Nigeria's slowdown affects retail, investment opportunities

According to Broll Nigeria, retail landlords have had to offer rental concessions in order to retain tenants in Nigeria and falling commodity prices, coupled with the depreciation of the naira, have contributed to the reduction of Nigeria's attractiveness as an investment destination in general.

Bolaji Edu, CEO of Broll Nigeria.

Picture: LinkedIn

Retail rentals have doubled in naira terms since December 2014 and to retain tenants, retail property owners have had to offer rent-free periods, fit out allowances, pegged exchange rates, concessions on rents for limited periods and step-up lease agreements stipulating that the rental rate will increase by predetermined amounts at various points in the future.

“Local developers have taken a more flexible approach on accepting naira based rentals to retain tenants, meanwhile, landlords are actively looking at individual tenants whether in a new or established mall in order to accommodate their tenants’ cash-flow constraints. Not all tenants have been affected to the same degree,” says Bolaji Edu, Broll Nigeria CEO, who addressed the Real Estate Unite Conference 2016 on 6-7 October at the Eko Convention Centre in Lagos, as a sponsor of the event.

“As a result of slow economic growth and shortage of foreign currency, local retail brands are starting to take up space at shopping centres, especially outside prime locations in Lagos. These retailers require smaller spaces and often struggle to pay the high rents being charged in malls located within prime nodes.

South African investment

Broll Nigeria manages seven shopping centres countrywide including Ikeja City Mall and Circle Mall in Lagos.

“Some of our upcoming retail developments include Asaba Mall with a GLA of 9,300sqm and located in Delta State. This mall is scheduled for opening in December 2016, anchored by Shoprite. Twin Lakes, anchored by Carrefour, is expected to open in July 2018 in Lagos. Others include Royal Gardens Mall in Lagos, Silver Valley Mall in Port Harcourt and further afield, Douala Mall in Douala, Cameroon.

According to the Nigerian Retail Market Update Q2 2016 report, despite the economic challenges, 19,000sqm of retail space was added to the core and secondary markets during the second quarter, with the opening of centres including Onitsha Mall and Maryland Mall.

Other investors continue to see opportunities in the Nigerian retail sector with South African retailer Pick n Pay announcing its entry into the market through a joint venture with Lagos-based AG Leventis, an established local retailer.

“Local and international investors into Nigeria have typically always taken a long-term view and they are being realistic to the current economic climate and adapting their business and operating models.

“Although risks are still abundant with barriers to entry remaining high, it is fair to say that Nigeria still has specific political and economic risks and outside of Lagos, it is difficult to develop without the support of the state government.

“Developers and investors now see the benefit of having a strong local partner rather than trying to enter the market by themselves, examples of these retailers include the likes of Pick n Pay and Leventis and Carrefour and CFAO. Investors are more cautious about their expansion plans and some may look at limited entry rollout or smaller developments.

“Nigerian based private equity funds and insurance company based investment funds still have a strong investment appetite for well let properties with rebased rents, however, these opportunities are rare and where they can be found, there is a significant gap between the seller and buyer pricing aspirations.”

Investment slowdown

Although the Central Bank of Nigeria left the repo rate unchanged at 14% per annum last month in a bid to control inflation and support the naira after abandoning the currency peg to the dollar in June, the economy continues to experience challenges.

The fall in commodity prices that started at the end of 2014 and the depreciation in the Naira over that period from N160 (US $1) to N310 (US $1) have reduced the attractiveness of Nigeria as an investment destination generally.

“This coupled with the development boom experienced especially in Lagos has led to international real estate investors either scaling back or putting on hold their investment plans in Nigeria,” continues Edu.

“As Nigeria has reduced in attractiveness as an investment destination, Francophone countries in West Africa have emerged as preferred locations for investors. Their stable currencies, linked to the Euro, and their lack of supply in all the real estate sectors has seen a number of international investors allocate their funds to those countries, particularly Ivory Coast and Cameroon.

“Lagos has always been the primary focus for corporates, investors and developers because it is the commercial and financial hub of Nigeria; however, Abuja is the capital city and has grown rapidly in the past two decades with the expansion of the federal government.

“However, the federal government has experienced dramatic cut backs since the election in May 2015, a position that is likely to continue at least during this administration. For investors, the move to Abuja was driven mainly by the lack of suitable investment opportunities available in Lagos. Investors now realise that the Abuja market is shallower than previously thought and are now focusing mainly on Lagos.”

Nigeria slips in Competitiveness Report

According to the Global Competitiveness Report 2016-2017 released last month, Nigeria slipped three places to 127 from 124 in the 2015-2016 rankings due to its macroeconomic environment.

The report is an annual assessment of the factors driving productivity and prosperity in 138 countries. Furthermore, the report notes that Nigeria is among the African economies hardest hit by the reduction in commodity prices, while banks are reportedly reducing credit availability despite the central bank ending its currency peg.

Additional factors holding back Nigeria’s competitiveness include an underdeveloped infrastructure rated as the country’s most problematic factor for doing business, corruption, access to finance, foreign currency regulations, political instability and inefficient government bureaucracy among others, according to the report.

“Nigeria is still regarded as the preferred investment destination in Sub-Saharan Africa due to its size and long-term growth potential. However, the short-term challenges and the first recession in 25 years have led to investors to focus elsewhere in the short-term,” concludes Edu.