northcourt

EXTERNAL MEMO

Title: 2017 West Africa Property Investment Summary Notes – Lagos, Nigeria
From: Northcourt
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A. Background

Northcourt is a wholly owned indigenous real estate firm established in 2013 to reduce the opacity in the Nigerian real estate market by spreading the gospel of data driven and professionally executed real estate service. Headquartered in Lagos Nigeria, the firm is structured around three pillars – Real Estate Advisory, Real Estate Services (Facilities / Property Management) and Brokerage services.

The firm has taken steps in reducing the opacity of the industry through conducting real estate research and organising knowledge events. Our real estate market research reports have caught the eye of international organisations, receiving the 2016 Euromoney prize for best real estate advisor and consultant in Nigeria, coming from second place in 2015. The firm has been privileged to be quoted by reputable local real estate publications, invited to comment on the real estate sector by CNBC Africa and contributed to widely read newspaper columns.

The following sections summarise the comments of the presenters, moderators and panellists at the recently concluded West Africa Property Investment Summit that held in Lagos Nigeria on the 28th and 29th November, 2017.

B. Sessions & Comments

Session title: Local, Regional and Global Investor appetite: Opportunities in a cycle downturn & West Africa in the African & Global context

Name of Moderator: Tom Mundy, Head Sub-Saharan African Strategy & Research, JLL.

Name/Role of Panelists: Obi Nwogugu, Principal African Capital Alliance, Funke Okugbadejo, Director, Real Estate Actis West Africa, Paul Owuanibe, CEO Landmark Group Africa, Sara Cheche, Investment Manager CDC UK and Obi Nwogugu, Principal African Capital Alliance.

Key comments:

Investors are looking to invest in Nigeria due to the anticipation of post-recession economic growth. An example is seen in the growing confidence in the travel sector. There are now more credit-worthy tenants in the market and this has given confidence to real estate developers.

The speakers were concerned with the need to understand the steps necessary to mitigate Nigeria's market risk. The type of development to be undertaken shouldn't be merely speculative but should be certain of the needs of the consumer. There is an increase in the number of small and medium scale businesses who have different preferences. This would in turn affect developer options. The demand for Commercial properties is low as investors would rather put their funds in high-end residential properties. The retail sector has also struggled due to logistics issues and poor infrastructure.

Bad roads and high cost of transportation, etc. further compound the Industrial sector, already with little A-grade warehouses. There is a gradual improvement the execution of Government policies. For example, the railway project in Lagos is an encouraging infrastructure project. However, investors then have to consider currency risk. 30% of the Nigeria economy is centered on the retail and wholesale markets. While the retail market is under supplied, only a few are willing to invest, again because of the currency risk. It was stated by the panel that it would take some time for the Nigeria's construction industry to mature to the point where it could produce materials locally. Two major factors were named as key influencers in pricing and supply: volatility of demand and volatility of the exchange rate. The biggest challenge of a developer is predicting the demand or need of the market in the future.

Session title: Determining sustainable rental levels and matching them with attractive investments opportunities, returns and in occupier demands

Name of Speaker / Moderator: Nnenna Alintah, Head occupier services & research, Broll Nigeria Limited

Name/Role of Panelists: Jide Balogun, CEO, Primrose development company, Nigeria, Dennis Papa Odenyi, Consultant EDGE Africa implementation, Jemil Dawodu, Managing Director Cushman & Wakefield Excellence, Nigeria

Key Comments

There is little or no growth in demand for commercial spaces. 50% was the estimated vacancy rate in Victoria Island while Ikoyi had a 70% vacancy rate. Rents have been going through a decline for the past four years. There has been a 56% drop of rent price in Victoria Island and 40% drop in rent in Ikoyi over the same time period. A major demand driver is the size of space and 0 – 500 sqm was most in demand for 2017. 67% of total office stock in Lagos is B-grade. These buildings are not meeting international standards and are in need of renovation. A-grade buildings are still commanding prime rents with room for negotiation. On rents, A-grade buildings currently go for $640 – $710 while B grade buildings go for $390 – $410.

From the Landlord's viewpoint, staying competitive means bringing rents as low as $550 in some prime properties. The tenant has continued to focus on space optimisation and cost reduction and strategies deployed to this end include desk sharing, open floor plans, lease restructuring, subleasing excess space, re-Lease of vacant spaces to the Landlord co-working spaces, Energy conservation through the use of energy saving lighting. Green building technology better prepare buildings for future occurrences by promoting energy conservation. This leads to a reduction in cost of maintenance, as well as increasing the longevity of the buildings. Using an example of green buildings constructed in South Africa, the subject building reported more than 40% savings in operating cost. This was observed through the reduction in use of water, energy efficient building through renewable sources of energy. For existing buildings to get the EDGE certification, they have to run through certain processes on an App which has three main standards - water, energy and building materials.

Session title: Restructuring Debt: Managing FX risk and alternative financing solutions for your development: What every Developer & Investor needs to know.

Name of Moderator: Ewejuwa Gbadebo, International Real Estate Partners Nigeria

Name/Role of Panelists: Tola Akinhanmi, Senior Manager, Real Estate Finance Stanbic IBTC Capital Ltd, Pierre Groenewald, Chief Investment Officer, Novare, Warren Van Der Merwe, Chief Operating Officer, Vantage Capital

Key comments:

Two issues that have affected debt structuring in the past are restrained cash flow in the foreign exchange market and the ability of local banks to access foreign exchange. Developers need to leverage their assets even if it's a strategy they're not comfortable with. Local funding for developers is possible when financing is available via Pension funds. Other options of financing should be explored besides bank financing e.g. equity financing, capital market financing could be adopted. Quality of product finishing is a major factor because without this, the final product would not attract the right buyers.

Session title: Room 2: Developing Future West African Cities: Lack of Infrastructure as a driver of demand for mixed-use development and Masterplan projects

Name of Moderator: Oluwatosin Ajose, Associate partner detail solicitors

Name/Role of Panelists: Odunayo Ojo, Senior Development Manager Rendeavour Nigeria, Perre Edde, Director South Energyx (Eko Atlantic), Yinka Ogunsulire, CEO, Orange Island development company

Key comments:

Speed of getting approval from the Government should be improved to facilitate development. A key issue has always been the cost of construction - from sourcing for materials internationally (80% of material used) instead of sourcing locally to market friendly mortgage rates etc. The key determinant for developing energy efficient buildings is in effectively managing the capital and operational costs. There is a sensitivity from the short term funds and of having to pay back especially when compared to the long term advantage of reduced operational costs. Developers also need to understand timing and anticipate any future changes in demand. On the problem of land acquisition and titling, a partnership with government to make land cheaper and available is a possible way forward. Consultancy is also important so that potential trouble spots are avoided.

Session title: Ghana Resurgence: Ghana back in the limelight? Is it time to invest again?

Name of Moderator: Tony Sekyere, Head Property Management, Broll; Jonathan Lotter, Retail Portfolio executive Broll, Ghana.

Key comments:

There's a larger demand for a smaller retail centres ranging from 3,000sqm – 7,000sqm compared to the larger sized retail market. There are opportunities to partner with other developers who are experts in the various property uses e.g. residential, commercial etc. There is an anticipation of the entry of foreign investors. This is however dependent on the feasibility and viability of the proposed project. The main factor is setting a realistic price point. This is the most difficult time to enter the market for retail. The depreciation of the currency also affected the investment decisions that have already being made when the currency was at a more stable rate. Also, another factor is the incremental growth in the retail market. While an increase in retail developments in expected, it is but more of the Regional shopping centres are expected.

Session title: Francophone West Africa: Abidjan and Dakar

Key comments:

Speakers agreed that Dakar and Abidjan have good enough infrastructure and the geographical advantage to attract investment. The available infrastructure includes relatively reliable electricity, roads and local currency. There are opportunities for investment in affordable and mixed-use housing. A key difference is that the CEFA currency is more reliable than the currency of the English English speaking countries. Senegal also ranks higher than Nigeria in the ease of the doing business rankings.

More and more investors are looking to investing in logistics and distribution centres as there are almost no logistics/distribution channels. Other investment opportunities include Cameroun and Chad. It was established that the French speaking countries owe a lot of their investments to the Nigerian downturn. It takes time for an investor to feel comfortable as well as understanding the market. There is also the need to understand Effective Demand and Debt in Francophone West Africa. There was also an issue raised on whether investors are willing and able to pay for data.

Session title: Tapping into West Africa's Industrial Warehousing sector: A detailed look into free trade zones, current supply and demand as well as expected returns and rentals.

Name of Moderator: Ruairi Moriarty, Partner, Emerging Markets Consultants Ltd

Name/Role of Panelists: Wallace Wilkins, Development manager, Nigeria, RMB Westport, Edward Osammor, Director, EMC Real Estate Nigeria

Key comments:

The panel suggested the need for improvement in infrastructure. The IFC finances projects that have good credit accounts and share their knowledge of other markets. There has been the problem of good quality warehousing and logistics parks in Lagos. But the cost of building it is double the price per square metre when compared with outside Lagos. It was suggested that investors change their perspective from building warehouses close to ports, to building them close to the end of rail lines or local airports. The issue of tax should be looked into. There are inter-agency challenges, for example, getting approval from one agency, then experiencing difficulties with another agency pertaining to approvals.

Session Title: Real Estate financing options

Key comments:

UPDC have done projects in different parts of Nigeria, ranging from ₦2 to ₦15Bn. In 2016, they did a ₦24Bn Commercial Paper (CP), first series of 12 million oversubscribed, 16.5 subscription

The challenges posed by REITs:

- It is too complicated
- Timing is stressful because of too long time in getting approval and your plans can be disrupted
- Regulatory challenges
- Liquidity challenge – as it is difficult for investors to exit the market when they want to
- Limited capital penetration
- Tax issues
- There is problem with development risk

The proposed solutions include:

- Transparent flow through vehicle
- Neutral tax treatment
- Resolution of bottle necks
- Longer tenure for projects of 25 – 30 years
- Private funding of service intervention
- Ease of transfer for the Underlying assets

Session title: Unlocking capital markets for real estate investment part 1: Sell side: The instruments

Name of Moderator: Tom Mundy, Head Sub-Saharan African Strategy & Research, JLL

Name/Role of Panelists: Prof Charles Inyangete, Managing Director CEO NMRC, Adeniyi Adeleye, Head Real Estate Finance (West Africa), Stanbic IBTC Capital, Nigeria), Adeniun Taiwo, Finance Director, UPDC Nigeria, Bola Onadele, Managing Director/CEO, FMDQ QTC Securities Exchange, Nigeria

Key comments:

Globally, yields have dropped, making Real Estate Investment more expensive and less attractive. Still demand has never been higher. $150M dollars comes into the WA market annually and the value of foreign transaction is 60% higher in H1 2017 YoY. Nigeria's $1Bn Eurobond launched earlier in the year was oversubscribed seven times. The appetite for Nigeria bonds is also very strong. However, export of Nigeria Oil export to US has dropped. There is an average of 6% in US Dollars vs. 16% on Naira bonds. The 10-year yields in the USA moved from 1.7% to 3%. EMBI global spread from 275 to 395 basis points. China is a much more bigger player in the sub-Saharan Africa market. They have 5 times more exports to sub Saharan Africa and 10 times more to Europe compared to US. REITs in Nigeria is at 0.14% ($37M) South Africa 1.8%

There's a need to move faster to take advantage of the opportunities. There is a need to provide solutions and not dwell on problems. Mortgages should be made more efficient to fund the housing sector. There's need for the Government to create better fiscal policies in the Housing sector as a lot of the finances for development come from abroad. Also, regulators need to make the process time for approval faster. Government funded the market via a ₦100Bn Sukuk for infrastructure development. There's been very little involvement by way of engagement with the private sector when creating policies. As such a good Housing policy is lacking making access to home ownership difficult. After the policies are resolved, there's also a need to create plans for sustainability. From a lenders view, it's vital that the actions of the Government stabilise the economy, as this is what drives growth. There's a need for a strong primary market before moving to the secondary market. Stanbic is looking into the commercial space by creating an access pool that provides feeder to secondary market/instruments.

To deepen the market, the first thing is to profile the customer, arrive at a good payment structure and create models for the informal sector e.g. rent-to-own. It was also stated that there's not enough education in the market for the REIT asset class. The Government would need to partner with private bodies on sensitisation efforts. There is also a need to educate people on the liquidity of the assets while providing transparency in the quality of assets listed. The efforts of the NMRC have been good - buying mortgages and hold them for sale. This takes the long-term problem but there is the need to sort out the shot-term problem of delivery, that is, completing projects and selling them. There's a need for FMDQ to allow pensions funds to buy into private bonds. But it is also important to get Bulk buyers. There could be an informal way to get back money from people through daily payment.

FMDQ has not listed any REIT, as they are relatively new to the Nigeria market documentation for listing is ongoing. It was stated that Nigeria does not respect and therefore does not retain capital. We have to look inward and craft solutions with a view to our environment, from funding to building. He mentioned that he is frustrated by the housing policies in Nigeria and our policy makers need to do more. Most of our laws and policies are outdated by not putting into consideration things like globalisation of the market, gender equality, etc. It is important to note that we are in competition for both domestic and international capital in the market. And though we have the motive to do these things, we need to execute effectively.

Session title: Unlocking capital markets for real estate investment Part 2: Buy-Side: The Stakeholders

Name of Moderator: Tom Mundy, Head Sub-Saharan African Strategy & Research, JLL

Name/Role of Panelists: Bolaji Edu, CEO, Broll, Adeniyi Falade, Managing Director, Crusader Sterling Pension, Nigeria, Joe Quinones, Managing Partner, Obara Realty Group, Managing Director, Estate Links, USA office, Debo Adeosun, Senior Vice President Equity & Debt Capital Markets Stanbic IBTC Capital, Bola Onadele, Managing Director/CEO, FMDQ QTC Securities Exchange, Nigeria.

Key comments:

The consensus was that there is yet to be a development of good quality A-grade products targeted at the occupier's market. Fund managers in pension funds are finding difficult to get above average returns. The Warehousing and logistics class have opportunities. There is a need to improve domestic manufacturing capacity because of the movement of diversification but the challenge in this is land acquisition. Student housing should be an option to consider because the larger demographics of the population is young and healthy. Pension funds can only be accessed by private equity arrangements, REIT structure and listed funds either open or closed ended. Pension funds cannot invest directly in Real Estate because of valuation problems. There was also the view that there are no quality assets in the market. Pension funds are not looking at a lot of return but just a real return that beats inflation.

There is need for real estate to give real returns as this would boost investment in this real estate assets. 10% of all direct real estate traded last in UK was student housing. Can this be made real in West Africa? A developer in student housing has an IRR of 36%, and expects the REIT class to looking into this because opportunities here is high and unexploited. Even though the hospitality sector has a good yield return, the real return in this sector can be an issue. The size of the South African real estate sector is about 400 billion Rand. Poor structures it would affect real returns and the fund manager should try and construct the portfolio in a mixed asset class that any economic situation wouldn't affect. How do you think of the linkage of international capital playing in the Nigerian Market or should be vice versa?

10% of all direct real estate traded last in UK was student housing. A number of developers are looking into this considering the returns that it can provide, but are looking at other classes like logistics to also invest. There's a lot of ambiguity in tax rates and questions are being asked about this. It was recommended that Nigeria focus on the primary market and when this is done, individuals would find capital easier to access.

Session title: The West African retail story uncovered: part 1

Name of Speaker: Gavin Cox, Head broll retail management and retail leasing Nigeria

Key comments:

Retail has grown 1,000% in 12 years and as at 2005, total formal retail stock was 30,000 sqm, comprised the Palm Mall Lekki and Ceddi Plaza, Abuja. 64% of High-street operators are projected to expand into Mall development. By comparison, rents are higher in malls and the ratio of rent to service charge is higher in malls except VI. Potential ways of growth include:

- E-commerce.
- New mall designs
- Smaller malls / Phased projects
- Reimagining street within mixed-used schemes
- Emphasis on local retailers.

Essentials needed to attract investors include: Determining the rate that would attract tenants to the mall and giving discounts where necessary. Determining ways to drive the footfall and being more ready to offer incentives. The developer's contribution of 80% to a development is a negotiation point is sometimes difficult in Nigeria. The cost of construction is different here in Nigeria compared to other parts of Africa. This year, there's only one shopping mall under construction reflecting the downturn in the retail market, but the market penetration for the retail market is 3%. 97% of the Nigerian population who do not go to shopping malls.

Malls should be designed to attract a specific demographic. There should be a review of the informal markets and see how we can make it formal. 65% - 70% of the population for Cinemas is not being served. The challenge seems not to be the design of the Malls, but more of the culture of the people. Some builders are looking at building affordable malls for the masses by taking the mall experience to them rather than dragging them out to the upper class Lekki area of Lagos.

There is the need to formalise the informal sectors by providing smaller Malls that offers leisure and security. Investors are prepared to make further investments if there is more transparency in the tax incentives provided by the Government. However, in terms of capital outlay, the developers will still be expected to provide about 80% of construction costs. Investors restated their preference: An idea is easier to sell a similar concept is already working and in last 18-months Lagos is performing relatively well. Other communities are struggling however because retailers are can't afford the rentals and the perception of the products as being upper class also turns back potential customers.

Some Cinema owners complained of situations where rent moves because just because of sharp changes in the exchange rate. And the price of the retailers products cannot be increased by the same margin as consumers will not buy. There is the need to ensure that the exchange are stabilised. BOI can reduce the pressure by providing naira capital. It's hard for the landlords that funded the developments/investment in USD but collecting rents in naira to break even. This makes it difficult to make repay loans. It is clear that pricing must remain affordable to grow the market. Policy is also important and Governments need to move as quickly as possible because individuals can just decide to create shops without restriction.

Session title: The West African retail story uncovered: part 2: Preparing for the future

Name of Moderator: Obiajulu Uzoigwe, Head of Leasing Cushman & Wakefield Excellerate Nigeria

Name/Role of Panelists: Michael Chudi, Director, Retail Investment Platform, West Africa, Adegbenga Fashola, Chartered surveyor & management consultant Nigeria, Olaide Agboola, Co-managing partner, Purple capital Partners Ltd, Nigeria, Chris Lee, Head of Operations/Managing Director, Miniso Lifestyle Nigeria Ltd

Key comments:

Over last 8 years, yield had to be between 12 - 14% to be deemed healthy investment. The leverage has dropped from 50/60% to about 35%. This means more equity contribution is now required. E-commerce is responsible for 10% of sales in US with a 30% growth forecast in 2019. The issue with the Nigeria e-commerce market is that the capital funding from the likes of Amazon that can allow some time for growth before making profit is absent. A large percentage of consumers spend 60-75% of their income on feeding, leaving little for discretionary spending. $300M is spent on feeding and beverages in Ikoyi while $1.3Bn is spent in Mushin. It is harder to achieve 25% IRR in 7-8 years, it is the nature of the market in Nigeria to recover the money invested in the shortest time possible. Patient investors are required to grow the market.

For ecommerce to grow in Africa, the size of the market, level of education and access to the Internet are key considerations. Retail centres would still be in the market for a long time before e-commerce fully takes over. E-commerce is unlikely to take over the retail centres completely. Japanese retail powerhouse, Miniso have more than 1,300 stores globally, opening 80 – 100 stores annually and haven't moved to e-commerce yet. To highlight this, Alibaba recently opened offline stores because the customer experience is important. As a way to raise funding for Mall development, there can be profit sharing models between the International brands that are going to be tenants and the developer. The right funding should be long-term funding. It will take at least a decade to profit significantly from a retail development. There are very few investors interested in funding a business that is long-term. The locals need to step forward to do this or there would be a vacuum.

Session title: The West Africa Hotel development pipeline part 1: Hotel development pipeline

Name of Moderator: Trevor Ward, W Hospitality Group and hotels partners Africa, Nigeria

Name/Role of Panelists: Michael Cooper, VP development west africa, Hilton west Africa, Hilton worldwide, South Africa, Alexis Janoray, VP Development sub-Saharan Africa South Africa, Anthony Shishler, managing Director, Fahrenheit Hospitality Limited, Andrew McLachlan, President, Business development, The Rezidor Hotel group

Key comments:

The average time before hotel development opens is about 7 years, and getting hotel finance in Nigeria is more difficult compared to the rest of Africa. This is also caused by the hindrance and difficulty of construction from experts needed to the firms that can handle this project, etc.

A few Hospitality concerns are not looking to expand because although the ability to pay big brands for the right to use their name is not an issue, upholding the quality standards can be challenging. Hence, some Hospitality chains stick to niche markets. Lagos, Abuja, and Port Harcourt remain the focus in Nigeria. There is some interest being shown to Ghana. Other Hospitality chains are looking to be in 10 out of 36 states in Nigeria. Things to consider include minimum number of rooms, minimum standards and opportunities to sign franchise deals. There is a challenge with sustaining budget hotels in Africa due to the lack of infrastructures which make investments too expensive in the end.

Session Title: The West Africa hotel development pipeline Part 2: Focus Francophone West Africa

Name of Moderator: Trevor Ward, W Hospitality Group and Hotels Partners Africa,

Name/Role of Panelists: Wesam Okasha, Group Business development, Director, Mangalis hotel group, Spain

Andrew McLachlan, President, Business development, The Rezidor hotel group, Charlotte Specht, Director, Horwath HTL West a& Central Africa, Cote, Adetope Kayode, Vice President Advisory & Transaction, HTI Consulting, Damilola Adepoju, Hospitality, Estate Intel, Wesam Okasha, Group Business Development Director, Mangalis Hotel Group, Spain.

Key comments:

The Francophone area is currently seen as a big opportunity. For the most potential, Abidjan is regarded as a top tier city followed by Dakar. There is also a gradual move out of the major cities for development. The secondary cities do not attract as much attention owing to bad roads. The large supply of rooms coming into the Dakar market is expected to thrive. With a new airport opening on December the 7th, there is a high pickup in demand and investors are looking to tap into this. This number may drop because of developments elsewhere causing migration and growth in other places. Some of the old hotels will be converted to commercial/office spaces.

With Douala mostly business focused, there are only 2 top brand hotels in Douala. The city has mostly private/individually owned hotels. The market has a price deficit and there is little demand that can pay the high price for a brand. Yaoundé on the other hand is a Government town and the only international brand is the Hilton. As they are the only 5-star hotels in the country, their price is about 40% higher than the average hotels.

The consensus is that the 800 rooms coming into the market will not lead to oversupply. There are also opportunities to develop resorts in Cameroun, a city like Douala and with the Africa Cup of Nations (AFCON) coming up, the government is more willing to provide grants and approve developments. On the other hand, the Government in Senegal is promoting tourism by Visa on arrival. Are you looking at other cities outside the main cities in West Africa? He is of the view that Dakar would be the main city for them at the moment, but they would be looking to develop resorts, with the belief that the tourism in Senegal would improve.

There is a growing opportunity for serviced apartments in Senegal and Cameroun. Professionals and institutional firms have showed the greatest interest in these types of apartments. Projects in Cameroon are integrating service apartments in the designs/development. There are about 70,000 rooms in the whole of Africa in a recently conducted survey and there are 6 serviced apartments brands with 640 rooms in the whole of Africa.

C. Conclusion

The event ended with various panels giving projections are suggesting ways forward for improving the state of the West Africa Real Estate Market. Private firms made commitments on how to address issues and promised to work together for the good of the industry.

Thank You.

Yours

For: Northcourt

Ayo Ibaru
Director, Real Estate Advisory