

**Market Update**

Friday, January 30, 2009

**2008 REVIEW AND EXPECTATIONS FOR 2009**

The year 2008 started with much anticipation and the promise of a better future for the Nigerian economy. However, in the course of the year, several factors combined to threaten the recent economic and social progress Nigeria had begun to enjoy. In this issue, we examine the global and domestic conditions that impacted the real estate industry and articulate our expectations for 2009.

**ENERGY PRICING AND REAL ESTATE SUPPLY AND DEMAND**

The price of oil made a dramatic turn from its all time high in the first half of 2008 to a 5 year low by year end. This was reflected locally by a drop in the price of Diesel (AGO) , a critical input to power generation services for most buildings in Nigeria. The rise in diesel cost (by more than 50%) from N100/litre at the beginning of the year to N160/litre by end of Q3 resulted in more than a 35% increase in haulage costs and a 15-20% increase in the average cost of key building material costs.

By mid 2008, Property Managers (PMs) reported about a 25% increase in the cost of maintaining their properties, more than two thirds attributed to the increase in the cost of diesel. Many property owners and PMs made the decision to charge tenants separately for the cost of providing uninterrupted back-up power via "Diesel Funds".

The projected quantity of real estate stock fell slightly from mid 2008 – as many commercial and residential projects became less attractive (from an investment point of view). While this is not due entirely to energy pricing, the impact of the high production cost of building material and its effect on construction cost caused developers to review new projects. During the year, large spenders in the letting market (e.g. oil and telecoms companies) reviewed their company policies and budgets on staff housing and property renting as part of cost cutting initiatives and this appears set to continue throughout 2009.

The decline in oil prices later in the year, did not result in a corresponding reduction in construction costs due to the reliance on imported products as Naira depreciated against major foreign currencies.

**FOREX MARKET AND REAL ESTATE TRANSACTIONS**

Early in 2008, real estate transactions that were originally denominated in US dollars were reverted to Naira due to an over 10% appreciation of the Naira. However, by Q2 the value of the Naira tumbled by 12% and developers and estate agents returned to dollar- based transactions. The year ended with a further depreciation of the Naira to a 2 year low of N131/USD. This vacillation led to caution on the part of both investors and buyers contributing to the reduced transaction volume, by year end.

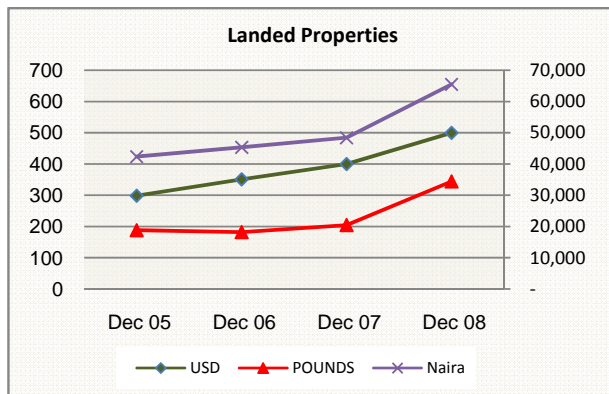


Figure1: Price trends adjusted for currency fluctuation

Analysis of property price trends adjusted for currency fluctuations reveals that while property prices kept an upward trend across currencies, sterling based buyers experienced a steeper climb during 2008.

**FGN RESPONDS TO THE GLOBAL CRISIS**

The Central Bank of Nigeria (CBN) recently made the first official admission of the impact of the global economic crisis on the Nigerian economy – ranging from the collapse of commodity prices (especially oil) to revenue contraction. There has been declining capital inflow (including divestment by foreign investors and a drying up of credit lines) and de-accumulation of foreign reserves, alongside pressure on the exchange rate and a decrease in profitability which has led to the Capital Market down turn, which at the last count had lost 65% of its value in a 6 month period. **The Government's response to date includes;**

- Inauguration of a Presidential Steering Committee on Global Economic Crisis on January 19, 2009.
- 50% reduction of fees charged by the Securities and Exchange Commission (SEC), Nigeria Securities Exchange (NSE) and all capital market operators.
- Share price movement limits set at 5% either way Delisting of 19 moribund companies from the NSE
- Share buy-back limits set at 15.0% of outstanding shares.

Implications of the crisis on the Nigerian real estate sector include the increased reluctance of financiers to provide long-term funds, resulting in a lull in development activity; reduced demand for highly priced luxury apartments resulting in a slight price correction in Q4. This correction is expected to continue throughout 2009. So far, prices are reported to have fallen by more than 20%.

**STOCK MARKET – REAL ESTATE ALLIED COMPANIES**

In 2008, the share price of listed companies in the real estate sector dropped by more than 56% (average) within the year, performing slightly better than the average price drop of the entire market. This trend is expected to continue in 2009.

	Year High Naira	Year Close Naira	% drop	Turnover growth 2008 (est)
<b>Cement Companies</b>				
Ashaka Cement PLC	56.16	14	-75%	5%
Benue Cement Company PLC	54.7	17.34	-68%	10%
Cement Co. of North Nig. PLC	24.5	4.61	-81%	5%
LafargeWAPCO	85.46	25	-71%	10%
<b>Construction Companies</b>				
Cappa & D'Alberto Plc	147	105.8	-28%	45%
Costain WA PLC	86.38	10.46	-88%	30%
G Cappa PLC	34.45	24.1	-30%	20%
Julius Berger Nig PLC	169.28	58.52	-65%	42%
<b>Mortgage Institutions</b>				
Abbey Building Society PLC	4.18	3.23	-23%	20%
Aso Savings & Loans PLC	7.56	1.28	-83%	20%
Union Homes Savings & Loans PLC	9.63	3.3	-66%	35%
<b>Real Estate Development</b>				
UAC Property Dev Co. PLC	29	21.3	-27%	20%
SKYE Shelter Trust(REIT)	150.01	111.01	-26%	15%

## Market Update

Friday, January 30, 2009

The implication of this for the real estate sector listed companies is that the capital market is not a viable option for fund raising until investors' confidence is restored. Most of these companies may have to suspend their expansion plans, or seek funds at a higher interest rate.

### OUTLOOK FOR 2009

With many world economies now officially in recession, it is expected that there will continue to be a tightening of the real estate market. .

In 2009, the market is expected to witness the following;

- A reduction of credit lines to many developers as banks continue to avoid financing long term transactions; resulting in a slowdown in the volume of transactions (therefore many properties will remain in the market for longer periods and prices will have to be dropped to attract buyers)
- High construction costs, largely driven by high interest rates, and a failing Naira – construction is heavily dependent of imports
- Continuing downward slide of property values
- Increase in delayed Projects with many failing to complete within time and budget – prompting an increased demand for professional project management skills and expertise



**POSSIBLE CONTINUED NAIRA DEPRECIATION:** While the CBN is making efforts to halt the slide of the Naira, it has expressed reluctance to continue to support the foreign exchange market with external reserves. Implication is that the Naira may continue its free fall in 2009.

**POTENTIAL DECREASE IN ACTIVITY:** Our view is that the Stock Market is not likely to make significant recovery in 2009, as prices stabilize at corrected levels. Even at the first signs of recovery, investor confidence will have to be cultivated and restored. If real estate companies are unable to raise adequate capital, there will be decreased activity in the sector.

High energy costs combined with worsening public power supply will lead to an increased emphasis on efficient and intelligent building technologies that will, in the long term help to control maintenance costs.

**INCREASED ATTENTION TO PROCUREMENT PROCESS:** In 2009, Developers, will have to pay more attention to the efficiency of procurement processes and products, and in many cases, review their pricing in order to control costs and dispose of existing stock. New and more strategic marketing approaches will be required to reach and convince buyers. Marketing efforts must be directed at emphasizing the economic rationale of investing in housing products.

## NEWS FLASH

### ACCELERATED 2009 BUDGET APPROVAL – over \$892m earmarked for infrastructure

There are indications that the 2009 budget will not be subjected to the over 4months delay of 2008 before it will be passed. This is more so when the CBN announced that it had recovered over \$4billion from

Ministries, Departments and Agencies (MDAs) from unspent Capital budgets of 2008, blamed on the delay in passing the 2008 Budget.

Highlights of the 2009 deficit budget are; **Benchmark oil price:** US\$45/barrel and **Inflation rate estimate:** 8.2% **Total Budget Expenditure estimate:** N2.87trillion (\$19.9bn). The aggregate expenditure represents a 4.45% increase over the figure initially appropriated and 8.42% increase over the 2008 amended Budget's level of expenditure.

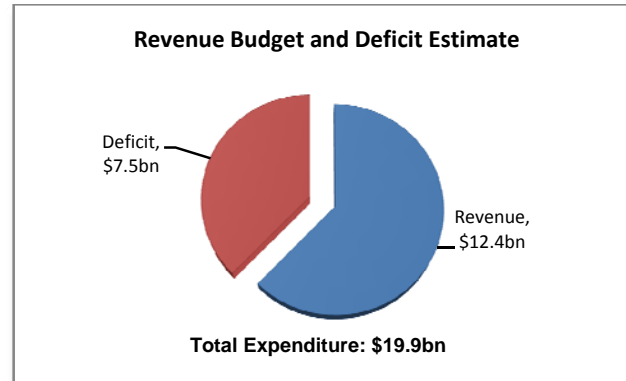


Figure 2 Budget Expenditure (\$bn)

Further highlights of the budget include the allocation of \$2.5billion to critical capital budget estimates, out of which \$1.5billion directly impact real estate sector.

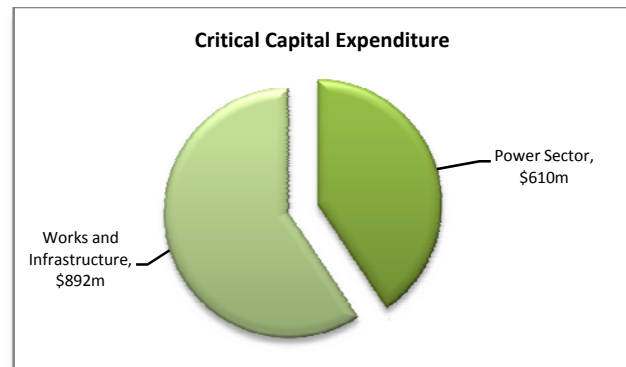


Figure 3 Critical Capital Expenditure (\$m)

Major infrastructure development companies will be engaged in many government and private/public partnership initiatives as it is expected that capital votes will be utilized as budgeted.

### PRIMARY MORTGAGE INSTITUTIONS (PMIs) NOT WRITING MORTGAGES - HOARDING CASH IN BANKS

The CBN reports an estimated 25% growth in the assets of the PMIs in Nigeria for 2008;

- Total assets of PMIs rose by 164% from N114b to N302b in 2007
- However, 60% of PMI assets remained as cash in banks, while financing of mortgages fell from 26% to 13% in 2007.
- Increase in total assets was driven by a 150% increase in shareholder funds and long term loans (from the National Housing Fund), which grew from N7.6 billion to N22.8 billion.

Primary Mortgage Institutions in Nigeria had more funds but financed fewer projects in 2007 and this trend continued in 2008. It is anticipated that a combination of regulatory interventions, the depressed financial market (offering lower returns) will encourage the PMIs to provide off-take financing for viable projects in 2009.