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Lagos Market Update

Q1 2020

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Economic Update

The Lagos state government, businesses and communities are adjusting to the reality of COVID-19. The short-term effects on economic growth, transaction volume and consumer behaviour are incontrovertible. The translation of these to the Lagos real estate market has been intravenous and is working its way through the entire system. Asset managers have projected considerably reduced operating income, fully expecting delayed rental receipts and requests for waivers and concessions.

Following the Naira's devaluation by the CBN, the official exchange rate stands at ₦380/\$1. Inflation rate figures have remained on the rise recording 12.26% in March 2020. Latest GDP figures showed a growth of 2.27% for 2019 compared to 1.91% in 2018.

The outbreak of the corona virus has highlighted a few things: grade A office service providers more conscious than ever of the health risks for their stakeholders. Developers have stopped work on their sites except in smaller projects hid from public view. These have also experienced construction delays and reduced rates of return. Residential apartments are now double as offices and schools.



Serviced Office, Karimu Kotun Street, Victoria Island

The Key Insights

Oil prices declined to \$20pb on average at the end of Q1 2020

Inflation reached 12.20% in February 2020

VAT rate increased from 5% to 7.5%

Foreign exchange reserves stand at ₦35.5Bn compared to ₦44.1Bn in the corresponding quarter of 2019

In March 2020, Nigeria's Manufacturing Purchasing Managers' Index (PMI) dropped to 51.1 from 58.3 in the previous month

CBN raised CRR for commercial banks to 27.5% from 22.5%

Residential Market Review

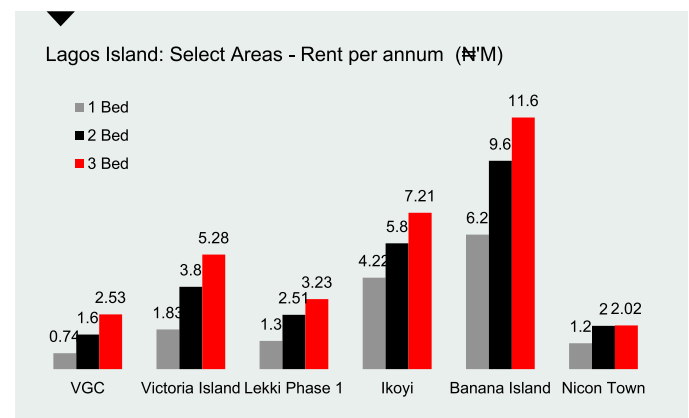
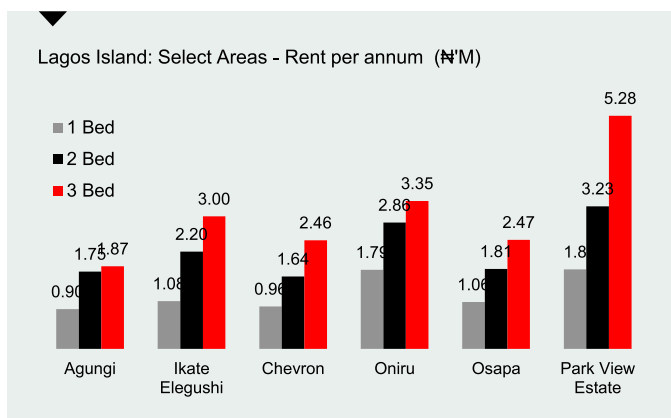
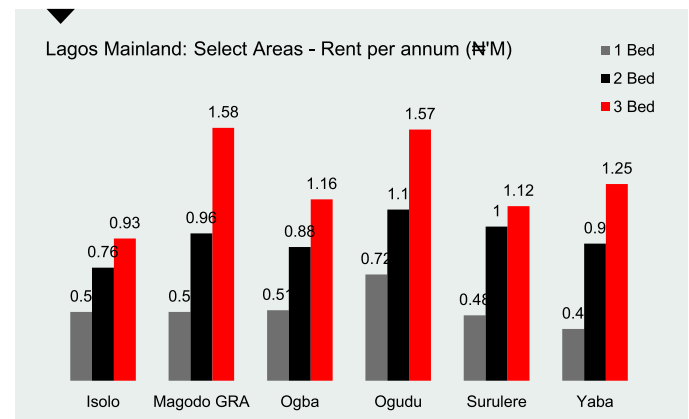
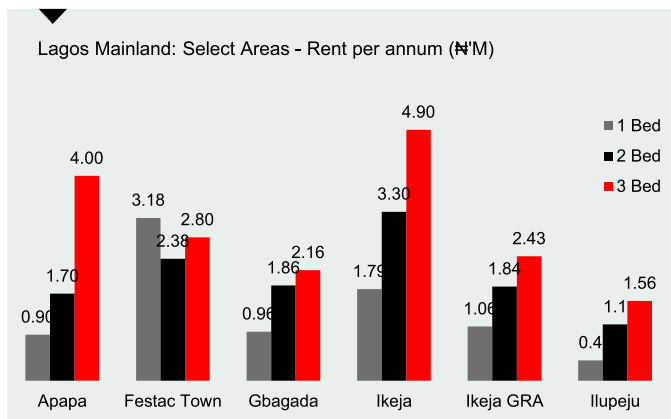
Our review of the market and focused interviews with landlords show a downward pressure on rents. This is due to tighter economic circumstances. There is an unwillingness on the part of landlords to push for rental payments as tenants navigate the various income and employment challenges. And this is expected to continue, post-COVID. Transaction levels show divergent investment philosophies. Some investors believing that cash is king have chosen to see how economic fundamentals evolve – but are open to good deals. Others, of the “Buy when everyone is afraid” investment philosophy are open to opportunistic transactions below market prices.

Remote working, once difficult to greenlight by corporate Nigeria is now a leading alternative to using office space – after converted rooms in residential apartments. This will continue to be the case for the mid to upper-income demographic. Coworking operators, currently on lockdown are expected to see their membership numbers go up alongside the deployment of healthcare safety routines.

The quickly evolving trend towards higher-density living will increase the likelihood of transmission and government will introduce procedures to mitigate these. Housing estates typically have better security and could add health checks at the entry points. Again, residents tend to have more income streams and the ability to actively maintain rents (if only partially) thus limiting defaults. Demand is also relatively resilient to external shocks (transaction consummation regardless) as governments are more likely to protect the tenant that watch landlords exact their right to collect rent when due. Lifting the lock down should see a slight rise in closed transactions.

The Federal Government has continued its housing provision plans across various states with a recently launched ₦5Bn residential project in Borno State. 492 families in Lagos State are in line to become homeowners under the rent-to-own house scheme in the state.

Performance Indicators



Key Trends



Economic uncertainty/recovery is likely to be the operating environment for the next 3 quarters.



Remote working will strengthen coworking service operators post COVID.



Lagos State completes its rent-to-own housing scheme in Jakande estate, Igando.



Technology has moved to the centre of service delivery. Property inspection, assessment and communication with clients is now done almost entirely via tools as WebinarJam, Zoom, Skype, WhatsApp video.



Logistics businesses are now indispensable in the supply of goods to the end-user, while driving up the demand for warehousing space in the process.

Office Market Review

Demand for office space has continued to fall. And projections are that it will continue to do so. To stem this decline, landlords have re-introduced incentives initiated during the 2016 recession. The concept of Work From Home is now the de facto method of work, proving an effective way of conducting business with the aid of technology. Professionals who want a formal arrangement are more inclined to lease coworking spaces than move to grade A or B office developments. Construction works on the Grade A 20-floor Famfa Towers continued for the early parts of Q1 2020 but stopped due to the

Government's lockdown directive.

For foreign based corporate occupiers, the physical and mental health of employees will be the primary concern, as they pursue business continuity plans. Businesses will be optimizing for flexibility in their demand for space. Operational resilience should be a mid to long term focus as businesses develop the competence to respond quickly to similar events in the future.

Key Trends



Average office rent prices are \$450 - \$750 are expected to decline in the coming seasons.



Coworking spaces are projected to see a rise in demand.



A case is also being made for the conversion for extra rooms in residential apartments to home offices.



Famfa Tower, Ikoyi

Retail Market Review

Between the announcement of lockdown measures and when they took effect, the retail market saw increased patronage as retailers stocked up on groceries and basic medication. The ban on public gatherings and other measures aimed at restricting movement and meetings in groups have increased the demand for online retail and logistics services. The need for warehousing is also projected to rise greatly as the e-commerce sub-sector require logistics support. Protecting cash flow remains crucial for all retailers especially those with thin profit margins.

Retailers with the framework to fulfil online orders are more likely to be longer-term beneficiaries of the current situation. Revisiting supply chain efficiency will be key to maximising the opportunities created by future macroeconomic shocks.

International airports have remained closed since the outbreak. Airlines have reduced salaries by as much as 80% to avoid mass layoffs. Expected additions to the retail market - Admiralty Mall and Ikoyi Plaza located in Lekki Phase 1 and Ikoyi respectively have had their delivery dates extended.

Key Trends



80% of Nigeria's retail activity is carried out in Lagos. This is expected to fall as a result of measures activated to keep the virus from spreading



Average Grade A warehouse rents range between ₦15,500/sqm/annum - ₦25,000/sqm/annum



Vacancy rates across Grade A centres have remained stable

Lagos: Key nodes



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