

Review

This is the fourth edition of our biennial publication Spotlight on Lagos Housing Development Market – 2016 Outlook Report. Since our last report a lot of change has transpired nationally particularly in the political and macro-environment and in this edition of the report we shall look at how these changes have affected the Lagos housing development market. We will proceed as is customary to provide readers with clear and concise information on the annual supply of new housing units. We will be looking at two important aspects in new housing delivery in this report, the first being house-type preference by developers and second factors that influence developers when choosing development locations. We will then take a snap shot of constructions starts and last but not least the development pipe-line which is an important component that indicates the level of housing units that will be supplied in the future into the Lagos housing market. We will also be taking a brief insight into the Eko Atlantic City project by focusing on some of the residential projects that are set to be delivered.

Political and Macro-Environment

Last year, was an election year for Nigeria and a new administration was formed under President Muhammadu Buhari of the All People's Congress Party (APC). Upon taking the oath of office his administration set about implementing new measures to tackle corruption which had become a plague on the government. One of such measures was the introduction of the Treasury Single Bank Account (TSA) which required all government agencies to remit all revenue into one account with the Central Bank of Nigeria thus eliminating the age old process of revenue being deposited into commercial banks.

This was a measure done to make government agencies more accountable and transparent to stamp out deep rooted corruption in the system. The implementation of the TSA would trigger a ripple effect by adversely affecting liquidity in the nation's banking system and end up putting pressure on interest rates and availability of credit to the economy as confirmed by some bankers (The Nation Newspaper).

Also in 2015, the Nigerian Naira continued to weaken against the Dollar due to declining global oil prices which continued earlier in the year. This prompted the Central Bank of Nigeria (CBN) to take pre-emptive actions against the total collapse of the currency and restrict the use of Dollars for certain transactions as well as limiting supply into the market making it an onerous task for those who depended on the forex to pay for imports and consequently triggering a rise in price of many commodities.

Several calls have been made to the CBN by financial experts and economists to devalue the Naira but these calls have gone unheeded with the new administration set on maintaining its current policies to keep the currency afloat at the expense of the nation's foreign reserves.

The on-going reforms by the government has impacted virtually all sectors of the economy such as the financial and services sector, manufacturing sector and real estate sector as business growth has slowed across all sectors with firms desperately trying to keep afloat as recession is quite imminent. The anti-corruption stance by the new administration has curbed the menace of corruption proceeds thus ensuring that they days of corrupt government money inflows into the economy particularly into sectors as real estate which has always been the asset of choice for laundering ill-gotten monies by malfeasance has been forestalled.

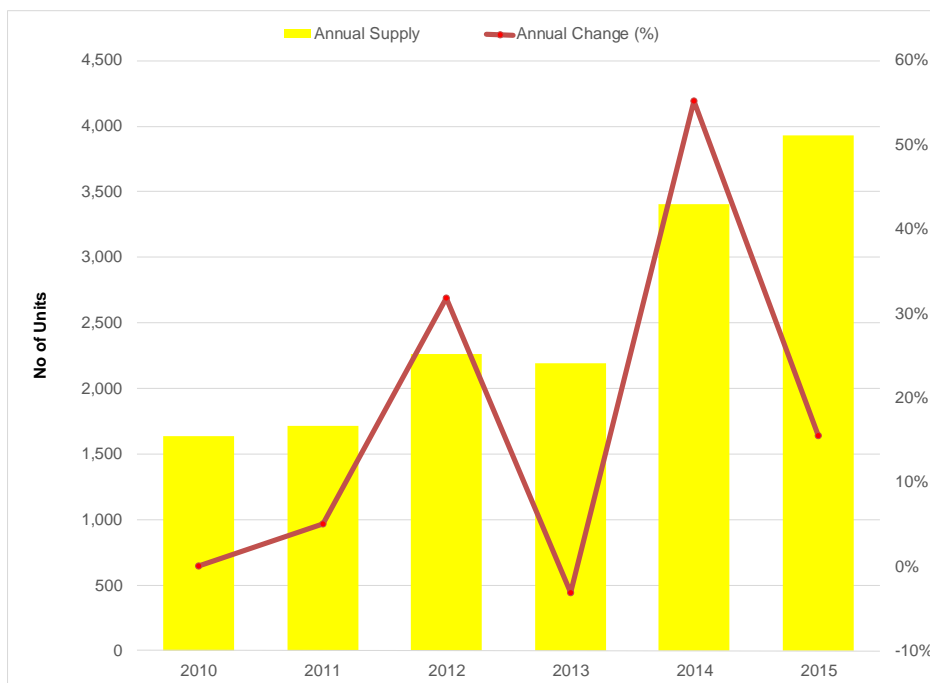


Annual Supply of Housing Units

The supply of new housing units in Lagos has seen a sustained yearly increase in the past five years due to fierce and intense competition amongst developers as demand for housing units continues to grow particularly from the middle-income households’ class seeking adequate homes to buy and buoyed by the fact that they have also become wearisome of paying exorbitant annual rates in the highly expensive Lagos rental market. The increase in supply can also be attributed to favourable conditions that developers have enjoyed such as the stable price of cement which is a locally produced commodity and its pricing is not susceptible to forex fluctuations.

In 2015, the number of new units delivered surpassed the preceding year by 15% despite the changes that occurred in the macro-environment and reached an all-time high of 3,929 units. This is the highest recorded in the past five years. In the last five years, slightly over 15,140 new housing units has been delivered into the Lagos housing market making it an average of 2,523 units per annum according to our research. Also in the last five years, the supply of new units has increased by a staggering 140%.

Figure 1 Annual Supply of New Housing Units



Source: Residential Auctions Company

Interesting to note in the supply of new housing units is the house type-developers have taken a penchant into developing. Multi-family units i.e. flats are the number one preference or choice ahead of other house types as we identified in our research and is shown in Figure 2. Flats, make up over a third of all new housing units delivered annually into the market giving it the largest share over other house-types. The construction of flats makes more economic sense for developers since it is more profitable due to the simple fact they take up less built-up area per unit than the more elaborate single family unit and they also attract quicker sales. This is not to say that other house-types have been completely neglected.

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Developers depending on the size of land available often want to utilize the full value of the land to the last penny and will often encourage architects to come up with designs that can provide as many units optimally possible to increase the bottom line.

Some developers have a tendency to adhere to the construction of one particular house-type while some developers are more open to the idea of integrating various house types i.e. flats, terrace, maisonette and semi-detached on a particular site as to cater for different segments of the market and households. This trend is now very common in the market for developers to adopt and will be highlighted below.

The emergence of terrace, town house and maisonette house-types commonly seen in the western markets such as the United Kingdom and United States of America are now a fast growing trend amongst local developers looking to attract a younger generation of clients that favour such house-types rather than the conventional detached and semi-detached house-types that was previously the norm. Similarly, just like flats they also take up less built-up area making them cost effective for plot sizes.

Bungalows are the least favoured house-type amongst developers presumably because they provide low profit margins. Developers that do embark on constructing these units are mainly targeting the low-end segment that seek affordable mass housing in usually out of town locations where land values are relatively low.

Figure 2 Annual Supply of House Types



Source: Residential Auctions Company

Some prominent large scale developments that were delivered into the market in 2015 to boost supply as shown below.



Table 1 Schemes Delivered in 2015

Scheme	Location	No of Beds	No of Units	House Type	Developer
The Residences	Festac	1 & 2	150	Flat	UPDC
Ikoyi Gardens	Ikoyi	2 & 3	100	Flat	Lekki Gardens
The Views	Lekki	3, 4 & 5	744	Mixed	Primewaterview
Horizon 1	Lekki	2, 3 & 4	120	Flat	Lekki Gardens
Horizon 2	Lekki	2, 3 & 4	250	Mixed	Lekki Gardens
The New Horizon 2 Extension	Lekki	2, 3 & 4	120	Flat	Lekki Gardens
Bourdillon Court 3	Lekki	4	68	Semi-Detached	AirCom Nigeria
Fiore Flats	Lekki	3	64	Flat	AirCom Nigeria
Praiseville Gardens 1	Ogudu GRA Extension	3	52	Terrace	Practical Habitat

Source: Residential Auctions Company

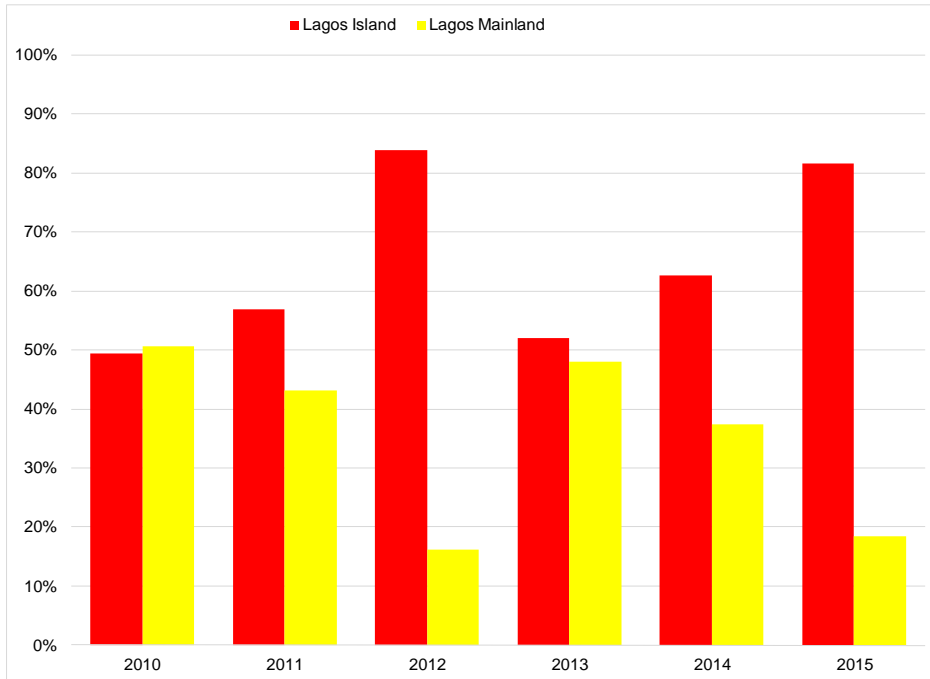
The location of a development is also a very important component developers' take into consideration when selecting where to site a project and this is influenced by two significant factors which are mobility (employment) and availability of land. Our data shows that the vast majority of new housing units being delivered are concentrated in Lagos Island. This has been the trend in the last few years and is illustrated in Figure 3.

Ironically, Lagos Mainland is larger than Lagos Island in terms of square area but due to the fact that the financial centre of Lagos is in Lagos Island which is also home to two Commercial Business Districts (CBDs), traditional Lagos Island CBD and the New Emerging Victoria Island CBD. The population of residents has swelled in this part of the market and especially with the opening of the Lekki-Epe axis in the early 80's there has been a massive influx of people that previously resided in Lagos Mainland to Lagos Island particularly for employment and business motives which has since attracted the interest of developers.

In 2015, an estimated 3,929 new units were delivered into Lagos, of which 3,203 units (82%) of these were located in Lagos Island and of these 2,579 units (66%) were located along the Lekki-Epe axis making this location to have the largest proportion of new housing units in Lagos as show in Figure 5. This is followed by Ikoyi with 10% and Victoria Island with 6%. On Lagos Mainland, Festac had the highest number of new units delivered with 4% due to a high rise development by UPDC boosting supply in this location. This was followed by Yaba and Ikeja GRA with 3% and 2% respectively.

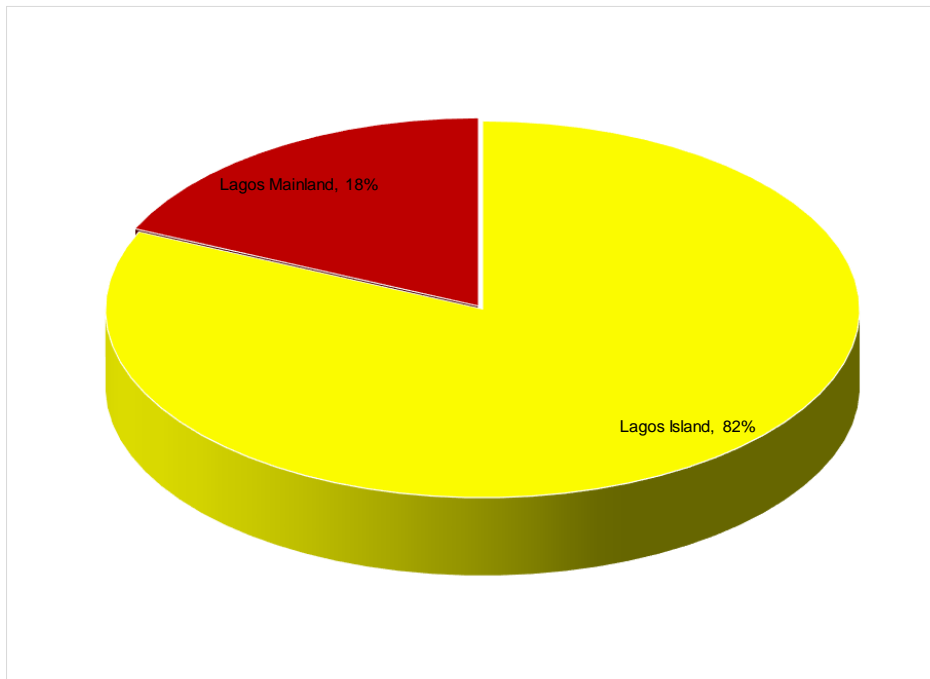
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Figure 3 Supply of New Housing Units - Geographical



Source: Residential Auctions Company

Figure 4 Supply of New Housing Units in 2015 - Geographical

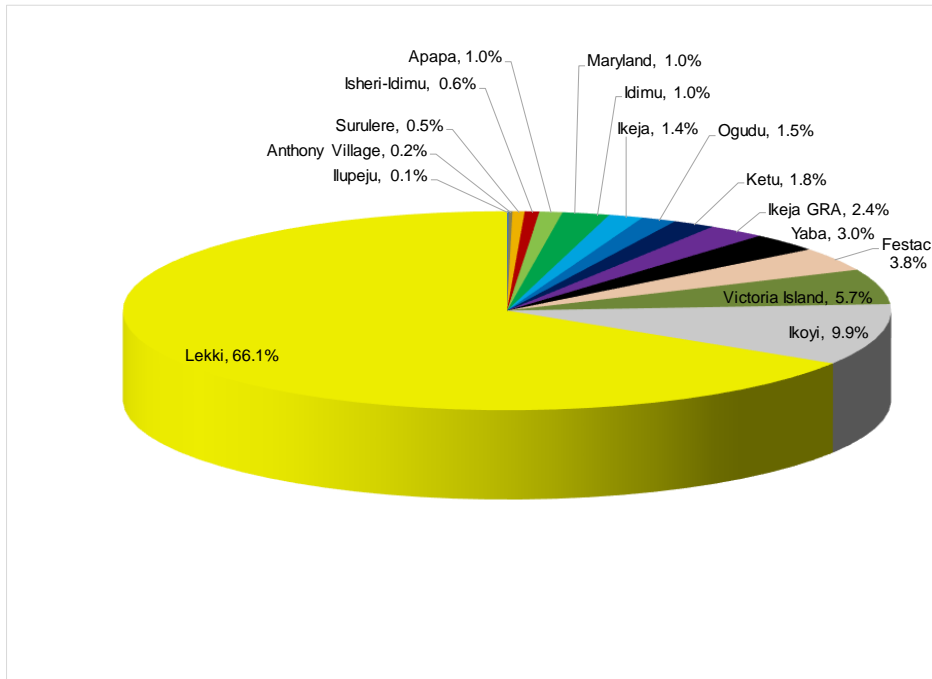


Source: Residential Auctions Company

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Figure 5 Supply of New Housing Units in 2015 - Locations



Source: Residential Auctions Company



Construction Starts

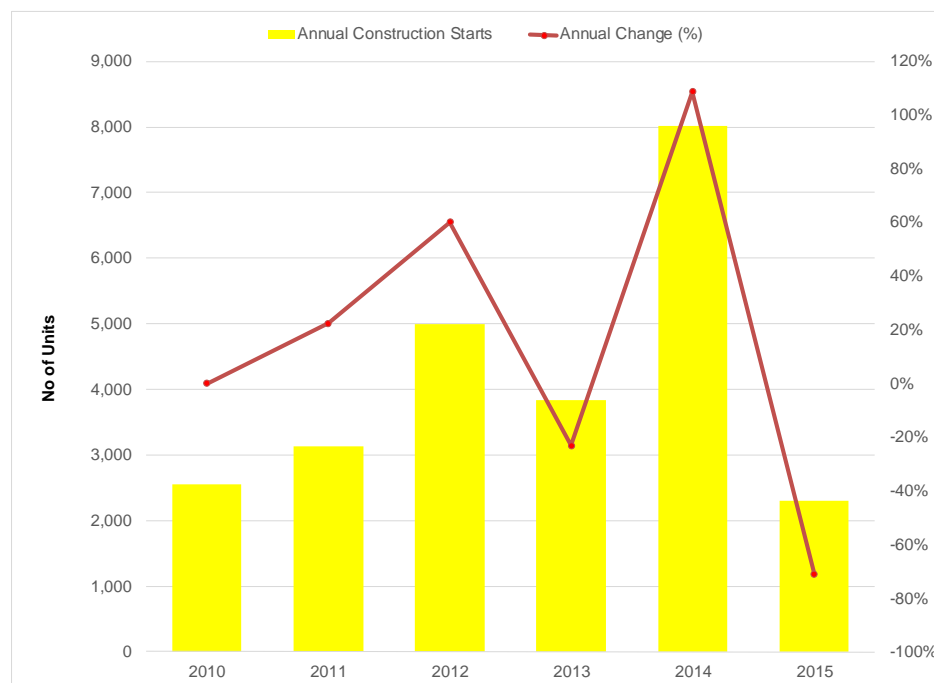
Construction starts is a measure of new housing units being launched on an annual basis and is an important indicator of just how buoyant and active the housing development market is in Lagos.

In the last five years, construction starts have seen a yearly increase in the number of new housing units as reflected in Figure 6. The highest number of construction starts recorded over the past five years was in 2014 with a record breaking 8,013 new housing units. The housing development market was at its peak then as developers moved to site to embark on various mass housing projects. This pattern of growth did not continue in 2015 as the number of new housing units launched dropped by 71% and plummeted to 2,307 units making it the lowest recorded over the past five years.

The sharp drop in construction starts seen in 2015 can be attributed to the changes in the political and macro-environment as earlier mentioned above where the anti-corruption stance has stemmed the inflow of embezzled government money into the real estate market thus severely affecting the source of funds for some developers who in the past depended on such proceeds. It has also made it difficult for some developers to access loan finance from the financial institutions as a result of the liquidity freeze and lack of credit facility in banks owing to the implementation of the TSA.

Despite the downturn in construction starts for 2015, an estimated 25,000 new housing units have been launched in the last five years of which 61% (15,140 units) has been delivered into the market as seen previously.

Figure 6 Annual Construction Starts



Source: Residential Auctions Company

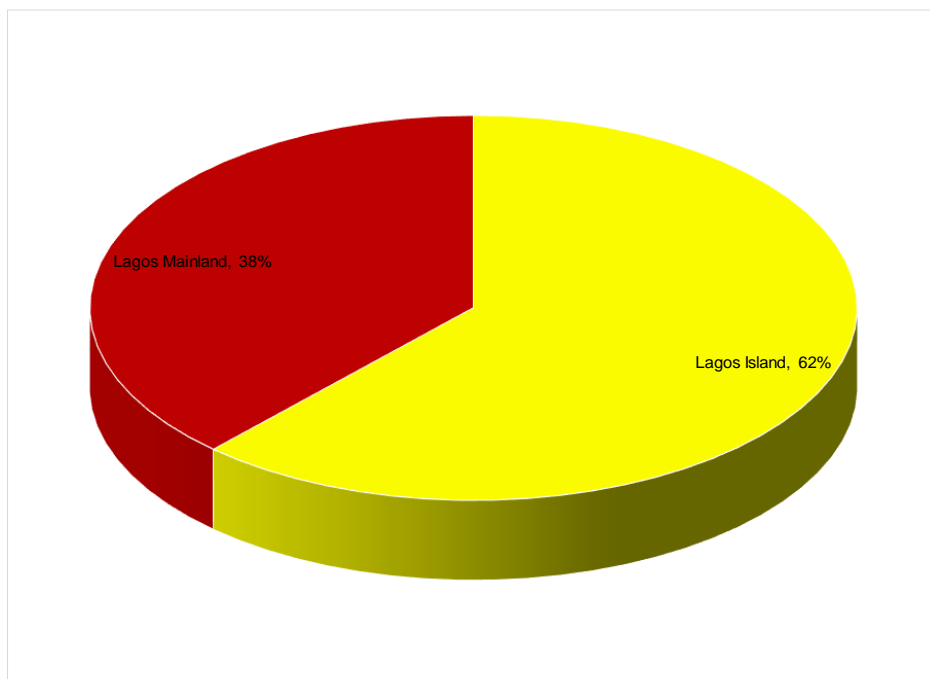
The Development Pipe-line

Currently the development pipe-line in Lagos is very robust with an estimated 14,415 units still under-construction and awaiting completion. Some of these developments date back to over five years and there are several plausible reasons for the delay in delivery, one of such reasons could be a lack of funds which will hinder the ability of the developer to finance the progress of the development or it could be a litigation case between parties involved. In most cases it is usually the former that happens and unless a source of finance emerges the development will remain in limbo until a solution has been found.

Given the current economic atmosphere we are projecting that only a third of the 14,415 units currently in the pipe-line will be delivered this year (2016) resulting in circa 4,325 units but unless developers can seek alternate funding asides from the commercial banks then this figure might not be delivered. This could potentially present an opportunity for developers to pursue “Crowdfunding” which is an alternative form of raising finance from a group of investors through an online platform and is a relatively new concept.

The next coming months and beyond will be testing times for developers as demand is likely to be curtailed with clients cutting back on spending until a clearer picture of the economy emerges to restore consumer confidence in the market. It is expected that a lot of developers will tread carefully when embarking on new projects to launch and location of choice will be a paramount factor. Also to hedge risks, developers will cut back on the size of projects they embark upon and will seek to develop small size projects that will provide not more than 3 – 10 units which will quickly attract sales even at the off-plan stage hence eliminating the occurrence of idle units waiting to be sold several months after completion which will increase the cost of keeping stock.

Figure 7 Development Pipe-Line - Geographical



Source: Residential Auctions Company

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According to our research 62% of new housing units in the development pipe-line will be delivered into the Lagos Island market as shown above. This should not come as a surprise since the Lekki-Epe axis still has a vast area of green field sites (un-developed land) in Lagos. The future of this market looks pretty much intact as supply will continue to increase with demand and infrastructure is improved to attract more businesses. We cannot categorically say that Lagos Island has more green field sites than Lagos Mainland or vice-versa as there is currently no data to show or prove this theory.

Notwithstanding the fact that Lagos Island has the bulk of new units in the development pipe-line, we cannot neglect or overlook that some locations on Lagos Mainland such as; Ayobo-Ipaja, Badagry and Okokomaiko also have vast number of units in the development pipe-line a major consequence of a few mass housing schemes launched under Joint-Venture (JV) arrangements and are still awaiting completion.

These schemes include:

Table 2 Lagos Mainland Development Pipe-Line

Scheme	Location	No of Beds	No of Units	House Type	Projected Delivery Year
Sunrise Lifestyle Estate	Ayobo-Ipaja	2 & 3	680	Flat	2016
LCBS-Gold Estate	Ayobo-Ipaja	3	123	Bungalow	2016
Hannah Gardens	Badagry	2 & 3	260	Flat	2016
Teju Royal Gardens Estate	Okomaiko	1, 2 & 3	1,000	Mixed	2016

Source: Residential Auctions Company

With the on-going rehabilitation and expansion of the Lagos-Badagry Expressway and the construction of the Blue Line Lagos Rail Transport (LRT) mass transit transport system by the Lagos State Government (LASG), the Okokomaiko – Badagry axis part of Lagos Mainland has the potential to emerge as the next “Lekki” of Lagos Mainland in the future with regards to the delivery of new housing units in Lagos provided infrastructures continues to improve along this axis.

This will have a directive positive impact on commercial activities in the location and will act as a catalyst to lure more residents from other locations on Lagos Mainland to migrate. The Blue Line is a 27km urban rail line that will run from Okokomaiko to Marina. There will also be a Red Line which will run from Marina to Ikeja International Airport.

Eko Atlantic City

The Eko Atlantic City project is a Public-Private-Partnership (PPP) initiative involving the Lagos State Government and a private company South Energyx Nigeria Limited (a subsidiary of the Chargoury Group of Companies) under the auspices of the Federal Government of Nigeria. South Energyx was appointed to be the planner and developer of Eko Atlantic and was awarded concessions to reclaim land, develop infrastructure and act as the exclusive authority over the development of Eko Atlantic City.ⁱ Included in the master plan of Eko Atlantic city which would cover eventually 10 million square meters of land adjacent Victoria Island are provisions to provide new homes for 250,000 people and workplace of another 150,000. Due to its large expanse of land, Eko Atlantic will consist of several districts with strict building regulations for each district.

Development activity is in full swing as several real estate development firms have moved to site and are jostling to get ahead in the race with their respective developments. The uniqueness of Eko Atlantic is that the residential units will be constructed as vertical high rise apartment towers due to limited space for the traditional single family detached units which was not included in the original master plan.

According to data compiled so far, we estimate that there are already over 1,000 units of apartments of various room sizes ranging from 1 bedroom to 4 bedroom penthouses already under construction.

Leading the pack of these developments are Eko Pearl Towers by ESLA International. Eko Pearl Towers are high rise residential buildings to be located in the centre of Eko Atlantic City. It will comprise of five stunning residential towers on the harbor of Eko Atlantic. The towers are; White Pearl Tower, Black Pearl Tower, Indigo Pearl Tower, Champagne Pearl Tower and Aqua Pearl Towerⁱⁱ. In total the towers will provide just slightly over 560 apartment units with one tower completely sold out and the first set of units will be delivered as early as 2016.

Another high rise development currently under-construction in Eko Atlantic City is Eko Energy Tower Estate being developed by oil and gas logistics firm Orlean Invest West Africa a Nigerian group with over 25 years of providing corporate and real estate services. Eko Energy Estate is a premium residential neighborhood that will cover approximately 450,000 square meters of land and will be located in the Northwestern corner of Eko Atlantic City.

Unlike other residential developments in Eko Atlantic City, Eko Energy Estate has been carefully conceived by its planners to provide an unrivaled living experience to future residents with residential towers that adapt easily to client requests to create custom apartments coupled with integrated recreational and service facilities, guaranteed infrastructure and state of the art securityⁱⁱⁱ.

Eko Energy Estate offers a comprehensive solution for corporate accommodation requirements on a lease basis only. A unique selling point for Eko Energy Estate is that due to its location it has easy transportation links and can be reached by road or waterways and provides the convenience of quick access anywhere in Lagos.



The first phase of Eko Energy Estate will consist of 3 high rise 20 floors residential towers that will provide about 260 apartment units of various number of bedrooms as illustrated above and is expected to be delivered by 2018. It is projected that by the full completion of Eko Energy Estate there will be circa 5,000 apartments in 50 – 60 residential towers.

Other notable residential developments currently in the works in Eko Atlantic City are Lagos Sky Tower, LeReve Tower and Azuri Peninsula.

You can read more on Eko Atlantic City in the special report we published in 2015 which is available on our website.



Important Note

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.

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ⁱ Eko Atlantic Website www.ekoatlantic.com

ⁱⁱ Estate Links www.estatelinks.net/eko-pearl-towers/

ⁱⁱⁱ Eko Energy Estate – Fact Sheet