

Vacancy Factor Index up in June 2016:

Increasing Supply vs. High Rental Defaults

We are releasing the Vacancy Factor Index (VFIX) for Q2 2016, which came in at 72% for the month of June. This is an indicator of the state of the real estate markets in the upper class neighborhoods of Lekki, Victoria Island and Ikoyi. These areas are proximate to the central business district (CBD) or downtown areas of the Lagos metropolis. The report shows a marginal increase in the vacancy factor – from 171 to 172 – in June 2016. This implies a 72% rise in the number of vacant properties based on the housing stock as at January 2015.

Index Up, GDP Down

The rise in the index was not surprising, when you consider the Q1 0.36% contraction in GDP. A further contraction of 1.5% is expected in Q2'16 thus putting the economy into a recession. As a lagging economic indicator, the housing sector is likely to remain flat until the stimulus has transmitted through the system. Our expectation is that a point of inflexion of the index will be evident in Q1'17. Typically, high vacancy rates imply increased supply, which should translate to lower rents. However, rents in these areas have remained inflated above fair value and continue to be responsible for the high rate of delinquency and abandonment.

Lekki, the big loser



Vacancy rates were the highest in Lekki suburb. It also has the largest number of residential developments. Ironically, in spite of the high vacancy, it has the lowest level of uncompleted projects. This might be because of the level of developer optimism that the market will turn around soon.

Admiralty way, a major commercial street in Lekki, has the largest number of vacant properties.

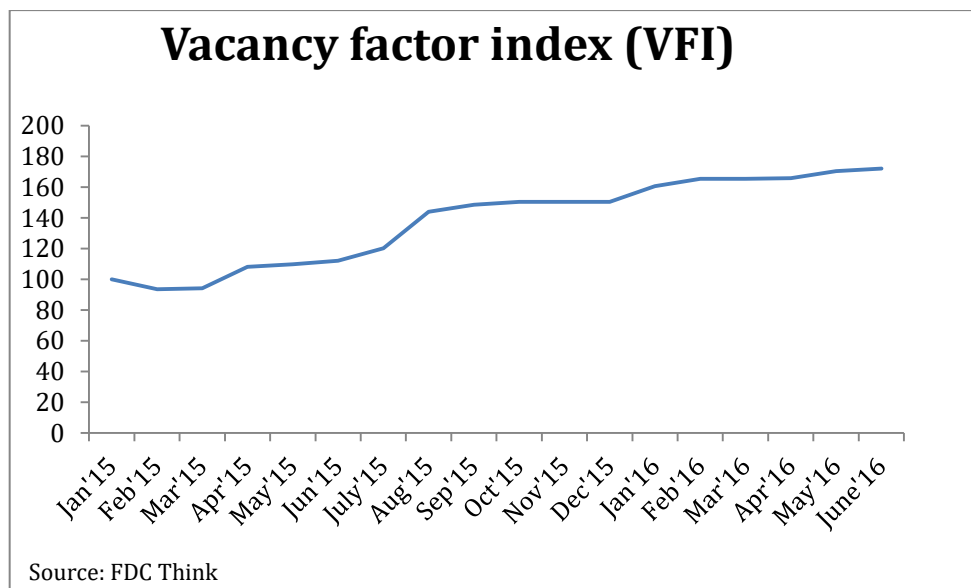
Properties with modern and functioning facilities

Victoria Island, the proxy central business district, has the lowest level of vacancy. This area has a preponderance of mixed-use developments and converted properties (adaptive re-use). Properties originally meant for residential are subsequently converted to commercial use. The low vacancy still persists, as the impact of Eko-Atlantic city that increases the level of supply is not yet felt in the market.

Ikoyi is an elitist suburb area famed for its overpriced properties – mainly new apartment blocks compared to stand-alone houses. It has the lowest vacancy rate amongst the three selected locations due to the many derelict lands that exist within the area. These lands do not add to the vacancy numbers, as they have no impact on the housing market. Banana Island is being extended with a potential significant impact on aggregate supply and values. This move will increase the supply of housing in Ikoyi in the long run.

When do we expect a decline in the VFIX?

Given the lagging nature of the index, a decline will only occur when there is an expansion in GDP and the PMI, an increase in the hotel occupancy rates, inflow of foreign portfolio and foreign direct investment as a result of the new flexible exchange rates, growing consumer confidence and most importantly, the flow of state and federal spending.





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Residential and Commercial Sub Indices

The residential VFIX has increased by 6.6% from 177 in March to 189 in June 2016. Commercial VFIX on the other hand has remained flat at 148. The huge gap between both indices is due to the fact that residential properties have a higher sensitivity to economic downturn. A residential property can easily be vacated without the tenant incurring a huge cost. Business, however, will face high costs for moving and so the decision is not made as quickly. For example, companies will face switching costs like changing addresses on business cards and will most likely lose some customers as a result.

Month/Year	VFIX	Residential Index	Commercial Index
January 2015	100	100	100
January 2016	160.2	169.2	148
March 2016	165.3	176.9	148
April 2016	165.9	180.8	143
May 2016	170.5	188.5	143
June 2016	172.2	188.5	148

Source: FDC Think Tank

The new flexible exchange rate and the VFIX

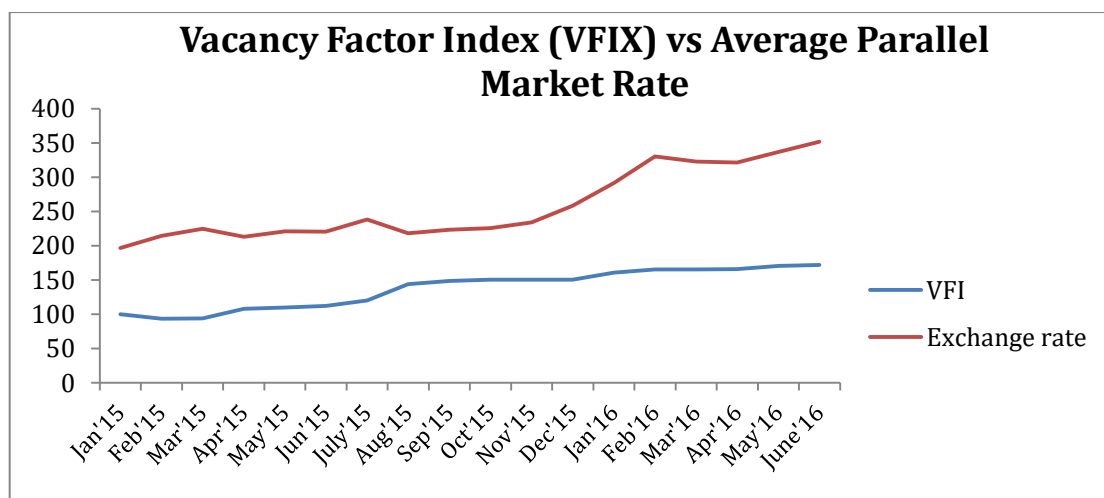


On June 20th 2016, the CBN commenced a flexible exchange rate regime to address currency pressures and uncertainty. There was a convergence of rates as the official market depreciated by 40% to N282/\$ and the parallel market rate appreciated to N335/\$ before falling to N355/\$ in the first week in July 2016. Although this policy change is a move towards the right direction, its impact on the real estate sector is neutral at this

time. Building materials used for construction are part of the 41 items restricted

from the official market (cement, roofing sheets, iron rods, wooden doors, and ceramic tiles). Their prices are subject to parallel market fluctuations thereby increasing the cost and final prices of housing. For example, the price of cement has gone up by 10% from N1500 to N1650 per bag as a result of exchange rate fluctuations.

As shown in the graph below, there is a positive correlation between the VFIX and the average parallel market rate. Currently the parallel market rate has depreciated to N376/\$, while the VFIX has increased at a slower pace to 172.



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Developers consider the demand for properties in these prime areas to be price-inelastic thereby feeding the extra cost of construction into the rental and sale prices of such properties. In an extreme case, if costs remain high it is likely that developers will find substitute materials that are sub-standard, while charging the same prices; the outcome being a major risk of collapse for such buildings.

On a positive note, the impact of the new policy is likely to bring in new foreign investors via portfolio and direct investments. The inflow will increase the demand and supply of housing. However, this is not expected until the second half of 2017.

¹ FDC Think Tank

Who We Are

Avant-garde
Academia
L I M I T E D



Avant-garde Academia Limited (AAL) is an education advisory and counseling service organization that was incorporated in July of 2013. AAL was incorporated as an educational aggregator in grooming candidates to be potential global citizens who will reinvest their acquired skills in Nigeria in future. It is positioned to provide support, assistance and guidance to potential candidates and entrants to Ivy League, Elite and premium academic institutions in America. Our target market comprises parents of children in identified elite Nigerian secondary schools and/or top executives in the business community, who have a strong need for our services.

The market also extends to Nigerians resident in Diaspora, and expatriates resident in Nigeria. In Partnership with Ascent Education Advisors, a reputable Education Advisory Services firm, we have designed a range of admissions solutions to cater for children in different stages of secondary school education.

OUR STRATEGIC PARTNER – ASCENT EDUCATION ADVISORS

A reputable education advisory service firm, the lead consultant Ms. Peggy Hanefors has over 10 years experience in admissions; including a position as the Assistant Director of International and Transfer Admissions at the University of Pennsylvania. She was first reader and evaluator of about 3,000 applications for students from across the globe.

What We Offer

- Information and advice about the American University System and its application process.
- Evaluation of student's record prior to application.
- Assistance in selecting curriculum and summer activities that will match the student's desired course of study and also highlight his/her personality and interests.
- Development of personal application timeline, that includes standardized testing, college visits, application deadlines, etc.
- Help in selecting teachers for recommendations
- Guidance in presenting extracurricular record
- Guidance in putting together an overall great college application that highlights the unique attributes of the applicant
 - Essay topic brainstorming
 - Editing
 - Proof-reading
- Guidance in choosing the most suitable college among acceptances.
- Interview preparation

Our Packages

Package 1: 8th to 10th Grade (Final 3-5 Years)

This package is a program designed for candidates from as early as the 8th grade (Junior Secondary School - JSS 2) of high school. This is a full package with the benefits of all the services we offer in addition to education and assistance with entire college admission process, including an unlimited number of applications.

Package 2: 11th and 12th Grade (Final 1-2 Years)

This package is similar to Package 1 but is designed for students in the final two years of high school.

Package 3: (Per Application)

Unlike packages 1 and 2, package 3 only provides unlimited assistance with applications to pre-determined universities.

We host a Parents Admission Support Forum in Lagos bi-annually with the aim of giving parents the information they need to ensure their child(ren)/wards gain admission into reputable universities in United States of America.

To attend one of our events, kindly contact or visit us at
9a Idejo Street, Victoria Island Lagos.

Outlook

Given the economic conditions currently faced, we do not expect a quick recovery of the VFIX, as there is a time lag for the market to return to equilibrium. We expect demand for housing locally to shrink further initially due to lower disposable income and a move from prime areas to more affordable locations. We also expect, in the short-term, new developments under construction. This will increase the supply of properties. From Q4'16 onwards, we project a pickup in activities as the economy gradually recovers mainly through demand for housing by expatriates.

Brief Methodology

The analysis measures the number of vacant properties in an area compared to the total number of properties in the given area. The index is computed via primary market research where we count the number of vacant houses in the prime areas selected. The vacancy rate in each area is used to develop an index. This index represents a weighted average of the vacancy rates calculated. The base month and year are set at January 2015, representing an index of 100. A decrease in the VFIX from the base month index is a positive outcome for the economy, meaning that more people are able to afford costly housing.