

Focus on the Lagos Island Office Construction Market Report 2016



Summary

This report takes a critical look at the Lagos Island office construction market, its growth over the years as more direct investment inflow has entered into the market recently by both local and foreign companies. We shall start this report by first taking a brief look at the Nigerian construction industry before proceeding to the current trends and patterns in the Lagos Island office and construction market.

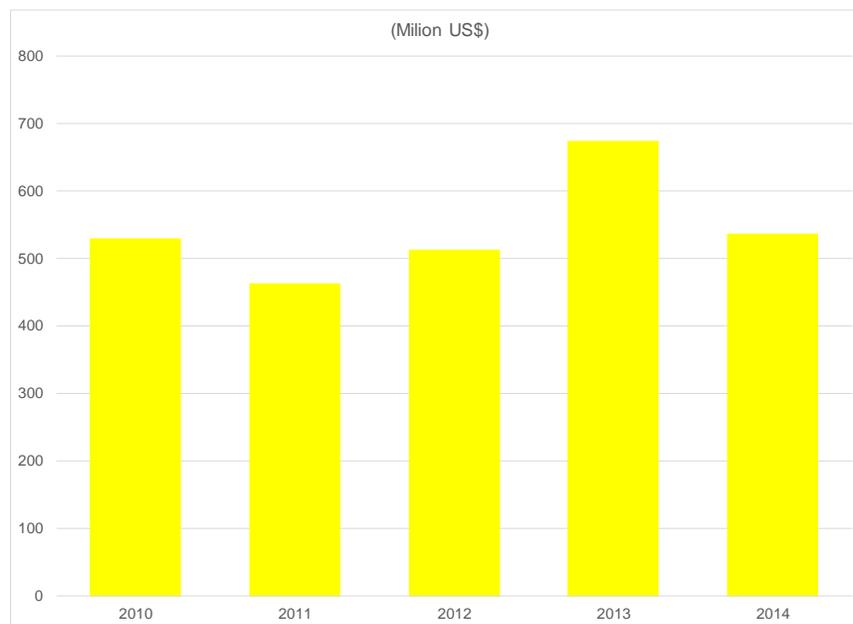


Overview of Nigerian Construction Industry

Nigeria is the economic and financial base of Africa. Following the re-basing of the country’s GDP in 2013, its GDP reached US\$546bn in the following year. Despite being one of the world’s most vibrant sectors, the Nigerian construction industry employs a paltry 5% of the nation’s 170 million populations and is worth an estimated US\$69.4bn. Along with a growing economy, new government policies and an expanding middle-class this has led to massive investments in the industry over the years particularly post military rule. Nigeria’s construction industry is largely driven by the housing and infrastructure sector. The country has a housing deficit estimated at 17m units (RAC research shows that this figure has become obsolete and grossly understated) of which it requires between 700,000 – 1,000,000 new housing units annually creating a lot of opportunities for investment in the industry.

Currently in its infancy stage the industry remains relatively unsaturated by international suppliers and despite the push for the full spectrum of infrastructure, commercial, industrial and residential structures there is a lack of local machinery and equipment to meet demand, providing significant opportunities for international suppliers looking to corner the market. Nigeria is among the top 4 African countries that imports construction equipment and building material machines along with South Africa, Algeria and Egypt¹.

Figure 1 Amount of Construction Equipment and Building Material Imported by Nigeria



Source: Construction Equipment and Building Material Machines’ Association within VDMA-German Engineering Foundation

The Nigeria construction industry has also been boosted by the recent growth in the local production of cement the number one material in the industry. Thanks largely to manufactures like Dangote Plc, there has been a significant rise in the local production of cement which has since caused a 25% reduction in the import of cement as local production accounts for 75%. Local production of the material stands at almost 15 million tonnes per annum².

¹ Africa-Build

² Vetiva Nigeria Construction Industry Report



History of Lagos Island

Lagos Island which is popularly known as “Isale-Eko” in the Yoruba dialect is the traditional Central Business District (CBD) of Lagos and is the birthplace of purpose-built office buildings in Lagos during the colonial era for to its unique position of being sited off the coast of the Atlantic Ocean and proximity to the Lagos Apapa Port. It was particularly the preferred area for financial institutions providing financial services to the traders who transacted business activity at the port.

This led to the growth of high-rise buildings along the Marina Coast which served as offices for the headquarters of several financial institutions such as First Bank which is the first established bank in Nigeria and was formerly known as the “Bank of British West Africa” (BBWA) and Union Bank which was formerly “Barclays Bank of Nigeria Limited” (BBNL) during the colonial rule, the defunct Savannah Bank Plc and several other financial institutions.

The Lagos Island Office Market

Lagos Island consists of three sub locations which are Ikoyi, Victoria Island and more recently the Lekki-Epe Axis and will soon be joined by Eko Atlantic City. As stated earlier the Lagos Island CBD is the home of purpose-built office buildings in Lagos. However, rapid congestion and lack of adequate car parking space in Lagos Island in the early 80's and 90's, this sparked a massive migration of companies to look for new locations for their operational base thereby causing the rise of purpose-built office buildings in other parts of Lagos Island such as Victoria Island, Ikoyi and Lekki-Epe Axis.

Victoria Island is now considered the New Central Business District (NCBD) of Lagos due to the growing number of companies that have established their presence within for their businesses. Initially, these companies started off by acquiring residential homes which were then converted to commercial use usually to serve as office space to accommodate employees during working hours. Gradually as staff numbers increased it became imperative for these companies to seek larger space for staff and this soon led to the rise of purpose-built office buildings by local and foreign developers. Victoria Island is filled with multi-national and domestic blue chip companies. Demand for office space is often driven by foreign oil and gas companies and is the headquarters of financial & information technology firms. The demand in office space started a new trend in the speculative purpose-built office buildings by developers to attract foreign companies seeking convenient office that will meet up with international standards. The birth of new companies usually start-up companies also brought about a new concept in the Lagos office market and this saw the introduction of virtual or serviced office spaces which provide businesses and companies with temporary office space and all the facilities they need to operate in other to save costs in a convenient atmosphere. The concept has really inspired new office buildings specifically for this purpose especially in Lekki axis.

The trend of purpose-built office buildings soon reached Ikoyi which is predominantly a residential area due to its strict planning and regulations. It too has seen a rapid growth of purpose-built buildings over the last two decades especially along the Kingsway / Alfred Rewane Road. The Lekki-Epe Axis which was discovered in the early 80's and has been gradually developing with infrastructures is beginning to see a rapid growth of office buildings due to its abundance of land. The Lagos Island and its sub-locations consists of between circa 1,000 office buildings. An interesting new trend in the Lagos Island office market are mixed-use developments. Mixed-Use development consists of more than one components and are usually a mix of office, retail and residential components. It's a relatively new concept in Nigeria but it is starting to gain ground with developers.

The Lagos Island office market is largely dominated by owner-occupiers i.e. occupied by the owner and in some exceptional circumstances the owner could decide to lease out un-occupied space to tenants. Over the years, developers have seen how lucrative the leasing market of office buildings are especially as rents are traditionally quoted in US Dollars on a sq.m basis and are usually targeted towards foreign companies. Rents in this market segment can range from an average of US\$850 sq.m – US\$1,100 sq.m which is quite astronomical and very few local firms can afford. Due to the recent rapid devaluation of the country's currency, rents can now be paid in the Naira equivalent as agreed in the lease agreement between the tenant and the developer.

2015 was a remarkable year for the Lagos Island office market. According to our data, an estimated total of 109,916 sq.m of purpose-built office and mixed-use space were supplied to the market as can be seen in Table 1. The sudden increase in the supply of office space triggered a rents to rise as developers were in competition for top tenants to occupy the new office buildings in the market which had unique features and built to high standards. Some of these unique features included helipads, jetty for water access and for the first time in the market green energy efficient buildings with L.E.E.D certification.

Over this period, Victoria Island supplied 53,912 sq.m of purpose-built office space which makes up 64% of office space supplied into the market and it has a market share for new purpose-built office buildings at

Focus on the Lagos Island Office Construction Market Report 2016



70%. Regarding mixed-use space, it supplied an estimated 17,404 sq.m of mixed-use space into the market which makes up 69% of mixed-use space and has a market share of 67% for new mixed-use buildings.

Table 1 New Office Developments Supplied in 2015

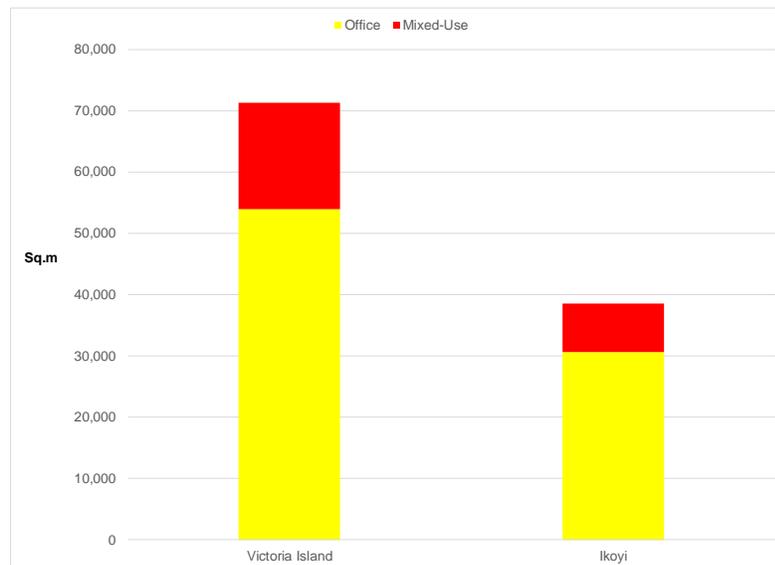
Name of Development	Location	No of Floors	Lettable Area (sq m)	Rent (US\$/Sq m)	Type	Status	Year	Developer
Heritage Place	Ikoyi	14	15,600	900	Office	Completed	2015	Actis
BAT Rising Sun	Ikoyi	13	8,000	1,000	Mixed-Use	Completed	2015	BAT Nigeria Limited
Temple Towers	Ikoyi	15	15,000	800	Office	Completed	2015	ibalex Group
Landmark Towers	Victoria Island	9	7,500	750	Mixed-Use	Completed	2015	Landmark Victoria Development Company
Kanti Tower	Victoria Island	15	6,500	850	Office	Completed	2015	LSDPC/Senkay Nigeria Limited
Civic Centre Towers	Victoria Island	15	7,412	850 - 1,100	Office	Completed	2015	Quantum Capital
Nestoil Towers (Victoria Island Towers)	Victoria Island	15	9,904	1,200	Mixed-Use	Completed	2015	Nestoil
100 Pier Point	Victoria Island	8	2,500	1,000	Office	Completed	2015	N/A
Energy/Nipost Towers	Victoria Island	15, 15	30,000	1,000	Office	Completed	2015	Energy Property Development Limited
Kings Court	Victoria Island	12	7,500	500	Office	Completed	2015	R.C.C.G

Source: RAC

Similarly, Ikoyi supplied 30,600 sq.m of purpose-built office spaces which equated to 36% of office spaces supplied and it has a market share for new buildings at 30%. Regarding mixed-use space, it supplied an estimated 8,000 sq.m of mixed-use space into the market which makes up of 32% of mixed-use space and has a market share of 33% for new mixed-use buildings.

It is in our opinion that despite the best efforts of developers to develop Grade A office buildings in the Lagos Island office market that will meet up to international standards, these office buildings still fall of the requirements and do not meet up to the international standards desired as there is always evidence of poor finishing and inferior quality fixtures and fittings that most times put off tenants. The quality and level of services provided in some of these buildings might also be low and the on-site facilities not properly managed which is why an experienced facilities management company be employed to oversee the facilities and management services.

Figure 2 Supply of Office Space and Mixed-Use Space in 2015



Source: RAC

Despite the success the Lagos Island office market enjoyed in 2015 with regards to supply of new office buildings, there has been a major shift in government policy since the elections with the Federal Government implementing new stringent economic policies targeting corruption. These new policies have affected business activities across all sectors and slowed economic growth. The country's currency Naira has weakened against the US Dollars and other major currencies due to the fall in global oil crude oil prices

Focus on the Lagos Island Office Construction Market Report 2016



and the government has also restricted supply of US Dollars to financial institutions leaving several companies in limbo and in a desperate search for urgent solutions. The effect of this has been evident in the Lagos office market with demand for office space dropping off as more international firms cut down on staff numbers. This has caused a decline in office rents from an average of US\$1,000 sq.m to US\$800 sq.m as developers are finding it hard to find premier tenants to occupy buildings with occupancy rates remaining low in several new office buildings.

None the less, the Lagos Island office market development pipeline remains strong with several office and mixed-use buildings still under-construction and set for delivery in 2016 and 2017. Based on data collected below in Table 2, our estimates show there are 150,000+ sq.m of office and mixed-use development space in the Lagos Island office market development pipeline.

Table 2 Lagos Island Office and Mixed-Use Development Pipeline

	Building Name	Location	Type	Leasable Space (Sq.m)	Contractor	Status
1.	Alliance Place	Ikoyi	Office	8,000	BCL Limited	Under-Construction
2.	Kingsway Towers	Ikoyi	Office	10,000	I.T. B	Under-Construction
3.	Madina Towers	Victoria Island	Office	N/A	N/A	Under-Construction
4.	The Wings	Victoria Island	Office	27,000	Cappa & D'Alberto	Under-Construction
5.	Waves	Victoria Island	Office	22,000	I.T. B	On-Hold
6.	Eko Towers 2	Victoria Island	Mixed-Use	24,000	I.T.B (Corbel Construction)	Under-Construction
7.	Harbour Point	Victoria Island	Mixed-Use	17,000	N/A	Under-Construction
8.	Trinity Towers	Victoria Island	Mixed-Use	13,200	N/A	Under-Construction
9.	Lake Point Towers	Ikoyi (Banana Island)	Office	12,600	Cappa & D'Alberto	Under-Construction
10.	Bloomsbury	Victoria Island	Office	10,000	N/A	Proposed
11.	Desiderata	Banana Island	Office	4,700	N/A	Under-Construction
12.	Ulesh	Ikoyi	Office	4,500	TerraCore Limited	Under-Construction
13.	Cornerstone Headquarters	Victoria Island	Office	10,000	N/A	Under-Construction
14.	Multi-Purpose Office Block	Lekki	Office	N/A	Royal Bee	Under-Construction
15.	Techno Head Office	Victoria Island	Office	N/A	EL-ALAN Construction	(Under-Construction)
16.	The Bureau	Ikoyi	Office	N/A	N/A	Under-Construction
17.	Proposed Office Development for BUA Group	Victoria Island	Office	N/A	Cappa & D'Alberto	Under-Construction
18.	Corporate Towers II	Eko Atlantic City	Office	N/A	N/A	Under-Construction

Source: RAC and Estate Intel

An important issue for developers which is a major barrier entry into this market is that of accessing finance to develop top quality Grade A office buildings that complies with international standards in terms of size, building specifications and level of facilities & services.

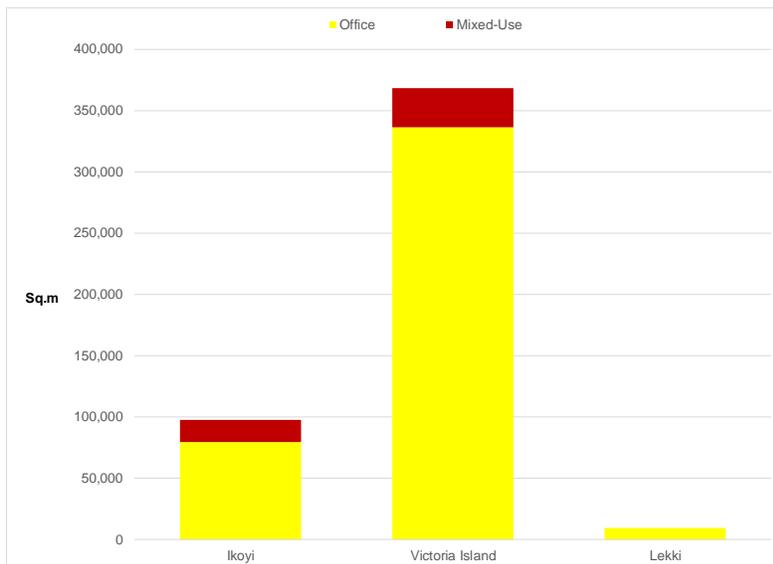


Lagos Island Office Construction Market

Surprisingly, the Lagos Island office construction market is mainly dominated by Nigeria owned companies which include the likes of Julius Berger and G Cappa. The Lagos Island construction industry has seen a surge in investments especially since Nigeria entered into democratic rule in 1999 which sparked a wave of foreign investments into the country. Lagos particularly played a major role in driving investment due to its status as the economic and financial base of Nigeria and has the nation’s largest port. We are unable to show the market value of the Lagos Island office construction industry due to lack of data.

Based on our research, we estimate that Victoria Island has the largest market share of purpose-built office buildings at 79% which supplies an estimated 336,615 sq.m of office space which makes-up for 79% of purpose-built office spaces. Victoria Island also has 67% of mixed-use development buildings on the market which supplies an estimated 31,742 sq.m of mixed-use space which makes up for 64% of mixed-used space in the market. Victoria Island in total has an estimated 368,357 sq.m of office and mixed-use space which gives it a market share of 78%.

Total Supply of Office and Mixed-Use Space



Source: RAC

Similarly, we estimate that Ikoyi has 13% market share of purpose-built buildings which supplies an estimated 79,523 sq.m of office space which makes up for 18% of purpose-built office spaces. Subsequently, Ikoyi has 33% of mixed-use developments on the market which supplies an estimated 18,000 sq.m of mixed-used space in the market which makes up for 36% of mixed-used space in the market. In total, Ikoyi supplies an estimated 97,523sq.m of office and mixed-use space which gives it a market share of 14%.

Lekki has an 8% market share of new office buildings which supplies just slightly less than 10,000 sq.m which makes up for 2% of office spaces. There are no mixed-used developments in Lekki presently but this is likely to change soon as the location is still in its early stages of purpose-built office construction as more companies and businesses are attracted to the location for its below average market rents.



The Key Industry Players

The Lagos Island office construction market consists mainly of several construction firms of which over 70% are local firms as identified below. The foreign firms form an Oligopoly which is led by Cappa & D’ Alberto and I.T.B.

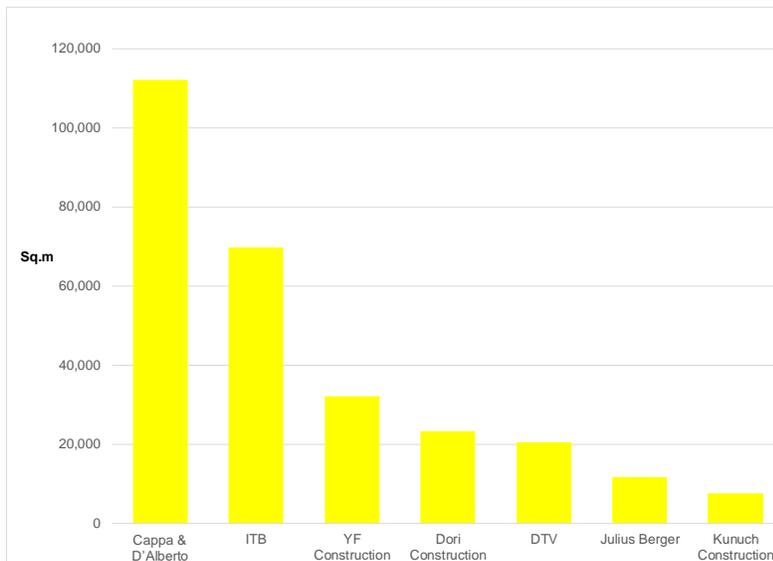
These construction firms are:

- Cappa & D’Alberto (Foreign)
- I.T.B (Foreign)
- YF Construction (Foreign)
- G Cappa (Nigeria)
- EL-ALAN (Nigeria)
- Julius Berger (Nigeria)
- Dori Construction (Nigeria)
- DTV (Nigeria)
- BCL Limited (Nigeria)
- Kunoch Construction (Nigeria)

Cappa & D’Alberto holds the largest market share for the construction of purpose-built office buildings and mixed-use buildings in Lagos Island with 45% across the market as shown in Table 3 below. We estimate the firm has supplied an estimated total of 112,167 sq.m into the market which equates to 41% of office and mixed-use spaces making it the leading construction firm in the industry and has been one of the major driving forces in the market.

I.T.B. is a recent entrant into the Lagos Island construction industry but has quickly attracted clients. It is the closest rival to Cappa & D’Alberto. I.T.B. is a Lebanese founded and owned construction firm which is part of the Chargoury Group a major conglomerate. I.T.B has a market share of 18% of purpose-built office and mixed-used buildings on Lagos Island. The firm has supplied an estimated total of 69,698 sq.m of office space into the market which translates to 25% of office and mixed-used space in Lagos Island.

Figure 3 Supply of Office and Mixed-Use Space by Key Players



Source: RAC

Focus on the Lagos Island Office Construction Market Report 2016



Julius Berger the oldest construction company in Nigeria has less than 10% of purpose-built office and mixed-use buildings in the Lagos Island market. The firm has supplied an estimated total 11,702 sq.m of office and mixed-use space into the market which equates to 4% of office and mixed-used space.

The table below shows some of the office buildings in the Lagos Island sub-locations and contractors.

Table 3 Purpose-Built Office Buildings

	Building Name	Location	Type	Leasable Space (Sq. m)	Contractor
1.	Mobil House	Victoria Island	Office	24,000	Cappa & D'Alberto
2.	Civic Towers	Victoria Island	Office	7,412	Cappa & D'Alberto
3.	BAT Rising Sun	Ikoyi	Mixed-Use	8,000	Cappa & D'Alberto
4.	Kanti Tower	Victoria Island	Office	6,500	Cappa & D'Alberto
5.	GTB Plc Head Office	Victoria Island	Office	N/A	Julius Berger
6.	Victoria Mall Plaza, (VMP1 & 2)	Victoria Island	Mixed-Use	7,500	Cappa & D'Alberto
7.	Citbank Ltd Head Office	Victoria Island	Office	N/A	Cappa & D'Alberto
8.	Chevron Office Block	Lekki	Office	N/A	Cappa & D'Alberto
9.	Temple Towers	Ikoyi	Mixed-Use	10,000	YF Construction
10.	Heritage Place	Ikoyi	Office	15,600	ITB
11.	Kingsway Tower (Under-Construction)	Ikoyi	Office	10,000	ITB
12.	Afren Towers	Eko Atlantic	Office	10,000	ITB
13.	Eko Towers 1	Victoria Island	Office	21,000	ITB
14.	C & C Towers	Victoria Island	Office	8,940	ITB
15.	SAPETRO Towers	Victoria Island	Mixed-Use	6,838	ITB
16.	Ark Towers	Victoria Island	Office	5,520	Dori Construction
17.	FF Millennium Towers	Victoria Island	Office	17,850	Dori Construction
18.	Churchgate Towers 1	Victoria Island	Office	7,237	DTV
19.	Churchgate Towers 2	Victoria Island	Office	13,273.28	DTV
20.	Mansard Place	Victoria Island	Office	7,081	Cappa & D'Alberto
21.	Zenon House	Victoria Island	Office	12,001	Cappa & D'Alberto

Focus on the Lagos Island Office Construction Market Report 2016



22.	Nestoil Towers	Victoria Island	Mixed-Use	9,904	Julius Berger
23.	Eko Towers 2 (Under-Construction)	Victoria Island	Mixed-Use	24,000	ITB (Corbel Construction)
24.	Alliance Place (Under-Construction)	Ikoyi	Office	7,000	BCL Limited
25.	Avenue Towers	Victoria Island	Office	7,320	ITB
26.	Union Marble House	Ikoyi	Office	10,213	Cappa & D'Alberto
27.	Proposed BUG Group Head Office	Victoria Island	Office	N/A	Cappa & D'Alberto
28.	Rose of Sharon	Victoria Island	Mixed-Use	1,798	Julius Berger
29.	Techno Head Office (Under-Construction)	Victoria Island	Office	N/A	EL-ALAN Construction
30.	Wings	Victoria Island	Office	27,000	Cappa & D'Alberto
31.	Cornerstone Head Office (Under-Construction)	Victoria Island (Oniru)	Office	10,000	Cappa & D'Alberto
32.	Zenith Heights	Victoria Island	Office	5,760	Cappa & D'Alberto
33.	Kunech Head Office	Lekki	Office	N/A	EL-ALAN Construction
34.	Standard Chartered Headquarters	Victoria Island	Office	10,000	Cappa & D'Alberto
35.	Energy/NIPOST Towers	Victoria Island	Office	22,000	YF Construction
36.	The Waves (On-Hold)	Victoria Island	Office	22,000	ITB
37.	Lake Point Towers (Under-Construction)	Ikoyi (Banana Island)	Office	12,600	Cappa & D'Alberto
38.	Bella's Place	Victoria Island	Office	4,000	Cappa & D'Alberto
39.	Diamond Bank	Lekki	Office	N/A	Cappa & D'Alberto
40.	Multi-Purpose Office Block (Under-Construction)	Lekki	Office	1,500	Royal Bee Limited
41.	WAPIC Head Office	Ikoyi	Office	N/A	EL-ALAN Construction
42.	The Adunola (Airtel Building)	Ikoyi	Office	10,000	N/A
43.	CBC Towers	Lekki	Office	8,000	N/A
44.	NNPC Mulliner Towers	Ikoyi	Office	10,000	N/A
45.	100 Pier Point	Ikoyi	Office	2,500	Cappa & D'Alberto

Focus on the Lagos Island Office Construction Market Report 2016



46. Landmark Tower	Victoria Island	Mixed-Use	7,500	Kunoch Construction
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Source: RAC and Estate Intel



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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