

THE EFFECT OF COVID-19 ON THE REAL ESTATE MARKET IN NIGERIA.

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Outline

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- **The Real Estate Market**
- **Impacts of COVID-19 on the Nigeria's Real Estate Market**
- **Projections for the Future**
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BACKGROUND

- Real Estate is same as real property consisting of land and improvements thereon. This includes; Buildings, Fixtures, Roads and other infrastructure, Structures, and utility systems.
- The important legal aspect of real estate is the property rights which give a title of ownership to the land, improvements and natural resources attached to the land such as minerals, plants, animals, water, etc.

Categories

The major categories of Real Estate in the Nigerian Market include;



Residential Real Estate

- Homes
- Apartments
- Short-lets



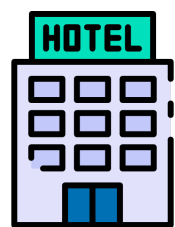
Commercial Real Estate

- Offices
- Institutions
- Banks



Retail Real Estate

- Shopping Malls
- Supermarkets
- Boutiques
- Restaurants



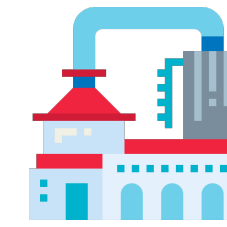
Hospitality Real Estate

- Hotels
- Motels
- Parks
- Recreation Centres



Healthcare Real Estate

- Hospitals
- Labs
- Pharmacies
- Clinics

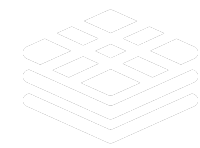


Industrial Real Estate

- Manufacturing
- Storage
- Packaging
- Warehouse

The Real Estate Market

- The Real Estate Market is an informal arrangement in which Buyers and Sellers of the various classes of real estate assets are brought together to determine a suitable price at which a particular property can be exchanged between a Seller and a Buyer.
- Real Estate also known as “Real Property” is special in nature because it conveys on its owner some ownership rights and privileges backed by law. This is known as “**Property Title**” and is what is traded (transacted on) in the Real Estate Market.

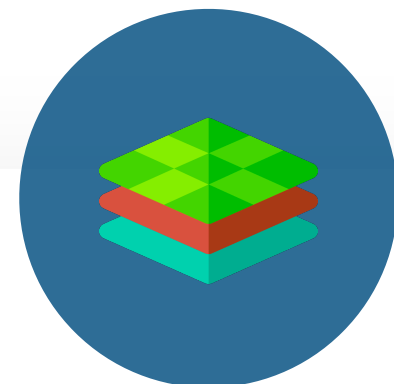


Characteristics



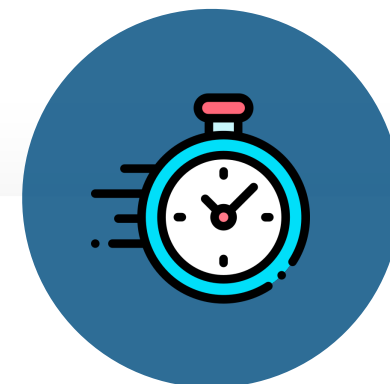
Durability

Real Estate investments are very durable and builds multi-generational wealth



Heterogeneity

Every piece of real estate is unique in terms of location and physical structure. It is localized



Illiquidity

It cannot be easily converted to cash like goods and stocks. It requires time and processes for any transaction to be concluded.



Capital Intensive

Real Estate Investment is capital intensive due to the nature of resources used in production



Value Appreciation

Value for Real Estate assets are ever increasing resulting in constant income growth

Impact of COVID-19 on Nigeria's Real Estate

- The impact of the COVID-19 pandemic on the human race and Real Estate Industry in particular is huge and unfolding and it will continue to have a lasting effect on the way we live, work and play.
- COVID-19 has impacted the real Estate industry in diverse ways. Some of the general impacts include;
 - Decline in cash flow and returns
 - Health risk to both employees and customers/clients due to heavy requirements of person to person contact in real estate transactions.
 - Delayed development approval process and Construction that results in cost escalation.
 - Delay in payment of rent and tenancy/lease renewals.
- Note that the impact of COVID-19 varies for different categories/types of real estate.

Impact of COVID-19 on Nigeria's Real Estate

Categories

Impact on the various categories of real estate assets;

Residential Real Estate

- Defaults in Rental & Mortgage Payments
- Demand for Rent rebates and concessions
- Renegotiation of existing leases & downward review of Rents
- Increased pressure on facilities as a result of the lockdown
- Low pricing for new lease transactions based on purchasing power
- Possibility of future increase in tenancy cases in Courts due to default in Rental payments

Commercial Real Estate

- Fall in demand for Commercial Real Estate due to the paradigm shift to “Working From Home”
- Redesign of Office spaces from open space designs to cubicle designs
- Drop in value of commercial real estates

Retail Real Estate

- Redesign from conventional sit out arrangements to pick up and go
- Fall in demand for Retails spaces as people shift to e-commerce
- Demand for Rent rebates and concessions

Hospitality Real Estate

- Drastic fall in demand and value
- Exceptionally low occupation
- Fall in revenue gotten from events and conferences.

Healthcare Real Estate

- Conversion of other real estate types to healthcare facilities such as isolation centres
- Significant growth in the near future

Industrial Real Estate

- Spike in demand for storage facilities for e-Commerce as sellers aim to stock up goods for bulk purchase from consumers

Projections for the Future

- Recently concluded International survey on real estate has it that as at 3rd April, 2020, the enterprise value of real estate assets has fallen between 25% and 37% with prediction of more loss in value averaging at 50% before the end of the year 2020 except something happens miraculously with the price of oil which is the main stay of our National economy.
- Further analysis of the Nation's economy reveals that; From the 2016 economic recession, the construction and Real Estate sector picked up massively to become a key contributor to the Nation's economic recovery in 2018 and 2019, though with some distortions within the quarters of the 2 years, NBS records that the sector grew by 7.66% in Q2 of 2018 from a -1.54% growth in Q1 of 2018 (Source – Nigerian Bureau of Statistics).

Two factors were majorly responsible namely:

1. Availability of foreign exchange and access to it as a result of improved economic climate encouraging investment.
2. Increased activities in the construction subsector particularly on road and rail construction with the budgeting and release of N1 Trillion Capital Vote, the highest ever budgetary release for any sector in the Nation's annual funding.

Federal Government Initiatives

- The Strategic Collaboration between the private sector and government has also helped to increase growth in the sector, including:
 - The Diaspora City proposed for FCT and 7 States by the FHA.
 - The FMBN collaboration with Labour Unions for 2800 affordable housing units for workers in 14 sites across the Nation.
 - Resumption of the ongoing work at the Abuja City Centre Project.
- The Project is designed to be a mix-use development with 28 high rise towers, encompassing; Residences, Hotels, High end business school hub, Shopping arcades, Malls and Hospital/Medical facilities.
- These are some of the projects that will help in the recovery of the Sector post COVID-19.

Recommendations

- The Government, at all levels, must continue its strategic investment in the Sector, especially in the areas of expanding the much-needed infrastructure in the Country and Housing development.
- This is the best approach to restarting the economic life of the nation and its citizens based on the fact that activities in the Real Estate Industry is a booster to economic development and growth in the following ways;
 - It provides wide range of Job opportunities and Employment.
 - It provides wide range of Business opportunities.
 - It produces the much-needed infrastructure and services for better living to all social classes.
 - It provides good Health facilities and Sanitation.
 - Reduction in crime and insecurity.

Recommendations

- It has been reported by the National Association of Home Builders in the USA, that the Housing subsector is already leading in the Post COVID-19 recovery as there is a sign of stabilization, as businesses continue to reopen as the spread of the virus reduces.
- This subsector in all parts of the world, particularly in Nigeria, is pent-up with ever increasing demand due to shortage in supply particularly for the low- and medium-income earners. This coupled with shift in demand from the high-income group, resulting from affordability challenges, will impact positively on low- and medium-income housing post COVID-19, while the decline in demand and prospects for high income housing will continue.
- The nature of Real Estate has some cushion effects that will impact positively in the sector post COVID-19. These include;
 - Ability to appreciate over time.
 - Real Estate transactions are legally backed with tenancy agreements, Deeds of Mortgages, Deeds of Assignment etc. which are specific in terms that can only be changed by reviews of terms acceptable to all the parties.

Conclusion

The negative impact of COVID-19 on the real estate market will be short lived because of the huge supply deficit estimated at over 20 Million units and the ever-increasing demand particularly in the low-income and medium-income sectors. I will therefore advise prospective investors to maintain their trust in Real Estate assets as a viable source of investment.

Thank you!