commitment to the sector, as agriculture has long been touted as the most viable contingency plan for economic diversification.

A good number of recent agricultural start-ups were being run mainly by young, educated city-dweller entrepreneurs who are disconnected from the hinterland and need support to chart the course.

Experts say this renewed interest may be the reason for the zeal which young people and professionals were bringing into the sector through 2017.

In Kebbi State (the pioneer location for the Central Bank of Nigeria's Anchor Borrowers' Programme which supports farmers with loans and inputs) a target of 2.50 million metric tonnes of rice paddy was set for the dry season planting alone. In 2016 the harvest was 1.10 million metric tonnes.

In 2017, more people trooped to the farms to grow rice as the commodity became lucrative, trading favourably in the local market and also highly sought after by neighbouring countries such as Niger, Chad, and Cameroun, from where traders come to purchase with CFA, a currency with a value that was strengthened by the depreciation of the naira.

As an integral part of the moves to encourage farmers and achieve the 2017 target, the state government was going to make 10,000 tonnes of fertilisers (both NPK and Urea) available, so as to bolster rice production. The state also targeted a production of 2.50 million metric tonnes of rice paddy, more than double of the 1.10 million metric tonnes produced in 2016.

In a survey, many farmers said they have added to the land cultivated in 2016 and rice farmers' association heads suggest the same applies to virtually every farmer.

Surveys indicate that most do not buy the land, they acquire same on lease of three to five years. While the euphoria to grow rice has created excitement to benefit from the fledging rice business, it also appeared to be breeding a less suitable trend, as many land owners are taking back their land to also partake in the “rice boom”.

Cultivating only one hectare and a bag of rice paddy selling for N12,000 implied returns of between N900,000 to N1,080,000 for most farmers. Many are however cultivating more than one hectare and are conveniently hitting the million naira mark.

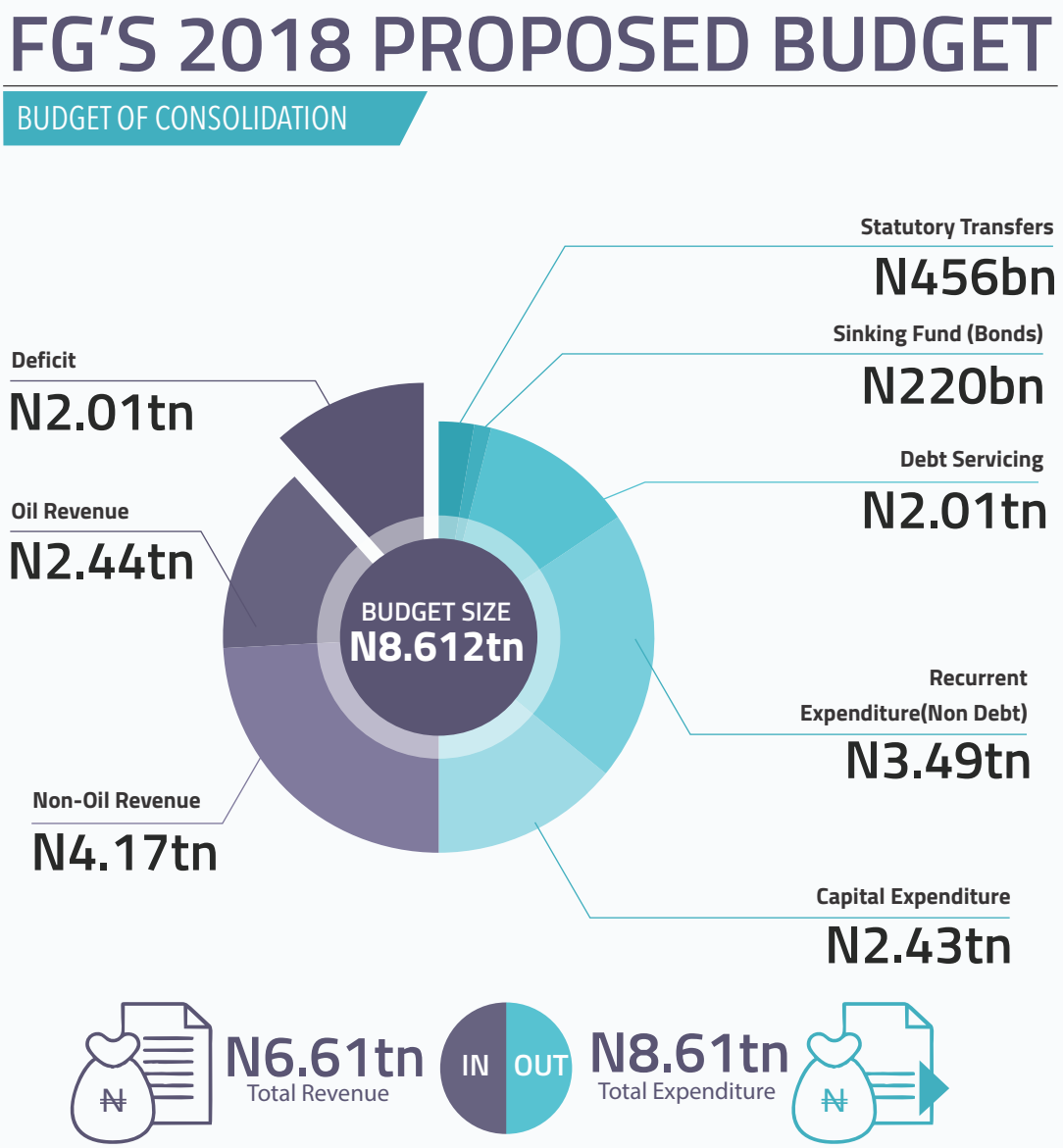
05

Unboxing The 2018 Budget

- Nigeria's Expanding Budget

Unboxing The 2018 Budget

For the third consecutive year, President Muhammadu Buhari put out a very ambitious budget when compared to the previous year, despite the fact that in each of the last three years, the budgets had not lived up to expectation. The President on November 7 announced plans to spend N8.60 trillion in 2018. This was 15.50 percent higher than the N7.40 trillion budget in 2017 and 42 percent higher than the N6.06 trillion budgeted for 2016. Basically, the government has increased its expenditure plans in each of the last three years.



Source: Budgit

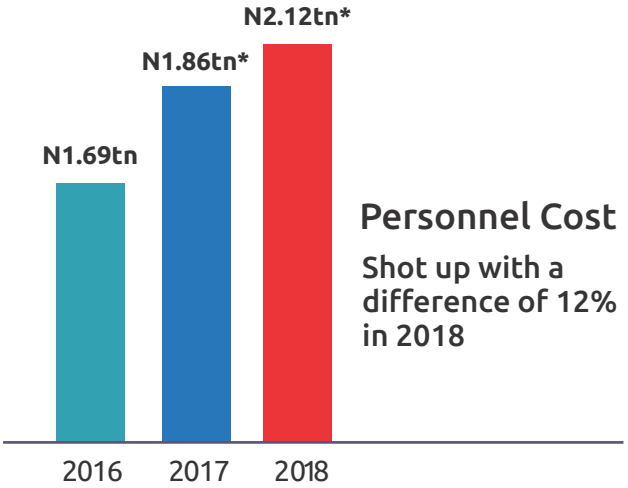
A comparative analysis of the 2017 and the 2018 proposed budget gives an idea of where extra expenditure went into. Two key expenditure items have shot up in the 2018 budget. These are non-debt recurrent expenditure and debt service. Non-debt recurrent expenditure in 2018 is expected to hit N3.50 trillion, about N500 billion higher than the N2.98 trillion proposed in 2017.

Debt service was projected to hit approximately N2 trillion which was about N300 billion higher than the N1.70 trillion budgeted for similar expenditure in 2017. These two expenditure items have therefore gone up by approximately N800 billion in the last one year. It must be noted that these two expenditure items are usually non-negotiable expenditure items. The non-debt recurrent expenditure, which is mainly composed of salaries and overheads, has been traditionally cash backed 100 percent while debt service is also always cash backed 100 percent since the government cannot afford to default on its debts.

Combined, non-debt recurrent expenditure and debt service stood at N5.5 trillion for 2018, which is higher than the country's total budget in 2015, the year President Buhari assumed the Presidency. The country's total budget in 2015 was N4.40 trillion of which N2.60 trillion was earmarked for non-debt recurrent expenditure, and N943 billion for debt service. This basically means that between 2015 and 2018, the country has added a cumulative N2 trillion to its recurrent and debt service bill.

The significant increase in recurrent and debt service should be of concern to the government and Nigerians considering that these expenditure lines are always cash backed usually at the expense of capital expenditure. It must be noted that recurrent expenditure has increase, even when the government is yet to negotiate new minimum wage demand from labour unions.

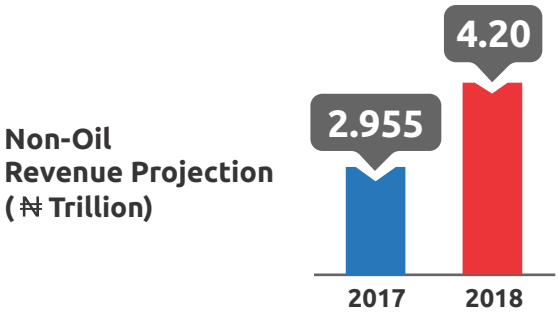
This means that when and if the government finally comes around to agreeing new minimum wages for labour, which is already overdue, personnel cost and consequently, the recurrent expenditure would balloon even further. The last minimum wage increase in 2010 had a significant impact on Nigeria's budget and contributed largely to the country's rising debt profile from 2010 to 2014.



Year on Year Personnel Cost Projection

President Buhari in his budget speech admitted as much that a big chunk of the recurrent expenditure would go into payment of salaries and overheads. He also disclosed that personnel cost will rise by 12 percent in 2018 but said that the government is putting an embargo on future recruitment. This is akin to shutting the door after the horse has bolted. At a time, the country was supposed to put a cap on recurrent expenditure; we have actually added approximately a trillion Naira more even before we agree a wage increase.

The outlook for debt service is also not looking good and looks set to keep rising. The 2018 budget is projecting non-oil revenues of N4.20 trillion. This is about N1.20 trillion more than the N2.955trillion that the government projected from non-oil revenues in 2017. President Buhari admits that non-oil revenue projections for the 2017 budget was not met, so it is a bit ambitious to hope that the projections would be met in 2018.

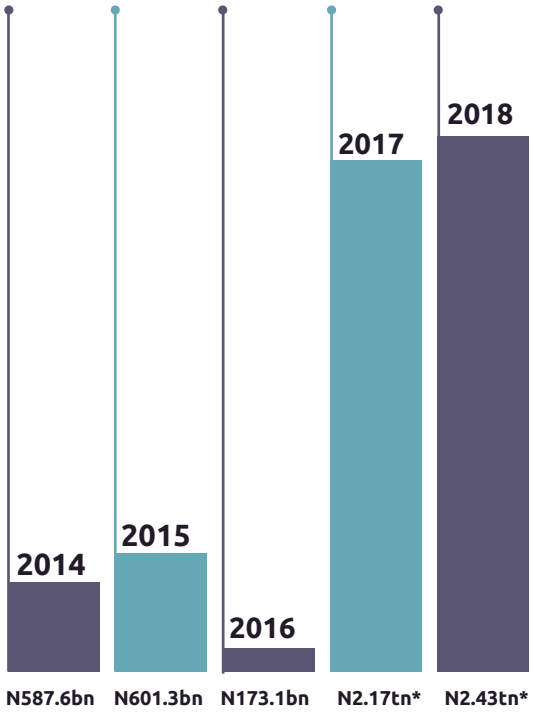


The fact is that in the last three years, the government has never been able to meet its revenue projection targets for non-oil revenues. To now think that it would happen in 2018 is a bit farfetched. But projected oil revenues of N2.40 trillion is likely to be met, and may be even surpassed considering that crude oil prices are well above the US$45 benchmark used in the budget and crude oil production has also been quite healthy, hitting a 12-month high of two million barrels per day in August. Oil prices rallied and closed at a two-year high of $66.87 per barrel in December, 2017.

If the Niger Delta Avengers are kept away from Nigeria's oil assets in the whole of 2018 and OPEC keeps a lid on production, oil prices are likely to remain in the high US$50s and keep Nigeria's oil revenues healthy enough to perhaps plug some of the holes that could open up by not meeting non-oil revenue targets. Nonetheless, the government is expected to surpass its planned borrowing of N1.60 trillion as it has always done in the last three years. This means we could see debt service expanding further in 2019. Capital expenditure at the end of the day suffers in the face of rising debt service and recurrent expenditure.

The 2018 budget shows that capital expenditure is lagging once again. Total capital expenditure planned for 2018 is N2.44 trillion, only about N200 billion higher than the N2.20 trillion that was planned for 2017. It must be noted that of the N2.20 trillion planned capital spend in 2017, only N450 billion or 20 percent has been cash backed so far. President Buhari promised that efforts would be made to raise this to about 50 percent by the end of the year.

Capital Expenditure 2014 - 2018



To achieve this, the Ministry of Finance would have to release additional cash of about N650 billion before December. This is most unlikely. The best bet is that by March, which is the earliest date that the 2018 budget is likely to be signed into law, that 50 percent target would be met. That will bring total capital expenditure to about N1.10 trillion, N100 billion less than the N1.20 trillion released in 2016. In real terms, this is equivalent to the country's proposed capital expenditure in 2015 in dollar terms at an average spend of US$3.9 billion.

In summary, capital expenditure has not changed in three years, while recurrent expenditure has ballooned in the same period.

06

Outlook 2018

- Introduction
- Residential Real Estate
- Commercial real estate
- Commercial real estate - Virtual offices & Co-Share
- Retail Real Estate
- Warehouse and Logistics

Introduction

The chapter on the outlook for real estate in 2018 examines the various sectors of the real estate industry and forecast the trend for the year.

Our forecasts are based on continuous, market surveys, collection of and analysis of data, and trends.

Added to this, is the analysis of the political terrain, and the micro and macro economy as they will impact real estate in the year.

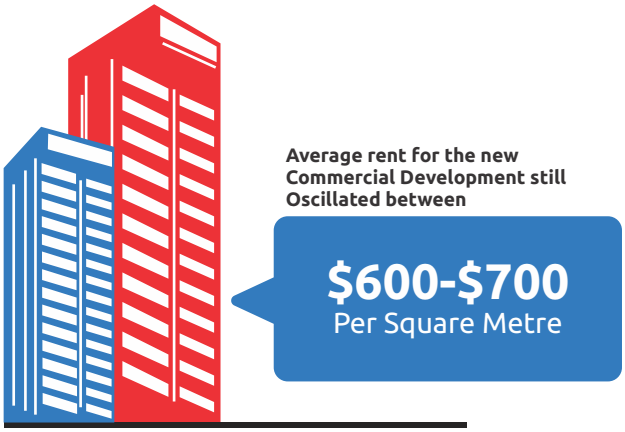
These all put together impact the real estate sector and influence greatly the performance of real estate and real estate investment in any given year.

Commercial real estate

The outlook for commercial real estate in 2018 can be said to be cautiously optimistic.

As predicted in 2017, rentals for the Class A properties dropped or basically remained unchanged. What was common was the refusal of a lot of tenants whose leases expired and which original rents were priced in US Dollars to renew same on dollar terms. Virtually all the rents were re-dominated in Naira and the few that remained in US Dollars took a hard hit in pricing – some dropping as much as 60 percent in US Dollar terms. They were in actuality being pegged against the Nigeria currency exchange rate of about 360/N.

Average rents for the new commercial developments still oscillated between $600-$700 per square metre.



The take up rate for these properties will remain very slow with Landlords continuing to throw in sweeteners to attract and keep tenants. Tenants and prospective tenants on the other hand will drive very hard bargains and have the upper hand in negotiations for obvious reasons.

Statistics, data from the Federal Government indicate that the country has exited its economic recession and so indices are looking up.

This is generally accepted but the impact of this exit has not been felt, neither has it trickled down to businesses, majority of whom are still struggling to recover lost ground after 15 months of a tough recession. If the economy continues on its projected upward climb, rents at the most will remain stable. The good news for property owners and investors could be that further requests for reductions in asking rents or reductions at renewals may no longer be justifiable.

Regarding the commencement of new commercial office developments this would be very unlikely as many investors have seen the slow take up rate and are learning from the not very good experiences of the existing developments which are still seeking tenants. The sector currently suffers what may be termed an oversupply in the short run.

For the ongoing developments, our survey and outlook for 2018 is that the investors and developers will strive to finish them, cutting back on cost as much as possible where they can, without negatively impacting the lettability of the development. For many, they are at the stage where putting a stop on further expenditure or a complete exit from the project is basically impossible.

The outlook for already existing Class B developments on the Island and the Mainland is not much brighter. Rents will remain fairly stable with the exception of strategically located properties in prime locations, particularly the ground and first floors which will continue to attract a premium as financial institutions, financial service providers, telecommunication companies as well as a myriad of retail concerns, fast foods etcetera compete and outbid each other for same.

The issue of conversion of residential properties to commercial uses in prime locations will continue. This is because a lot of businesses who cannot afford to pay the rent of the A and B Class developments will gladly pay a small premium over market rate to locate in a prime but accessible and popular secondary location.

There will also be the case of these properties offering smaller spaces even at a premium to start ups or existing businesses.

Some of these locations include properties off the major roads in Lekki, GRA Ikeja, Surulere, off Adeniran Ogunsanya Road, Ogudu Road etc all within the Lagos environs.

The Abuja Commercial property market performed poorly in 2017.

The outlook for 2018 is mildly optimistic, and as in the outlook for commercial rents in Lagos, the good news is that rents are unlikely to drop any further than they have dropped. If the economy continues on the upward trend as the country exits from recession, there is a possibility of a very slight but not significant positive move for rents. This is predicated on the run up to the 2019 elections, as campaigns enter into high gear, and more money is released into the system.

The corollary to this is that in an election season in Nigeria, there is a lot of capital flight. The "fight to finish" approach of the politicians to power has the effect, of dampening business expansion and creativity and in the long run most major organizations just "thread water" until the electoral process is over and the new government comes in place, or the old one continues. Either way elections in Nigeria have not help the majority of businesses.

There is also a proposal to pay contractors as contained in the 2018 budget.

A number of commercial developments like the Church gate Building in Central Area have their rents priced in US Dollars, but the letting agents are flexible and are willing to negotiate in Naira. The desire to price property rents in US Dollars is no longer attractive. There are not many A Class developments in Abuja but rental values for the top end commercial developments range from N45,000 per square metre to N60,000 per square metre per annum, exclusive of service charge.

Rental values in Port Harcourt will most likely remain at current levels despite seemingly increasing high oil prices and its implication for Port Harcourt which has always derived its dynamic real estate market from the presence of the oil producing companies, their staff and businesses that service them.

The level of insecurity and constant threat of resumed militancy activities all add up to ensuring that despite high oil prices, that the major operators and their staff will continue to run their operations from remote locations and well secured premises.

Commercial real estate outlook in Ibadan and most of the South Western part of Nigeria is sluggish.

Operators are of the opinion that when the railroad between Lagos and Ibadan is completed, it will have a huge positive impact on commercial activities and by extension commercial real estate.

Commercial real estate - virtual offices

The growth of virtual office and shared offices is on the increase year on year. Though, marginal this is understandable as the country goes through trying economic times, though on the exit from a recession and businesses need to run lean but efficient business operations.

Many start ups are devolving to shared facilities where the business just has a table or 2 in a commercial space equally occupied by other business concerns. The benefit is that costs are shared and in effect operating costs are lower. What this does for the business is that they still enjoy top class facilities, a good address and at a fraction of the costs they would have ordinarily paid.

Lots of new businesses with plans to set up in Nigeria have resorted to starting off in virtual offices with one or 2 representatives operating in the country.

Our projection is the same as in 2017. The lessons of the economic recession and uncertainties of the Nigeria economy will continue to drive demand for virtual offices and co-share spaces, particularly in the big cities, Lagos, Abuja and Port Harcourt.

Residential real estate

The residential real estate market continues to undergo the process of appropriate pricing. As in the last 2 years (2016 and 2017) dollar based rental properties will continually get realistically priced by being redenominated in Naira, or will end up having much lower dollar asking rents.

Examples abound in the industry, A 5 bedroom detached house with 2 room service quarters in Banana Island Ikoyi which let for $120,000.00 (One hundred and twenty thousand Dollars) only in 2014, with two years rent prepayment was re – let late 2017 to new tenants at N20,000,000.00 (Twenty million Naira) only per annum. The rent is being paid annually in advance.

The outlook for residential real estate is on the whole, optimistic. There will definitely be an increase in demand though our projection is that it will continue to grow stronger as the year progresses. This outlook is predicated on projected economic growth as the country moves out of a recession, the higher oil prices, the complementary growth in businesses as a result of same, and the continuous pressure on the limited stock of housing in Nigeria by the huge population.

Shortfall of Over

17 Million

Housing Units

We must always remember that based on the United Nation statistics, Nigeria has a shortfall of over to 17 million units in housing with a plausible production of far less than 100,000 units annually.

As expected the high end properties in Lagos Island – Ikoyi, Victoria Island, Lekki etc generally taken up by the expatriates have been hit badly by the recession and the exit of this class of tenants from the country. Most of these properties are available to anyone who can afford them (very few) and where most Landlords originally sought corporate tenants, for their properties, they are now more than willing to settle for individuals (single) tenants, who can show proof or capacity to afford the rents. This trend will continue in 2018.

As the correction in the market continues, rents will most likely continue to be paid one year in advance in many cases (as against 2/3 years advance payment) whilst Landlords will ask for some form of guarantee or assurance against the second year and future rents.

With increased optimism many large residential developments may come on stream. Designs will most likely be tempered in such a way that they are built in phases to manage cash flows and save the investors/developer from laying out too much funds at once.

Rents in 2018 will definitely experience a marginal recovery – 10/15% increase projected. Especially in parts of the Mainland in Lagos and other parts of Nigeria, Port Harcourt, Abuja etc where the real estate development is targeted at the middle class i.e flats.

Marginal Recovery of Rents

10% / 15%

2018

In terms of development and sale of real estate, our projections are that unlike in 2017, the market may actually experience a marginal increase in business come 2018. Developers will continue to ply their trade, but to stay in business they will cut corners. Homes will be smaller, plots of land that should ordinarily take 2/3 units, will see developers attempt to squeeze in 4 or more units. This will all be in a bid to maximize profits and maintain their bottom lines.

Quality will reduce drastically in terms of materials and finishes, whilst sales prices may remain at the same or slightly increased values.

Warehousing and Logistics

Warehousing development supports the logistics industry which in turn is supported by high industrial capacity utilization and distributive trade.

Based on available statistics (NBS 2017) current national industrial utilization is approximately 40 percent. Projection for 2018 however indicates a mild up swing for the industrial sector and capacity utilization.

This is predicated on the rising cost of a barrel of oil ($66 in December 2017). With rising oil prices Nigeria will earn more foreign exchange, our foreign reserves will rise, and in terms of exchange rates there will be a lot more stability as well as predictability.

The overall effect of all this is that manufacturers and other operators in the business environment will have better access to foreign exchange and can import raw materials, goods and services with ease. This will mean increased industrial production and importation etc.

Increased importation and industrial production equates to an increase in demand for warehousing.

Our research indicates that many operators are still very cautious committing fully to their maximum production capacity because of mixed signals and policies from the Federal Government in terms of direction and support. 2018 will however witness a slight increase (less than 8%) in demand for warehousing. Rents are likely to remain at current levels and as witnessed in 2017 involving commercial real estate, many renewals may be undertaken at even reduced rents, as Landlords struggle to retain tenants and tenants struggle to remain in business and find a balance between their current space occupation and actual needs.

Though the stable exchange rate, will positively impact the import retail trade, it will only marginally affect the demand for warehousing as traders will be cautious about warehousing their goods for long periods and incurring huge storage costs whilst balancing diminishing margins and diminishing demand, for their imported goods.

Our outlook is that few manufacturing concerns will be bold enough to start new business in Nigeria. Many who do will start small as a precautionary measure in a bid to monitor economic performance before investing further.

On the bright side, our survey indicates that a lot more of manufacturing concerns in the Nigerian industrial sector who can see huge opportunities and gaps in the economy will be willing to invest in new lines and facilities to take advantage of these opportunities.

However the fact is that so many of these concerns already have existing facilities and lines that are underutilized, and the implication of this is that the projected increased production may not necessarily impact the warehousing real estate stock as much as expected.

The Nigerian export market (apart from oil) continues to grow, but it rarely impacts the demand for warehousing. Surveys indicate that most importers in a bid to save costs, process their export products, containerize and simply move same straight to the ports rather than warehouse. This is also a pointer to the fact that export trade in Nigeria is still at its infancy.

Our market survey indicates that many big operators in the export business already have their own storage facilities and further requirements for larger spaces are non-existent or minimal.

The outlook for 2018 regarding warehousing is that as in 2017, many facilities will be thrown into the market for outright disposal (with few takers) as firms and owners continue to seek creative ways to remain in business.

Development of new warehousing either as investment or for additional storage space will be limited (almost nil) in 2018.

The major industrial areas in Ikeja, Oregun, Ilupeju, Apapa, Amuwo-Odofin in Lagos, Idu in Abuja, Trans Amadi in Port Harcourt and Bompai in Kano as in 2017 will in 2018 witness low activities with many of the warehouses being converted to other commercial uses or completely abandoned. In the northern parts of Nigeria like, Kaduna, demand for warehousing is virtually non-existent.

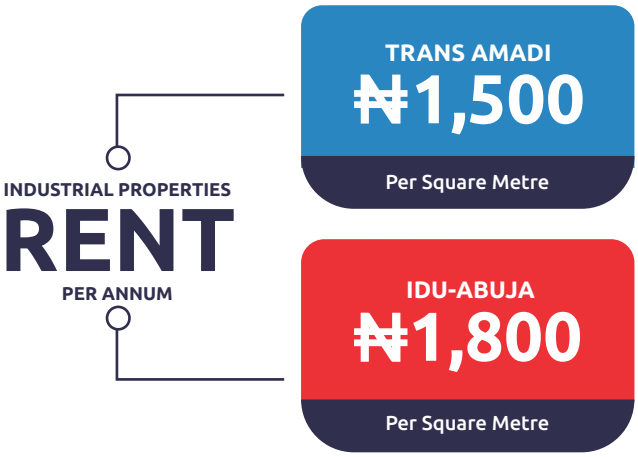
WAREHOUSE LEASE WAIT TIME

The average wait time to conclude a lease of a warehouse has continued to increase basically as a result of low demand. Between 2015 and 2016 the average wait time was in the range of 60-90 days, towards the end of 2016 it had doubled to 150-180 days and in 2017, there were still many warehouses that remained in the market for upwards of 300 days and going into 2018.

It may need to be pointed out that apart from the lower demand, the reluctance of property owners to reduce rentals for these warehouses also helped contribute to a large percentage of them remaining in the market for these long periods of time.

Warehouse rates in Lagos are in the range of N 1,200- N1, 800 per square foot and increase with proximity to the ports.

Trans Amadi Industrial properties command a rent in the range of N1,500 per square metre per annum, whilst Idu in Abuja, attracts about N1,800 per square metre per annum.



Our projections for 2018 are that these rates will remain more or less at the same levels.

We project that if there is a noticeable uprise in the level of economic activities, then the latter half of the year will witness greater uptake of warehouse space, but will still not lead to a noticeable increase in rent.

Retail real estate

"The retail market in Nigeria may not experience major growth in 2018."

There are a couple of projects in the pipeline with completion dates in 2018 and beyond.

2018 Nigeria Retail Development Pipeline

Name	Location	Size (m^2)	Delivery Date
Benin Mall	Edo	13,300	Not Specified
Capital Mall	Abuja	40,000	Not Specified
Novare Central	Abuja	7,178	Q2 2018
Royal Gardens	Lagos	29,441	Not Specified
Silver Valley	Port Harcourt	13,000	2018
Twin Lakes	Lagos	30,000	2018
Victoria Plaza	Lagos	5,788	Not Specified
Westfield	Lagos	2,787	2018
Lennox Mall	Lagos	3,500	2018

Source: Northcourt Real Estate

These projects will provide an additional approximate retail space of 65000 square metres to the already existing malls in Nigeria.

The initiators of these projects really do not have a choice but to bite the bullet and complete them. Rather than raise the debt profile, many are seeking more equity participation and seeking more investors to whom they can sell off part of these projects even in their uncompleted states.

2018 will witness a lot more phasing of retail developments to accommodate the economic realities and uncertainties.

The fundamentals however remain strong. A paradox, but the reality.

Nigeria with a population of 180 million people as at December 2017 had a total mall space of just over 500,000 square metres and purchasing power parity (PPP) of $5440 (World Bank 2016).

NIGERIA

180 Million
Population
December 2017

326,958
Mall Space in 2017

500,000
Square meters retail mall space

$5,440
Purchasing Power Parity (PPP)

World Bank 2016

SOUTH AFRICA

54 Million
Population
December 2017

Over **1800** Malls

25 Million
Square meters retail mall space

$12,260
Purchasing Power Parity (PPP)

World Bank 2016

NAIROBI (KENYA)

3.13 Million
Population
December 2017

has **550,000**
Square meters retail mall space

250,000 sqm
in pipeline countrywide

$3,000
Purchasing Power Parity (PPP)

World Bank 2016

South Africa with a population of 54 million and purchasing power parity (PPP) of $12260 (World Bank 2016) has over 25 million square metres of retail mall space spread over approximately 1800 malls nationwide.

Nairobi capital of Kenya, has a total retail mall space of approximately 550,000 square metres with another 250,000 square metres in the pipeline countrywide within the next 18 to 24 months. Nairobi's population is currently estimated at 3.13 million. The purchasing power parity of Kenya is $3000 (2016).

The Nigerian market continues to offer serious depth for the development of more malls in both premier and secondary city locations.

Access to foreign exchange continues to ease and this portends well for many of the shops in the retail outlets and others scattered around the country. Foreign goods and services which remain in high demand will be easier to import unlike what obtained in the first quarter of 2017. It means outlets will be better stocked and restocked in 2018 possibly giving rise to higher turnovers and higher profits.

Add to this, the fact that a lot of the shops in the malls have focused on backward integration and are to a large extent now selling goods that are locally sourced as well as being very heavily into the promotion of local brands.

These increased outlets for business have helped the local brands also step up their game. Funding in this area has come from a variety of sources including the Bank of Industry (BOI).

As the malls struggle to fill vacant shops (average vacancy rates in 2017 were approximately 50 percent) nationwide; our projection is that rates will remain the same as in the preceding year though varying from location to location, but will basically remain the same.

With the coming onstream of more equity and private investors, the long term plan of developers and investors is to bring down mall and retail outlet rents. The objective is not only to fill up available space, but to ensure that the malls themselves are viable in the long run.

Nigeria Retail Stock - 2018

Mall	Location	Vacancy Rate	Size (m2)
The Palms	Lagos	0%	20,500
Lagoon Shopping Centre	Lagos	15%	——
Silverbird Galleria	Lagos	4%	——
E-Centre	Lagos	19%	——
Novare Mall	Lagos	47%	22,000
Maryland Mall	Lagos	10%	7,000
Leisure Mall	Lagos	12%	15,000
Ikeja City Mall	Lagos	0%	23,000
Festival Mall	Lagos	18%	10,071
Circle Mall	Lagos	7%	10,800
Apapa Mall	Lagos	45%	10,000
AdeniranOgunsanya	Lagos	8%	22,000
Port Harcourt Mall	Port Harcourt	11%	16,000
Genesis Centre	Port Harcourt	17%	——
Big Treat	Port Harcourt	17%	——
Gateway Mall	Abuja	85%	15,000
Silverbird	Abuja	33%	33,000
Jabi Lake	Abuja	45%	25,000
Grand Towers	Abuja	22%	8,300
Ceddi Plaza	Abuja	23%	10,000
The Palms	Ogun	73%	20,000
The Palms	Ibadan	27%	21,000

Source: Northcourt Real Estate

Filling up the malls remains a big challenge as Nigeria has one of the highest rentals for malls in Africa.

The reasons for this wide disparity in rentals compared to other countries are not farfetched. Nigeria has one of the most difficult operating environments in the world.

Investors are faced with high and multiple taxes from many arms of government. Land values and titling costs in Nigeria are high as a result of concentration of infrastructure and services in city centres. Very little effort has been made to develop rural areas and suburbs.

Obtaining approvals for development is an onerous task as developers deal with multiple agencies, each competing to extract a pound of financial flesh.

Cost of money remains high (as at December 2017 – between 22% - 30%) with tenures more often than not in the region of 180 – 270 days.

Our outlook remains one of cautious optimism.

Whilst still a farfetched threat, developers must begin to examine critically the impact of e-commerce on the size of malls.

As e-commerce gains traction worldwide, malls are likely to begin to lose out. This threat though is still a distant one for the Nigerian environment because the shopping (retail) experience in Nigeria for most shoppers is a social outing in itself and is not just limited to the purchase of a few items. The import of this is that future malls must continue to innovate and be creative in their tenant mix and use of space to ensure that they can attract and keep the attention of their youth and middle aged patrons.

AVERAGE RETAIL RENT PER SQUARE METER PER ANNUM