

Lagos Market Update

H1 2023

Lagos Market Update provides half year update on real estate market performance of the 2nd fastest growing city in Africa.

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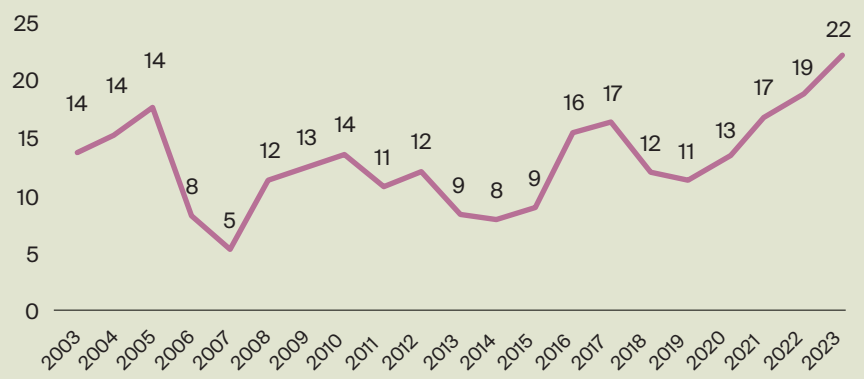
Economic Update

The continued upward swing of inflation, majorly driven by food inflation, remains one of the headwinds undermining economic recovery and faster growth with the erosion of purchasing power and skyrocketing costs. Headline inflation declined in December 2022 but has continued on a rising trajectory from the first quarter of 2023. Consecutive increases to 22.41% encouraged the aggressive tightening stance of the Monetary Policy Committee (MPC), thereby, raising the policy rate thrice by a combined 200-basis point to 18.5%, from 16.5% at the beginning of 2023. According to CBN, their efforts have moderated the rise in inflation by 800 basis points and a headline figure of 30.48%.

On the foreign exchange front, the Central Bank of Nigeria directed all Deposit Money Banks (DMBs) to remove the cap on the Nigerian Naira at the I&E (Investors' and Exporters') window of the foreign exchange market. The monetary measure is a move to unify the exchange rates and erase arbitrage opportunities, allowing the value of a nation's currency to be determined only by market forces. While the move is a step in the right direction to attract foreign investors, experts and business operators have called for mitigating measures to lessen the immediate effects of this policy on the local industries.

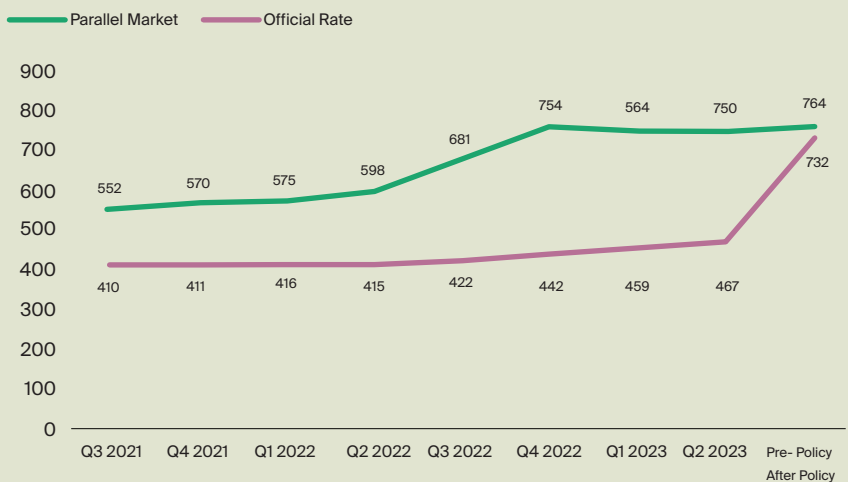
In the first quarter of 2023, Nigeria recorded an average daily oil production (crude oil and condensates) of 1.51 million barrels per day (mbpd) as reported by NBS. Crude oil production peaked in February at 1.3 mbpd and that has been used by OPEC to set the quota for next year, 2024. Crude oil is the major contributing source to foreign reserves; however, this did not reflect in our

Inflation Continuous Uptrend



Source: NBS

Closing Arbitrage Gap: Parallel vs Official Rates



Source: CBN, Knight Frank

5.31%

Real Estate contributed 5.31% to real GDP in Q1:2023, down from 5.34% recorded in the corresponding quarter of 2022.

external reserves as Global uncertainties and persistent volatility in the Global Oil market resulted in the downtrend of crude oil prices. This coupled with exchange rate pressures led to slow accretion of the reserves.

Gross Domestic Product (GDP) stood at 2.31% in real terms in the first quarter of 2023, a decline from 3.52% in the fourth quarter of 2022 and 3.11% in the first quarter of 2022. Driven mainly by the services sector, the reduction in growth is attributable to the cash crunch, which hurt manufacturing, commerce and trading activities.

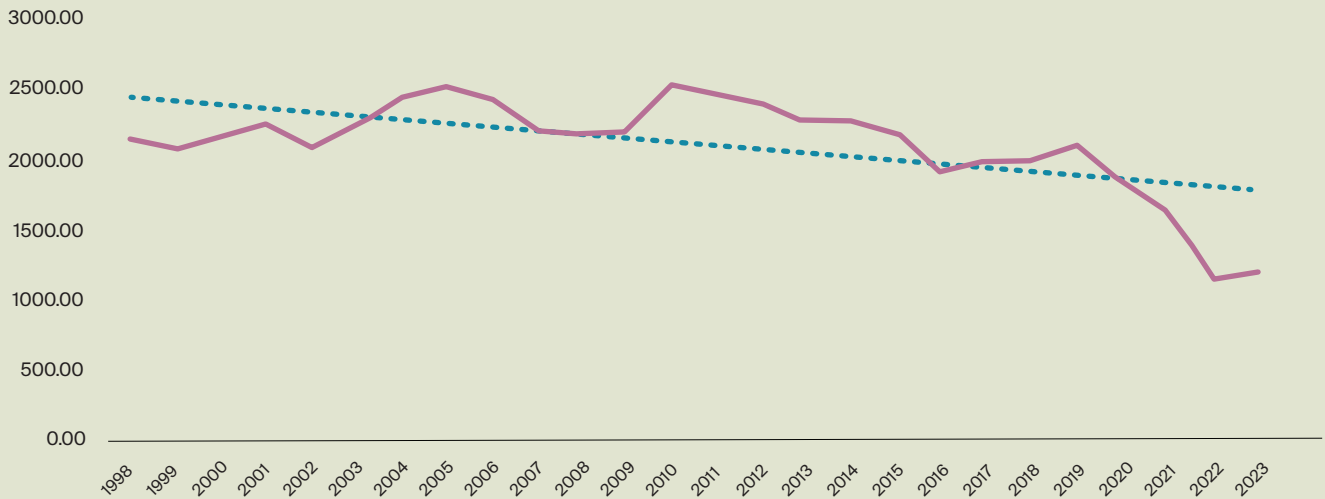
Construction sector contribution to total real

GDP was 4.22% in the first quarter of 2023, improving marginally compared to its contribution of 4.18% in the corresponding quarter of the previous year, and the immediate past quarter where it contributed 3.47%. Real Estate sector contributed 5.31% to real GDP in Q1:2023, a slight drop to the 5.34% recorded in the corresponding quarter of 2022 and lower than 6.18% of the previous quarter.

The Key Insights

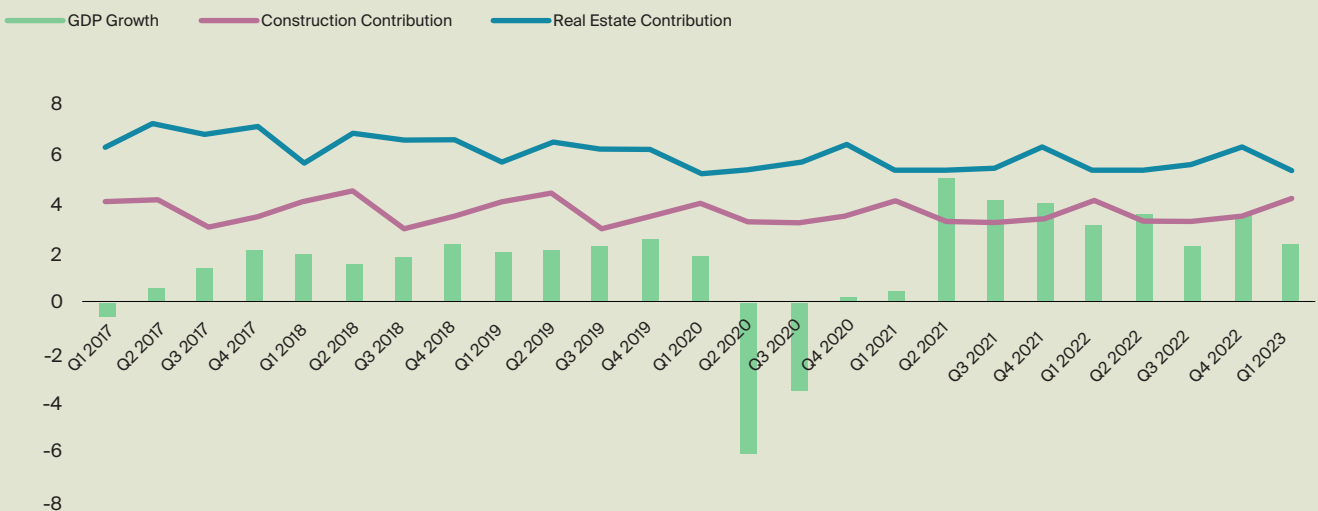
- MPR raised three times by a combined 200-basis point from 16.5% to 18.5% at the beginning of 2023.
- GDP grew by 2.31% (year-on-year) in real terms in Q1 of 2023; a decline from the 3.52% in Q4 of 2022.
- The inflation rate accelerates to 22.41%, moderated by the efforts of CBN, headline figure could have been 30.48%.
- Construction contribution to total real GDP was 4.22% while Real Estate contributed 5.31% to real GDP in Q1 of 2023.

Downtrend of Crude-Oil Production (in 1,000 barrels per day)



Source: NUPRC

GDP Growth, Construction & Real Estate Contributions to GDP (%)



Source: NBS

Election and Cash Politics

The 2023 presidential election was one of the momentous and critical events in Nigeria. The announced results by INEC proclaimed the ruling party's candidate, Asiwaju Bola Ahmed Tinubu as the winner of the presidential election. Leading to the election, the Naira Redesign Policy was considered ill-timed and malicious especially by political stakeholders, due to the consequential economic difficulties that trailed its introduction. For neutrals, it was taken in good faith, as a strategy to curb voters' inducement and vote buying. However, the supreme court on March 3, ordered that old N200, N500, and N1,000 notes remain in circulation till December 31.



Residential Market Review

The Lagos State government from its N1.77 trillion budget dubbed "Budget of Continuity" will invest a total of N67.1 billion into the provision of affordable housing. With more than a thousand units of affordable housing in Badagry, Sangotedo and Ibeshe targeted for completion, some of the housing projects already delivered this period include 72 home units in Ndubuisi Kanu Estate, Gbagada, 804 units in two Lagos Home Ownership Mortgage Schemes (LagosHOMS) located in Odo-Onosa Ayandelu and Agbowa. The budget is to consolidate the Lagos State housing efforts and ensure the completion of its projects, especially infrastructure.

Speaking of infrastructure, the newly commissioned Blue Rail Line by former president Muhammed Buhari, when operational will trigger some measure of shift in land use pattern and development. It will also potentially decrease traffic congestion, decongest certain neighbourhoods, improve property values along the corridor, and open up new neighbourhoods to development. Such infrastructural projects often have catalytic effects on the surrounding areas attracting meaningful growth.

Charged with the inflow of Diaspora funding, demand trends in the sales market have been relatively stable, with a special focus on off-plan investments. Locally, demand drivers' priority on affordability, accessibility, plus the rising cost and time of home delivery are some of the famous rationales driving the

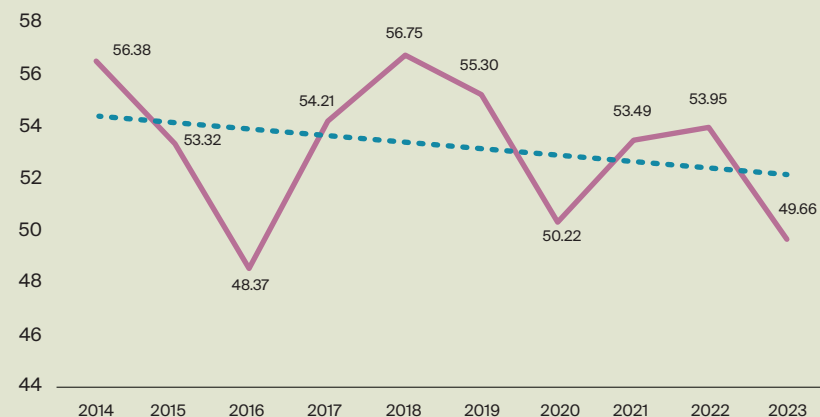
Effects of Scarcity / Subsidy Removal

Cash shortages across the Nigerian economy as a result of the Naira Redesign had a severe impact on the private sector, especially through the first quarter of the year. Currency in circulation and currency outside the banks declined by 58% and 72% respectively in January 2023. According to Stanbic IBTC, headline PMI fell to 44.7 in February from 53.5 in January. This is the first contraction in private sector business conditions in over two years. It dropped even further in March to 42.3, indicating declining business conditions in the Nigerian private sector. For companies, fuel scarcity also had a notable impact on the steep reductions in

output and new orders, causing longer delivery times for suppliers and a marked increase in purchase prices.

Prior to the announcement of the removal of fuel subsidy, the Federal Government was in a tight spot to make a tradeoff between funding for consumption or production. Last year alone, subsidy downed \$10-15 billion—funds now available for more productive uses. Inflationary impacts, reduced purchasing power and raised national poverty levels are short-term effects of the removal of subsidy. However, the long-term positive effects will include more funds made available for the provision of infrastructure and a potential upwards review of national minimum wage.

Annual Average Composite PMI from 2014 - 2023



Source: Stanbic IBTC

The Key Insights

- The Lagos State Government from its N1.77 trillion budget dubbed "Budget of Continuity" will invest a total of N67.1 billion into the provision of affordable housing.
- Sustained growth of rental rates across Lagos is driven by demand drivers prioritizing accessibility and affordability.
- Recent collapse of residential building projects in Lagos especially that of Banana Island brought back into the news the issue of incessant collapse of buildings.

sustained growth of rental rates across Lagos city centers, particularly in affordable and highly-accessible neighbourhoods. For instance, 3-bed in Yaba has seen rental growth as high as 60% within the last two years and around 18% HoH. High-end neighborhoods have enjoyed similar rental growths, however, over a much longer period and it is more pronounced with houses and apartments with lower-entry price-point as compared with ultra luxury/high-rise grade-A units.

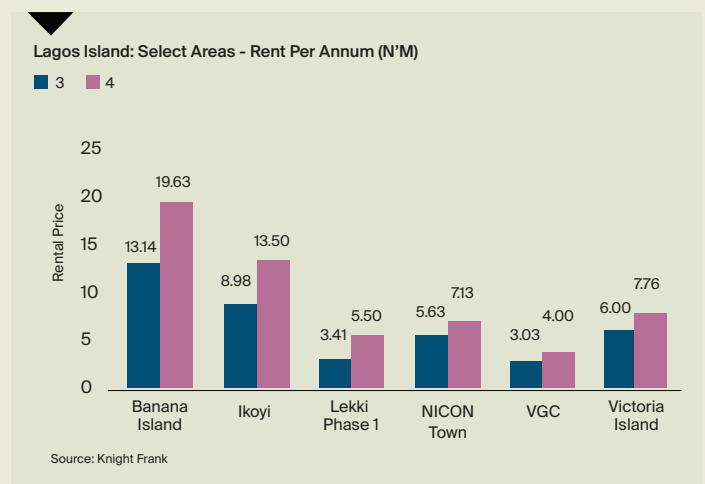
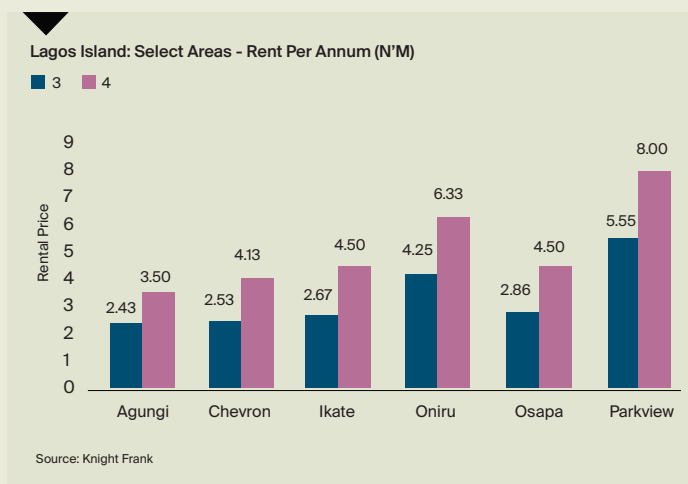
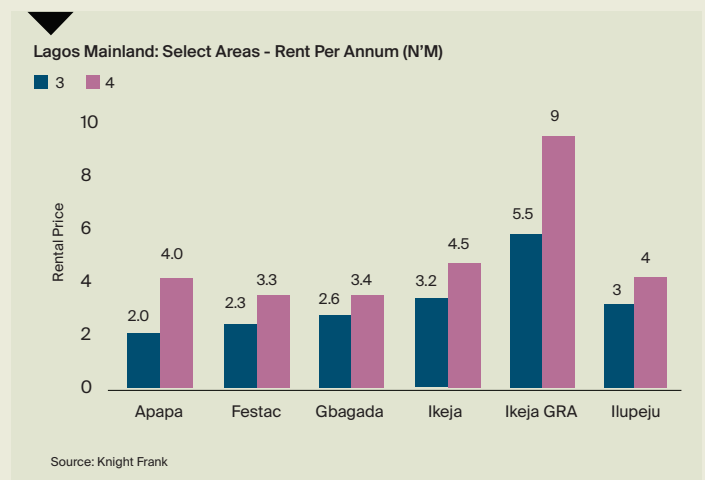
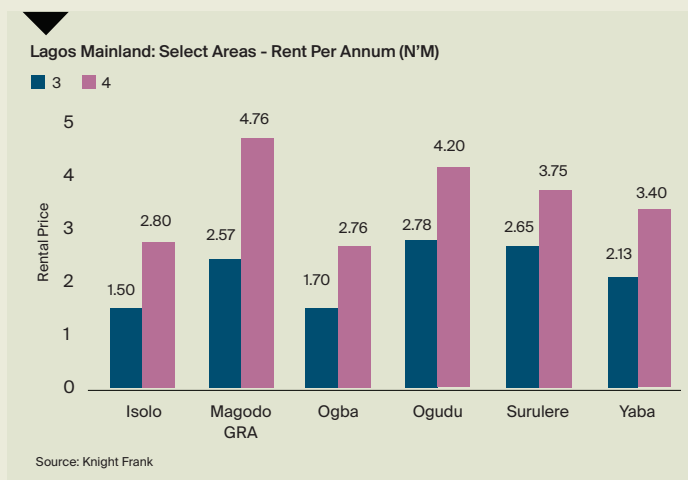
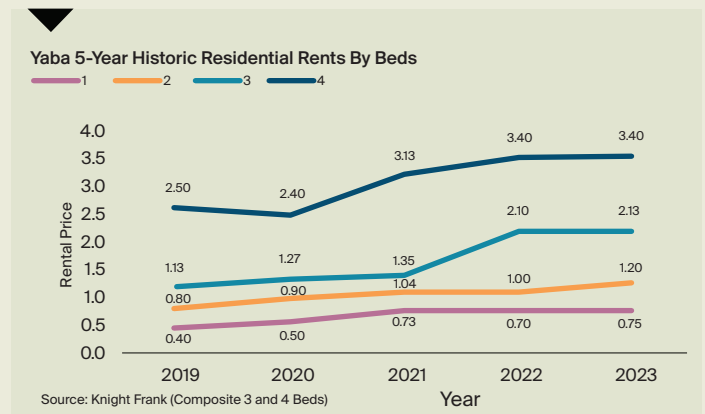
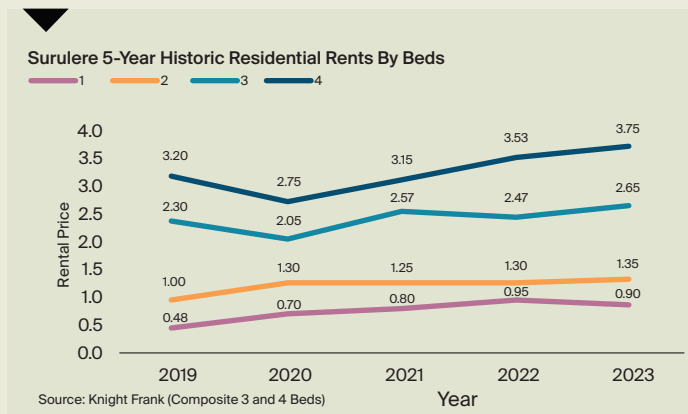
The short-term uncertainty has made

stakeholders adopt a wait-and-hold strategy, leading to a slowdown, especially for capital-intensive projects, and leaving capital to find its place in the market for capital-efficient projects.

The recent collapse of residential building projects in Lagos, especially that of Banana Island, brought back into the news the issue of incessant collapse of buildings in the country. Experts have said this is due to a combination of hurried construction, flouting building regulations, use of sub-standard construction materials, as well as

incompetence of both skilled and unskilled labour.

Carrying on the run of attracting foreign and local finance as detailed in H2:2022 Lagos Market Update, Family Homes Funds Limited listed a N20 billion Sukuk bond on Nigerian Exchange (NGX) Limited with seven years maturity and a coupon rate of 14.00 per cent to be paid semi-annually on March 19 and September 19. The proceeds are for financing affordable homes for low income households.



Retail Market Review

Nigeria's Cash Crisis had a toll on Consumer Spending, especially in the informal sectors, crippling trading and retail activities. The fuel subsidy removal and the consequent rise in inflation has impacted retail footfalls.

Individuals are more cautious about their spending with purchasing power reduced, individuals are more cautious about their spending.

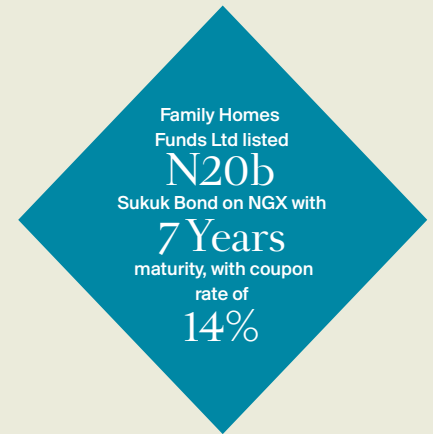
As reported in our H2:2022 edition, e-commerce has benefitted the local economy in a variety of ways, fast becoming integrated into everyday life, and one of the winners during the cash crunch period, with an increase in the use of online trading and adoption of digital payment methods by several retail outlets.

Recently a leading pan-African investment platform, AfricInvest announced it has taken a stake in a family-owned retail department store, Justrite. This further shows the growing attractiveness of neighborhood supermarkets and this might be the motif going forward in retail in Nigeria.

A set of two malls in Ikeja and Victoria named Ile-Oja have been delivered with full operations expected in Q3:2023. As reported by the leasing managers, take up rates have been positive, with 70% of spaces in Victoria Island already filled. Also, Adidas opened its flagship store in Victoria Island in Lagos, Nigeria.

The Key Insights

- AfricInvest announced it has taken a minority stake in Justrite, a leading Nigerian family-owned retail departmental store.
- Nigeria's Cash Crisis had a toll on consumer spending, especially in the informal sectors, crippling trading and retail activities.
- A global sports brand, Adidas, opened a flagship store in the heart of Victoria Island in Lagos, Nigeria.



Retail Development Pipeline

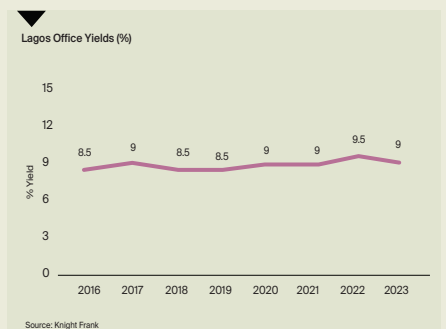
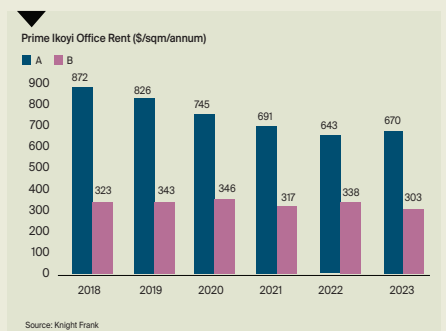
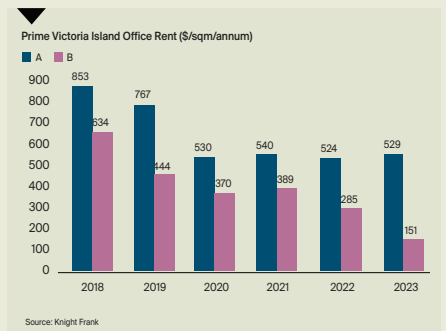
Name	Location	Size (m ²)	Delivery Date
Lekki Town Square	Lekki	N/A	2024
Resurgence Plaza	Lekki	N/A	2023
Falomo Shopping Centre	Ikoyi	10,000	2023
Agbara Mega Mall	Agbara	3,500	2024
Purple Lekki	Lekki	12,000	2023

Office Market Review

Though there has been a considerable level of inquiries in the first quarter relative to the corresponding quarter of 2022, transaction timelines have been pushed further averaging 3-6 months. This was as a result of Global economic uncertainties plus the local election causing a lull in activities - 'wait and see' mood was prevalent in the office market.

The recent roll-out of a couple of coworking centers such as Walure Capital in Ojodu Berger, the new Regus: The Zone, located in Gbagada, and The Adrenalina around Yaba speak to the observable popularity of coworking spaces that prioritizes amenities and cultivate a sense of community and collaboration. This is attributed to the growing demand for flexible and cost-effective alternatives to traditional office spaces.

Peculiarities brought about by the pandemic are still prevalent especially reduced space requirements and tenants' flight to quality. Corporate tenants with carbon neutral agenda will drive the movement towards sustainable spaces and we expect the consequential pricing bifurcation to gain momentum between buildings with ESG and others.



Office Development Pipeline

Name	Location	Size (m ²)	Delivery Date
Ulesh Ikoyi	Ikoyi	16,390	2024
Dangote Industries HQ	Ikoyi	17,000	2024
40, Adetokunbo Ademola Street	Victoria Island	14,000	2023
A & A Towers	Eko Atlantic	Unspecified	2023
The Phoenix	Ikeja	8,000	2024
Stanbic IBTC HQ	Victoria Island	12,208	2023
Crystal Tower	Victoria Island	12,000	2024
Aerobell Towers	Victoria Island	7,000	2023
27 Glover Office Tower	Ikoyi	Unspecified	N/A
Leadway Tower	Victoria Island	9,343	2023
18C Glover Road Ikoyi	Ikoyi	2,100	2023
Mansfield Office	Lekki Phase 1	4,280	2023

The Key Insights

- There is increasing demand for flexible and cost-effective alternatives to traditional office spaces.
 - Transaction timelines have been pushed further, averaging 6-12 months for traditional.
- Carbon-Neutral Agenda to drive
- movement towards sustainable spaces and pricing bifurcation.

Industrial Market Review

Along with e-commerce, the critical needs of port operations, the seasonal production of agricultural products plus the need to store surplus production, and manufacturer's need to bridge the gap between production and distribution, have all contributed to the positive performance of warehousing and

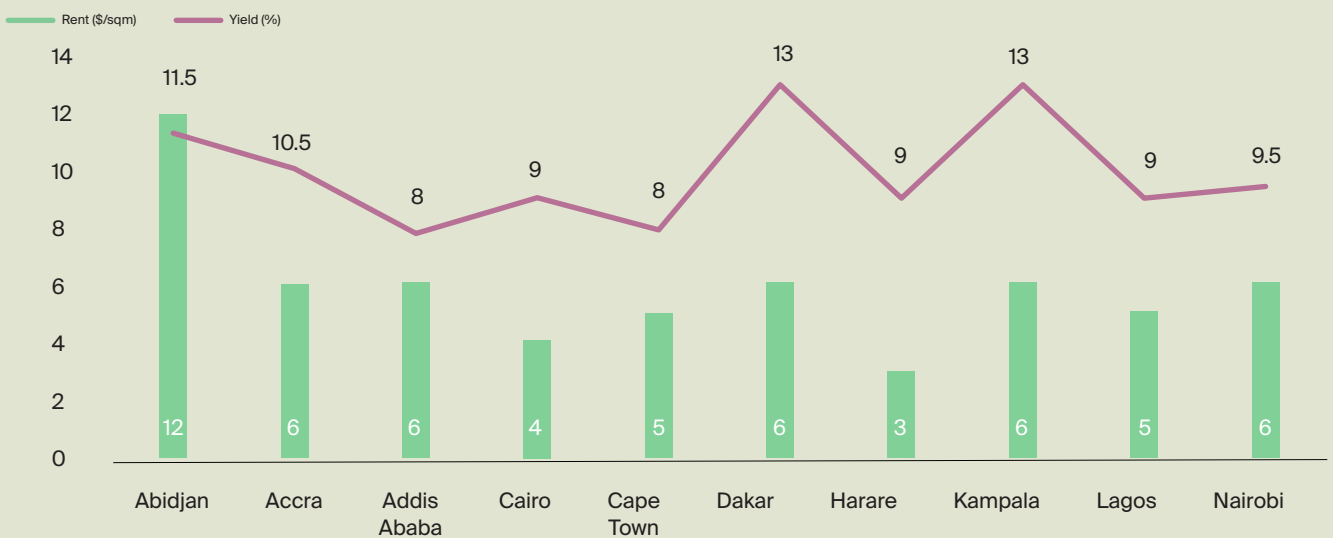
logistics facilities.

Increased public and private spending on infrastructure has led to the consequential growth of industrial facilities in major industrial nodes within Lagos. For instance, the recent commissioning of Lekki Deep Seaport (one of the largest in Africa) and the \$19 billion Dangote petroleum refinery, which are top highlights of the year, have improved

market fundamentals in the Lekki-Epe region.

We observed increased volume of enquiries for built-up and grade-A smart warehouses, and planned delivery of grade-A office spaces such as Irele Tower to cater for all port-related service providers. Another notable project with similar significance includes the 32 metric tons per hour rice mill in Imota-Ikorodu, Lagos, etc.

Lagos Industrial Rents Compared to Select African Cities



Source: Knight Frank Africa

Recent Publications



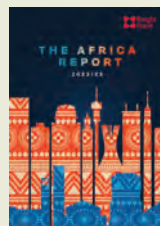
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Africa Horizons
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The Wealth Report
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The Africa Report
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We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you.

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