



THE LAGOS RESIDENTIAL RENTS REPORT - 2013 OUTLOOK

Background

In a recent survey of business professionals in Lagos, it was discovered that 60%-65% of respondents lived in rented accommodation due to the high cost of home ownership and the unavailability of suitable mortgage products. By our estimates, the housing deficit in Lagos is 5 million units, this has created a myriad of challenges for residents. For many renting is a cheaper alternative to home ownership on a short to medium term basis. The residential rental market in Lagos is largely dominated by private landlords with properties in forms of single family units (house) or multi-family units (flat) to let/lease usually on a two year lease with rents payable in advance. The Lagos State Tenancy Laws introduced in 2011, was designed to bring some form of reprieve to tenants by directly addressing the issue of advance rent payments, specified that landlords would only be permitted to receive a year's rent in advance from new tenants has largely proved ineffective due to the exclusion of certain areas from the laws.

In this report we will provide readers with a detailed, concise and meaningful understanding on rents in Lagos by taking an in-depth look at average asking rents on new lettings, rental growth in the last three years across various parts of the state and highlighting the various factors that drive rents. In the last part of this report, we will focus on income returns (yields) on residential property for investors and compare yields between the Lagos Island and Mainland markets. At this point we will like to state that all data presented in this report is based on asking rents as advertised by agents on new lettings in the market and not actual rent.

Lagos Island Market

We will begin by looking at asking rents in the affluent locations of the city such as Ikoyi, Victoria Island and Lekki Phase 1, which constitute the Lagos Island Market. These locations inherently feature serviced luxury accommodations that cater to the needs of a defined market group which consists mostly of corporate executives, senior government officials and expatriates. Serviced accommodations as the name implies are accommodations managed by professional facilities management companies to provide tenants with a range services such as maintenance of the property including facilities i.e. swimming pool and gymnasium, provision of water, alternative power supply and security of the premises. It is important to note that there is an additional charge to cover these costs which is known as the "Service Charge" and is not included in the rent. Another note on rented accommodation in the upscale market is that rents are usually denominated and paid in United States Dollars "USD" which makes them susceptible to changes in the currency market. In this report we have based all rents on Naira.

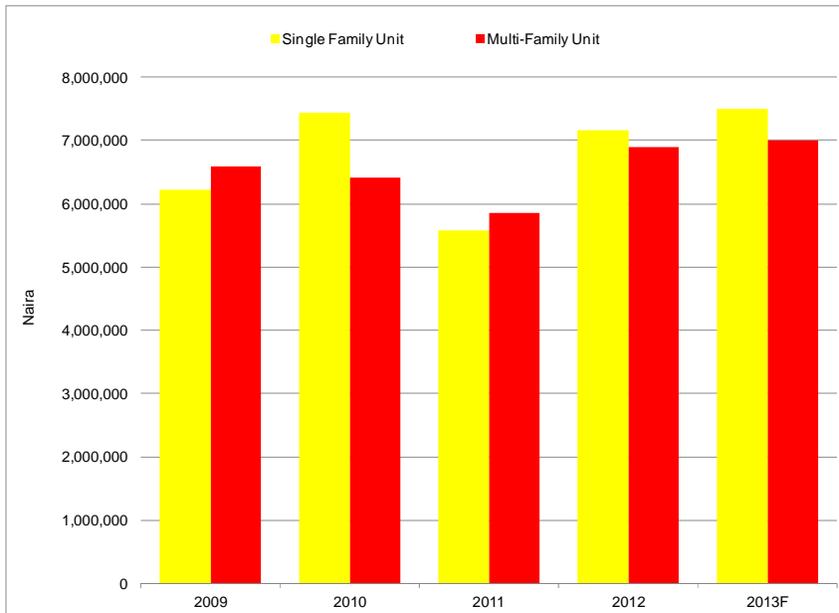
Over the last three years, asking rents on single and multi-family units in the high-brow Lagos Island market have been on a rollercoaster due to some of the following factors that include currency movements (the volatile exchange rate between the Naira and USD), oil prices and the banking crisis. Another factor that has affected rents in this market albeit on a positive tone is the insecurity affecting some parts of the country causing several companies to relocate their expatriate staff to Lagos as a measure of security. After a lackluster year in 2011 which saw rents take a nose dive across the board. Asking rents on single family units were down by -25.0% while rents on multi-family units were also down by -8.8%. In 2012, asking rents rose significantly where the average asking rent for a 4/5 bedroom single family unit in the Lagos Island market was ₦7,158,333 up 28.4% from the previous year while the average rent for a 3 bedroom multi-family unit was ₦6,889,167 up 17.7% also from the previous year. The sharp rise in rents especially on single family units can be attributed to the increased demand for these units by households that desire more space and privacy. Also demand from blue chip companies



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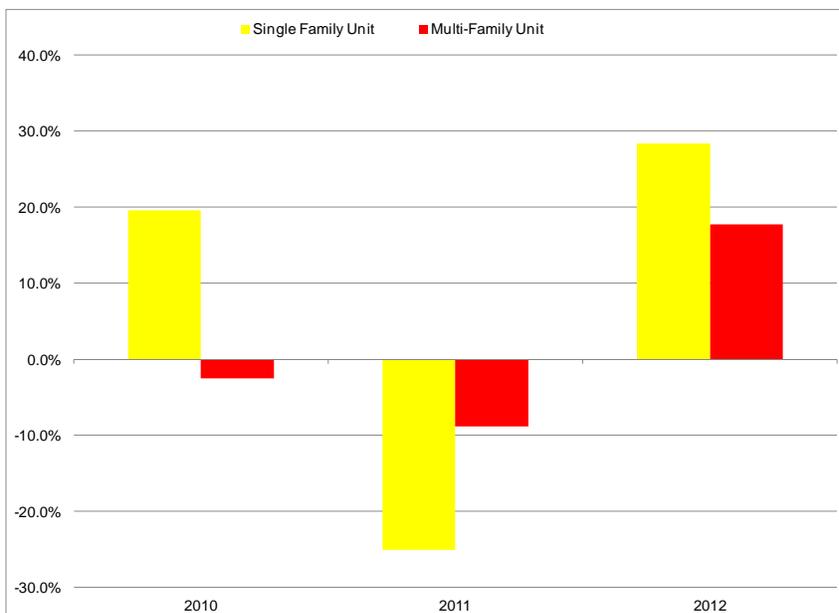
looking to convert these units into office space due to the high rents in purpose built offices is responsible for driving up rents on single family units especially in Ikoyi and Victoria Island.

Figure 1 Lagos Island Average Asking Rents



Source: RAC

Figure 2 Lagos Island Annual Growth



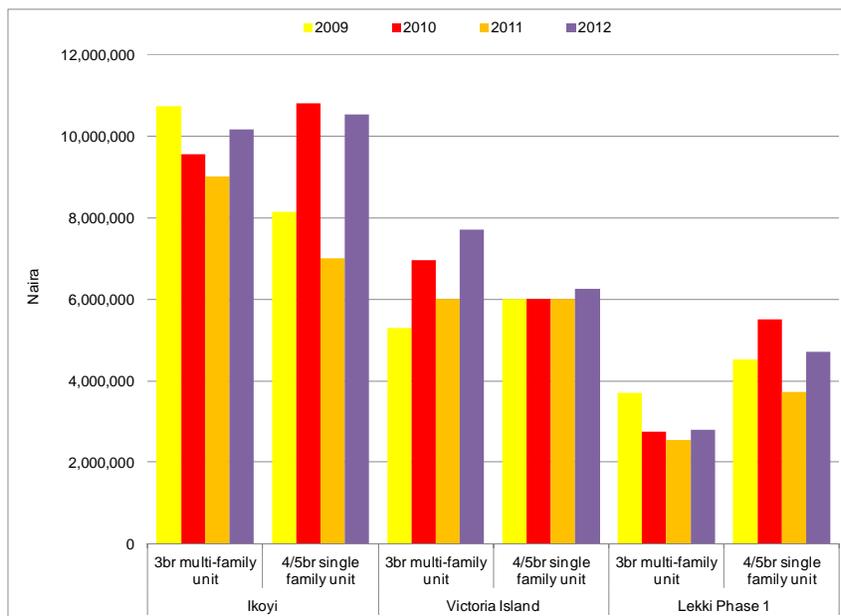
Source: RAC



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Ikoyi continues to be the location of choice for multinationals seeking residence for their staff in Lagos and demand from this segment of the market cannot be overlooked in determining rents particularly in the luxury serviced apartment market. Another factor affecting rents in this upscale market is supply. In the last three years, there has been a number of new developments coming into the market causing stiff competition amongst developers for corporate tenants. Generally, asking rents have cooled off in Ikoyi over the last three years due to some of the factors mentioned above. In 2012, the average asking rent on a 3 bedroom apartment in Ikoyi rose by 13% to ₦10,167,500 from an average rent of ₦9,000,000 in the previous twelve months. According to our data, asking rents in Ikoyi on 3 bedroom apartments have fallen by a compounded annual rate of -1.81% in the last three years. In contrast, asking rents on 4/5 bedroom single family units have risen by a compounded annual rate of 8.95% in the same period. The average asking rent on a single family unit last year was ₦10,525,000 a rise of 50.4% from the previous year.

Figure 3 Ikoyi, Victoria Island and Lekki Phase 1 Average Asking Rents



Source: RAC

In Victoria Island, asking rents on apartments have risen sharply over the last three years as demand for multi-family units continues to grow in the location. The average asking rent on a 3 bedroom apartment increased by 28.3% to ₦7,700,00 in 2012 from ₦6,000,000 in 2011. On the other hand, asking rents on single family units have remained flat in the same period with only a 4.2% rise in asking rents for 2012.

There's been a sharp decline in asking rents on multi-family units in the last three years in Lekki Phase 1 due to excess supply of these units and weakening demand. However, the average asking rent on a 3 bedroom apartment in the location in 2012 was ₦2,800,000 up 9.6% from the previous year at ₦2,554,545. In contrast, asking rents on single family units have risen steeply in the location on the back of growing demand. Average rents on a 4/5 bedroom single family unit was up by 3.9% in 2012 to ₦4,700,000 from ₦4,523,529 in the previous year.



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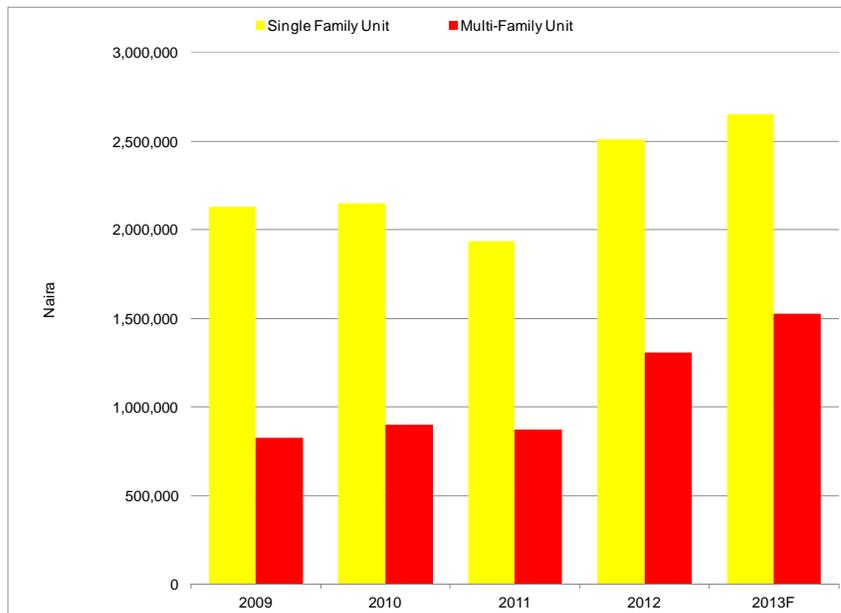
In conclusion, we expect to see a slow growth in asking rents on single and multi-family units in 2013 for the Lagos Island Market. We are forecasting a growth of 4.8% and 1.5% on single and multi-family units respectively as demand is expected to remain stable in this volatile market.

Lagos Mainland Market

The Lagos Mainland Market is a less volatile market that has seen asking rents rise gradually over the years due to growing demand for accommodation. Our data on this market mainly covers central locations that have close proximity to link roads and bridges leading to other locations particularly the Central Business District (CBD) of Lagos Island and Victoria Island. These locations include Ikeja, Ikeja GRA, Maryland, Anthony Village, Ilupeju Gbagada, Ogudu GRA, Magodo GRA, Omole, Yaba and Surulere.

Similarly, 2011 was a slow performer with asking rents dropping off where the average asking rent on single family units fell by -9.9% while the asking rent on multi-family units fell steeply by -2.7%. In 2012, asking rents rose sharply as the market rebounded. The average asking rent on a 4/5 bedroom single family unit increased by 29.7% to N2,510,595 from an average asking rent of N1,935,205 in 2011. Also in the same period, the average asking rent on a 3 bedroom multi-family unit increased by 49.9% to N1,308,750 from an average rent of N873,241 in 2011. The breaking of the N1m mark for rents on 3 bedroom multi-family units indicates the growing demand for such units amidst low supply in the market.

Figure 4 Lagos Mainland Average Asking Rents



Source: RAC

In the last three years, Omole Phase 2 has seen the highest growth in asking rents on single family units as shown in Table 1. Between 2009 and 2012 asking rents on this unit type grew by a compounded annual rate of 16.7%. This is followed by Ilupeju which has also seen asking rents rise by 15.9% compounded annual rate in the same period.



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Maryland has the highest growth rate in asking rents on multi-family units in the same period. Between 2009 and 2012 asking rents on multi-family units grew by a compounded annual rate of 40.6% this is followed by Ogudu GRA which has seen asking rents on multi-family units grow by a compounded annual rate of 28.8% over the last three years. Some locations such as Anthony Village, Maryland, Gbagada, Ilupeju, Ogudu GRA and Yaba are gradually witnessing the emergence of serviced apartment units being targeted at young professionals living on the Mainland who desire comfortable accommodation and are willing to pay a premium. It is not uncommon for landlords to accept a year's rent in advance from tenants but in this scenario the rent being charged would be twice the regular rent.

Table 1 Lagos Mainland Asking Rent Compounded Growth Rate

		Single Family Unit Asking Rent Compounded Growth Rate (%) 2009 - 2012	Multi-Family Unit Asking Rent Compounded Growth Rate (%) 2009 - 2012
	Locations		
1.	Anthony Village	-3.6	28.7
2.	Gbagada	9.6	20.1
3.	Ikeja	10.0	15.2
4.	Ikeja GRA	-5.6	4.8
5.	Ilupeju	15.9	13.1
6.	Magodo Isheri	7.6	-
7.	Magodo Shangisha	11.0	2.1
8.	Maryland	6.6	40.6
9.	Ogudu GRA	5.3	28.8
10.	Omole Phase 1	-3.6	-
11.	Omole Phase 2	16.7	14.5
12.	Yaba	-2.3	18.2

Source: RAC

On a final note, we expect to see asking rents on all property types sustain an upward direction in 2013 for the Lagos Mainland Market as demand for accommodation continues to grow across the central locations. Our forecast is a slow growth of 5.7% on single family units and a modest 16.5% rise on multi-family units.

Income Returns

We now turn our attention to income returns or yields on residential property. ¹The yield on a property is usually defined as the initial return i.e. in the form of income (rent) that an investor receives on the capital he lays out to acquire a property. In other words for a property investor, the yield is the rate of return that can be obtained on a property over the course of a period and is calculated based on two key variables of annual rent and capital value. All assets have some form of income returns to attract investors.

For instance, in the stock market, a dividend is issued twice a year to investors. This can be classified as the income return investors are obliged to receive for investing in the stocks of a particular company.

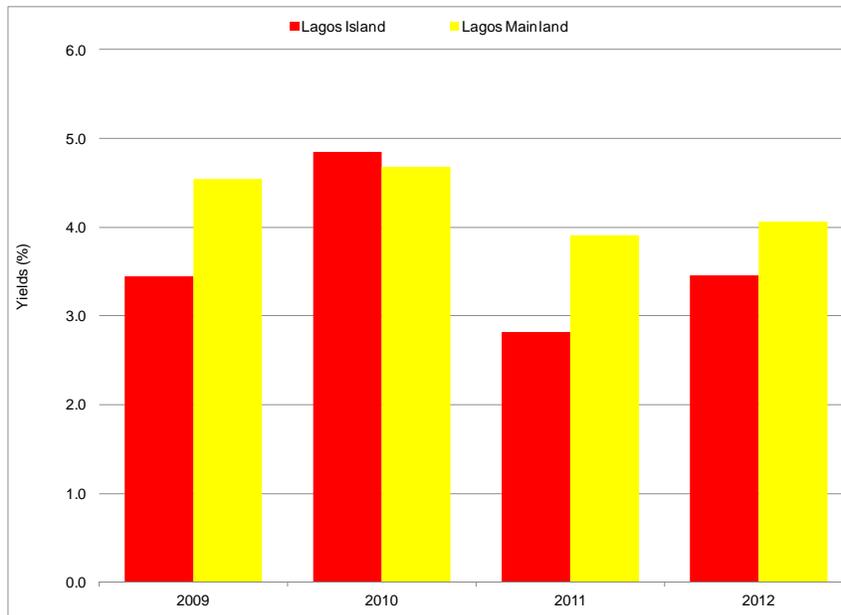
¹ Property and Money, Michael Bret, New Edition (2004), Estates Gazette



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Similarly, for a property investor, he or she can expect to receive income return on a property through rents. The rule of thumb in property investment is that when rents rise yields also tend to rise and when rents fall yields also tend to fall. This indicates a direct correlation between rents and yields. We will illustrate this by looking at yields in Lagos specifically between the Island and Mainland markets as shown in Figure 5.

Figure 5 Lagos Island and Mainland Yields



Source: RAC

Over the last three years, yields have been significantly higher on the Mainland market compared to the Island market except in 2010 when yields on the Island surpassed the Mainland just marginally. The average yield on residential property for the Mainland is estimated at 4.30% per annum while the average yield on the Island is estimated at 3.64% per annum. In 2011, we mentioned earlier that asking rents fell generally in both the Lagos Island and Mainland markets and we can see the impact this had on yields in that particular year from the chart above. With asking rents going up again last year we see yields also moving out. To summarize, any investor considering property investment, choosing the right location to invest in is of upmost importance particularly for those interested in securing high income return on their investment.

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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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