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# **SURVIVING 2020 - COVID-19, THE PERFECT STORM AND REAL ESTATE IN NIGERIA**

BERKLY PROPERTY SERVICES LTD

# **Covid-19 on Real Estate In Nigeria**

Over the last four weeks of the lockdown necessitated by the pandemic there have been lots of webinars, discussions and reports on the topic of how Covid-19 is affecting the economy and what may befall us after it has passed (all sources are referenced below).

I took the opportunity of attending a number of the online discussions and have read various reports on the issue and felt the need to set what I considered the most pertinent points into a single document and for what it's worth give my view point on ways forward in the conclusion of this document.

The content scans through the economic impact of Covid-19 in general and in relation to the real estate sector garnered from these different sources. The mitigating actions by the government followed by bullet points of the resulting effects on Commercial (CRE) and Residential real estate sectors in Nigeria.

It is then punctuated by a summary of what the expected/projected outcomes, suggested trends that may result thereafter and what could be expected to be the best direction for investors and other stakeholders in particular partnerships between government bodies, developers, investors, financiers and property managers and the need for the government to take the sector more seriously as a means to diversify the economy.

## **Economics of Covid-19 and other coinciding factors that may magnify the negatives**

- The budget in Nigeria may suffer a massive deficit due to oil price crash
- Repatriation of foreign nationals and the border closures are an additional threat to international demand for Commercial Real Estate (CRE) and Residences
- Elections in neighbouring countries and countries known to be sources of FDI will worsen this situation in terms of both demand and supply.
- Diaspora remittances of USD20Bn per annum recently (6 to 7% of GDP) will suffer loss of jobs in countries where those diasporas are located rising daily. Due to this, the expectation is there won't be any change in this trend for next 12 to 18 months before activity returns because of loss of jobs.
- As a result of plummeting oil prices, where the oil sector contributes up to 60% of the Nigerian government's revenues, the COVID-19 pandemic, declining investor confidence and a currency devaluation, the IMF has forecasted Nigeria's GDP to contract by 3.4% in 2020

# Mitigating Actions Undertaken by the Government/ NGOs

- Wage subsidies; delay or suspension of all entrenchments by Banks.
- To help in weathering this economic downturn, the IMF recently approved US\$3.4Bn in emergency financial assistance to the Nigerian government.
- A fiscal stimulus package in the form of a COVID-19 intervention fund of N500 billion (\$1.4 billion) to support healthcare facilities, provide relief for taxpayers, and incentivize employers to retain and recruit staff during the downturn.
- Regulated fuel prices have been reduced, and an automatic fuel price formula introduced to ensure fuel subsidies are eliminated.
- Revision of the social register from 1 million households to 3.6 million to help cushion the effect of the lockdown.
- The Central Bank of Nigeria (CBN) reduced interest rates on all applicable CBN interventions from 9% to 5% and introduction of a one-year moratorium on CBN intervention facilities.
- CBN has further created a N50 billion (\$139 million) targeted credit facility.
- Regulatory forbearance was also introduced to restructure loans in impacted sectors
- The official exchange rate has been adjusted by 15%, with an ongoing unification of the various exchange rates.

**\$3.4BN**

IMF Approved  
Emergency Financial  
Assistance to the  
Nigerian Government

**\$1.4BN  
(N500 BN)**

Fiscal Stimulus  
package in the form of  
a COVID-19 intervention

**5%**

Current Interest rate on  
all Applicable CBN  
Interventions. Formerly  
9%

**15%**

The official exchange  
rate has been adjusted  
by 15%.

CBN is considering “an initial intervention of N500 billion for real estate sector over the medium term, specifically targeted at manufacturing firms to procure state-of-the-art machinery and equipment an automated manufacturing models that would fast-track local production and economic rejuvenation, as well as support increased patronage of locally processed products such as cement, steel, iron rods, and doors, amongst several other products”.

CBN also focusing on “attention to bridging the housing deficit in the country, by facilitating government intervention in three critical areas:

- Housing development
- Mortgage finance, and
- Institutional capacity

In addition to “the creation of a fund that will target housing construction for developers that provide evidence of profiled off-takers with financial capacity to repay”

## **Commercial Real Estate (CRE) / Retail**

- Expect a reduction in Retail revenue by 50%
- Recovery if Covid-19 ends tomorrow will start at earliest in 2 to 3 quarters
- Those who are leveraged will suffer the most
- It is estimate that it will take 2 to 3 years to get where we used to be
- Rents will drop significantly because of opportunity cost
- There is an expectation that Grade A CRE will crash to USD500 with tenants asking for rent free periods up to 18 months
- Downward movement in hotels from 70% occupancy to 20% due to drop in business and leisure travels
- Remote working - A lot of tenants will continue to work from home and terminate tenancies
- Retailers will be negotiating rent due to pressure downward on sales reflecting on their cash flows
- CRE will suffer the most due to huge number of job losses globally
- Retail will also suffer due to focus on buying of non-essential goods

- Partnership between planners, landlords, financiers and property managers is the most feasible way to survive post covid - landlords being proactive with renegotiation of rents on residential; retail likewise; financiers can cut Prime lending rate;
- Co-working will benefit straight due to review of strategies;

Prop-tech: may prove to be invaluable depending on the nature of tech and the uptake by users in sales, leasing and management i.e. uptake of digital marketing and digital aids. examples are 3D tours. But largely the work is on site.

- FM and agents communicating digitally with possibly incorporating payment gateways will increase.
- Its more about how you can get the tech to the majority of the market and how much money backing it.
- It may prove significant with automation, effective air filtration / HVACS to basically mitigate risks to users.
- It is being suggested that CRE grade A will slow but Grade D will move faster (possible destination for investment)

## **On Co-working**

The possible decentralization of workplace and offices may promote the need for local co-working offices. The market will self-correct towards that as part of the solutions in terms of health concerns and the risk spreading infection to main body of staff of client organisations.

- The advantage of Co-working is that it gives the companies opportunity to scale appropriately downwards or upwards.
- Also, co-working will need to shift from hot desks that accommodate the need for social distancing to less dense layouts and private offices.
- Coworking will benefit as there is still growth in terms of development of our cities and there is therefore a need to accommodate the human and financial capital that will drive this.
- The winners are those that will partner up to make the best for the tenant who has to use the space. Also, the service provided therein is very important.

Google's COVID-19 community mobility index, which tracks changes in visits and time spent at various locations compared to a baseline from January 3rd to February 6th 2020, shows that as a result of these government interventions we have seen a decline in activity in areas associated with workplaces and retail and recreational destinations.

Nigeria which had imposed partial lockdowns across their major urban centres recorded strong declines in their respective retail and recreation dropped by an average of 52% compared to baseline. Workplaces declined by 13% compared to baseline. The exception to this trend has been mixed-use developments which have showcased levels of flexibility and adaptability to change.

## Residential

- Generally, it is expected that demand will reduce.
- There is a possible downward trend on investment from diaspora due to loss of jobs but a buyer with a long-term view will benefit especially if the economy is successfully diversified.
- Landlords need to be proactive with renegotiation of rents.
- Landlords need to consider payment holidays to alleviate pressure on tenants and themselves as a result.
- If interest rates come down and you are in a position to borrow your yield may cover your mortgage payments. This is a time for buyers as values are dropping to maximise capital appreciation (which we are at the bottom of it now) you will get a better return than from your bank.
- Entry level for such investors is investing in off-plan developments of 2 to 3 years from completion negotiating a good price and rate and payment plan.
- There will be a need for integrated developments around smaller CBDs any residential developments of this nature will benefit in a post-covid Nigeria especially if they have the right mix of residential, retail and commercial.
- People will not want to be so far from either in the future to enable life to continue in any crisis such as may necessitate a stay-at-home order.

On the positive side there are a lot of people that are still making money needed to find these people as tenants or investors. As expected, activity in residential areas increased considerably over this period which was visible in Google's community activity index for Residential which increased by 22% compared to baseline. The need for affordable housing has been exacerbated as working class demand remains high.

# Conclusion

- The solution to post-covid-19 survival is a collaboration of planners, clients, financiers and landlords/property managers.
- There is the suggestion that African cities have an opportunity to get ahead due to our low numbers of infections relative to population.
- To ensure survival there is a need to partner up to make the best for the tenant or investor who will acquire the space or development.
- Technology companies will be coming up with better solutions and investors will be looking out for what suits them so expect a lot of change.
- In real terms everything is about money at the moment. There will be renegotiation taking place on cost of services and the supply chain costs to bring down overall costs to developers, tenants and investors.
- The overbearing consideration / conclusion is the effect of the Covid-19 pandemic, accentuated by the “perfect storm” of reduction in commodities export earnings, a weakening currency and declines in migrant remittances threaten Nigeria with a recession deeper than the financial crisis of 2008 and may be worse than that of the early 1980s.

In spite of this, there is the possibility that Africa in particular Nigeria will be sheltered from the worst of the storm or benefit from an accelerated recovery. This is largely because it's still to fulfill a lot of growth in terms of economy, urban development and infrastructure which creates a need to accommodate the human capital that will drive this development.

This is magnified by the low returns in source countries of FDI bringing them to invest in Nigerian developments. Furthermore, it is thought the FDIs that are already here will stay but start looking to lower costs and slow down spending to weather the storm till an upturn.

Residential developments expected to be more attractive to buyers throughout this period and integrated developments may be the norm for the future thereafter.

CRE will see a transformation in terms of health and safety, design and usage towards more economical usage by tenants which will in turn influence the investors and the supply chain. There is a potential for a game changing move towards smaller CBD's to accommodate this trend.

## What more can government do to help?

The real estate sector is currently a small proportion of the GDP in Nigeria but if nurtured it could be an asset in moments when the economy is seriously challenged through its basic nature as shelter that can aid the capture and targeting of solutions to the populace. Whilst as a destination for foreign investment it can also be a greater source of revenue and employer of labour for the country as a whole due to its appeal in terms of financial returns in comparison to the markets in the source countries of FDI and diaspora remittances (the latter of which is currently 6% to 7% GDP).

Cultivation of this sector to be a greater portion of GDP as a whole can be another opportunity to diversify the Nigerian economy. The importance of this cannot be stated enough given the need to soften the impact of economic upheavals as posed by Covid-19 and the looming recession from this perfect economic storm. Let us not waste this crisis and start now by helping the sector survive with targeted policies in this period.

Kudos to the government in its proposed intervention fund of N500bn and its prescribed targeted areas. However, the data indicates that a greater and more immediate intervention is required as is evident in the main topics of discussion in the various webinars and reports that prompted this document. It can be said the main pain point is cash-flow of existing developments, investors, tenants and service providers.

The answer to the question of what more government can do to help is therefore to find the means of immediate financial support to aid the current players in the market to survive 2020 and establish real estate as greater proportion of the GDP thereby aiding the diversification of the economy and establishing the real estate sector as a greater destination for FDI and a buffer for the Nigerian Economy in the “perfect storm” we are facing and those to come.



# References

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**Tilda Mwai (Knight Frank): Covid-19 in Africa:** *Focus on West Africa, 01/05/2020*

**Nigerian-British Chamber of Commerce:** *Real Estate Outlook in Nigeria – Post COVID 2020*

**Google:** *COVID-19 Community Mobility Report, 26/04/2020*

## Report Compiled by Managing Director, Berkly



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Razaq is a renowned real estate consultant and developer with over 17 years of experience who has built a reputation as a trusted player in the industry.

He is the founder of Berkly Property Services Ltd established in 2003 and Co-founder of GrowthLab. He Possesses a BA in Politics, Economics and Law (University Of Buckingham, UK), a PGDip in Business ( University of Kent, UK) and an MSc in Construction Project Management (London South Bank University, UK)