Research

Lagos Market Update

H2 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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Lagos Market Update

H2 2023

Economic Update

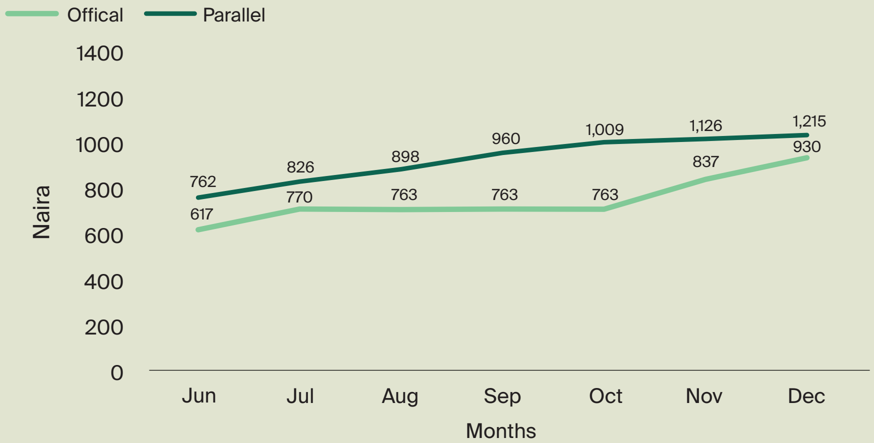
Naira Anguish

Following the operational changes to the foreign exchange market, the arbitrage gap which was initially reduced at the official communication of the policy has resurfaced due to market disequilibrium. A staggering backlog, an increasing demand for FX, coupled with constraints on the supply side. Constraints such as low oil receipts, which is the major FX earner, have been the major contributors to the abysmal performance of the naira against other currencies. Increased commodity prices noticed across different sectors have been mainly linked to the weakened exchange rates. Within the period, the Naira has crossed N1,000 to a dollar on the parallel market, an all-time low and a sensitive threshold which is the epitome of a languishing & weakened currency.

Inflation, MPC & Apex Bank Restructuring

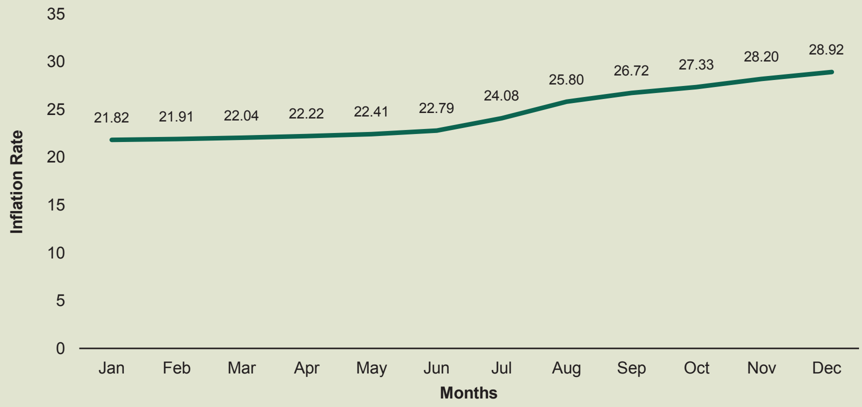
The MPC July 24, 2023, voted to Raise the MPR to 18.75% from 18.5%, continuing the aggressive stance to curb inflation which rose from 22.41% in May 2023 to 22.79% in July. This represents the only MPC meeting this half as the subsequent meetings were postponed due to the reshuffling of the Central Bank's Leadership. In December, Nigeria saw its highest

Naira Anguish (1 USD - NGN)



Source: CBN, Knight Frank Research

Inflation Uptrend (%)



Source: NBS

18.75%

The MPC on July 24, 2023, voted to Raise the MPR to 18.75% from 18.5%...

inflation rate in over 27 years of 28.2% due to surging food prices, thereby increasing pressure on the central bank to raise interest rates.

Following the suspension of Godwin Emefiele as the Central Bank Governor, Folashodun Shonubi served as acting governor before the Senate's confirmation of Yemi Cardoso as the new Governor of the country's Apex Bank. Yemi Cardoso is an accountant, a seasoned banker with work experience of several decades across several multinational banks. He was appointed by President Tinubu as commissioner of the ministry of economic planning and budget, counting as his first public service in 1999.

According to the newly appointed governor, the bank will adopt an evidence-based monetary policy to tackle the soaring inflation, which continue its uptrend and remains one of the issues tasked upon the new Apex bank chiefs, together with the Naira debacle.

28.2%

Nigeria saw its highest inflation rate in over 27 years...

Presidential Cabinet

The appointment of 45 new ministers in Nigeria stirred discussions on governance costs. Among them is Architect Ahmed Musa Dangiwa, the new Minister for Housing and Urban Development. He plans to improve living conditions in cities slums through various revitalization & upgrading strategies, creating social housing funds, and implementing land reforms. Furthermore, strengthening housing agencies, increasing collaboration, and establishing material hubs for affordability and employment in housing are other objectives the administration would want to focus on.

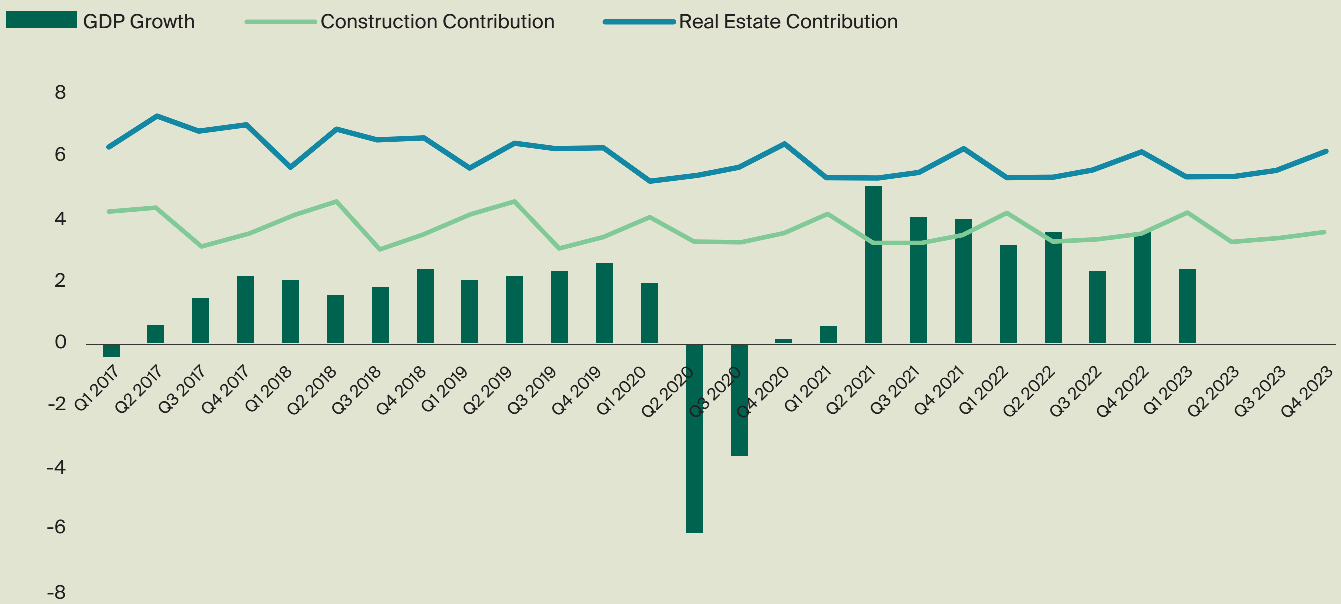
GDP Growth Rate, Real Estate & Construction Contributions

The Q4 2023 GDP figures indicate a 3.46% growth in real terms which is primarily attributed to the services sector. This growth surpasses the 2.54% in the third quarter of 2023 and lower than the third quarter of 2022, of 3.52%. The construction sector contributed 3.47% to the total real GDP, similar to its contribution in the same quarter of the previous year and a rise from the immediate past quarter, where it accounted for 3.36%. Real Estate made a 6.06% contribution to the real GDP in Q3:2023, lower than the 6.18% recorded in the corresponding quarter of 2022 but higher than the 5.58% contribution in the previous quarter.

The Key Insights

- **Q4 2023 GDP grew by 3.46%, driven by the services sector, while the construction sector contributed 3.47%, and Real Estate constituted 6.06%.**
- **MPC increased the MPR to 18.75% to address rising inflation nearing 30%**
- **In Q3-2023, Nigeria's oil production capacity bounced back, hitting its highest point at 1.57 mbpd in September, contributing to an annual average of 1.47 mbpd.**

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

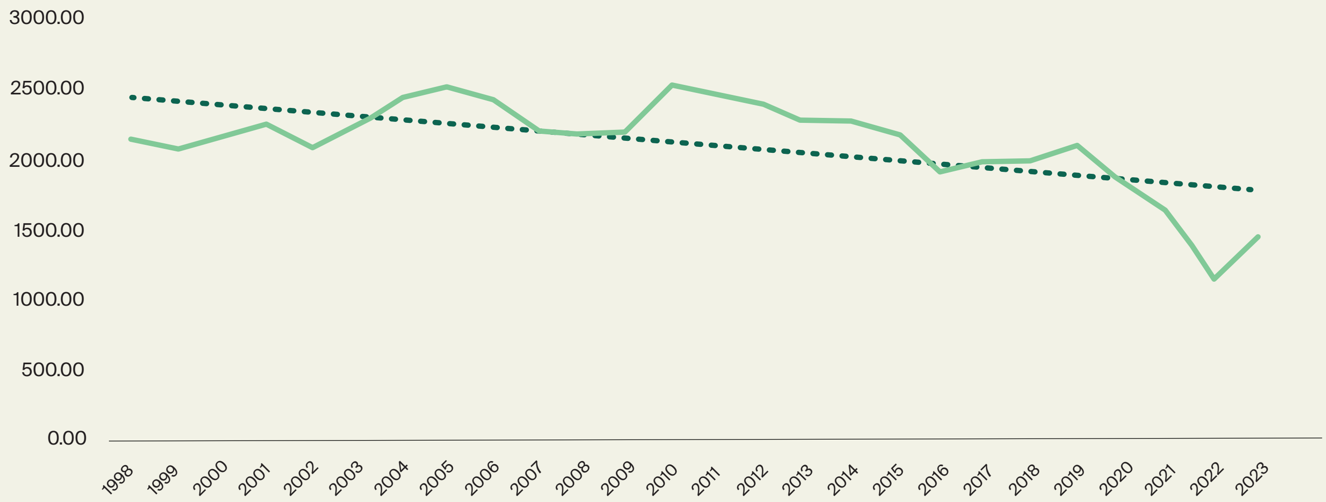


Source: NBS

Oil Production, Dangote Refinery & Subsidy Removal

Following a decline in Q2-2023, Nigeria's oil production capacity rebounded during Q3-2023, reaching its peak for the year in September 2023, recording 1.57 mbpd. The average production capacity for the last quarter was 1.55 million barrels per day (mbpd) and this brought the overall yearly average to 1.47 mbpd. Notably, the newly commissioned 650,000 bpd Dangote Refinery has commenced operations. Reports indicate that the first shipment of crude arrived in Q4, and full production capacity is anticipated to be achieved later in 2024.

Oil Production in Nigeria from 1998 to 2023 (in '000 barrels per day)



Source: NUPRC

Residential Market Review

Anecdotal evidence suggests that gated neighbourhoods like Parkview and Osborne in Ikoyi are experiencing a notable shift in property demand, with a growing preference for rental multi-family units. According to an in-house study, the convergence of yields observed in Parkview is a noteworthy development, signalling that supply and demand for various property types are becoming more balanced.

The shift is proof of the growing space economization trend as occupiers are trying as much as possible to cut down on the service cost of buildings, which has risen significantly over the years.

In the face of increasing construction costs driven by rising inflation, developers are modifying their pricing strategies. This becomes especially challenging in the luxury real estate sector, where materials for high-end projects sourced internationally require more domestic currency due to exchange rate fluctuations. To tackle these issues, developers are considering cost-effective alternatives, adopting flexible pricing models, and encouraging transparent communication with their clients.

The Key Insights

- **Shift towards rental multifamily units in gated neighborhoods, with yield convergence indicating a balanced property supply and demand.**
- **Inflation prompts construction shift; stakeholders innovate pricing strategies.**
- **Conversion of standalone units to multifamily; growing space economization trend in prime gated neighborhoods**

Furthermore, the industry grapples with the necessity to diversify housing options to address the gap in the market for budget-friendly luxury residences with a significant dependence on converting sizable stand-alone units to fulfill the demand. This scarcity underscores the ongoing challenge of meeting the growing need for accessible high-end properties.

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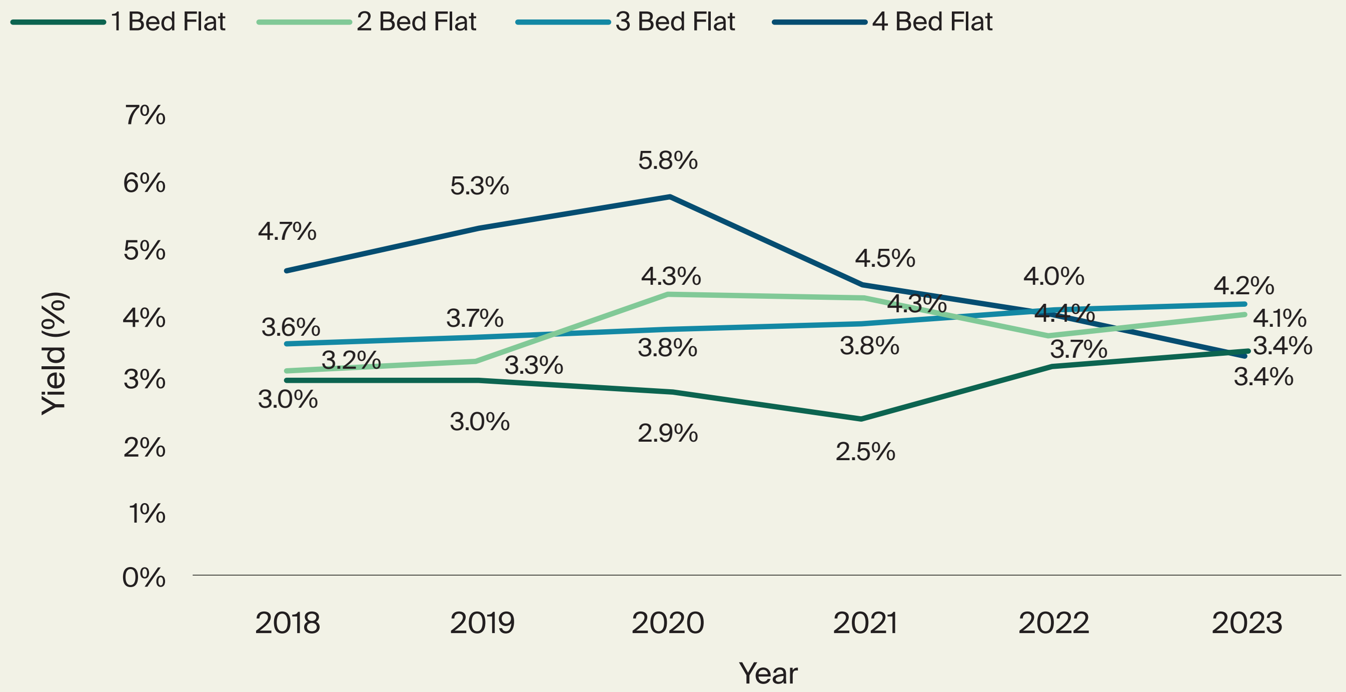
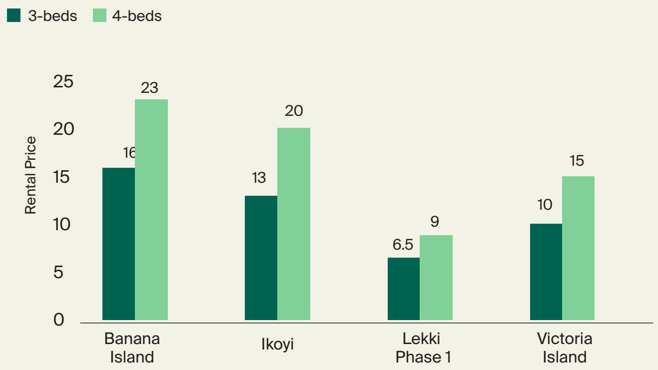
Yield Convergence



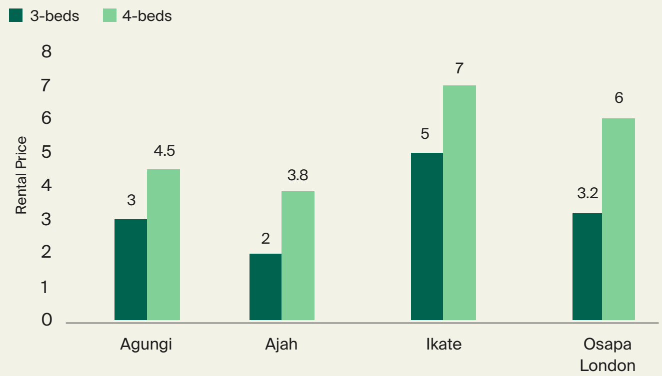
Source: Knight Frank

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



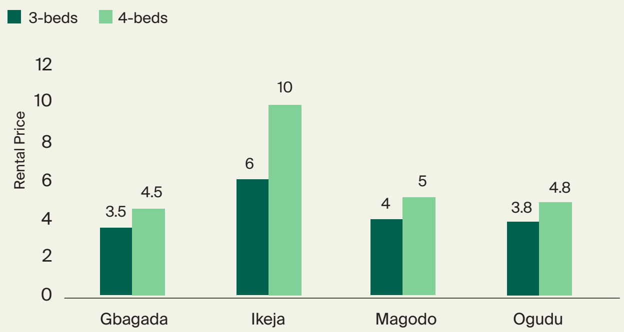
Source: Knight Frank

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



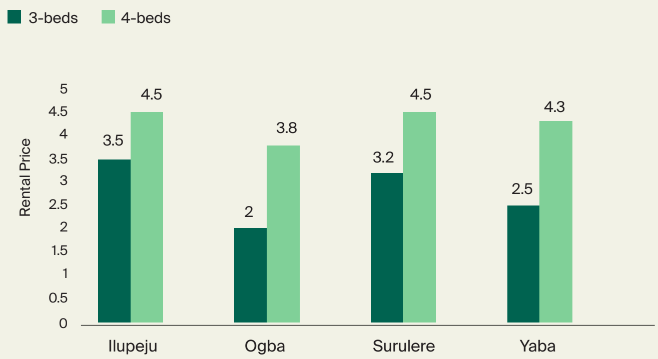
Source: Knight Frank

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



Source: Knight Frank

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



Source: Knight Frank

Retail Market Review

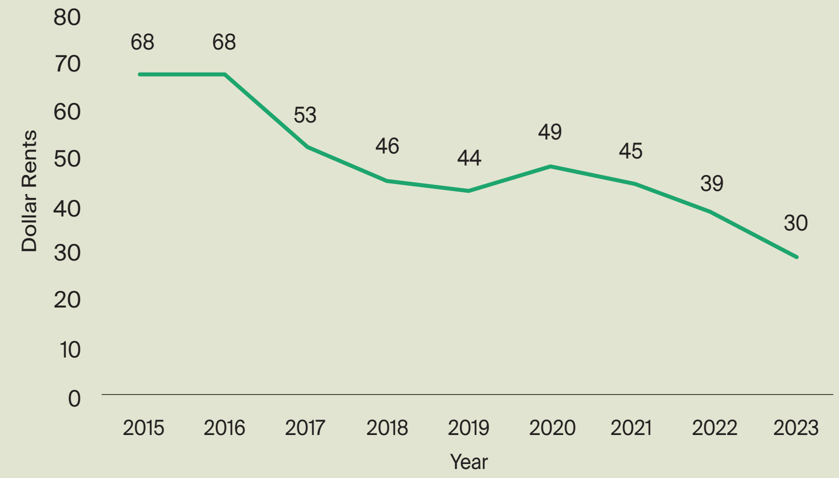
The continuous rise in inflation has stretched income, increased poverty levels, and ultimately impacted consumer spending. Retail footfalls have been impacted slightly so far. Although, retail spaces have retained their footprint, especially in the core retail market, it is currently difficult to determine how the FX policies will influence the pricing dynamics of retail spaces. Most tenants are operating within the framework of their existing lease agreements, which makes it hard to assess the market's stability and the extent of any price adjustments that may be necessary. However, it is worth noting that retailers increasingly favour local currency rental rates and there are conversations taking place regarding potential upward reviews to the service charges associated with these spaces.

As stated in earlier quarters, retail development deliveries lean towards smaller-scale projects that place greater focus on neighbourhood. This growing appeal is further established with the recent launch of Grosvenor's Place; a 1,004 sqm of retail space in Ikeja by Sabreworks Investment (a real estate investment company), in partnership with Sovereign Finance Company Limited. Novare is also extending an opportunity for new investors to acquire minority interests in some of their Grade A malls.

The Key Insights

- Retailers favor local currency rental rates amid macroeconomic challenges
- Escalating inflation widens income gaps, deepens poverty, hampers consumer spending, and diminishes retail foot traffic.

Average Retail Dollar Rents



Source: Knight Frank

Office Market Review

From a broader perspective, the office market has exhibited stability in rental rates, a gradual pace of new property developments, and steady demand. Proactive retention strategies by commercial landlords, such as rent concessions and ESG alignment, result in minimal vacancy rates within prime buildings.

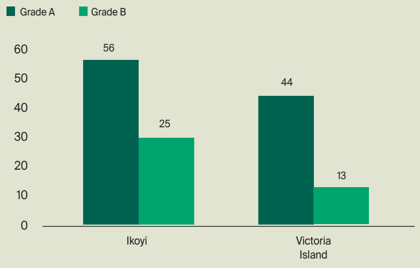
A substantial percentage of Grade A buildings maintains an average occupancy rate ranging from 70% to 80%. However, it's important to note that tenants still hold the upper hand in negotiations.

Illustrating the earlier point on proactive retention strategies, Atlantic House has successfully obtained EDGE certification, showcasing noteworthy accomplishments, including a 34% reduction in energy consumption, a 43% decrease in water usage, and an impressive 97% reduction in embodied carbon within its materials. This signifies a commitment to sustainable practices and environmental responsibility.

Following the removal of subsidies and the subsequent increase in transportation and energy costs, companies are encouraged to embrace the prevailing hybrid work model. This shift will prompt them to reevaluate their on-site space requirements and further promote the adoption of energy-efficient office spaces.

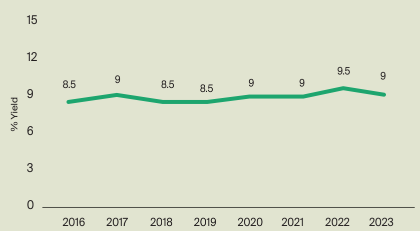
The ongoing trend of owner-occupiers delivering office spaces, as observed in previous quarters, remains a significant trend especially in Lagos, accounting for a substantial portion of the prime +35,000 square meters of office space expected to be completed over the next 12 months.

Prime Ikoyi Office Rent ($/sqm/month)



Source: Knight Frank

Lagos Grade A Office Yields (%)



Source: Knight Frank

Office Development Pipeline

Name	Location	Size (m²)	Delivery Date
Ulesh Ikoyi	Ikoyi	16,390	2024
Dangote Industries HQ	Ikoyi	17,000	2024
The Phoenix	Ikeja	8,000	2024
Crystal Tower	Victoria Island	12,000	2024
Aerobell Towers	Victoria Island	7,000	2024
The Pantheon	Ikoyi	+8,000	2024
Mansfield Office	Lekki Phase 1	4,280	2024
The Rubicon	Ikoyi	9,361	2028

The Key Insights

- **Steady activities in tenant-led office market – Major deliveries include Centerpoint, Trinity Towers, etc.**
- **Commercial landlords' proactive retention strategies (Rent concessions, ESG Alignment) yield low vacancy rates in prime buildings.**
- **Lagos Office rents average at c. US$50 psm/month.**

Industrial Market Review

As much as the general economy, the manufacturing and industrial sectors have been impacted by the increase in fuel prices, currency devaluation, and rising inflation rates.

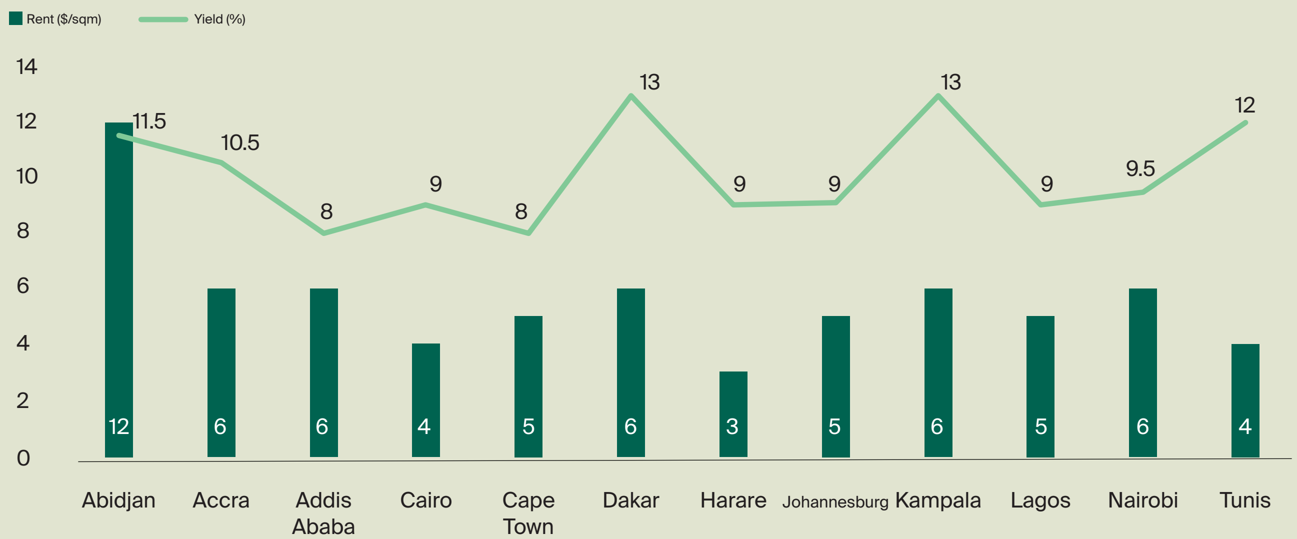
The industrial landscape has witnessed the departure of foreign manufacturing companies driven by adverse macroeconomic conditions, which include increased production costs, financial instability, and uncertainties related to currency value.

The cumulative effect of these challenges has led multinational manufacturing entities to reassess their operations in Nigeria, resulting in their decision to exit the market, thereby affecting the overall footprint of the industrial real estate market.

In November 2023, Stanbic IBTC reported a second consecutive contraction in the Purchasing Managers' Index (PMI), reversing the expansion trend seen since the cash crisis in the first quarter of the year. This decline is linked to increased inflation pressures, mainly due to a weaker exchange rate and higher fuel costs, impacting overall input and purchase prices.

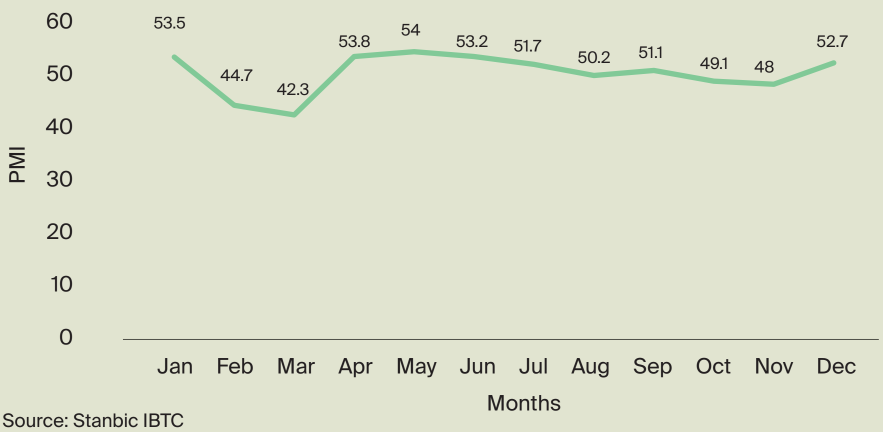
Nonetheless, the industrial sector has witnessed increased demand and supply activities in Special Economic Zones and Industrial Nodes, accompanied by a pre-existing shortage of Grade A warehouses. Despite the competitive leasing environment, prime lease rates remain stable at US$5-6 per square meter per month.

Lagos Industrial Rents Compared to Select African Cities



Source: Knight Frank Africa

Stanbic IBTC Monthly PMI



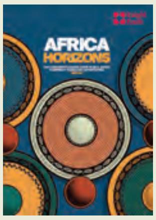
Source: Stanbic IBTC

The Key Insights

- Storage and distribution requirements driving the demand for warehouses and logistics
- Increased activities in Special economic zone and Industrial Nodes
- Shortfall in the Supply of Grade A Warehouses
- Prime Lease rates are stable at US$5-6 psm/month

Recent Publications

Lagos Market Update H1 2023



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The Wealth Report 2024

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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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