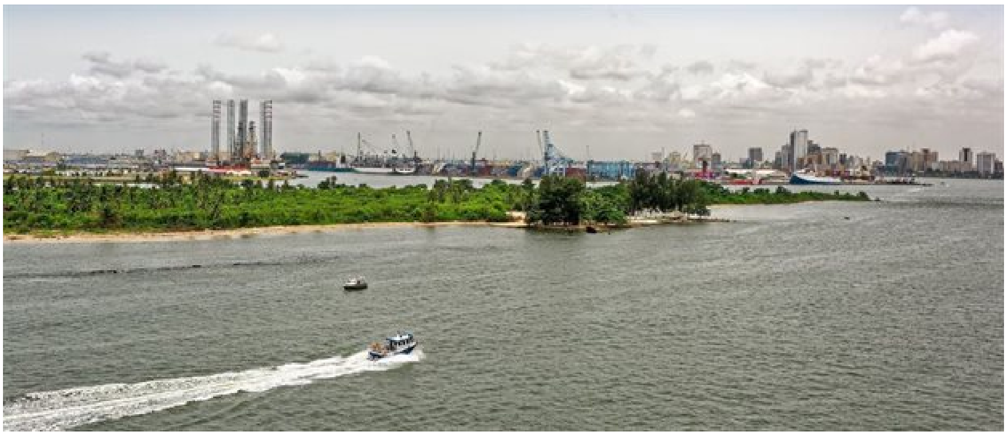
Nigeria's retail, office vacancies still high

Nigeria's economy is showing some green shoots that point to improved growth in the coming quarters but the outlook has done little to bolster investor confidence in the local retail and office market sectors.



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Landlords in the formal retail and office property markets have expressed pessimism as high vacancy rates and flat rental growth still hamper these sectors growth, although the market for space in the country's high end malls has remained strong with low vacancy levels recorded in the first half of 2019.

Broll Property Intel's latest Nigeria Retail and Office Market Viewpoint H1:2019 reports provide insight into these key property segments with a focus on supply and demand, new developments, rental trends and landlord sentiments, as well as highlighting factors that point to signs of potential economic growth, such as improved foreign currency liquidity, buoyant oil prices and a declining interest rate.

"Nigeria's GDP recorded 2.01% year-on-year growth in the first quarter of 2019 which was 0.37% lower than the previous quarter. Nevertheless, this growth is notable because it is the largest first quarter GDP growth the economy has seen since 2015," said Amaka Ajaegbu, senior research analyst at Broll Nigeria.

Ajaegbu said signs indicating the possibility of improved economic growth in coming quarters had included rising business confidence and higher credit to the private sector. "Headline inflation recorded its lowest level in 12 months at 11.22%, and the Central Bank of Nigeria cut the interest rate by 50 basis points to 13.5%, the first cut since November 2015 which also bodes well for consumers and businesses," she said.

However, she said the World Bank has revised its outlook for GDP growth, marginally downwards, from 2.2% to 2.1% for

2019.

Office market

According to the Nigeria Office Market Viewpoint report, enquiries and demand for A-grade office space slowed compared to the second half of 2018, mostly due to large transactions concluded last year which skewed the numbers. “While these indicators seem negative for the office market on the face of it, they do not necessarily point to a massive drop in demand. Upon deeper analysis of the transactions concluded during the previous period there were several large transactions that were closed by businesses in the oil and gas sector, probably as a result of higher global oil prices," Ajaegbu said. However, she said most landlords perceive themselves as price takers in a largely tenant’s market where they are offering competitive bespoke leasing terms to attract tenants. "Vacancy rates are also rising in the segment and a slew of new developments that saw new office space becoming available to rent further exacerbated the difficult position landlords find themselves in," she said.

New developments included the release of 33,000m² of office space into the A-grade market during the first half of 2019 which raised the average vacancy rate to 61% compared to 57% at the end of 2018. Further developments expected to be delivered by year end total 27,000m² and a further 64,000m² that has been put on hold. As expected in a tenant’s market, rentals have remained fairly flat in certain nodes and declined in areas such as Victoria Island (VI) and Ikoyi. “In Ikoyi, average asking rents for A-grade properties have declined by 7% to US$700/m²/annum, While average asking rentals for A-grade space in VI have declined by 1.5% to US$640/m²/annum," according to the Nigeria Office Market Viewpoint report. Ajaegbu said the outlook for the office sector over the next three to six months appeared "bleak" with a further slowdown in demand anticipated. However, she said multinational corporations had seized the low rental climate as an opportunity to move to higher specification buildings.

"We expect that this trend could help to drive demand for another 15,000m² of office space, but rentals are still expected to decline as additional new developments come onto the market which is dampening landlords' business confidence," she said.

Retail market

Broll’s Nigeria Retail Market Viewpoint report doesn’t differ tremendously. Although the top malls appear to be performing well with an average 2% vacancy rate, some tenants are exiting the malls due to financial stress. Enquiries that have translated into transactions were reported in the food and beverage, fashion and accessories and beauty and personal care categories. Most of the activity, though, was for retail space under 100m² in size," Ajaegbu said. Tenants who are struggling financially are exiting the malls when leases expire, despite landlords extending financial concessions, in a bid to discourage this trend. International brand interest has also slowed for now as strong enquiries regarding space have not yet translated into transactions.

Nigeria’s retail market has an existing 350,000m² of retail stock in its core and secondary market locations. Approximately 25,000m² of retail stock is set to enter the market by year-end. The formal retail market saw no new developments delivered for the period under review although projects are nearing completion in the core and secondary markets. These measure below 10,000m² and include the likes of The Landmark Retail Boulevard (approximately 6,000m²); the Simbiat Ikeja Mall in Lagos state (4,900m²); The Oshogbo Mall in Osun state (roughly 5,000m²) and a retail project in Port Harcourt of approximately 9,000m².

Vacancy rates remain relatively high, on average 20% across core and secondary market locations. Asking rents remained unchanged in H1:2019 in secondary market locations while asking rental values in the core market (specifically in the top malls) have risen slightly.

“Asking rentals in the successful malls in Lagos are above $100/m²/month for 50m² - 250m² boxes. While, average asking rentals in other core market locations generally range from $40/m²/month to $75/m²/month, up from $30/m²/month to $70/m²/month recorded in H2:2018. Rentals are flat in secondary market locations at $15/m²/month to $25/m²/month.” says the report. "Despite rental growth in the core market, landlords in both core and secondary segments of the market do not perceive that there is any capacity for rental buoyancy from current levels but they do not appear concerned that the influx of new developments could disrupt the current status quo to further weaken the segment. as Additionally, international brands are expected to seek strong local retail franchises to help them entrench themselves in the market in the coming months," Ajaegbu said.

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