

Review

We are pleased to bring you the third edition of our Spotlight series on the trends and patterns of the housing development market in the metropolis of Lagos. In our last edition we highlighted some of the factors that affected the supply of housing delivery and two important factors were brought to the forefront. These factors are the rising costs of components and access to real estate finance. While these factors continue to remain critical to the delivery of housing units, in this edition we will be taking a brief look at the mortgage market and bring you results from our survey on buyers perspective on the market.

We will also be focusing on the delivery of new housing units across the state over the last five years. We will show how Public Private Partnerships (PPP) are rapidly becoming popular for housing developments in the state, adding to the growth in new supply. Finally we will bring you details of the current development pipeline of projects in the state and what to expect in 2014.

"On the cost of components, the price of cement has remained stable over the last twelve months with only a marginal variation in price in comparison to other building components. This is largely due to much government intervention in ensuring the price of cement remains below the rate of inflation. Also, the efforts by producers to improve the local production of the component with a view to reduce importation has kept prices stable. Access to real estate finance remains a challenge for small and medium size developers. However, financial institutions are more encouraged to finance projects that are highly attractive in returns and ideally located in areas that are highly sought after by buyers with the developer having completed the land acquisition process. We will show more evidence on this later".

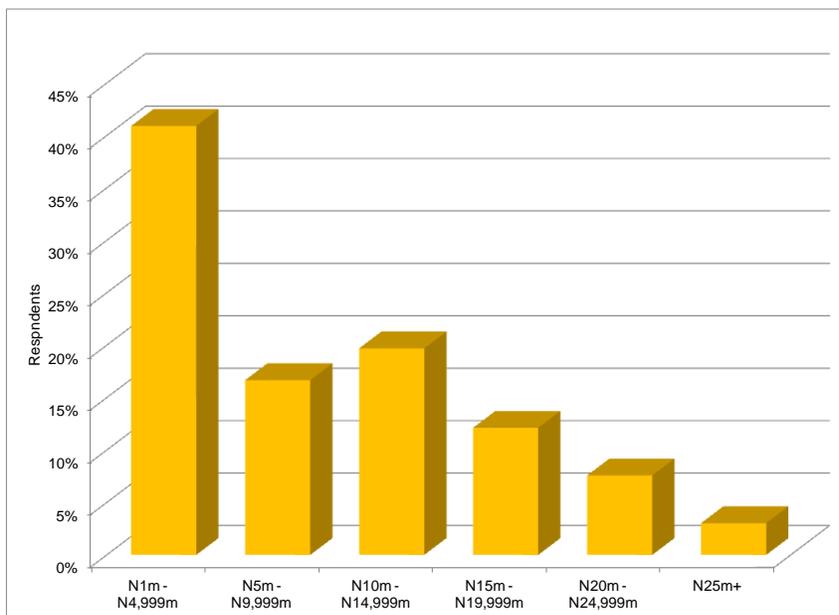
Mortgage Finance

A mortgage can be defined as *"a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments"* according to Investopedia.com. A residential mortgage is a mortgage whereby a buyer takes a loan from a financial institution be it a mortgage bank or deposit bank to buy a house and the property becomes the underlying asset on which the loan is based. It is now dependent on the bank to determine the loan amount based on the value of the property. This is known as the Loan-To-Value (LTV) ratio.

A recent on-line survey by Residential Auctions Company on business professionals residing in Lagos showed that, just 15% of respondents currently have a mortgage on their property. The reluctance of buyers to take up mortgage finance can be attributed to several consequential factors that include but not limited to the excessive interest rates being charged by the local financial institutions, low amortization period, management fees and other annual charges. Typical interest rates often range from 19%-24% per annum depending on the institution and risk profile. While management fees range from 4%-5% per annum, front-end loaded. Amortization periods often range from 5 years - 10 years as opposed to 20 years - 25 years that is the common practice in most standard markets.

These factors along with a tedious and rigid application process have all contributed to house buyers becoming disenchanted with the mortgage market, ultimately resulting in a negative perception of mortgage finance. Notwithstanding, the mortgage finance sector has a lot of potential with 69% of respondents from the survey indicating their interest to acquire a mortgage on their next property acquisition. Also shown by the survey is the correlation between annual income and mortgage take-up. Of those that indicated their desire to acquire a mortgage on their next acquisition, 89% of respondents earned less than N20m in annual income. This suggests that there is a sizeable market for mortgage loans within the low-middle income groups especially for first time buyers that have been severely overlooked by the banks.

Figure 1 Annual Income and Mortgage Take-Up



Source: RAC Survey

Given the fragility in the mortgage finance sector, some financial institutions are drawing back on their mortgage loans and in some cases having to close their books as a result of previous deals gone bad with such loans having to be written-off. This is an ominous sign for the mortgage market.

The Federal Mortgage Bank of Nigeria (FMBN) is the apex mortgage bank of Nigeria. It was established as the primary vehicle for housing delivery and combines the functions of primary and secondary mortgage institutions. In an effort to boost home ownership and housing delivery in the country, the Federal Government has initiated plans to launch the Nigerian Mortgage Refinancing Company (NMRC) whose objective will be to stabilize the mortgage sector by buying conforming loans (based on NMRC mortgage underwriting guidelines) from the primary mortgage institutions and deposit banks with a view to lowering interest rates by creating liquidity and making mortgage finance more affordable to consumers. It remains to be seen how effective this new organization will be and what will eventually become of the FMBN.

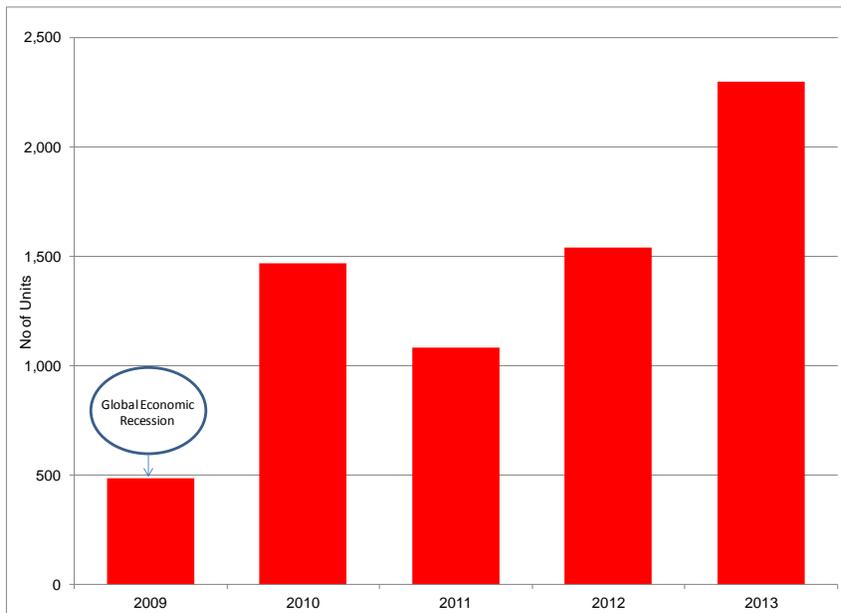


Annual Delivery of New Housing Units

The supply of new housing stock in Lagos has grown steadily over the last five years; we estimate that just fewer than 7,000 units have been delivered over this period. Our assessment of this is based on developments that deliver no fewer than ten units. The local housing market has shown it is not immune to the effects of the global economy as the supply of new units dropped to fewer than five hundred units in 2009. This was the height of the global economic recession that led to the withdrawal of credit from the financial markets leaving developers with no access to funds to complete development projects. The global economic recovery has since boosted the growth in the annual delivery of new housing units as local banks are more inclined to finance housing developments that were deemed to be economically viable and profitable.

Since the 2009 debacle, the supply of new housing units in Lagos has risen considerably. In 2012, the total number of units delivered into the market was slightly above 1,500 units. This rose by 48.2% as 2,299 units were delivered in 2013. The significant rise in the number of new units implies that developer's are buoyed by the recent economic conditions and are keen to fill the supply gap in the market despite not having sufficient access to credit with many having to turn to joint ventures as a means of financing future housing developments.

Figure 2 Annual Supply of New Units



Source: RAC Survey

Earlier we mentioned that Public Private Partnerships (PPP) is fast becoming one of the key factors being used to drive the growth in new housing stock across the state. A PPP is simply a joint venture arrangement between a government body and a private sector company to embark on a project with a mutual agreement to share all risks and profit from the project. This is made manifest in several of the housing projects that have been delivered.

SPOTLIGHT ON LAGOS HOUSING DEVELOPMENT - 2014 OUTLOOK



Following the joint venture agreement in 2009 between the Lagos State Government (LASG) and several private real estate developers under the PPP initiative to increase the state's stock of housing by 15,000 units over the next five years, less than 10% of this figure has been achieved to date. This is yet another indication of the challenges developers face in accessing real estate finance and the complexities of securing adequate titles. Some of the delivered PPP projects can be seen below in Table 1.

Table 1 Public Private Partnership Developments

S/N	Scheme	Location	Property Type	No of Units
1.	Elegant Court	Lekki	Apartments	72
2.	Marimpex Imperial City	Lekki	Mixed Residential	163
3.	Chois Gardens Phase 1	Lekki	Apartments	272
4.	Pearly Gate Estate	Lekki	Apartments/Terrace	38
5.	Chois City Estate	Agbowa	Bungalow	600

Source: RAC Survey

In addition to the PPP agreements, the LASG on its own through its various agencies such as the Lagos State Development and Property Corporation (LSDPC) and Lagos State Ministry of Housing have also added to the growing housing stock. Between 2010 and 2013, a total of 1,096 new housing units have been delivered by both agencies according to our estimates.

Table 2 LASG Housing Developments

S/N	Scheme	Location	Property Type	No of Units
1.	Lekki Peninsula Residential Scheme II Ogombo	Lekki	Apartments	90
2.	Igbogbo Housing Scheme	Ikorodu	Apartments	256
3.	HB Fashinro Estate	Apapa GRA	Apartments	60
4.	Platinum Rows	Lekki	Terrace	46
5.	Sir Michael Otedola Housing Estate	Epe	Apartments	362
6.	-	Ikoyi	Apartments	6
7.	Gbagada II Millennium Housing Scheme	Gbagada	Maisonettes	88
8.	Millennium Housing Scheme Ikeja	Ikeja GRA	Maisonettes	76
9.	Millennium Housing Scheme II, Ojokoro	Ojokoro	Apartments	80
10.	Millennium Housing Estate, Iloro	Iloro	Apartments	32

Source: RAC Survey



Another PPP development that has added to the growth of new units in 2013 is the recent Goodluck Jonathan Police Estate. A housing development consisting of 500 apartment units built under a joint venture agreement between the Nigeria Police Force (NPF) and a private developer. Of the 500 units, only 200 units will be sold to members of the public.

The private sector is still the front-runner as the provider of new housing units. In 2012, over 90% of new housing stock was delivered by the private sector, a total of 1,450 units. For the subsequent year, just about a third of new stock was supplied by this sector as several mass housing PPP projects such as Chois City Estate and Goodluck Jonthan Estate were also completed. These projects are a clear demonstration of how PPP initiatives are acting as a major catalyst to boost housing stock with the objective of reducing the housing deficit in the state but as the figures show it is nothing but a drop in the ocean.

Some notable private developments that were delivered in 2013 and featured prominently on the development landscape include United Property Development Corporations (UPDC) Metro Gardens, Grandville Estate and Cameron Green. Metro Gardens is a 54 mixed residential development located in a sedate part of Lekki Phase 1, Lagos. In testament to the reputation of the company, the entire units were sold out before completion. Grandville Estate is a residential estate consisting of 18 units of terrace houses located in the idyllic Ikeja GRA. This is UPDC's first entry into the Lagos Mainland Market. Lastly, Cameron Green, located in high brow Ikoyi. This development features 32 units of luxury apartments and 4 units of detached houses with a communal swimming pool.

Development Pipeline

Despite the large number of new units delivered last year, there remain an overwhelming number of projects that are still in the pipeline across Lagos. These encompasses developments that were initially scheduled for delivery in 2013 but due to lack of funding or due diligence issues are still awaiting completion, alongside newly planned housing developments for 2014 which are scheduled for delivery in 2015 and beyond. A prime example is the case of Beach Resort Estate by First Spring Realtors. Beach Resort Estate is a 227 mixed residential estate located in Lekki which was planned for development in 2009 during the financial crisis but construction has since been suspended due to lack of funds. It is more than likely that this development will be taken by up new investors later in the future. This case is not an isolated case as there are several more similar cases.

According to our estimates on the market, there are about 1,037 units currently in the development pipeline for 2013 of which 50% are made up of apartments units. We expect to see 80% of these developments to be delivered in 2014. We also estimate there are currently circa 2,851 planned new units in the development pipeline for 2014 of which over 80% consists of apartment units. We expect to see between 65%-70% of these developments being delivered over the next 12 months and beyond. The high number of units in the development pipeline for 2014 is due to several mass housing developments consisting of 25 or more units being planned for construction.

SPOTLIGHT ON LAGOS HOUSING DEVELOPMENT - 2014 OUTLOOK



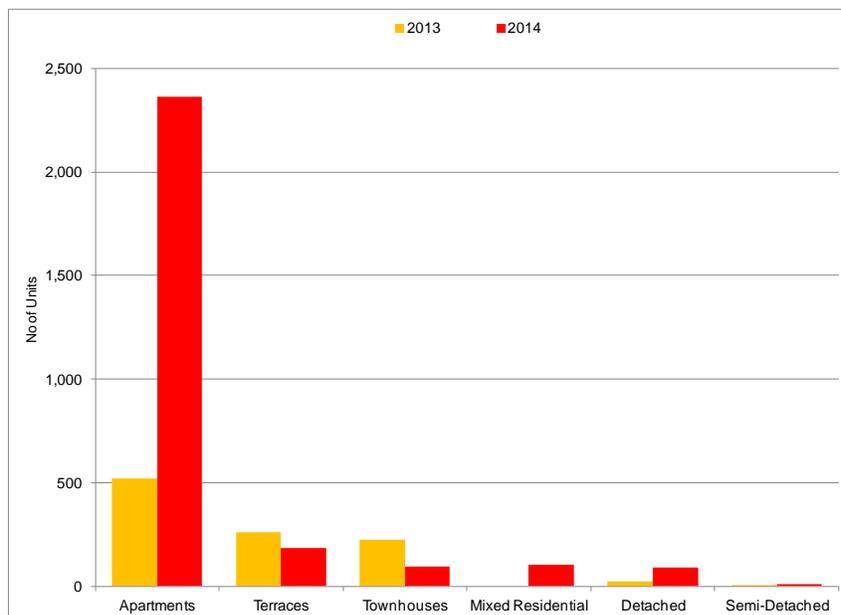
These developments range from private sector developments to Public Private Partnerships developments and State Ministry of Housing developments. Some of these developments can be seen below.

Table 3 Mass Planned Housing Developments For 2014

S/N	Scheme	Location	Property Type	No of Units	Developer
1.	Modo Heights	Ketu	Apartments	450	PPP
2.	Igogbo Housing Scheme II	Ikorodu	Apartments	348	Lagos State Ministry of Housing
3.	Agbowo-Ikowa Housing Estate	Agbowo	Apartments	144	Lagos State Ministry of Housing
4.	Hannah Garden	Badagry	Apartments	260	PPP
5.	Sunrise Lifestyle	Ayobo-Ipaja	Apartments	680	PPP
6.	Pinnock Beach Estate Phase III	Lekki	Mixed Residential	79	UPDC
7.	Ijora/Badia Housing Estate	Ijora/Badia	Apartments	288	Lagos State Ministry of Housing
8.	Friends Colony Phase 3	Lekki	Semi-Detached	58	AirCom Nig Ltd
9.	Emperor Estate	Lekki	Mixed Residential	70	*CCECC
10.	Orchid Court	Ikeja GRA	Mixed Residential	25	*BPL

Source: RAC Survey, Chinese Civil Engineering Construction Company & Briscoe Properties Limited

Figure 3 Development Pipeline For 2013 and 2014



Source: RAC Survey

Lagos State Home Ownership Mortgage Scheme

We could like to bring you information on the Lagos State Home Ownership Mortgage Scheme (Lagos HOMS) programme. This is a programme designed by the state government to increase home ownership in the state by giving special attention to first time buyers seeking to get on the property ladder by providing affordable homes on low interest rate mortgages. The programme also seeks to reduce the state's housing deficit as an estimated 4,000 new housing units are being planned for development specifically for the Lagos HOMS programme. It is expected that the programme will be launched sometime later on this year and all residents of the state of working age will be eligible to apply for allocation.

The following areas have been identified as locations for the Lagos HOMS developments as shown in Table 4.

Table 4 Lagos HOMS Developments

S/N	Location	Number of Units	Property Type
1.	Igbogbo 2B	264	Apartments
2.	Shogunro 1	144	Apartments
3.	Shogunro 2	96	Apartments
4.	Shitta	36	Apartments
5.	Igando	492	Apartments
6.	Omole Phase 2	844	Apartments
7.	Magodo Phase 2	48	Apartments
8.	Lekki Phase 1	96	Apartments
9.	Lekki Phase 2	84	Apartments
10.	Sangotedo	540	Apartments
11.	Ilupeju	120	Apartments
12.	Mushin	60	Apartments
13.	Odo-Onasa Agbowo	560	Apartments
Total		3,384	

Source: The Guardian, LASG



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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