LAGOS, 2018 Q1 REPORT

COMMERCIAL MARKET OUTLOOK

ECONOMIC BACKDROP

A recap of 2017

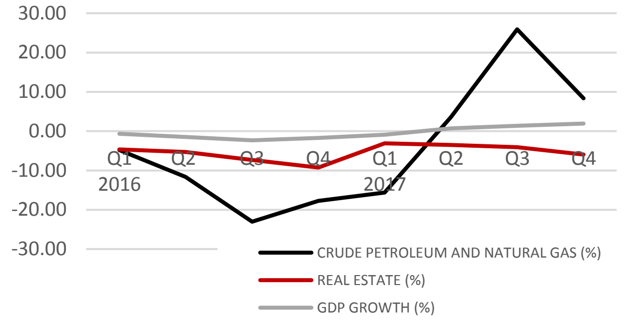
2017 was a year of highs and lows. The economy, thrown into recession in 2016, began to show some early signs of economic recovery, as evidenced by Q1 and Q2 GDP reports produced by the National Bureau of Statistics (NBS). By Q3 2017, the economy was technically out of a recession with a real GDP growth of 0.55%; by the end of Q4, it was 0.83%

As reported in our Lagos 2017 Q4 Report, the growth in the economy was primarily due to an improvement in global crude oil prices, relative peace in the Niger Delta and a slow but steady diversification of the economy away from hydrocarbon.

Crude oil price history chart 2014-2018

Source: www.macrotrends.net

Looking back at 2017, we noted progress in the economy on different fronts. According to the NBS, by the end of Q4, Nigeria had recorded an improvement in agriculture, with the sector recording a 10.13% year on year growth. By December, crude oil prices were at $61.19 pb, a 15.11% increase on January prices and the Central Bank of Nigeria (CBN), in an attempt to address FX instability crisis, created an official parallel market while retaining an official exchange of $1:NGN305, and



increased the ease of moving funds out of the country. We also note that the Federal Government's efforts at fighting corruption paid off on the international stage with an improvement on ranking of Nigeria's ease of doing business by the World Bank. We did, however, also note that real estate growth lagged behind all other sectors with its third consecutive decline in Q4 from an early growth in Q1.

A peek into the rest of 2018

With the dawn of the New Year, in tandem with expectations of the World Bank, a steady and continuous growth of the wider economy was and still is anticipated. 2018, being the year preceding national elections, we expect an inflow of funds by the Government and a better implementation of the budget in line with provisions for capital expenditure. We also expect that government spending will spur other parts of the economy, including real estate, driving down the rates of unemployment and increasing local production.

Along with political and religious stability, power remains a critical success factor for economic growth. It is a driver for economic activity, while security and peace allow for increased productivity and investor confidence. However, early in the year, there have been security issues in the northern and southern parts of the country, putting pressure on fragile investor confidence, and two major power interruptions occurring in the Escravos gas plant in the month of January have put added pressure on the economy itself.

A Global Perspective of 2018

On the global scale, we note different movements in various parts of the world and we will be keeping an eye on them as

1.9%	-1.7%
Q4 2017 GDP Growth	Q4 2016 GDP Growth

Source: Nigerian Bureau of Statistics

the year continues to unfold. We will keep track on the adherence to oil production cuts for the respective OPEC countries and the demand for Brent crude in the wider market; the impact of the changes and movements in China's economy and political landscape; Brexit and its ripple effect on the rest of the world; the fluctuations in the US and North Korea discussions, the impact of climate change, and the conflicts in the Middle East, to mention just a few.

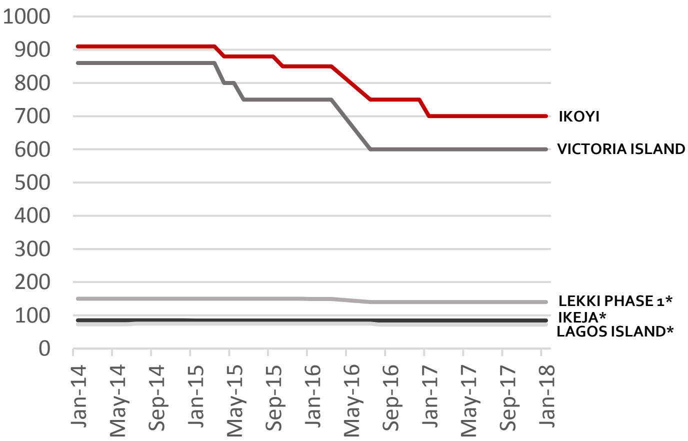
REAL ESTATE MARKETS

OFFICE

A stability of rates

Following global and local market dynamics, we still expect that rents will remain at their current levels as companies strive to secure a firm growth trend. We also anticipate that there will be more relocations to newly built, and better managed facilities, as the general business environment improves, however, we do not anticipate any major new entrants (occupiers) into the office market as blue chip and multinational firms will continue their prudent *'wait and see'* approach to space acquisitions.

Annual prime office rents in Victoria Island and Ikoyi submarkets are expected to remain around the $600 /sqm and $700 /sqm marks respectively, and given this stabilisation of rentals, some prudent companies may seize the opportunity to obtain the ideal office space at very reasonable prices. Landlords on the other hand are faced with the need for product differentiation while trying to maintain a profit on the investments.



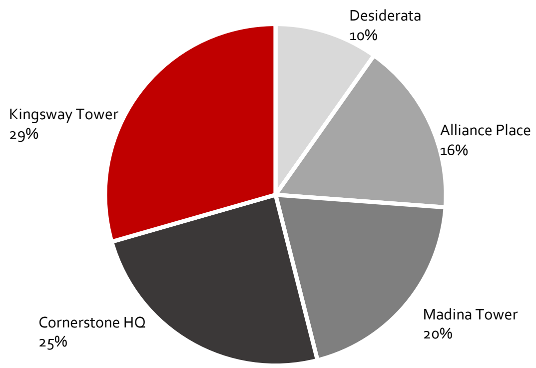
Prime office rentals in the five major sub-regions of Lagos
* Rentals denominated in Naira
Source: IREP in-house data

In addition to rentals, given some of the additional pressures that may negatively affect the real estate market in Lagos, (the changes to the Land Use Charge for example), it may also be the time to try to entice corporate tenants to take up more formal office spaces with the lure of a lifestyle change by including cafés, gyms, crèches and/or a bit of retail, as well as green solutions and power saving features in these offerings.

RETAIL

A good retail experience appeals to the average Nigerian

Like the office market, we do not anticipate any changes in actual retail rentals, even though tenants continue to negotiate concessions and rent holidays from landlords.



2018 Prime Office Pipeline for Victoria Island and Ikoyi
Total: circa 37,000 sqm
Source: IREP in-house data

We note that with the adoption of Naira-based leases, many smaller retail centres have increased their uptake from retailers, even though these are still having to contend with the problems of stock purchase and pricing. For those larger malls that are unable to convert their leases to Naira, agreeing a fixed exchange rate, lower than the inter-bank rate, helps to retain good tenants.

We note that despite the difficult operating environment, the retail market is gradually recovering, as evidenced by the increase in footfall in some malls, examples of which include Circle and Novare Malls both in Lekki. Reduced vacancy rates and some increased activity may also be attributed to new international retailers like the new Japanese retailer, Miniso.

Without a doubt, the size of the population of Nigeria is every retailer's dream. While the cinemas and the grocery tenants draw a large portion of the shoppers as anchors, it is observed that the paying customers are desirous of a more exciting retail experience. This is evidenced by the population at the various retail fairs organised from time to time. The task at hand is to ensure that increased footfalls translate into actual sales; landlords and developers will need to invest in intense marketing and promotional activities to ensure that their respective centres remain the preferred retail centre of choice.

INDUSTRIAL

Market remains unchanged though threatened

Affected by FX and import policies, poor electricity supply and inadequate transportation, growth in the industrial market has floundered. We note however, a slight change in offerings as some industrial facilities have gone "off grid" and turned to gas turbines as an alternative power supply for manufacturing plants. We anticipate that as more facilities seek alternatives to help improve production, this in turn, should boost the demand and supply of warehouses; rentals of which, denominated in NGN per square foot, have remained stable.

In addition, as the retail and industrial market are closely linked, we expect that the anticipated growth in retail will cause a corresponding increase in industrial real estate.

For further information, please contact

Erejuwa Gbadebo | erejuwa.gbadebo@irepartners.com.ng
Nnennaya Awoyokun | nnennaya.awoyokun@irepartners.com.ng