Market Overview

Losing number one position to South Africa as the largest economy in Africa, along with a significant slowdown in economic growth, means that 2016 is proving to be a challenging year for Africa’s largest oil producer. The oil industry is the most important sector of the Nigerian economy and the continued low prices of the commodity have resulted in GDP growth contracting to 0.2%, far from the 5.4% 10-year average growth rate.

Apart from deteriorating economic conditions, Nigerian government policies have created structural issues which have hindered foreign direct investment that can foster economic regeneration. The 16-month fixed FX rate at NGN199 to the US Dollar and the list of 41 imported items banned from Nigeria’s FX market have halted foreign investment activity, as fears of being able to repatriate US Dollar profits and escalating importation costs became a reality. The introduction of a more flexible interbank FX market rate in June has been well received by the market and businesses, but it has failed to improve liquidity conditions or attract large foreign capital investment. A further weakening of the parallel market rate and a shortage of locally-sourced products has added to the upward pressure on inflation.

The government’s planned capital allocation to infrastructure development and its concerted efforts to tackle corruption in all state departments are encouraging and will contribute positively towards strengthening the economy. Nigeria still holds the title of ‘business gateway’ to West Africa and will be able to affirm that position if it diversifies into other sectors to reduce the country’s dependency on oil. Downside risks include a further fall in oil prices in the absence of substantial economic diversification.

Abuja, located in central Nigeria, is the country’s official capital and one of the fastest-growing cities in Africa. With an urban population growth rate of 6.2% per annum, it has experienced an influx of people into the city which has contributed to increased demand for services, infrastructure and commercial real estate. As the federal capital, Abuja is home to some of the wealthiest residents in the country and, due to its strategic location, has been earmarked for investment opportunities.

A brief look into the history of Abuja shows that political pressure due to ethnic division necessitated a move away from Lagos as the capital city of Nigeria. Abuja was initially chosen as the capital city from a list of 34 other towns due to its central location in the country, presenting an ethnic and religious neutrality of the...
A number of projects that are still under construction have been put on hold until more certainty is gained around the macroeconomic challenges faced by the country. There has also been an absence of transactional activity in Abuja’s real estate market, mainly due to the city’s limited stock of investment-grade assets. The city did witness earlier this year, however, the completion and opening of the 25,000m² Jabi Lake Mall, the first formal retail offering delivered by Actis.

In terms of future assets, Novare is looking to develop the Novare Gateway mall, a US$68 million retail development with an estimated gross lettable area of 25,000m². Churchgate Group, notably the most active local investor in the market, has initiated the construction of the multi-million US Dollar World Trade Centre, which will be the first building in Nigeria to offer a mixed-use development consisting of high-end residential dwellings, Grade A offices, a hotel and retail space. Momentum and Eris are also looking to establish a presence in Abuja with the funding and construction of the Maitama mixed-use development comprising 82,000m² of retail, office and hotel accommodation, construction of which will commence in Q1 2017 depending on market conditions. In line with its West Africa strategy, RMB Westport has also entered the city’s retail market with the development of the 27,318m² Asokoro City Mall.

**Investor sentiment**

The likes of Churchgate Group, Novare, RMB Westport and Actis have a pipeline of investment-grade assets in Abuja, however, a number of projects that are still under construction have been put on hold until more certainty is gained around the macroeconomic challenges faced by the country. There has also been an absence of transactional activity in Abuja’s real estate market, mainly due to the city’s limited stock of investment-grade assets. The city did witness earlier this year, however, the completion and opening of the 25,000m² Jabi Lake Mall, the first formal retail offering delivered by Actis.

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Overview

As the office market in Abuja is predominantly occupied by government and state departments, the market is heavily reliant on government-related business. Therefore prime office rents are determined primarily by a building’s proximity to these departments and its location within the city’s key commercial nodes, which include the CBD, Wuse 2 and Garki Area 11. With developers focusing mainly on high-end residential and retail development, the Grade A office sector is somewhat limited. As Lagos is Nigeria’s economic hub, the lack of demand for office space in Abuja is not driving significant development activity in the sector.

Active projects include Novare’s Central Office Park located in the heart of the CBD, which is currently under construction and scheduled to open in 2017. This commercial development will offer 5,313m² GLA, with offices occupying the first three floors of the building and retail on the ground floor. The other major commercial development contributing to Abuja’s Grade A office stock is Churchgate’s 20,000m² World Trade Centre. Its first phase, comprising a 24-storey commercial tower, is expected to reach completion in the second half of 2016.

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Overview

Although Abuja’s population of 2.54 million people is smaller than Lagos, it has a per capita income which is well above the national average, making it an appealing retail destination for investors and developers. Asking rents for prime retail space in Abuja are in the region of US$45/m²/month. While it may be an attractive market for investors, the opportunity for a more buoyant retail sector is constrained by the city’s relatively small population.

Abuja currently holds approximately 81,000m² of retail space with a bold 170,000m² pipeline forecast. Actis has completed the Jabi Lake Mall development which, with 25,000m² of Grade A retail space and 777 parking bays, makes it the largest retail offering in Abuja. Anchor tenants Game and Shoprite have taken up approximately 15% of the space in the mall. Other retail offerings include Ceddi Plaza which opened in 2004 and Silverbird Entertainment Centre which opened in 2009, collectively contributing 33,000m² of retail space in the city.

A number of South African grocery and anchor retailers are choosing to enter Abuja’s market based on the successes experienced in Lagos to date. These include Pick n Pay, which in Q2 of 2016 made the decision to enter the market through a joint venture with Lagos-based partner AG Leventis, alongside other chains such as Shoprite and Spar. Significant retail developments in the pipeline include the previously mentioned Asokoro Mall being developed by RMB Westport. Novare is also developing a portfolio of mixed-use office and retail offerings including the Novare Central mall, Novare Apo mall and Novare Gateway mall, where Shoprite has been confirmed as the anchor tenant alongside other well-known brands such as KFC, Mr Price and MTN. Capital Mall, which has also been added to the pipeline of retail stock in Abuja, will form part of Churchgate’s World Trade Centre, which is scheduled for completion in 2017.

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In line with Abuja’s master plan, Centenary City - the megacity currently under construction on the outskirts of Abuja - is forecasting the creation of over 250,000 jobs, and with the scheme’s construction of new urban infrastructure and prime commercial and retail developments, Abuja is likely to be earmarked for investment opportunities. Accompanying this are the FCT’s efforts to further encourage local and foreign investment through the implementation of a number of policy initiatives. These involve tax deductions and allowances, and provisions for insurance cover for export-oriented industries.

Abuja’s real estate outlook is largely dependent on the stability of the economy, oil price and foreign exchange markets. While the supply of Grade A offices is limited, it is unlikely that the 25,000m² of pipeline will have a significant impact on rental levels in the short to medium term. As some retail developments reach completion in the upcoming months, the challenges around import delays and restrictions are likely to result in rents for retail space decreasing somewhat in the short to medium term. However, the sector still has the ability to attract interest from international retailers who have an appetite for emerging markets, an appropriate entry strategy, and local partners that will help them establish a presence in the market.

While Nigeria’s real estate sector has potential in the medium term, the uncertainty around the currency and foreign exchange regime has deterred many investors from entering the market, and has consequently put a hold on development and transactional activity in the short term. As tight liquidity conditions begin to ease, it is likely that Nigeria’s economy will start to recover, attracting more players into the Abuja market.
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