

# Lagos Market Update

Q2 2020

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## Economic Update

The performance of the Lagos economy had begun to decline at the suspicion of a new and deadly virus. Individuals made expense decisions reminiscent of the 2018 recession. Firms began to dust up business continuity plans, and they wouldn't have to wait long to execute them. That the coronavirus has dramatically impacted the nation's economy is now no longer news and consumers have made critical adjustments to lifestyle and buying behaviour. Few sectors of the economy have been left unscathed. The sell-off in equities has only exacerbated the pre-existing conditions of low investor confidence and weakening returns. Bonds and Treasury bills have posted middling performance. Markets face three related unknowns: the path and aggression of the virus, its effects on movement and trade, and the response of policymakers.

Lagos, the most populous (by number and density) and economically active of the nation's 36 states has been the hardest hit – and has posted the most robust response. The state posted an improved budget performance of ₦163Bn in Q1 2020 compared to ₦148Bn in Q1 2019. The state government remains resilient amid the rising number of COVID-19 cases and has cut its 2020 budget from ₦1.16Trn to



Eden Heights, Victoria Island

₦920Bn. Falling crude oil prices, reduction in IGR projections and currency devaluation are economic indices leading to downward reviews of government spending and expectations. GDP contributions for the real estate and construction sectors in Q1 2020 stood at 5.21% and 4.08% respectively. While the pandemic rages on, there are flickers of hope on the horizon for adjusted revenue and management models.

## The Key Insights

The 2020 national budget was signed in July 2020 - ₦10.8Trn

Oil prices rise to \$24pb at the end of June 2020

Inflation rises to 12.56% in June 2020

GDP growth declines from 2.55% in Q4 2019 to 1.87% in Q1 2020, potentially heralding a recession

Nigeria's Manufacturing Purchasing Managers' Index (PMI) dropped to 42.2 in May 2020 – its lowest point in 3 years

CBN retains MPR at 12.5%

## Residential Market Review

A recent survey showed that over 42% of households in Nigeria reside in compound houses, 21% live in detached houses and 16% in apartments. This formed part of the considerations for arriving at potential development projects until pre-pandemic. Development activity has slowed, and potential investors are adopting a "wait-and-see" approach.

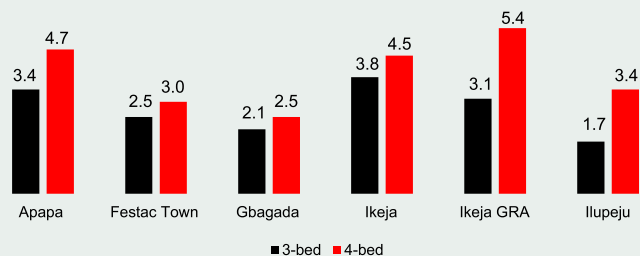
The new normal, Work-From-Home (WFH) is pushing demand for residential apartments with one more room since individuals and families now meet their residential, office, educational, wellness and spiritual needs in one location. Expectations are that this will lead to more relocations and new leases in larger apartments. Conversion of residential buildings to mixed-use will increase in the already

saturated locations. More corporate clients will also require apartments for their staff near their offices.

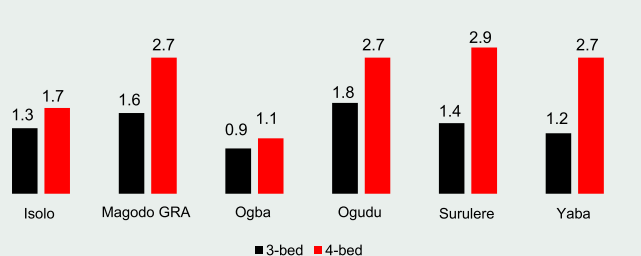
The willingness of property owners and interested occupants to leverage technology during this period has further broadened the opportunities for proptech firms and the increasing bouquet of products. Online property listing platforms recorded higher saved searches during the lockdown. The Federal Government is targeting construction of 300,000 houses in 12 months as part of its Economic Sustainability Plan. The estimated cost of the project is ₦317Bn. The Lagos state government has continued to map out strategies for road and housing expansion. A review of the Badagry master plan is underway to accommodate improved housing needs in the area.

### Performance Indicators

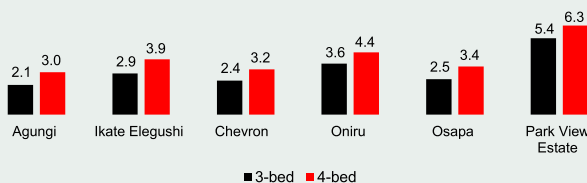
Lagos Mainland: Select Areas - Rent per annum (₦'M)



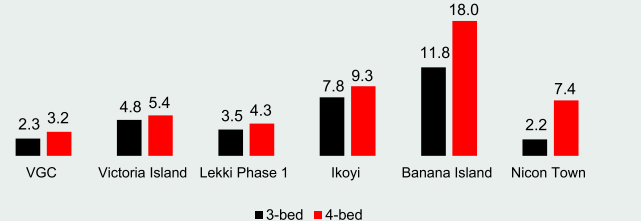
Lagos Mainland: Select Areas - Rent per annum (₦'M)



Lagos Island: Select Areas - Rent per annum (₦'M)



Lagos Island: Select Areas - Rent per annum (₦'M)



### Key Trends



Land remains the investment haven for the investor community.



Land banks in nascent locations are likely a good store of value, especially in challenging times like this.



The Lagos state government has maintained its position on stopping illegal permits, seal off code violating buildings and setting new requirements for estate practitioners.

## Office Market Review

The movement restrictions and social distancing rules have reduced the demand for office space. Besides a few senior management staff, most employees and business owners now work from home. Workplace enhancement tools as Zoom, Microsoft Teams and Slack have stepped in to fill the void, easing productivity. It may take a while for the office market to bounce back - especially for A & B+ Grade office buildings. Corporate leases are declining and going unrenewed, forcing a review of the revenue model by many landlords. Vacancy rates have jumped with most buildings recording 30% occupancy rates on average. Smaller businesses like financial and

data services lead the list of occupiers of office spaces. Larger companies have set up their staff at home, subsidising internet and power infrastructure in the process.

The Lagos State coworking market - the largest in the country lost over ₦200M in revenue due to the pandemic-inspired working from home. Though there is a reclassification of users, the coworking market is projected to recover in the mid to long term. A few office development projects, Famfa Towers and Trinity Towers continue to make slow progress following the partial lifting of lockdown restrictions.

### Key Trends



The use of technology has resulted in a broader range of opportunities for expansion.



Office rents are declining to manage occupancy rates better



Most coworking spaces are operating at 15 – 25% capacity



Vacancy rates in Grade A office buildings have increased



Umaru Abass, Ikeja GRA



ReDahlia Workspaces, Ikeja

## Retail Market Review

The retail market has struggled with the new realities as most centres were not designed to run on profits, if any, from discretionary spending. The initial announcement of lockdowns across the country meant that the expense aspect of the now reduced income went on essential items. This meant a significant reduction in retailer turnover. Though landlords are battling with lease renewals from tenants due to these factors, analysts report individual renegotiations to keep businesses running. Footfall in Grade A malls has declined by as much as 60% in some centres.

Retailers have diversified, embracing online retailing and telephony. Mall attractions such as cinema, entertainment and play areas have projected to resume activity in Q4. Developers of Maryland Mall – Purple Capital, have launched a new offering called PurpleLekki Retailtainment centre located in the heart of Lekki Phase 1. This is a mixed-use development to accommodate retail, entertainment, serviced accommodation and private offices. International airports have resumed sporadic operations amid strict safety guidelines. Admiralty Mall and Ikoyi Plaza have also restarted construction works to meet up with new delivery dates.

### Key Trends



A consortium of banks is working to restore Nigeria's National Theatre is estimated to cost ₦25Bn.



The Dangote fertiliser plant is expected to begin operations in February 2021.



The Federal Government's concession of 4 international airports has started.

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