

Lagos Market Update

H1 2024

Lagos Market Update provides half-year update on the real estate market performance of the commercial nerve centre and economic hub of Nigeria.

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Lagos Market Update

H1 2024

Economic Update

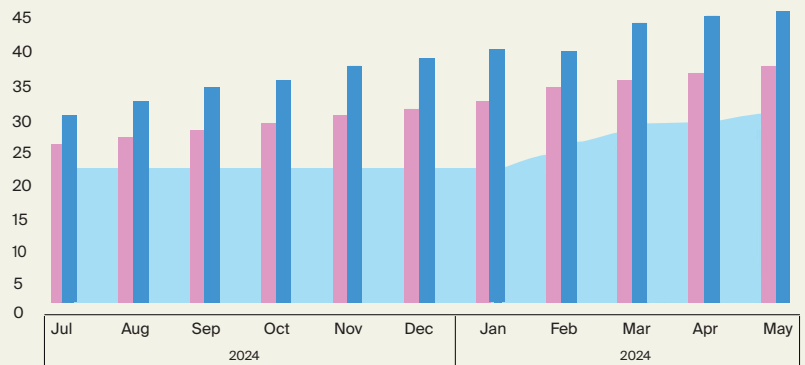
Nigeria is caught in the middle of a precarious balancing act between galloping inflation and business growth – a tough situation with no easy answers. Inflation, likened to a multi-headed beast; stemming from a confluence of influences rather than a single factor, has continued its extended ascent, reaching a staggering 33.95% in May, marking its 17th consecutive run, with food prices contributing more on a divisional level. The Central Bank fought back with interest rate hikes, aiming for price stability but potentially choking economic growth.

In a series of aggressive moves throughout the first half, the 'banker's bank' cumulatively raised the Monetary Policy Rate by a substantial 750 basis points from 18.75% to 26.25%. This significant tightening reflects their prioritization of combating inflation over strengthening business activities. Meanwhile, workers, feeling the squeeze, strongly demand a raise in minimum wage to stay afloat. Yet, these desired wage increases threaten to fan the inflationary flames further.

While global oil prices remained above budget targets at over \$80 per barrel, production remains a concern. Nigeria is currently producing below its budget target of 1.78 million barrels per day (bpd) – including condensate – with crude oil production falling short of the

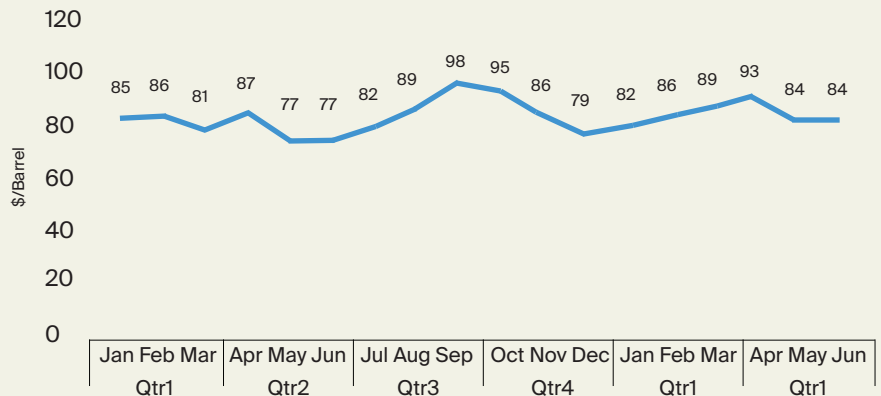
Inflation & MPR

Monetary Policy Rate All-Items Inflation Food Inflation



Source: NBS

Avg. Monthly Crude Oil Price (Bonny Light)



Source: CBN

33.95%

Nigeria's inflation hits 33.95%, Central Bank raises rates to 26.25%; oil production below targets at 1.5 million bpd...

OPEC+ quota of 1.5 million bpd as well, which typically excludes condensates. This disparity raises concerns about budget implementation and economic stability. Dangote Refinery is now operational, and would potentially reduce reliance on imports and boost the local economy. The refinery began operations in early 2024, significantly impacting the local market by supplying diesel at reduced prices and exporting jet fuel to Europe. However, the refinery is facing challenges securing crude oil supply from Nigerian sources, which could limit its production capacity.

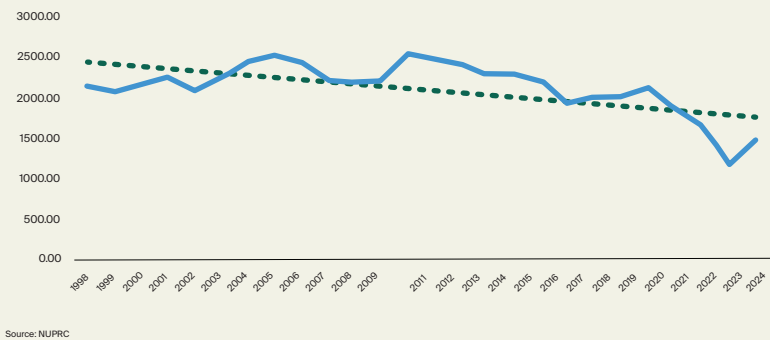
Optimism: Growth and Diversification Amid Challenges

At first glance, Nigeria's economic performance in Q1 2024 paints an optimistic picture. Headline figures show positive year-on-year GDP growth of almost 3%, driven by the services sector. Capital inflows nearly tripled, from \$1.13bn recorded in Q1 2023 to \$3.38bn and a positive trade surplus emerged, thanks to a surge in exports largely dominated by crude oil.

However, a closer look at the dynamics introduces cautious optimism. While capital inflows are encouraging, their short-term nature is limiting and warrants a focus on attracting long-term investments crucial for sustained growth.

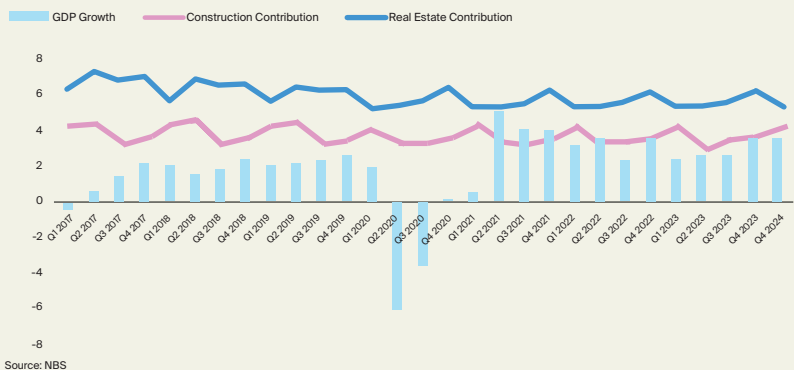
Furthermore, the trade surplus, despite its positive contributions, exposes Nigeria's excessive dependence on oil exports, reinforcing the need for export diversification. Nigeria's GDP growth remains positive and higher than Q1 2023, likely reflecting a more favorable economic climate compared to the cash crunch experienced last year. However, it has slowed compared to the previous quarter, suggesting a potential cooling down of the economy.

Oil Production in Nigeria from 1998 to 2024 (in '000 barrels per day)



Source: NUPRC

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



Source: NBS



Source: Canva

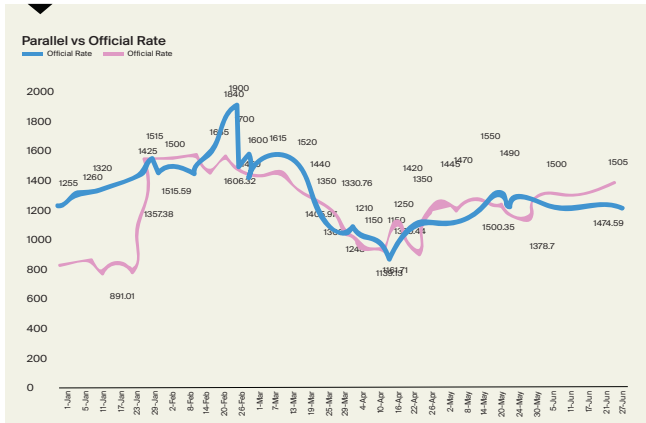
The Key Insights

- The central bank raised the Monetary Policy Rate from 18.75% to 26.25% in H1, a 750-basis point hike.
- Nigeria is currently producing below its budget target of 1.78 million barrels per day
- Nigeria's GDP grew by almost 3%, services-led, with rising capital inflows and oil exports.

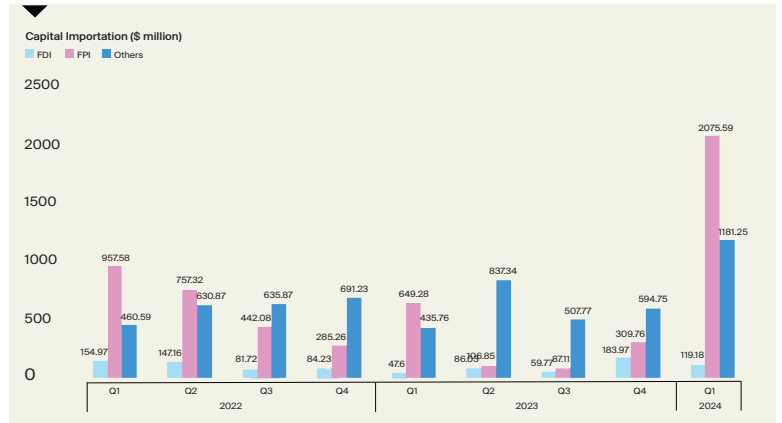
Strengthening Nigeria's Banking Sector

The significant devaluation of the Naira, which eroded the banking sector's capital base, and other economic headwinds have necessitated the recapitalization of banks to strengthen financial stability, which is crucial for achieving the \$1 trillion economy ambition. In response, several Nigerian banks, including Access Bank Plc, Guaranty Trust Holding Company (GTCO), and Fidelity Bank have already begun

raising capital through the stock market. Higher minimum capital requirements will create a buffer for unexpected losses, ultimately strengthening the financial system and supporting economic growth. Concurrently, the Central Bank of Nigeria is taking measures to stabilize the forex market and combat speculators, with the Naira now settling around N1,400 to N1,500, indicating a potential resistance.



Source: CBN, Knight Frank



Source: NBS

Residential Market Review

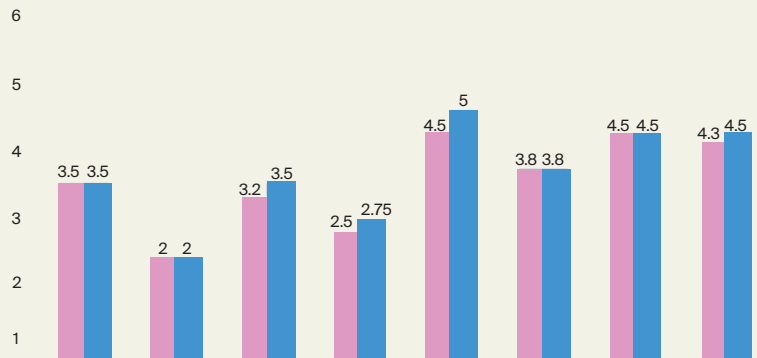
In a comprehensive approach “Towards a Greater Lagos,” the Lagos State government is actively reshaping its residential landscape in 2024. The strategy combines ongoing efforts that prioritizes safety with demolitions of illegal structures, optimizes land use through reclamation projects, expands housing options by completing stalled schemes, promotes transparency with the e-GIS platform, and explores potential rent regulation for a more sustainable and accessible residential sector. Additionally, in the Lagos State government’s 2024 Budget, themed “Budget of Renewal,” N55.924bn, or 2.5% of the budget, is allocated for affordable housing schemes and urban renewal projects. This includes 444 units at Sangotedo Phase II, 420 units at Ajara, Badagry Phase II, and 136 units at Ibeshe II, among others.

Shifting focus to the broader market activities, despite general volatility in the real estate market, Lagos’ residential sector attracts more favourable sentiments from investors compared to other real estate sectors, thanks to robust fundamentals.

Historically, this market has proven resilient even during harsh economic conditions and continues to attract substantial foreign and local finance. Previously, Mixta Africa secured N8bn, Landmark Africa obtained

Lagos Mainland: Select Area - Rent Annum (N'M)

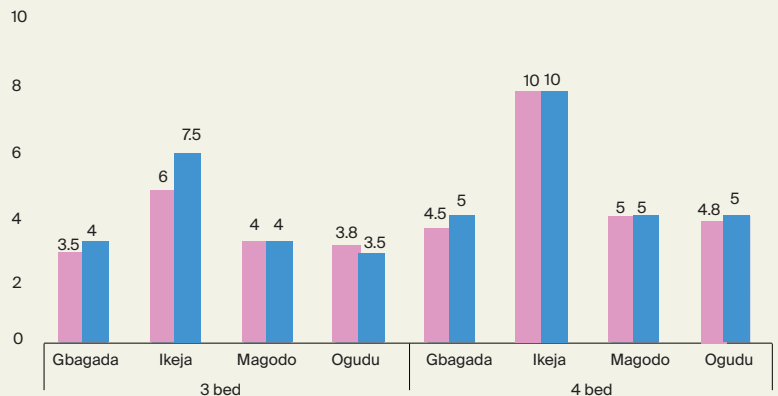
2023 2024



Source: Knight Frank

Lagos Mainland: Select Area - Rent Annum (N'M)

2023 2024



Source: Knight Frank

N10bn, and Family Homes Funds issued a N20bn Sukuk bond. In the latest development, Wemabod, one of the largest property companies in Nigeria has initiated a N50 billion bond issuance program, starting with N4 billion, to transform Unity House into a mixed-use development with residential apartments and office space, underscoring the ongoing confidence in Lagos' real estate sector.

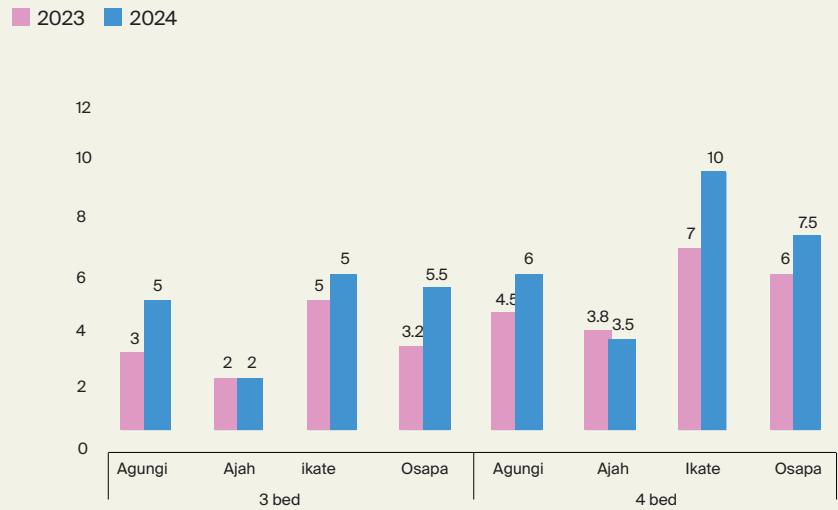
However, the current sharp rise in residential property prices warrants closer examination. While strong demographics and a housing shortage remain key demand drivers, the recent price surge might be more heavily influenced by the current economic climate, particularly inflation and uncertainty. Construction costs has also significantly impacted housing delivery in Nigeria. Labor and material expenses skyrocketed, with reports indicating a 50-100% increase. This dramatic rise, particularly in cement prices (jumping from N5,000 to over N10,000), drew the attention of lawmakers. Rental prices for residential properties have increased by an average of 15-20% compared to what was achievable last year. Further compounding the economic challenges, surging prices for essential goods and housing have strained household budgets and led to increased defaults on rent payments.

N55.9bn
Investment Growth

The Key Insights

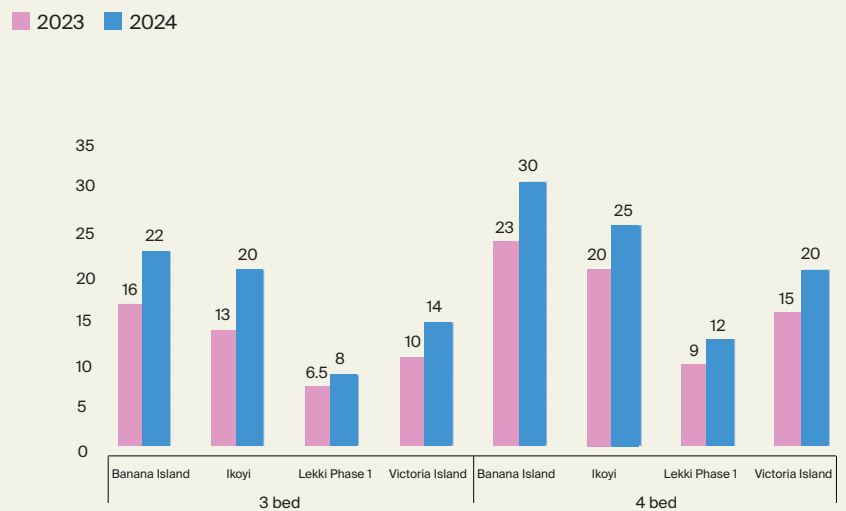
- Lagos allocates N56 billion for housing and urban renewal.
- Lagos residential market draws investment, Wemabod launches N50bn bond for Unity House.
- Property prices surge with rental rates up 15-20%, causing increased rent defaults.

Lagos Island: Select Area - Rent Annum (N'M)



Source: Knight Frank

Lagos Island: Select Area - Rent Annum (N'M)



Source: Knight Frank



Retail Market Review

Lagos' retail landscape is adapting to significant economic pressures. Inflation has surged to a 28-year high of 33.95%, severely impacting consumer spending power, reducing footfall and retail business performance. The challenging economic climate forced major retailers like Shoprite to close its Wuse, Abuja branch on June 30, 2024, highlighting the strain on large supermarket chains.



Source: Freepik.com

33.95%

Inflation hit 28-year high.

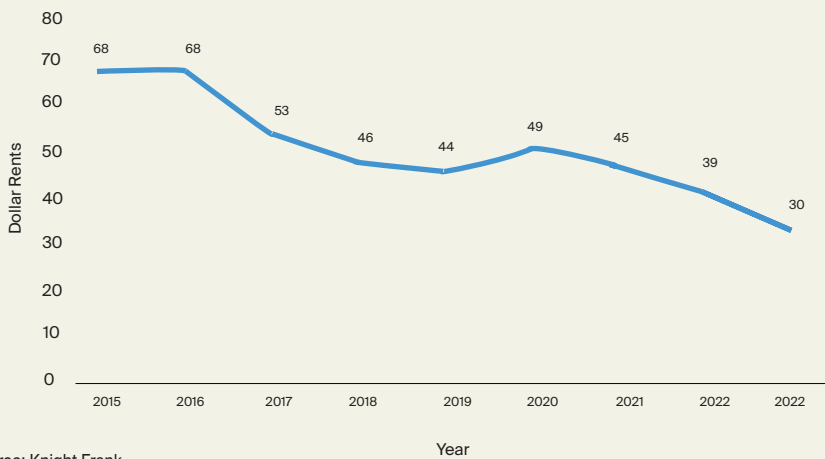
However, the retail sector within the same period witnessed a counter-narrative in neighborhood malls, particularly those anchored by innovative discount grocers like the rapidly expanding Bokku! chain, which experienced resilient customer traffic. In just over a year and a half since its inception in September 2022, Bokku! mart has established a robust presence with over 70 branches across Lagos. In contrast to Bokku! mart's rapid Lagos-centric expansion, Sundry Markets Limited, the owners of the Marketsquare supermarket chain operating across Nigeria since 2015,

has taken a more gradual nationwide growth approach. These strategically located, smaller retail stores cater directly to budget-conscious consumers by offering essential goods at competitive prices. Their close proximity to residential areas further strengthens their appeal as they offer a convenient shopping experience in terms of travel time.

The Lagos retail scene is also set to be invigorated by the construction of The Lagos Arena, a \$100 million, 12,000-capacity multipurpose hall adjacent to the Palms Mall in Lekki,

which began in February 2024 and is slated for completion next year. Led by the Persianas Group and the Nigerian Sovereign Investment Authority, this venue will host over 200 events annually and create over 1,500 jobs. The Arena positions Lagos as a major entertainment hub, also attracting global and local retail brands seeking prime exposure to a vast audience. This strategic advantage strengthens the city's commercial and cultural landscape.

Average Retail Dollar Rents



Source: Knight Frank

The Key Insights

- Lagos' retail sector hit by soaring inflation, retailers struggle.
- While traditional retail struggled, Neighborhood Malls, Discount Grocers Thrived.
- \$100m Lagos Arena to boost retail & entertainment economy, create jobs.

Office Market Review

The commercial real estate sector exhibited a mixed performance as prime office spaces, despite a surplus, prioritized retaining occupancy through landlord adaptation strategies, including a willingness to listen to tenants' negotiations, while conceptual projects hinge on securing preletting agreements to ensure viability.

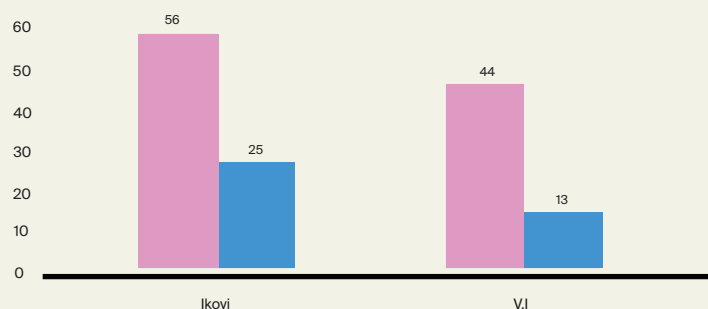
Since the devaluation, rents for prime office spaces have surged more than two-fold in Naira. Landlords prefer pricing rents in Dollars for stability, causing tenants to face significant financial strain, prompting negotiation for Naira-denominated leases or significant reductions in Dollar rents.

The Lagos office market has struggled with space glut for years, with Ikoyi and Victoria Island bearing the brunt of the pre-pandemic oversupply. Now, with the rise of hybrid work models, the situation is even tougher. Landlords are exploring creative solutions, like

Wemabod's repositioning of Unity House on Lagos Island. This trend of transforming underutilized offices into mixed-use spaces along with lower rates, is likely to continue, especially for older buildings, as new supply enters the market.

Prime Ikoyi Office Rent(\$/sqm/month)

■ A ■ B



Source: Knight Frank

Office Development Pipeline

Name	Location	Size (m ²)	Delivery Date
Ulesh Ikoyi	Ikoyi	16,390	2024
Dangote Industries HQ	Ikoyi	17,000	2025
A & A Towers	Eko Atlantic	Unspecified	2025
The Phoenix	Ikeja	8,000	2024
Crystal Tower	Victoria Island	12,000	2025
The Pantheon	Ikoyi	Unspecified	Unavailable
Leadway Tower	Victoria Island	9,343	2027
Harbor Point Tower	Victoria Island	20,000	2025
NDIC	Ikoyi	Unspecified	2025

Adding to these pressures, in April 2024, the government increased electricity tariffs for areas under Service Band A, where most prime office spaces are located. This led to a sharp rise in utility bills, further stressing occupiers financially.

 The Key Insights

- Devaluation hikes rent in naira terms, tenants demand naira or dollar cuts.
- Tech giant Microsoft downsized, reducing office footprint
- Wemabod repositioning Unity House to mixed-use.

 **Industrial Market Review**


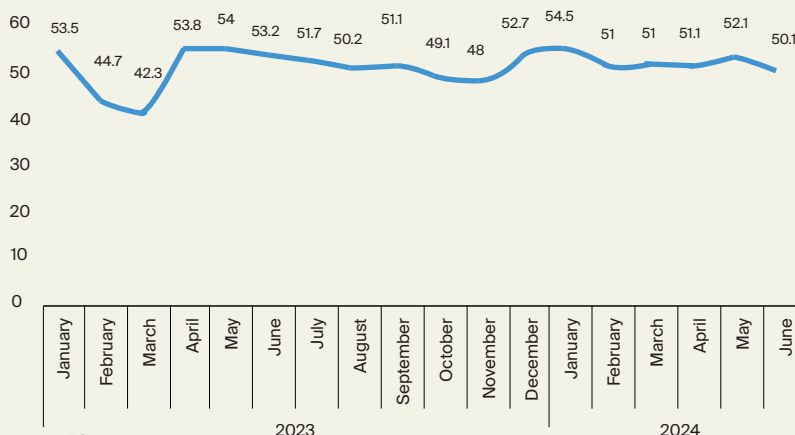
Generally, Nigeria's warehousing and logistics sector is facing significant challenges due to macroeconomic pressures, with manufacturing slowing down and key manufacturers exiting the market. Companies cite a harsh business climate, high energy costs, and insecurity as reasons for their departure. This has dampened earlier enthusiasm for logistics warehousing. However, a shift is occurring as Asian and domestic companies, such as Lagos-based Fidson Healthcare, step in to fill the gap left by the departure of US and European multinationals like GSK.

These local and regional firms may be better equipped to navigate the economic challenges, including unemployment and inflation. Other companies like Jumia and APM Terminals are adapting by consolidating operations and investing in infrastructure, reflecting optimism about Nigeria's economic outlook and commitment to enhancing efficiency and growth.

The limited supply of high-quality warehousing has created a premium for these highly sought-after spaces with an observable increase in activity within Special Economic Zones (SEZs), driven by strong demand for prime storage facilities. Key industrial

areas, such as the Lagos Free Trade Zone (LFTZ), are experiencing heightened interest. This trend is bolstered by increased infrastructure investment from both the public and private sectors.

Nigeria's industrial sector faces challenges; local firms adapt.

 Purchasing Managers Index


Source: Stanbic IBTC

 The Key Insights

- Macroeconomic pressures impact manufacturing
- Domestic companies, like Fidson Healthcare, fill gaps left by US and European multinationals.
- Prime warehousing in demand, SEZs see increased activity and infrastructure investment

Infrastructure Market Review

Infrastructure is a priority in Lagos' 2024 budget, with a substantial allocation of N550.69 billion – over a fifth (24.28%) of the entire budget. This significant investment focuses on completing ongoing projects like the Lekki-Epe Expressway and the Lagos-Badagry Expressway, alongside initiating construction of the Fourth Mainland Bridge. The budget also allocates resources for critical "Special Projects", including the Lekki-Epe International Airport and the expansion of the Blue and Red Rail Lines amongst others.

Consolidating on the Blue Line which has been operational since September 2023, the Lagos State government has expanded its rail network with the inauguration of the Red Line, spanning 37 kilometers from Agbado in Ogun

State to Oyingbo. This effort is complemented by ongoing construction of interchange hubs at Mile 2 and Marina, pivotal for integrating rail, water, and road networks as part of the broader Lagos State Transport Master Plan. Furthermore, the Third Mainland Bridge, the longest bridge connecting the Island to the Mainland, underwent a major overhaul in 2024, by the Federal Ministry of Works. After a 14-week partial closure, the bridge reopened with new asphalt, solar lights, and CCTV cameras.

The Lagos-Calabar highway, a planned 700km coastal route spanning six states, is underway despite controversy. Some criticize its environmental impact and disruption to local businesses, like the part demolition of the popular Landmark Ecosystem, while others see its potential to boost trade and connectivity.

The Key Insights

- Lagos allocates N550.69 billion to infrastructure in 2024 budget.
- Red Line rail, a 37km (about 22.99 mi) stretch from Agbado to Oyingbo, launched
- Interchange hubs at Mile 2 and Marina are under construction.
- Third Mainland Bridge revamped, reopened. .

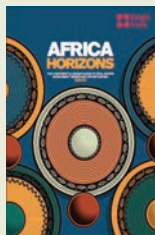
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We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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