Stimulating Nigeria’s Emerging Real Estate Markets:
Investment Opportunities Through the Public Sector

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ABSTRACT:

In its Global Economics Paper No.134, the Goldman Sachs Economics Group highlights the West African country of Nigeria as having the potential to be among the next generation of emerging markets around the world – the next eleven (N-11) - after their much publicized BRIC countries: Brazil, Russia, India and China. Nigeria - the only country included from Sub-Saharan Africa - is shown to have the potential to become one of the top 20 economies of the world by 2025: owing to such indicators as recent GDP growth - and projections for continued growth - and its substantial population.

As is typical with emerging markets, rapid growth in Nigeria’s economy translates into an equally rapid growth in the demand for institutional quality real estate and the first signs of this can already be observed in the country’s major markets of Lagos, Port-Harcourt and Abuja. This growing demand has however been met with very limited supply, resulting in high and growing rents in these markets and an opportunity for profitable real estate investment, where they can be found.

This paper examines the role of the public sector as one such source of real estate investment opportunity: The public sector having hitherto played a very active role in the country’s real estate development. An analysis will be made of the historical development of public sector influence on real estate; and then an evaluation made, on the opportunities being created, as this influence is directed towards encouraging private sector investment and expertise.

Thesis Advisor: Brian Anthony Ciochetti
Title: Professor of the Practice of Real Estate
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CHAPTER 1: INTRODUCTION

1.1 Emerging Markets, Nigeria, and Real Estate

It is now common knowledge that real estate investors are increasingly looking to invest internationally for reasons of portfolio diversification and the search for higher risk adjusted returns than can be achieved in their domestic markets. The term “emerging markets” has thus become the buzz word of the international investment community, as these markets are seen to present opportunities for meeting the foreign investor’s goals as mentioned above.

Emerging markets - origins and classifications

There are no formal criteria for defining what an emerging market is. The origins of the term can be traced back to the World Bank Economist, Antoine van Agtmael of the 1980’s, referring to market activities in countries considered to be transitioning from developing to developed nations. In recent times a number of institutions are recognized for tracking this phenomenon of emerging markets using a number of different metrics. These include Morgan Stanley, with the Morgan Stanley Capital International (MSCI) Index which tracks 25 markets they consider emerging. The Economist and ISI Emerging markets are also sources of investment information on what they consider emerging markets around the world.

Of particular relevance to this study, however, are the Global Economics Papers presented by Goldman Sachs. These papers, prepared by the firm’s Global Economics Group (GSGEG), are commentaries on the state of the world’s economies- current trends and future projections. In their 2003 paper “Dreaming with BRICs: The Path to 2050”, the Group headed by global economist Jim O’Neill, introduced Brazil, Russia, India and China as the BRIC countries; forecasted to be four of the most dominant economies by the year 2050. These forecasts were presented as a “dream”, signifying the GSGEG’s acknowledgement of the significant hurdles that these economies needed to scale to bring

1 “Opportunities and challenges of investing in Emerging markets: a case study of Panama” Marianne Ganster, 2007
2 BRIC acronym derived from first letters of names of the four countries
them to pass. Today the BRIC “dream” has begun to manifest in reality as the economies of these regions continue to show rapid growth and development, attracting ever increasing amounts of foreign direct investment (FDI)\(^3\).

In 2005 the GSGEG put forth another paper “How solid are the BRICs?”, and in it they highlight their forecast of the Next Eleven (N-11) emerging markets of the world, slated to be among the world’s top 20 economies by the year 2050 in different capacities. The list includes, in no particular order, Mexico, Turkey, Bangladesh, Indonesia, South-Korea, Philippines, Egypt, Iran, Vietnam and Nigeria\(^4\).

*Emerging Market - Nigeria*

Of the N-11 countries only Nigeria is from Sub-Saharan Africa (SSA). In its selection it is seen to have the potential to contribute substantially to the world economy in the medium to long term: It is forecasted to become one of the top 20 economies of the world by 2025 and to surpass some of the G7 countries - Canada, Italy and France - in GDP by the year 2050, to become the 11\(^{th}\) largest economy.

It is of course important to note that these N-11 countries - like the BRIC before them - also represent a “dream” that *could* come to pass if certain factors come together. The major criteria for selection include potential market size indicated by demographic patterns, and the transitional nature of the economy indicated through such parameters as GDP and FDI growth. Other more qualitative parameters such as political stability and policy reform are also considered: seen as the stimulus the stimulus for continued transition, growth and development.

*Real Estate in Emerging markets*

The Real estate industry of any country is largely affected by the country’s economy. As such the emergence of a real estate market is inextricably linked to the larger economic environment. That said, it is also recognized that real estate, as a sector of the economy

\(^3\)“How solid are the BRICs?” *Global Economics Paper No.134, Goldman Sachs Economics Research Group*, December 2005

\(^4\)
and a separate asset class in the capital markets, is very unique and has characteristics and parameters for growth, specific to it. In assessing the risks of real estate investments in international markets, investors take into consideration the general risks of a country in terms of political stability, business environment, currency fluctuations and the likes and then, in addition to these, they consider real estate specific risks such as, entitlement risk, legal risk, market risk, financial risk and execution risk to mention a few.

These risks and uncertainties manifest themselves in different capacities in each market. As such, despite its recent sophistication and integration into larger capital markets, Real Estate is still often referred to as a ‘local’ business.

Real Estate in Nigeria

Nigeria’s history as a country is a diverse mix of different eras: At one time, a land of different Kingdoms and Tribes; then Colony of the British Empire; finally a Federal Republic under which until recently was dominated by military rule. The nature of the different eras, and indeed the combination of them, has made it such that real estate in the country has always had strong connections to the collective – the public sector – in one form of government or another.

Governments in any market always have a level of influence in development, in the form of regulations. In Nigeria however this influence extends to the rights to land and in some cases direct ownership – As such the government has historically been seen to take on the role of developer, in trying meeting the country’s real estate needs.

1.2 Purpose of Study

With the above as context, the purpose of this paper is to examine Nigeria’s real estate industry as a significant emerging market and the opportunities it presents for investment: In particular the examination will focus on the influence of the public sector in real estate development, and what opportunities these influences can afford the private investor as the governments begin to encourage private sector investment in the industry.

\[^{4}\text{ibid}\]
These opportunities will be broadly categorized into two groups; Privatization opportunities and Public Private Partnership opportunities.

1.3 Methodology
This study is designed to be a qualitative analysis of the subject matter. The first stage will involve the gathering and synthesis of data and information on the country’s development as an emerging market, and consequently, the indicators of the potential for its real estate markets. Sources will include white papers and reports by industry professionals, newspaper articles, government reports and interviews with private sector participants involved in real estate in the region – investors, developers etc.

The next stage will be a synthesis of data that contributes to telling the country’s real estate story and public sector influence. Sources for this will include historical reports and documentation, newspaper articles, white papers and government documentation related to the subject and interviews with public sector officials related to the real estate industry.

Finally an analysis and evaluation will then be made of the opportunities presented by the public sector to private investors in the real estate sector. The analysis will involve data gathered from private sector participants as well as their public sector counterparts, through interviews and their proprietary reports. The analysis will involve examples of current projects that stem from these public sector opportunities.

1.3 Chapter Summaries
The study will begin in Chapter 2 with an overview of Nigeria and its potential as an emerging market; setting the context for which the subject of the study - real estate – exists. It will involve a brief description of the country - its geography and indigenes; the history of the country - formation, colonization and independence; and how all these have influenced the present organization of this complex country with over 250 ethnic groups.
An overview of the political and economic environment will then be made, leading to how reforms in these areas are leading towards an emerging Nigerian market.

Chapter 3 will be a broad description of the real estate sector in the country. It will begin with an evolution of the different urban centers as indicators of the major real estate markets in the country. Based on this historical view, the major cities that have evolved will be profiled in terms of economic and demand drivers. Real estate fundamentals will be presented to give a sense of the demand in these cities and demonstrate the opportunity for real estate investment. Finally a profile of emerging institutional investors – in the form of real estate funds and private equity groups – will be given, to illustrate the growing interest for real estate investments in the country.

Chapter 4 will be an analysis of the public sector influence on real estate development and how it came about. It will involve an examination of the country’s Land Use act which is the legislation that embodies this public sector influence. Finally the past activities of the public sector in providing real estate will be analyzed, highlighting areas of weakness and needed improvements.

Chapter 5 will be an evaluation of the real estate investment opportunities through the public sector. The opportunities will be divided into two broad groups: Privatization and Public Private Partnerships (PPP). The evaluation will include the motivations of the government behind each category as well as the pros and cons of each from the investor’s point of view. Examples of relevant transactions demonstrating these opportunities will be used in the evaluation.

Chapter 6 will conclude with a reiteration of the nature of the public sector opportunity, its scope and limitations, as well as its inherent risks. Recommendation will also be made as to areas of future study on the subject.
CHAPTER 2: EMERGING NIGERIA

With an estimated population of over 140 million people, Nigeria is the most populous country in Africa and the eighth most populous country in the world. About one in four Africans is a Nigerian. In addition to this large pool of human resources the country also has an abundance of natural resources including the 10th largest oil reserve in the world, with substantial amounts of natural gas, tin, iron ore, limestone, lead and an abundance of arable land. Given these statistics, it has a significant amount of influence in Sub Saharan Africa (SSA): It is currently the second largest economy in SSA and together with South Africa – currently the largest economy - accounts for 54% of the regions GDP\(^5\).

These factors are among those that recommend the country to the N-11 countries by Goldman Sachs. With such potentials the problem has always been the mobilization of these resources and their efficient use on the world stage. With a string of military regimes and constant dissensions between the different constituents of the country – who have not always agreed with the country’s amalgamation by the British colonialists – Nigeria has always fallen short of its potential.

However, the recent reign of democracy – almost a decade; the longest in the country’s history – and a series of reforms in the country, has begun to encourage the meeting of this potential; and as per the GSGEG’s N-11 “dream”, gives signals to a future of sustained growth and development.

2.1 Country overview

*Location and Landmass*

Nigeria is in the western part of Africa, in the Gulf of Guinea and occupies a total land area of about 923,768 km\(^2\) - just a little larger than the state of Texas, USA - making it only the 32nd largest country in the world in land mass despite it being the 8th largest in population. It shares borders with the countries of Benin on the west, Niger and Chad on

\(^{5}\) “Africa Development Indicators 2007 ” World Bank Publications
the north and Cameroun on the east. On the south is approximately 850km of coastline to the Atlantic Ocean. On this coast line is the Niger delta basin of the south which has the largest river deltas in the world and is the convergence of the two major rivers in the country: the River Niger, which runs from the west, and the River Benue which runs from the east.

**FIGURE 1. Map showing location of Nigeria**

![Map showing location of Nigeria](Source: Urhobo Historical Society)

*Climate and Vegetation*

There are roughly three climatic regions in the country: The tropical rainforest of the far south with rainfalls of 60-80 inches a year; the desert like climate of the far north with less than 20 inches of rain a year; and the savannah which accounts for everywhere else with 20-60 inches of rain. The majority of the country falls in the last region. These climatic conditions in turn influence the country’s vegetation which is also diverse. It is
largely be categorized into the forest regions of the south and the savannah of the north with further categorizations such as mangrove, fresh water swamps and the rainforest in the south and guinea savannah, sudan savannah and sahel savannah in the north.

**FIGURE 2. Map of Nigeria showing vegetation classification**

![Map of Nigeria showing vegetation classification](https://example.com/map.png)

*Source: Wikipedia*

**People and Culture**

The diversity of the Nigeria’s natural environment is surpassed only by the diversity of its indigenes. The country has over 250 ethnic groups with more than 500 indigenous languages making it one of the most ethnically diverse nations in the world. Three main ethnicities dominate: the Fulani/Hausa of the north; the Igbo’s of the south east; and the Yoruba of the South-west and together they account for about 68% of the population. Other ethnic groups include the Ijaw, Edo, Kanuri, Ibibio, Ebira Nupe and Tiv which collectively make up another 27% of the populace. These different ethnic groups are not
exclusive to Nigeria and many of them, from their origins, are spread out across the country’s borders to neighboring countries. For instance the prominent Yoruba language of the southwest is spoken (albeit in slightly different dialects) in parts of the neighboring Benin. In fact a substantial part of Northern Cameroun was a part of the original amalgamation of Nigeria before it was split up in the country’s early history.

FIGURE 3. Map of Nigeria and neighboring countries showing geographic delineation of linguistic groups.

![Map of Nigeria and neighboring countries](Source: Wikipedia)

Religion in the country is primarily Christian and Muslim with a small minority of a variety of traditional deity worshipers. Typically, the Hausa/ Fulani tribe of the north are Muslim, the Ibo tribe of the south-east and the other minority tribes of the south-south are
Christian, and the Yoruba tribe of the south-west are a mixture of Christians and Muslims.

2.2 Political Overview

The collection of such a diverse group of indigenes into this one country was the result of a somewhat imposed amalgamation by the British colonialists rather than a natural coming together of the different peoples based on shared ideals, goals and orientations. As should have been expected these differences and distinctions between the different ethnicities have always made for a lack of unity in the country as a whole and has been a major cause of the political instability that plagued the country after independence – the worst manifestation of this being the Nigerian civil war of the late 60’s.

Political History
The entity now known as Nigeria was formally united as the colony and protectorate of Nigeria in 1914 by the British Empire following previous years of British trade in the region, dating as far back as the mid 1800s. Administration of the region was divided into the Northern Region, Western Region, Eastern Region and the Lagos colony. The Lagos colony which was on the coast of the Atlantic was home to shipping ports and terminals and the region’s link to the other parts of the British Empire and the world at large. The three Regions represented a rough division of the country into its 3 main tribes, and were semi-independent entities with markedly different cultures.

By the middle of the 20th century there was growing nationalism in the country and a “great wave for independence” all over the African continent. These factors ultimately led to Nigeria’s independence in 1960 with a declaration of Federal Republic status in 1963. However, dissensions between the different tribes and factions led to a perception of disequilibrium in the polity. As a result the years following (from 1963 to 1999) saw a civil war, a series of coups, and a number military regimes take over the country, with a
few brief stints of democracy which were for the most part perceived as being corrupt and inept\(^6\).

In 1967 the Igbo tribe of the south eastern part of the country declared itself an independent state and this led to the 30 month Nigerian civil war which ended in 1970 with their defeat. Military regimes continued to rule the country thereafter, with pledges made to reinstate democratic governance. The second republic was installed in 1979 but was overthrown yet again in 1985 by another coup following perceptions of fraud by the incumbent government. An interim civilian government was installed in 1993 following annulled democratic elections but this government was also overthrown by a military coup in the same year.

In 1999, following the sudden death of the then military ruler, Major General Sanni Abacha, the former military head of state Olusegun Obasanjo – who was responsible for the handing over to the democratic government in 1979 - was installed as the country’s first civilian president in 15 years. He went on to be re-elected in 2003 for a second term and in 2007 handed over to the new President elect Shehu Musa Yaradua for the first civilian to civilian hand-over in the country’s history.

Despite the many criticisms of the Obasanjo civilian regime (1999-2007), he is credited with the aggressive restructuring and re-organization of the country’s armed forces in a bid to prevent the re-occurrence of a military take-over of the government in the future. This restructuring saw the retirement of a number of senior officials and the re-assigning of a number of others such as to break up factions and groups within the military\(^7\). These moves have added to the perception stability in the country going forward.

**Government**

Nigeria at present is constituted as a Federal Republic made up of 36 states and a Federal Capital Territory (FCT) – the Nation’s capital. The country’s division into 36 states and the creation of the FCT are the result of somewhat contrary motivations: The first at the behest of different minority tribes desirous of territories exclusively theirs; and the second an attempt to unify the country by relocating the capital to a more central location in the country.

**FIGURE 4. Map showing states in Nigeria**

The country’s governance structure is based on the constitution of the country’s second republic which saw the replacement of the Westminster system of government, adopted from the British in the first republic, with the American presidential system.

The Executive arm is headed by the President, who is both the head of state and Chief of Armed Forces. The president is elected through a multiparty electoral process for a four year term and is only allowed to be re-elected for one more term of four years. The president then appoints Ministers as heads of the country’s various Ministries - subject to the confirmation of the nomination by the National Senate - and collectively they make up the Executive Cabinet. These Ministries - which function much like the different Departments of the United States Federal Government - are the channels through which the Federal Government carries out its activities. There are also a number of Federal Parastatals and Agencies which supplement the activities of these ministries in the various sectors.

The bicameral legislative arm is made up of the Senate (the upper house) and House of Representatives (the lower house) collectively referred to as the National Assembly. The Senate is headed by the Senate president and the House of Representatives by the speaker of the house. The members of both houses are elected through a democratic process at the state level as representatives of the different constituencies. This legislative arm operates independent of the executive arm and is thus conceived as being able to check and balance its activities.

The Judiciary as the final independent arm of the Federal Government mainly consists of the Supreme Court which is the highest court in the Nation. The Chief Justice of Nigeria acts as head and presides over the court along with thirteen associate justices. The Chief Justice is appointed by the president subject to confirmation by the Senate.

*State Governments*

This three arm system of Government is also replicated at the State level as the states function as autonomous entities within the Republic. The State Executive arm is headed
by the elected governor who also appoints commissioners for the various ministries at the state level. The legislative is made up of the House of Representatives and the Judiciary of the High court in each state. The relative autonomy of the different states in handling their affairs is clearly demonstrated in the judiciary arm of certain states in the North\(^8\) which have adopted the Islamic law of Sharia into the formal legal framework of their systems.

The 36 states are collectively broken down further into 774 local government areas with local government chairpersons at the helm. These local governments are simply smaller administrative units within the states and do not function independently of them.

*Traditional Governance*

It is also of worthy note that there is also a fairly active traditional form of administration and rulership in the different parts of the country. From historical times the region had been home to a variety of very prominent Kingdoms; from the Oyo and Benin Kingdoms of the southwest to the Karnem Borno Kingdom in the North and the Calabar Kingdom of the south.

Of course in modern times these Kingdoms are but a shadow of their former selves and do not have any state powers even though they are recognized by the government and are consulted on matters relating to their communities, culture and tradition. There is also the issue of customary law which is one of four distinctive systems of law in Nigeria and is derived from the indigenous and traditional norms and practices of the different tribes and Kingdoms.

Another area of substantial influence the traditional rulership has is in the area of land matters, as the royal families of these kingdoms tend to have claims on substantial portions of land in their locales. This last point will be of particular relevance to this study and will be revisited in later chapters.

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\(^8\) The Sharia states: Kano, Katsina, Niger, Bauchi, Borno, Kaduna, Gombe, Sokoto, Jigawa, Yobe, and Kebbi.
2.3 Economic Overview

With a total market size of about 140 million people and a GDP of $170 billion\(^9\) - almost 50% of west Africa’s GDP – Nigeria is at the core of economic activity in West Africa and an important component of the economic development of the continent as a whole. It is a member of the Economic Community of West African States (ECOWAS) which was formed in 1975 to promote economic integration in the region. The country’s money currency is the Nigerian Naira (₦).

The economic origins of the country can be traced back to the British Colonialists who used the colony as a source of raw materials, minerals and foodstuffs to be exported to the western world, first through Trade Company’s such as the Royal Niger Company and eventually as an official protectorate of the British Empire\(^10\). The exports of natural recourses remain today a large source of the country’s revenue albeit dominated by Petroleum and its derivatives. As a nation it was one of the founding members of the Organization of Petroleum Exporting Countries (OPEC), having the 11\(^{th}\) largest proven oil reserves in the world\(^11\). With demand for petroleum products in the worlds developed and emerging markets projected to remain high amidst limited supply, this revenue generator should continue to affect the country’s economic development positively.

In addition to Petroleum and other mineral recourses (including significant amounts of tin, columbite, iron ore, coal, limestone, lead and zinc), the countries favorable climate and terrain also affords it a vast amount of arable land suitable for the cultivation of variety of produce - cocoa, palm oil, yams, cassava, sorghum, millet, corn, rice, livestock, groundnuts, cotton.

However, despite these vast resources and the potential for economic buoyancy, the country’s historical mismanagement and political unrest has seen it fall far below its potential.

\(^9\)“Background note: Nigeria” US Department of State <http://www.state.gov/r/pa/ei/bgn/2836.htm>
\(^10\)“History of Nigeria” Wikipedia
\(^11\)“Rank order- Oil – proved reserves” CIA World Factbook, 2008
Economic History

In the early 60’s Nigeria was a leading world producer of such agricultural produce as cocoa, palm oil, rubber and groundnuts. It saw the production as much as 400,000 tonnes of cocoa for example at its peak in this period. The oil boom of the early 70’s also saw foreign exchange earnings and government revenue increase spectacularly contributing to almost a decade of economic prosperity for the country.

All this was to change by the early 80’s as global oil prices begun to decline. The effects of this were particularly devastating to the country for a number of reasons, all stemming from a lack of proper management and fiscal policy. Primary of these reasons was the country’s economic dependence on oil for revenue generation. Nigeria exhibited a classic case of Dutch disease as the once diversified economy - where agricultural produce had in 1960 contributed 70% of GDP - was now hinged almost exclusively on petroleum exports.

Another problem was the government’s spending policy during the periods of buoyancy and the attempts to keep up this spending in the declining economy. In the presence of surplus revenue in the times of the oil boom, the government’s share of expenditures rose dramatically, from 9% in 1962 to 44% by 1979 - manifested in more jobs and higher government incomes that did not necessarily translate to better political and administrative capacity. Large amounts of debt were then incurred by the government-borrowing from the international community - as attempts were made at maintaining these spending patterns. This debt burden would reach about $32billion by the year 2000.

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13 Dutch disease is an economic concept that tries to explain the apparent relationship between the exploitation of natural resources and a decline in the manufacturing sector combined with moral fallout. The theory is that an increase in revenues from natural resources will deindustrialise a nation’s economy by raising the exchange rate, which makes the manufacturing sector less competitive and public services entangled with business interests - “Dutch Disease” Wikipedia
By 1989 Nigeria was for the first time classified as a low income country by the World Bank\textsuperscript{16} and declared poor enough to be eligible for concessional aid from the International Development Authority. This economic depression characterized the country all the way into the 90’s, and was compounded by high levels of corruption in the different military regimes in power during the period, characterized by personal aggrandizement (in the amount of billions of dollars) at the country’s expense.

\textit{Emerging Economy}

Nigeria’s fortunes have however changed in recent times due to several factors, most of which are attributable to the current democratic dispensation which has brought a fair measure of stability to the country. The new democratic governments, now committed to the country’s economic development in the aftermath of decades of underdevelopment, have effected a number of policies that have seen the country’s economy grow significantly in the last 5 years with projections of continued growth.

One of these policy changes was in the area of government spending. In 2004 the government introduced a system of basing the budget on a conservative oil price reference and by so doing de-linked government spending from changes in oil prices. Excesses in revenue from this new system where then saved in a special account\textsuperscript{17}. This practice has increased the country’s foreign reserves from $7.5 billion in 2003 to $38 billion in 2006\textsuperscript{18}. It has also helped to reduce inflation to about 10% per annum as compared to the 40% average of the 90’s\textsuperscript{19}. In addition to these, other steps have also been taken in the area of government financing. These include the setting up of a cash management committee to ensure that expenditures are related to the actual amounts budgeted. There were no such checking systems in the past and as such this has increased the level of transparency in the area of budgets and expenditure.

\textsuperscript{16} That is, since the World Bank started its annual world Development report in 1978.
\textsuperscript{17} These accounts have been put under the management of a combination of global banking institutions - such as JP Morgan – and Nigerian banks.
\textsuperscript{19} Ditto
There have also been structural reforms including the privatization of 116 government enterprises between 1999 and 2006. The government owned and operated Power Holding Company of Nigeria, which in the past was the sole provider of power to the country – and was notoriously inefficient in the provision of same - was unbundled into 18 different companies for power generation, transmission and distribution. There was also massive deregulation in the power, downstream petroleum and telecommunication sectors which have all had positive results. The civil service also saw major reforms as 37,500 officials – deemed to be redundant in the system - were severed and another 8,000 ghost workers were removed from the government payroll. Public procurement reforms were also introduced and are estimated to have saved about $1.5 billion since 2001\textsuperscript{20}.

Finally there have also been reforms in the area of combating corruption in the country. In 2003 Nigeria was one of the first countries to adopt the Extractive Industries Transparency Initiative (EITI)\textsuperscript{21}, to help improve the governance of the oil and gas sector. The government also instituted two new bodies - the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC) – to battle corruption. These have since been responsible for a number of high profile convictions of corrupt officials and the seizing, confiscation and refunding of over $5 billion worth of assets to the state\textsuperscript{22}. These developments have consequently resulted in improvements in the perception of corruption in the country as measured by the World Bank Institute (WBI) index.

The effect of all these reforms has resulted in one of the fastest growing economies in the world. The sustained GDP growth projected over the next few years, and the performance of other economic indicators, are a step in the right direction towards realizing the “dream” of the N-11: a truly emerging market. (See Tables 1\& 2 below)

\textsuperscript{20} Ditto
\textsuperscript{21} The EITI is a coalition of governments, companies, civil society groups, investors and international organizations that supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining – \textit{EITI website}
TABLE 1. GDP growth rate comparison: Nigeria, BRIC and USA

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Real GDP growth rate(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Nigeria</td>
<td>6.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.4</td>
</tr>
<tr>
<td>Russia</td>
<td>8.1</td>
</tr>
<tr>
<td>India</td>
<td>9.0</td>
</tr>
<tr>
<td>China</td>
<td>11.9</td>
</tr>
<tr>
<td>USA</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit Country data (2007)

TABLE 2. Economic indicators of Nigeria: Current and future projections

<table>
<thead>
<tr>
<th>Key indicators</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>6.2</td>
<td>6.8</td>
<td>6.6</td>
<td>6.3</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Consumer price inflation (av; %)</td>
<td>5.4</td>
<td>8.2</td>
<td>8.5</td>
<td>7.8</td>
<td>6.8</td>
<td>6.4</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>-0.7</td>
<td>-0.6</td>
<td>-0.8</td>
<td>-0.4</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Current-account balance (% of GDP)</td>
<td>1.9</td>
<td>9.2</td>
<td>8.3</td>
<td>10.3</td>
<td>11.3</td>
<td>12.3</td>
</tr>
<tr>
<td>Commercial banks' prime rate (av; %)</td>
<td>16.9</td>
<td>18.0</td>
<td>16.8</td>
<td>15.5</td>
<td>14.4</td>
<td>15.0</td>
</tr>
<tr>
<td>Exchange rate N:US$ (av)</td>
<td>126</td>
<td>118</td>
<td>121</td>
<td>124</td>
<td>127</td>
<td>128</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit Country data (2007)

2.4 Emerging Nigeria: Implications

For all these improvements and developments Nigeria is still far from perfection. Despite improvements in the level of corruption, Nigeria is still at present one of the more corrupt countries of the world. There are still cases of unrest and strife, caused by regional dissension: This is of even greater significance as some outbreaks of violence, in areas like the Niger Delta region, home to the nation’s oil extracting activities, tend to disrupt
these economic activities. But perfection in the present state of the country is not the implication of an emerging market status. The concern is more with positive trends and potential for growth; which can be seen in the case of Nigeria. Despite its problems, there are marked improvements, and indeed many of the issues highlighted above are being addressed in one form or the other: The risk being how effective these measures are in tackling the problems.

Real Estate is especially concerned with growth. This is such that a perfect and stable economy which offers no growth offers little prospects for real estate investment returns. As a result, the promise of sufficiently higher returns in an emerging market such as Nigeria - because of its growth potentials – may be seen to balance out the risks inherent as it continues to emerge.
CHAPTER 3: OVERVIEW OF REAL ESTATE IN NIGERIA

Having established in the previous chapter, the emerging market potentials of Nigeria as a whole, this chapter will now examine the real estate sector in particular; translating the activities of the larger economy to the characteristics and performance of the real estate sector. This chapter will also serve as a bridge to the next chapter on the Public Sector influence on the industry: As a result an examination of the evolution of the real estate industry will also be made.

The demand for real estate products is closely linked to the formation of cities and urban centers and these are, in turn, largely a function of the economic drivers of these centers - major employers and revenue generators. The nature and performance of these centers and their economic drivers are thus primary markers in determining the characteristics of the real estate market.

3.1 Urban Centers – Evolution and development

Nigeria, like a lot of other developing countries, has and continues to experience a very rapid rate of urbanization. It is estimated that about 50% of its population will live in urban centers by the year 2010 – this figure being about 28% in the 1980 and 16% in 1960\textsuperscript{23}. About eight of these urban centers are currently estimated to have populations of over one million inhabitants. Lagos is by far the largest of these eight centers, with a current population estimated to be as high as 14 million people, making it one of the 10 most populous cities in the world and projected by the United Nations to be the third most populous by the year 2015\textsuperscript{24}. (see TABLE 3. below)

These urban centers, like others around the world, have their origins attributed to trade and or politics depending on their location and the era of their development: pre-colonial, colonial, and post-colonial.


\textsuperscript{24}
TABLE 3. Nigerian cities with over 1 million inhabitants

<table>
<thead>
<tr>
<th>City</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>F.C.T Abuja²⁸</td>
<td>1,576,000</td>
</tr>
<tr>
<td>Lagos²⁶</td>
<td>13,400,000</td>
</tr>
<tr>
<td>Kano</td>
<td>3,848,885</td>
</tr>
<tr>
<td>Ibadan</td>
<td>3,078,400</td>
</tr>
<tr>
<td>Kaduna</td>
<td>1,652,844</td>
</tr>
<tr>
<td>Port-Harcourt</td>
<td>1,320,214</td>
</tr>
<tr>
<td>Benin city</td>
<td>1,051,600</td>
</tr>
<tr>
<td>Maiduguri</td>
<td>1,044,497</td>
</tr>
<tr>
<td>Zaria</td>
<td>1,018,827</td>
</tr>
</tbody>
</table>


FIGURE 5. Map of Nigeria showing major urban centers


Pre-colonial urban centers

In pre-colonial times (which date from as far back as 8500BC till the period active colonization beginning in 1901), the phenomenon of agglomeration was more prevalent in the northern and southeastern parts of the country where the presence of central rulerships or kingdoms fostered the gathering of people around the estate of the ruler (in the north an emir and in the southwest an afin or oba).

In the North these urban centers served as entrepots to Saharan and trans-Saharan trade, and were organized around the ruler’s estate or palace, a central mosque and a market place. Trade in these areas was largely made up of agricultural produce which was cultivated on the outskirts of these centers. Agriculture is currently still a major part of the region’s economic drive: Some of the lands around these centers remain among the most cultivated in all of sub-Saharan Africa27. Kano and Zaria are examples of cities that evolved from pre-colonial urban centers in the north.

In the southwest these pre-colonial urban settlements thrived on trade to the coastal regions and were also anchored around the estates of rulers and a market place. Of significant note is the more diffuse nature of the political system in the south-western kingdoms, which even though had an overall ruler in the person of the Alaafin, were usually broken down into sub-regions under the control of different families28. Some of the major cities that developed in the region were Ibadan, part of the of the then Oyo Kingdom, and Benin city as the center of the Benin Kingdom.

The social and political systems of the various kingdoms in the north and south saw the rise of a number of prominent families form the royal lineage of the different rulers and sub-rulers. These families of course became the elite of society, and their presence in these urban centers translated into a concentration of wealth, political power, prestige and, in the case of the north, religious learning. All this helped to perpetuate the urban

28 “History of Nigeria” Wikipedia
density of these centers as they served as attractions for inhabitants from the more rural areas.²⁹

There were also a number of prominent urban centers that evolved along the coastal regions as the trade activities of the Europeans and their trade companies continued to grow. Some of these centers include Bonny, Brass, Calabar and Port-Harcourt in the south and Badagry and Lagos in the southwest.

*Colonial Urban centers*

In colonial times (1901-1960), most of these cities continued to serve as trade and administrative centers. However the presence of the new colonial administrators and inhabitants necessitated modifications to the urban landscape. These included the creation of Government Reserve Areas (GRA’s) which were newly created and secluded compounds with European styled housing and health, educational, recreational and religious facilities for the British administrators and the prominent European trading community. In addition to the modification of pre-colonial settlements such as Ibadan and Enugu –which became the capital cities for the newly created administrative territories of the Western and Easter Regions respectively - there was also the creation of new urban centers for administrative as well as trade purposes. The city of Kaduna, as an example, was created to take over from the pre-colonial city of Kano as the capital city of the Northern Region of the country; while Jos in the central plateau highlands in the center of the country, became the center of the tin mining industry and a recreational town for the expatriate community.³⁰

The continued activities of trans-Atlantic trade fostered by the colonial government saw the coastal city of Lagos become the primary port of trading activities for the region. Lagos thus experienced a great deal of urbanization in the colonial era which in turn continued to attract migrants from the country’s hinterlands and from neighboring countries.

³⁰ Jos was particularly favorable as a recreational destination because of its high altitude which made for cooler weather than other parts of the country.
Post-Independence Urban centers

The advent of independence and the consequent changes in the country’s socio-economic and geo-political landscape also translated to further developments in the urban landscapes. This was ultimately inspired by federalist and socialist sentiments. Paramount amongst the developments of this era was the decision in 1976 to create a Federal Capital Territory in Abuja, which was to be a new independent capital city for the country\(^3\)\(^1\); home to the federal government. The idea behind this was to locate the seat of the federal government in the country’s central region, as opposed to the skewed location of Lagos – the former country capital – which was in the south western region.

Another development that is not directly attributed to independence but occurs in the same era was the growing industry of oil extraction which was concentrated in the south-south region of the country and thus saw the emergence of relatively new urban centers supported by the industry. Primary of these is the city of Port-Harcourt which is deemed the center of activities for the region.

Current Trends

Despite the historical significance of some of these urban centers, and their relatively significant populations at present, only three of them are currently considered to be cities able to support institutional quality real estate and these are Lagos, Abuja and Port-Harcourt. Much of the other centers which were supported economically by the other non-oil sectors of the economy (agriculture, manufacturing etc.) have been negatively affected by the decline in these sectors over the years.

Cocoa production for instance, which was a significant economic driver for the city of Ibadan in the South-Western state of Oyo, and was largely responsible for Ibadan being the most populous city in Nigeria at independence in 1960, has declined significantly since independence; making the city a shadow of its former self.

\(^{31}\) Independent; in that it was not under the jurisdiction of any other state.
Notwithstanding the current state in most of the other urban centers, it can be assumed that as the country’s economy continues to improve, and appropriate policies and steps are taken to encourage the other non-oil sectors of the economy, there will be growing demand, and an opportunity for quality real estate development in these centers.

**3.2 Primary Real Estate Markets**

Lagos, Abuja and Port-Harcourt however, remain relevant urban centers and for lack of a better term might be referred to as the nation’s first tier cities. Each of them has its own distinct economic drivers and they all function on a somewhat national scale. They all have an international airport, making them gateways to the international community, and as such, account for three of the four international airports in the country: The fourth airport - which was actually the first to be operated, as far back as 1936 - is in the city of Kano in the north, but almost solely caters to the Muslim pilgrimage to Mecca, since the decline of the Kano economy in recent times.

*Lagos*

The city of Lagos is a metropolis of about 14 million people and for all practical purposes encompasses the entire state of Lagos. It is the financial capital of the country and arguably of West Africa as a whole: Home to the headquarters of the major financial institutions in the country as well as country headquarters for multinational companies such as ExxonMobil and Chevron. The continued growth in Nigeria’s service sector basically translates to growth in the economy of Lagos. Being on the coast of the Atlantic, it is also home to the bulk of the country’s shipping ports and thus serves as the link to the world in terms of imports and exports. 60% of Nigeria’s industries are located in the city.

*Abuja*

The city of Abuja is located in the country’s Federal Capital Territory (FCT) and is home to the Federal Government - Executive, Legislative and Judiciary. As such all the other

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32 “Mallam Aminu Kano International Airport” Wikipedia
operations, both public and private, that that are related to Federal Government activities are also present in the region. Even though the population, at about 1.5 million inhabitants is much less than 14 million of Lagos, it provides a very elite population with a significant number of foreign nationals and expatriates due to the presence of embassies, consulates and international organizations. The cities physical attributes - having been purpose built and master planned as a model city – recommend it as the most organized and planned cities in the country; adding to its appeal.

*Port-Harcourt*

Port-Harcourt is the capital city of Rivers state, and as the state name implies is located in the riverine areas of the Niger delta, home to the bulk of the country’s famous oil depositories. Port Harcourt has become the center of the activities for this region, and is driven primarily by the oil extracting and exploration industries.

The city is however probably the least desirable of all three major cities, in terms of livability, due to proximity to areas of oil pollution and the presence of significant security risks. The reports of violence and incidence connected with oil production, in that have become synonymous with the country are concentrated in areas within hours of the city and these have begun to spill into the city itself. In recent times these have manifested in incidents of kidnappings and a general increase in crime. It has been noted that a number of businesses have left the city as a result of the security risk.  

Despite these concerns however, the economic drive of the oil industry and its related services translates to a sustained demand for quality real estate: this especially as a lot of the industry is populated by foreign nationals and expatriates. There are also attempts being made to address the security situation, with the introduction of reinforced security outfits and other measures.

33 *Lagos State Government Website* [http://www.lagosstate.gov.ng/web/Lagos/Home](http://www.lagosstate.gov.ng/web/Lagos/Home)
3.3 Real Estate Fundamentals

The activities of the major cities outlined above have meant increased demand for quality real estate product in recent times. Paramount among these are the demand for residential, office, hotel and retail space\textsuperscript{36}. However despite these rising demands, there is still a dearth of institutional quality product in these markets creating a supply/demand imbalance that invariably translates to high rents where product is available\textsuperscript{37}.

Informational inefficiency

Characteristic of most emerging markets, and probably even more so in the case of Nigeria, there is very little in terms of collated data on real estate demand and supply parameters. International organizations such as Jones Lang Lasalle, CB Richard Ellis, DTZ, and the likes, who have become industry standards for real estate reporting the world over, have no presence in the region. What available information there is - and the source of the data presented here – comes from real estate brokerage firms and the industry participants in the country. The data is largely in the form of comparables ("comps") based on projects they are involved with, or from proprietary primary data gathering.

One of the reasons for the lack of real estate reporting can be attributed to the absence of significant institutional quality real estate to report on. As some of the comps below will illustrate, the market is virgin territory for such quality product. And so, despite the informational limitations, the little information there is does give a sense of the opportunities present in the market for the first mover investor.

Demand, Supply and Rents – A snapshot

Across the four major real estate classes of hotel, retail, office and residential, a look at some available data gives an impression of the state of the markets.

\textsuperscript{35} ibid
\textsuperscript{36} "Africa Report" \textit{Knight Frank}, 2007
\textsuperscript{37} These sentiments shared by most were gathered from interviews with prominent developers, local and international, in the region, including Mr. Dale Ramsden of Actis and Mr. Amaechi Ndili of Lionstone.
In the hospitality sector, the total supply of business quality hotel rooms (4 or 5 star) in Lagos for example is currently constrained at less than 1,200 rooms; this is for a city of 14 million people. Consequently occupancy rates in the few hotels that do provide this level of quality are in the 85-90% range, with average daily rates (ADR) of about $300 a night. This translates to revenues per available room (REVPAR) of about $270 as compared to $250 in London, $240 in Paris, and $220 in New-York.

In the retail sector, institutional quality product, in the form of modern shopping malls and retail centers, also tell a similar story. The Palms shopping mall which opened in 2005 as the first modern shopping mall in Lagos – with 25,000sqm, 3 anchor tenants and about 60 inline retailers - started out with average rents of about $300/sqm against construction costs of about $1600/sqm. After only three years these rents are now currently in the $750/sqm range, and the Palms still remains the only modern shopping mall in the city at present even though there are pipeline proposals for others.

These effects of the demand/supply imbalance are also present in the office space market and the residential market, which lease or sell out before construction is completed or in some cases before it even starts. Prime office rents in the countries major cities are in the region of $27/sqm at a yield of about 9%. 2-bed Apartments in the prime locations of Lagos rent for about $1000/month at yields of about 7.5%.

### 3.1 Real Estate Investment: Emerging players

Based on what little real estate information available, and the macro-economic potentials of the country, the real estate sector is beginning to see dedicated capital being raised

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38 “West African Real Estate Fund- Private placement Memorandum” *ECP/Lionstone, 2008*
39 *ibid*
40 *ibid*
41 1sqm approximately 10sqft
42 Interview with Mr. Amaechi Ndili, CEO Lionstone group.
43 *ibid.*
44 *ibid*
45 “Africa Report” *Knight Frank, 2007*
towards investment. International Private Equity firms and fund managers - most of them with an emerging market focus, having invested in other such markets as India and China - are slowly beginning to seek real estate investments in Nigeria. Below are some of the more prominent firms, but they exist amongst a host of other domestic players also aware of the opportunities present.

**Actis Capital**

The first of these, Actis, is a private equity firm headquartered in London, UK with offices now in South Africa and Lagos. The firm has raised up to $6.8billion in funds and has about 120 investment professionals. The firm was responsible for a $40million in The Palms shopping mall, in 2004, as a joint venture with local developer Mr. Tayo Amusan. The firm has since raised a dedicated real estate fund of $350million, in 2006, earmarked for investments in Sub Saharan Africa.

**Emerging Capital Partners/Lionstone Group**

Another prominent private equity firm active in the area is Emerging Capital Partners (ECP) headquartered in Washington DC, USA, with offices in six locations around Africa including Nigeria. ECP has the largest private equity presence on the African continent, having raised more than $1.5billion for investment in African companies, and have been present in the region for over 8 years. The company is currently raising a $350million real estate fund – the West African Real Estate (WARE) fund – in Joint venture with Lionstone Company Limited, an Investment and financial advisory group based in Lagos, Nigeria. The fund is seeking to provide returns averaging 20-25%, net of management fees and operating expenses.

**Africa Capital Alliance**

The Private Equity firm, Africa Capital Alliance was founded in 1997, with offices in Lagos, Nigeria and New-York, USA. It is dedicated to private equity investments in...
Nigeria and Africa as a whole across a variety of sectors. The firm is currently raising, and has already started investing, a $200million real estate dedicated fund – Capital Alliance Property Investment Company. The fund has been invested in by such multilaterals as the Overseas Private Investment Corporation$^{49}$ (OPIC) of the USA, who is looking to commit up to $50million of financing. 75% of the fund is proposed to be invested in Nigeria, with the remaining 25% set aside for investment in other West African countries$^{50}$.

3.2 An Emerging Nigerian Real Estate Market?

Nigeria’s real estate industry is still grossly underdeveloped, with very limited and in some cases non-existent institutional quality product. However the continued interest of investors in the region, spurred by current real estate fundamentals and a positive macro-economic outlook, point to growth in the market; if not all over the country, in the short to medium term, at least in its major markets of Lagos, Abuja and Port-Harcourt.

$^{49}$ OPIC is an independent U.S. government agency whose mission is to mobilize and facilitate the participation of U. S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies –[OPIC website](http://www.opic.gov/doingbusiness/index.asp)

$^{50}$ OPIC website [http://www.opic.gov]
CHAPTER IV: PUBLIC SECTOR INFLUENCE IN NIGERIAN REAL ESTATE

With the prospects of an emerging real estate market characterized by pent up demand, the issue of real estate supply in Nigeria becomes a pressing one. This chapter will set out to analyze the historical role of the public sector in the supply of real estate and the effects this has had on the real estate industry: This will be with a view towards highlighting the current influence of the government in creating real estate opportunity for the private investor.

The primary vehicle use to propagate the role of the public sector is embodied in the country’s Land Use Act of 1978 which vests all lands in the country to the government.

4.1 Evolution of the land use act

Over the different periods of the country’s evolution in terms of physical development, the land tenure system has also evolved. First there were the customary land laws that governed the land matters of the indigenes in pre-colonial times: After colonization these were modified to accommodate the interests of the British administrators: After independence the laws were further altered in an attempt to cater for the altered interests of the new republic.

The customary laws of pre-colonial times differed from north to south. In the north, with the more central political system (and the influence of the dominant Islamic religion), customary law saw land held and administered for the use and common benefit of the people by the native authority\(^{51}\). The people could hold a right of occupancy but this was subject to the control of the head of the region in which it was situated. The land practices in the south were markedly different as these were centered on families. Here the control of land belonged to the family, and even though certain members had claim to the certain

\(^{51}\) “Key Constraints to Real Estate Development in Nigeria” Babalakin & Co., 2004
portions of it, the right to alienate the said portion was generally subject to the consent of the family head\textsuperscript{52}.

The presence of the British began to alter these customary practices as early as 1861 where the Treaty of Cession saw the ceding of the Lagos colony to the British crown, albeit subject to the customary rights of the local indigenes\textsuperscript{53}. This trend continued as the whole country became a protectorate of the British Empire. Eventually making all land vested in the Queen of England, despite being subject to customary law. What this implied was that through such acts as the Public Land Acquisition act of 1917 the government could compulsorily acquire lands from the various families and communities, for the purposes of expanding their economic activities viz a viz agriculture and industrialization\textsuperscript{54}.

After Independence and the formation of the new Republic, the transition was made from land being vested in the Queen to being vested in the government, culminating in the federal government’s Land Use Act of 1978\textsuperscript{55}. The Act states that “all land comprised in the territory of each state in the Federation is to be vested in the governor of the state, to be held in trust and administered for the common benefit of all Nigerians”. Predicated on a welfarist economic philosophy initially introduced by the British colonialists after the First World War\textsuperscript{56}, it positioned the government as an economic monopoly and sole provider of a host of services and facilities – from energy to transportation and telecommunications amongst others. This philosophy, at the time, was determined by the British to be a well suited model for a developing nation: The rationale being to foster equitable wealth distribution and protect the economically weak consumers from profiteering investors.

\textsuperscript{52} ibid
\textsuperscript{53} ibid
\textsuperscript{54} ibid
\textsuperscript{55} ibid
\textsuperscript{56} ibid
4.2 The Public Sector and Real Estate Provision

With government control in so many sectors, it followed that all related real estate to these services – office space, industrial plants etc. -was developed by the government. In addition to these, other real estate products for third party use were also developed by the governments. For instance the government of the then western region developed and owned a substantial amount of real estate all over the region. Prominent amongst these, and representative of the diversity of real estate products provided, are the Premier and Lafia hotels – pioneering hospitality facilities in their time; Liberty Stadium – the first stadium in Sub-Saharan Africa; and Cocoa house -an office building, the tallest building in sub Saharan Africa when it was built\(^\text{57}\). The above listed were all in the city of Ibadan which was the center of the western region, contributing to its development as a modern urban center.

After the end of the end Nigerian civil war in 1970, the military government of the re-united country, in a bid to encourage country’s unity and with the precedent of the welfarist philosophy, set about the task of economic development\(^\text{58}\). This invariably translated into a substantial amount of physical development and the government thus set itself up to become the major provider of real estate in the country. This manifested itself in the government’s development of large scale developments that provided a mix of real estate product types – office, residential, civic and retail\(^\text{59}\). A lot of these were for government and civil service use but this was also significant as the public sector had become one of the major employers of white collar labor in the country.

In the country’s capital city of Lagos\(^\text{60}\), events like the World Black and African Festival of Arts and Culture in 1977 presented a chance for the country to showcase its new sense of unity and African pride: It spawned the creation of new towns such as FESTAC\(^\text{61}\) town

\(^{57}\) “Ibadan Travel Guide” World 66 <http://www.world66.com/africa/nigeria/ibadan>

\(^{58}\) “History of Nigeria” Wikipedia

\(^{59}\) The most ubiquitous retail form wasthe open air market which were built by the government in every major urban center.

\(^{60}\) Lagos was the country’s capital till 1991 when Abuja took over.

\(^{61}\) FESTAC – Acronym for Festival of Arts and Culture
- a 1770 hectare development with residential, retail and recreational uses\textsuperscript{62} - in addition to civic facilities like the national arts theater complex. The Lagos trade fair complex was also developed by the government to host the first international trade fair in 1981.

The most far reaching example of these government efforts was embodied in the central program of the government of the second republic of 1979 which set out to develop housing - usually in the form of new towns - for the Nigerian people all around the country\textsuperscript{63}. This primary focus was on affordable or low cost housing.

The various Public Land Acquisition Acts and the eventual Land Use Act (1978) helped facilitate these developments, allowing the government to assemble large tracts of land where necessary. These were often times collaborations between the Federal and State governments – the land Festac Town as contributed by the Lagos state government and improvements provided by the Federal government. The military nature of the government no doubt helped streamline these collaborations.

Equally important in facilitating these developments where the country’s good fortune in the oil markets, which generated surplus oil revenues for the government and afforded it the funds to execute the costly ventures.

Against all this the activities of the private sector paled in comparison. The risks of undertaking developments of any substantial scale proved too high with the overarching power and control of the governments with regards to land matters\textsuperscript{64}.

\textit{Failure and drawbacks}

Despite the somewhat laudable intents of the public sector in the provision of real estate, the efforts soon proved unsustainable. Some of this might be attributed to the corruption generally associated with the governments of the period. There were however more

\textsuperscript{62} “The Socio-cultural and Economic Life of Festac Town” Emeka Esogbue, April 2008

\textsuperscript{63} With an emphasis on affordable and low cost housing

\textsuperscript{64} “Key Constraints to Real Estate Development in Nigeria” Babalakin \& Co., 2004
fundamental issues such as poor fiscal planning which coupled with declines in oil revenues - now the primary source of income for the country – in the early 1980’s, meant that the government didn’t have as much money to spend in the furtherance of its plans. This saw a deceleration in the rate of real estate provision – housing being the most obviously affected.

Another aspect of the public sector provision of real estate that made it unsustainable was that of property or asset management. The civic and social impetus that drove a lot of the development made them inherently unsustainable as they were not conceived as for profit developments. For instance FESTAC 77 and its associated developments were widely considered to be a financial disaster for the government despite their civic and cultural success. The management of these properties at the asset and property level was almost non-existent and where present, was understandably not very effective as such management was not the core competency of government officials. The consequence of this was continued degradation of the existing stock of public sector developed real estate – housing, retail, civic, recreational and otherwise - as a lack of maintenance, upkeep and proper positioning befell them.

Despite these set-backs in the public provision of real estate, the participation of the governments have continued albeit on a less grandiose scale and with less of a socialist agenda. Government bodies, such as the Federal housing Authority (FHA) at the federal level and the Lagos State Development and Property Company (LSDPC) and the Abuja Investment and Property Development Company (AIPDC) at the State and Capital Territory level respectively, continue to develop real estate product: the focus now more on market driven terms as the residences and retails centers are marketed to those who can afford them. Issues of property and asset management expertise still persist though with even these new developments showing gross signs of under-maintenance after short periods of time.

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66 “The Rise and Fall of FESTAC Town” Adeola Aderounmu, 8 November 2007
The effect of this public strategy has been an under-supply of real estate product and related facilities throughout the country. A glaring instance of this is the case of the 1979 Lagos state master plan which was prepared with the assistance of the United Nations Development Program (UNDP) to address the challenges of the fast growing city, including housing provision and the expansion of economic activity centers. The plan analyzed the housing needs of Lagos to be 1.4 million additional units between 1980 and 2000: Only about 10% of this housing stock provision had been met when the plan expired in 2000. The other aspects of the plan, though unquantified, also experienced the same level of disservice.

4.3 Continued Public Sector Influence

The Land Use Act is still in effect today, bestowing upon current democratic governments tremendous influence on the development of real estate in their regions. This influence does not, preclude the private development of real estate. All land is not owned by the government; just vested in it. Individuals are allowed to own the rights to occupy land through a Certificate of Occupancy (C of O), and this C of O can be traded to third parties. The C of O however has restrictions placed on it, which include the type of development that can be made on the land. There are also free hold interests in land but these are typically held by the families of the original settlers of a region and the sale of these interests require the formal consent of the governor of the state.

There have been many cries for the repeal of the Land Use Act by various constituencies. In a recent conference in the country’s capital, the Lagos State Governor Mr. Babatunde Raji Fashola, while chairing a session on Land use reform as a catalyst for Residential and Commercial Mortgage Growth, commented that a repeal of the Act is not so much the case as is a better administration and implementation of its tenets. He stated that while he was a strong advocate for the unlocking of the wealth potentials inherent in Land and its transactions, the government still had a role in monitoring and regulating its use and

development; declaring that this was not an altogether alien concept, having been practiced since pre-colonial times in the northern region of the country under the land tenure system.\textsuperscript{69}

Given this general outlook by the government and its officials, towards unlocking the wealth creating potentials of land – which invariably translates to real estate – there is an opportunity to translate the inherited public sector influence to value creating transactions involving the now interested private sector investor.

\textsuperscript{68} Interview with Mrs. Funmi Roberts (Principal, Funmi Roberts & Co., Legal Practitioners)
\textsuperscript{69} To his credit, the Governor's current administration has implemented a number of land administration reforms that have begun to ease land transaction processes.
CHAPTER V: REAL ESTATE INVESTMENT OPPORTUNITIES THROUGH THE PUBLIC SECTOR

In this chapter, an evaluation will be made of the opportunities afforded the private investor – foreign and domestic - through transactions with the public sector. It will involve an examination of the motives behind the different types of transactions and a study of cases that point to the pros and cons of such transactions to the private investor.

5.1 Opening up to Private Investors

The inefficiencies of the public sector provision of real estate in Nigeria has not been lost on recent governments and administration. There has been, in the last few years especially since the return to democratic rule, a general sentiment within the government that the systems of old, where it was the responsibility of the public sector to supply real estate, have failed to do just that. The National Housing policy of 2002, reviewing the results of previous policies, made a candid declaration that the effect of the National Housing Program on the overall housing market was negligible.\textsuperscript{70}

To their credit however, these governments, at both the federal and state levels have begun active campaigns to try and encourage the involvement of the private sector in the provision of real estate. Their historical participation means that they still have substantial influence in the market which might prove valuable to the private real estate investor.

With the economy projected to continue growth and the effect this has on raising the already high demand for quality real estate products, an analysis will now be made of the opportunities presented by the public sector to the real estate investor - domestic and international – in meeting this demand.

\textsuperscript{70} “A Place to live: a case study of the Ijora-Badia community in Lagos, Nigeria” Felix C. Morka, 2007
For the purpose of this analysis, these opportunities will be divided into two categories: Privatization opportunities and Public/Private partnership opportunities.

5.2 Opportunities through Privatization

Privatization here refers to the direct sale of existing publicly owned assets, the sale of rights to existing publicly owned assets, or the partial sale of shares in existing publically owned assets.

The large amounts of development that occurred in the prosperous ‘70’s and the subsequent neglect and lack of maintenance that has been characteristic since the economic downturn of the 80’s, has resulted in a fair amount of government owned real estate that are underutilized, in disrepair and have become burdensome to the government. Other factors such as the movement of the country’s capital from Lagos to Abuja in 1991, left substantial amounts of federally owned real estate assets underutilized in Lagos.

5.21 Leasehold Interest sales

Like with a lot of other sectors, the Federal government, began and continues an active campaign to reduce its underutilized real estate holdings. Some prominent transactions that have already taken place under this category include the sale of the lease hold interests\(^\text{71}\) in the following properties for redevelopment: the 1004 estate – a residential complex of 1004 units and ancillary facilities in Lagos, originally conceived to accommodate federal civil servants – sold to UACN Property Development Company for N7billion ($58.3million\(^\text{72}\)); the Federal secretariat complex – former office complex of federal ministries, comprising two 13 storey buildings, now to be converted to luxury residences – sold to Resort International Limited for N7billion ($58.3million).

The 1004 estate redevelopment (the largest high-rise residential development in the country), even though still under construction, has been completely sold out for prices

\(^{71}\) 99 years as is customary. With options for renewal
ranging from N20million ($166,666) - for the 2 bedroom units - to N30million ($250,000) - for the 4 bedroom units. With no financing options for the buyers, 100% of the sales prices will have been paid upon completion and handover of the units.

EXHIBIT 1. 1004 estate development, Lagos

![Before redevelopment](image1)
![After redevelopment](image2)

Source: Nigerian Tribune newspaper

EXHIBIT 2. Federal Secretariat Building, Lagos

Source: Nigerian Tribune newspaper

5.22 Concessions

A slight variation on the above mentioned transaction structure is the leasing of the publicly owned asset. This transaction type has been used for those assets that are of a more symbolic nature, usually with a public program. The rationale for this is thus

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72 Approximate using an exchange rate of 120 naira to the dollar
evident as the Federal government seeks to retain an interest in these assets as a public heritage. Examples of some of these transactions include the proposed leasing of the National Arts Theater, the International Trade Fair Complex and the Tafawa Balewa Square (TBS) Complex; all of these, relics of the glory days of the 70’s.

The lease transactions still allow for significant improvements on the property, subject to governments approval. In fact in most of the cases, the bids for the leases involve design proposals in addition to the financial bids. The TBS complex lease, for example, was bid for and won by BHS International for N9.5billion ($79.2million). Originally built in 1972, the complex was primarily a parade ground replete with monumental statues and spectator stands with a capacity of about 50,000 people when full. Flanking the parade ground were spaces for retail and commercial activities. There was also a significant amount of undeveloped land attached to the complex. The new 25 year lease on the property will see its redevelopment of into a new city hub. It will include, amongst others, a 5000-seater convention centre, several conference halls, 5 star hotel, 10,000 space car parking, shopping mall, office space/ Business Park and 200 luxury apartments\(^7\). Development costs for the redevelopment are estimated at about N45billion ($375million) by the developers.

**EXHIBIT 3. Tafawa Balewa Square, Lagos**

5.23 Sale of real estate operating companies

Another transaction type that presents a real estate opportunity to investors is that of buying into government owned real estate operating companies. There are a number of these real estate companies operating at the federal and state levels. There hasn’t been as much activity in this arena but as the industry begins to get more competitive the need for greater expertise and financing will make the participation of private investors a necessity. Despite the inactivity in this area there are a few indirect indicators of the potential.

Wemabod Estates Limited is not the conventional government owned real estate operating company. It is owned by a collection of the different state governments of the southwestern region of Nigeria which do not currently have any formal collective jurisdiction or affiliation. The company has its origins in the old western region government of the colonial era and has evolved over time to become the one of the largest owners of real estate in the country. It has however fallen under the same issues of inefficiency faced by other government owned real estate assets and acknowledging this, the management of the firm is in a process of divesting up to 51 percent of its holdings to interested core investors.

Transactions for portions of the portfolio, which is made up of commercial hospitality and residential assets and is estimated at about N20billion ($166million), have already been made. These include 51 per cent interests in their Lagos Airport Hotel, in Lagos and the Premier Hotel in Ibadan by Lionstone Capital Partners. This deal also involves a hotel management contract by Golden Tulip West Africa, and a redevelopment contract to be carried out by Lionstone Real Estate. Golden Tulip West Africa and Lionstone Real Estate are both affiliates of Lionstone Capital Partners. This example thus presents the classic case for the participation of the private sector: The provision of Finance and expertise.
5.3 Evaluation of the Privatization opportunity

A common theme that binds all these privatization transactions and potentials mentioned above is that they all stem from a motivation to effectively maximize the value of existing assets across different geographies and locations: the government as portfolio manager.

Whether in the case of the disposition of assets by the Federal government, or the dilution of share interests in operating companies by a collective group of state governments, neither have significant interests beyond the assets themselves: They are not responsible for the areas in which these assets are situated. In this sense the transactions are very similar to typical real estate transactions; the buying and selling of real estate assets without an obligation to serve a public interest\textsuperscript{75}.

5.3.1 Pros

*Prime real estate in constrained areas*

Privatization of government owned real estate assets presents an attractive investment opportunity for a number of reasons. Primary among these is the prime location of the real estate assets.

\textsuperscript{74} See page 40 for operating companies of this paper for examples of operating companies.

\textsuperscript{75} Except that the funds generated are accrued to government revenues which indirectly get spent on the public.
Most of the assets were developed to facilitate the government’s activities, and thus using the land use act, involved the compulsory acquisition of large tracts of land. Over time, and partly due to the investments in these government developments – in terms of infrastructure – these areas evolved to become the highbrow areas of the city. The Government Residential Areas (GRAs) of Ikoyi and Victoria Island (VI) in Lagos for instance, served as communities for the British in the early 20th century of colonial rule, and to high ranking officials of the Federal republic after independence. These areas and their immediate environs thus evolved into the choice locations of the city with the highest land values.

A lot of the assets offered in the privatization thus give access to a very limited supply of prime real estate – at times, in assemblages that are near impossible to get by private acquisition.

*Single bottom line transactions*

The privatization opportunity also presents to the investor fairly simple transactions that do not require prolonged relationships with the government. The deals can thus be strictly business with a focus on a single bottom line of profit. The investor is thus getting the advantages of government asset without the burdens of a public interest agenda.

*Shorter investment periods and the value add strategy*

In any investment, the parameter of time plays a very important role in determining the returns on an investment, and hence the value of the deal: The concept of opportunity cost of capital and the time value of money are thus central to transaction valuations.

In emerging markets, time represents an even more important variable; with investors looking for the quickest way to get in and out of transactions. In his class on “Real Estate options in emerging Markets”, Prof. Nicolas P. Retsinas of the Harvard Business School suggests that, to the emerging real estate market investor, a metric that simply

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76 Before independence
77 Mr. Retsinas is a Lecturer in Housing Studies at the Graduate School of Design and the Kennedy School of Government, and is also a Lecturer in Real Estate at the Harvard Business School.
states the time it will take to earn back capital invested, is as important as the more conventional Net Present Value (NPV) and Internal Rate of Return (IRR) metrics. The Idea being that given the sometimes unquantifiable nature of the risks in these markets, the quicker an investment can be exited, the better the prospect of a profitable return.

Given this sentiment, Privatization presents a desirable opportunity. The presence of existing structures and the relatively simple transactions, contribute to a speedy delivery of the intended real estate product. At the other end, the value add strategy of the transaction - which involves buying assets that have become undervalued due to a lack of proper management – allows for considerable asset appreciation upon completion with exit options through sale, where possible.

5.32 Cons

Conflicts of Interest between different levels of government

The greatest challenge of the Privatization opportunity is directly linked to its greatest pro. The large scales of some these redevelopments mean that they represent a significant impact to the urban landscape beyond their property lines and this cause for concern to the state governments in whose territories the properties fall. This represents a conflict of interests between the State governments, and the Federal government, who are concerned only with the individual properties; and this conflict has been tangibly manifested in a couple of the cases.

The state governments, recognizing the impacts of these developments, have expressed their concern at not being involved in the transactions. Having the power of building approval and other statutory rights regarding land and development, they have been able to halt a number of the cases. The 1004 estate redevelopment is one such case, even though it has since been given the go ahead following negotiations between the private sector promoters and the state government.
The point to be made here is that even though, the projects are government sponsored of a sort, and do offer some benefit in that respect, they do not necessarily have the inherent backing of local authorities in whose hands development approvals lie.

**Pending land claims**

On a slightly lesser note and of a more temporal nature, there are certain legal issues being challenged by constituents of the states where these re-developments are, and this represents a growing risk. Their arguments which are yet to be formally presented to the judiciary, are concerning the terms of land use act, which allowed the properties to be appropriated for government use: Now that these properties are of no use to the government they argue that they should be returned to the state – and indirectly the people of the state – to do with as they see fit.

Chief among the proponents for this claim are the Oba of Lagos, Oba Rilwan Akiolu, who is quoted in the press as gathering up “other royal fathers and eminent persons to follow it up lawfully with the President”\(^78\). The outcome of these dealings is yet to be seen.

### 5.4 Opportunities through Public Private Partnerships

With the continued growth potentials of the country’s economy, state governments all over the country have are committed to attracting as much investment as possible – foreign and otherwise - to their municipalities. There is an increased awareness of the state as enterprise, with revenues and expenditures; with possibilities of growth and prosperity; and also possibilities of failure and bankruptcy\(^79\).

\(^{78}\) “Federal Secretariat Complex controversy: Due process was followed – Investor” *Dayo Ayeyemi, Nigerian Tribune*, 20 September 2007

\(^{79}\) The latter witnessed in even the most developed of countries such as the USA, where cities have been seen to fail under economic duress.
Attracting investments to their regions is a multifaceted task for these governments, and include such interventions as tax incentives and enabling policies and environments. The government of Kwara state - in the southwest – for instance, has gone as far as to solicit the services of international rating agency, Fitch Ratings, and has since received a national long term rating of AA-: A reflection of the state’s efforts at economic reform and potential for growth (especially in the area of agriculture) despite its current low GDP.80

The state governments of the three major cities - Lagos state for the city of Lagos, the Federal Capital Territory for the city of Abuja and Rivers State for the city of Port-Harcourt – are on the forefront of these foreign capital attraction campaigns, being the present business gateways into the country. In addition to improved business environments and policies, a substantial amount of the agendas for these governments, include very bold physical development plans in their major cities; reinventing and upgrading them to international standards, able to compete with other world cities around the world. These physical developments will serve not only as advertisements of the livability and friendliness of the cities, but also present investment opportunities in these fast growing cities.

5.41 Real Estate, Infrastructure and Economic development

Included in these city-wide physical developments will invariably be the provision of public goods and services (roads, power, civic facilities/buildings etc.), as the ultimate goal of the government is to improve the livelihood of its constituents. As such the potential investment opportunities in this category, will tend to look, less like traditional real estate, and are more like, that yet to be named entity that is the fusion of real estate, infrastructure and economic development.

This fusion is of course not new. Even in the developed markets of the world, the use of public private partnerships in the provision of real estate, infrastructure and economic development is wide spread. Initiatives such as Transit Oriented Developments (TODs)

80 “Nigeria: Kwara State Rated AA-(minus) by Fitch” This Day Newspaper, 18 April 2008
and the creation of Economic Development Zones (EDZs) within city master plans have been widely used.

It is, however, not misleading to say that these types of initiatives are more critical in emerging markets. Real estate does not exist in a bubble – physically or otherwise - and there have always been ties between real estate development, the development of the region’s economy and the provision of infrastructure. The gradual growth and urbanization of the more developed markets of the world afforded a more steady and organic growth to the major cities. Invariably, this allowed the three factors to evolve relatively independent of each other: where the presence of infrastructure would spur real estate development and then result in economic growth.

The explosive growth in the emerging markets of today, however, requires that the evolution of these three factors be at a faster rate than it was in the case of the more developed markets. Ultimately, the need to fast track the provision of these factors – real estate, infrastructure and economic development -to meet and take advantage of growing demand, results in overlaps and an interconnectedness – sometimes physically - between them.

Real Estate, Infrastructure and economic development in other Emerging Markets

Other emerging markets have begun to experience the same trends. In India, the development strategy of Trikona Trinity Capital (TTC), one of the largest owner/developers of real estate in India, includes this melding of real estate, infrastructure and invariably an economic development agenda. The firm in 2007 was developing 25 million sqft of commercial space in India, to include office, hospitality and residential developments. This was coupled with its infrastructure development, responsible for about 2,500km of roadway in the country, which in many cases was

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81 Urbanization statistics for major cities around the world …
82 This difference in evolution patterns is between emerging and developed markets is not shocking given the different circumstances under which the two evolve. In fact in the Goldman Sachs white paper “BRICS AND BEYOND” it is projected that the evolution of the Next Eleven (N-11) countries will be markedly different from the BRIC countries, in terms of the speed and rate of development.
83 Making them one of the largest road owners in the country
integral to the real estate development, and in partnership with local governments. Trikona also includes such developments as hospitals and schools on its infrastructure platform. “It (infrastructure) is what you need” says Aashish Kalra, Managing Director and Co-founder of Trikona Capital, referring to the necessity of roads, hospitals, schools, etc, to make the towns, cities and the country work. The value of the real estate is enhanced by the presence of these infrastructure. “It’s like an ecosystem….it all works together……you need to provide these infrastructure….they (currently) do not exist.”

The firm is also involved with urban rejuvenation projects and slum rehabilitation: A for profit venture that also empowers local communities and aids economic development.

The pressing infrastructure needs of an emerging market like India however do not come close to those of Nigeria. For instance India has a road network density of about 1200km per 1000sqkm of land as compared to Nigeria’s 212km per the same land area. If there is an argument for the incorporation of infrastructure development and real estate in India, the argument is that much stronger for a place like Nigeria. The presence of slums and areas in need of rejuvenation is also widespread in the country.

5.42 PPP and Real Estate Development In Nigeria’s major cities
The combination of these pressing needs, the desire of the government to address these needs with the assistance of the private sector, and the growing interest of private investors in response to potential demand, the Country’s three major cities have presented opportunities for Public private partnerships in the development of real estate.

5.421 Real Estate PPP in Lagos
In Lagos state, these opportunities can be summed up in the Lagos Megacity Project; essentially a holistic vision and manifesto for the entire state of Lagos - which is more or less a giant metropolis. The motive of this vision as an attraction for foreign investments is evidenced in the unveiling of this project at the Sept. 2007 conference “Nigeria meets the world” in New York by the State Governor, among other distinguished panelists as the Nigerian Head of State, President Musa Yaradua, and to a crowd of international

84 Aashish Kalra interview with Kamla Bhatt at the TiE conference in New York, May 11 2007
investors and developers  The city wide project is envisioned as a master plan development which will incorporate substantial amounts of new development in currently undeveloped areas, significant upgrades in existing urban areas and the adequate integration of these different districts to make for a cohesive whole able to cater for the needs of the third largest mega city in the world in the year 2015.

The government has identified broad areas of priority within this master plan for private sector participation and some interested parties have already begun the execution of the transactions.

*Missing Link Motorway Development*

A prime example of this is the fourth mainland bridge project, which was among the priorities for the Lagos state government in its new Lagos master -plan. After failed attempts by the government, over the last couple of decades, to provide a fourth bridge linking the lands to the south of the lagoon to the north, proposals were solicited from the private sector to meet the need. The concession was finally awarded to Missing Link Motorway Development Company (MLMDC), a special purpose vehicle wholly owned by the Lionstone Group. The company proposed the provision of a 7km road on reclaimed land - rather than an actual bridge over the entire span, which would be prohibitively expensive. Flanking the road would be developable land totaling 120 hectares, envisioned for a mix of uses including recreational, residential, commercial, retail and civic uses.

Agreements have been signed between the government and the developer: All costs are to be borne by the developer, guaranteeing the provision of the road to the government free of tolls, in exchange for the rights to develop the reclaimed land. The agreement also included concessions by the government, for another 800 hectares of land on both sides of the Lagoon for 99 years. Consultants have been appointed and include world renowned and Pritzker prizewinning architect and urban designer Rem Koolhas and the Office of Metropolitan Architecture (OMA) - a testament to the world class aspirations of the development.
The entire development is thus to serve as a new hub for the city and is an example of that fusion between real estate infrastructure and economic development that is necessary for these opportunities.

**EXHIBIT 5. Missing Link Motorway Development**

Preliminary Concept Design by Arabella ltd. and Mindseye ltd.

*Source: Missing Link Motorway Development Company*

**Lagos Energy City Development**

Another example in Lagos is the Lagos Energy City, a 670 hectare new town development on the outskirts of the current metropolis towards the western Badagry border. The development, promoted by a consortium of Asian and Nigerian firms collectively known as Supra Energy and Power City Limited, is envisioned as a new hub for the oil and gas industry and hence the name. Another feature that contributes to its designation as an Energy city is the provision for a 130mega watt Independent Power Plant (IPP), providing all the energy needs for the entire development. The new town will accommodate office, residential and recreational uses and is to include a convention center, two five star hotels – one of which is to be managed Marriot hotels -, an international school and ample green space and open parks.

The entire development is estimated to cost about N216 billion ($1.8billion) and is to be funded through equity raised by the consortium. The land is contributed by the state
government with the approval of local communities who were involved from the start and represented in the signed concession agreement. For this contribution the state is slated to get the benefits of increased investments primarily in the form of taxes - real estate and corporate -- as the new attracts the oil and gas industry and its related service companies. It is also estimated that the development will create about 2000 jobs for indigenes of the surrounding Badagry community. In the larger scheme of things, the development is to tie into the proposed 10 lane expansion of the Badagry express way, connecting it to the Border and the rest of West Africa beyond: The road project is however a separate arrangement for the state.

EXHIBIT 6. Lagos Energy city

Proposed site plan

Source: Lagos Energy City Website
5.422 Real Estate PPP in Abuja

There are similar plans for the city of Abuja in the Federal Capital Territory (FCT). Owing to its origins as a master planned city, Abuja is widely regarded as the most organized city in the country. Despite this status it has over the years fallen short of its intended potential as development strayed away from the Kenzo Tange designed masterplan. The present administration has however made it a top priority to revert to the ideologies of the masterplan in the creation of a truly model city for the country. In the administrations manifesto “Giving Abuja a Character” intentions are stated for the re-engineering of the city within a decade\(^85\). There is an emphasis on the development of the city’s Central Business District and thus transform the historical image of a civil-service city to a more cosmopolitan one.

As part of its effort at reinforcing this cosmopolitan, model city image, the city was also in the running to host the 2014 Commonwealth games, and was one of two bid finalists. The bid however went to Glasgow in Scotland in November of 2007 but this has not deterred the administrations drive for a rejuvenated Abuja city.

*Abuja Boulevard Project*

The flagship project in the FCT’s campaign for Abuja as a model city is the Abuja Boulevard Project in the city’s central business district. The project, which will be anchored by a new 6.5km boulevard, will also include 300 developable plots on both sides. The estimated costs for the development are put at N50billion ($417million) and arrangements have been concluded with a consortium of private sector participants yet to be named.

The development is envisioned being the heart of the Central Business District, providing a mix of uses to include, retail, leisure and commercial activities; Analogies have been made to the Champs Elysees in Paris and Oxford street in London.

\(^85\) “Giving Abuja a Character” Federal Capital Territory Website, 2008

**Maitama Amusement Park**

The FCT is also committed to the development and re-development of a number of parks and recreational facilities in the capital city. The Maitama Amusement Park is one of the first products of this initiative: An 18 hectare development estimated to cost N5.6 billion ($46 million) in two phases. The deal is structured as a partnership with the FCT government – with the land contributed in a concession agreement.

The project’s private sector promoters disclosed that the development will provide more than five hundred new jobs for the city, while providing well maintained green spaces in line with the city’s “model city” vision.

**5.423 Real Estate PPP in Port-Harcourt**

The government of Rivers State has also announced its plans for the comprehensive development of the city of Port-Harcourt and has begun taking steps to see it through. The plans are set to take advantage of the city’s historical designation as the “Garden City of Nigeria”, by incorporating a significant tourism agenda: This is in addition to its uncontested role as the center of activities for the oil producing southern region of the country. Like with the opportunity in Lagos, the plan is to include upgrades and redevelopment within the existing city fabric as well as the creation of new areas and extensions beyond present city boundaries.

**Silverbird Recreation Park**

The Silverbird Group, a Nigerian firm that has its roots in the entertainment and media sector, has entered into a joint venture with the State government to develop a recreation park in the heart of the city. The promoters, who are responsible for the first modern Cineplex in the country\(^{86}\) - the Silverbird Galleria in Lagos – propose to develop the site to include a 10-screen cinema, shopping mall, five-star hotel, international conference centre and children’s theme park.

\(^{86}\) Construction is also underway on a galleria in Abuja and Port Harcourt.
The development is estimated to cost about N20billion ($167million), excluding the land which is contributed by the government for a 20% equity stake in the venture. All the financing is to be sourced by the promoters with debt financing being provided by a two prominent local banks\textsuperscript{87}.

The site for the project has historical significance as the hub of the city’s cultural activities having been home to the city’s now dysfunctional cultural center and park\textsuperscript{88}. The new development is thus planned to renew the vibrancy of the area, injecting new life into the heart of the city.

*New Rainbow Town*

The New Rainbow town project is residential and office park development on a green field site just outside the city. The development is billed to cost about N50billion ($417million) and will consist of 17 office buildings and 750 residential units on 24 hectares of land. The project is a partnership between the state government and the private sector promoters, First Bank Nigeria Plc - one of the top five banks in the country:

### 5.5 Evaluation of PPP opportunity.

In contrast to the Privatization opportunities, PPP opportunities are intrinsically motivated to cater to a public interest, while soliciting the participation of the profit motivated private sector. The perspective here is that of developing the entire city as a single asset; increasing the value of the city as a whole. The governments in this case – invariably state governments – are seen to act more like master developers of the city as a singular asset, as opposed to the portfolio manager profile of governments involved in privatization.

\textsuperscript{87} Union bank and Oceanic Bank.

\textsuperscript{88} Obi Wali cultural center and Isaac Boro Park.
A worthy point of note is the role of the private sector as initiator in a lot of the case examples. Especially in Lagos and Port-Harcourt, the opportunities are unearthed, in most of the cases, by the initiative of the private sector promoters: The government then being responsive to these initiatives where judged to provide benefits to the state as well. Even in cases like the fourth mainland link road in Lagos, where there was a direct need presented by the government, the real estate opportunity was unearthed through the initiative of the project promoter. The PPP model in these cities in thus such that the private sector generates proposals based on the government’s broad goals and then presents these to the government for approval.

Abuja presents a slightly different scenario. As the purpose built capital city and home to the seat of the Federal government, the government is taking a more active role in determining what developments take place: This is facilitated by the cities original Master plan which is probably the most comprehensive of its kind in the country. The initiatives of the PPP developments thus lie more with the FCT government as opposed to the private sector participants: The government generates the conceptual proposals for the development and then solicits the participation of the Private sector in executing and financing them.

5.51 Pros

*Uninhibited government support*

The most obvious and attractive feature of the Public private partnership opportunity, is the unfeigned and total support of the state government and hence all local authorities. This support is in real equity in the form of Land, as well as in kind, with assistance in the approval process. With the state as partner, all the necessary approvals are all but guaranteed, reducing significantly the risks of entitlement and approvals.

The state governments also contribute in the area of garnering the support of local constituencies and traditional rulers in whose communities these developments will spring up. This helps to ensure that, as much as possible, all affected parties and stakeholders are in agreement; as in the case of the energy city where community heads
and leaders of youth groups were consulted by the state government before the land was allocated and the concession agreement signed. With such due diligence taken in the process, the State Governor, Babatunde Raji Fasola, has reiterated in the press that no claims to land title made thereafter by local constituents will be tolerated by the government, as they were involved in the agreement and duly welcomed the development.

Economies of Large Scale Developments

Another pro for the PPP opportunity is an offshoot of the first. The involvement and support of the state government in land allocation and otherwise, allows for developments of a very large scale; manifesting in some cases the as new towns. The advantage of this is the creation of entirely new environments with their own infrastructure and support facilities, and this contributes to an increased value for the entire development – where the whole is larger than the sum of the parts. As in the case of the Lagos energy city, where the scale of the entire developments allows for the feasible development of an independent power producing station that is set to provide uninterrupted power supply to the new town – a prospect that is alien to the greater city at large.

5.52 Cons

Long gestation period

The most significant con of the PPP is the amount of time and effort put into due diligence long before there are any guarantees of a project. The infancy of these types of transactions means that the procedures for their evaluation and approval, by the state governments, are still on an ad-hoc basis. Whereas in more developed countries where the PPP system is used, a fair amount of the research on proposed developments is done by the public sector participants – estimating in a fair amount of detail, the needs requirements of the project –, in these cases the private sector has been responsible for most of the due diligence and then presenting their findings and proposals to the government for approval. This of course is a costly venture, in time and money, and with

89 Interview with Mrs. Funmi Roberts (Principal, Funmi Roberts & Co., Legal Practitioners)
very little in the form of formal guidelines, the proposals run the risk of being shots in the dark.

Some attempts have however been made on the governments part to address this; these include the establishment by law of the State roads, bridges and highway infrastructure (Private Sector Participation) Development Board in 2004. This statutory board is to be responsible for granting concessions for projects, and is supposed to perform some of the aforementioned due diligence on road infrastructure PPPs, on behalf of the government. This Board has since granted two major road concessions, one of which is the fourth mainland bridge development. However as at the time of this research the Board is still only made up of two members, and most of the due diligence on the signed concessions so far were done by the private participants.\textsuperscript{90}

\textit{Complicated Transaction and Execution}  
Compounding the ad-hoc nature of the transactions is the involvement of a variety of different stake holders which makes the transactions more complex. The all encompassing and holistic nature of the interventions usually mean that they fall under the jurisdiction of a number of Ministries and Parastatals within the government. Even though these different entities are all in support and fully co-operate, managing the different interests and regulations can be a challenge. It also goes without saying that the more 'moving parts’ there are in a transaction the more susceptible it is to faults and hiccups. Some of the ministries involved in the PPP transactions have and may include; the Ministry of Housing, the Ministry of Physical Planning and Urban Development, the Ministry of Works and Infrastructure, and the Ministry of Transportation, amongst others.

\textsuperscript{90} From an interview with Engr. Tokunbo Oyenuga fo the Lagos Private Sector Participation Roads Board
CHAPTER VI - CONCLUSION

Public sector vs. Private sector
This study has been an evaluation of the real estate investment opportunities in Nigeria’s emerging markets through the public sector. The study does not in any way aim to suggest that the public sector is the only avenue to real estate opportunity in the country, as this is clearly not the case; but rather to show that given the country’s origins and development, the public sector is in a very good position to provide a significant amount of real estate opportunity and deal flow.

Emerging Submarkets within an Emerging Market
The study focused on the primary real estate markets of Lagos, Abuja and Port-Harcourt which are already observed to show significant signs of real estate opportunity. The “Emerging Nigeria” however goes beyond these markets. It can be assumed that if the country continues on its course towards economic development –the “dream” – that the growth story will spill over to other cities in the country. If this happens, the model of opportunities presented in these studies, especially the Public Private Partnership model, may even be more paramount to these cities’ developments, as they present greater needs for infrastructure and economic development.

Opportunity and risk
Like any other type of investment, real estate is an inherently risky venture, with its own peculiar risks. These include such risks as, entitlement and approval risk, market or lease up risk, execution risk, financing risk amongst others. In emerging markets these risks are compounded by the higher level risks of the country as a whole, such as currency risk and political risk.

The presence of opportunity in any market in no way means the absence of risk and this is certainly not the case in Nigeria as an emerging market. At the property level such risks as execution and financing present very significant risks even when issues such as approval and entitlement risk are covered by government partners. Indeed these two risks
were highlighted as probably the most important risks at the property level, in these markets. More so than others such as market risk – as the market is clearly held to be undersupplied. Execution risk is as a result of the dearth of development professionals in the land\textsuperscript{91} and Financing risk because of the very expensive debt that is available in the markets\textsuperscript{92}.

With real estate so dependent on the performance of the economy, it goes without saying that all the risks and uncertainties that are tied to the continued growth of the economy are layered on to the real estate opportunities. With opportunities presented by the Public sector – the government – this higher level of risk is brought even closer. Continued democracy and political stability are imperative to the success of the real estate opportunities presented by the public sector. There has to be a credible system of succession in the government that ensures that these transactions are sacrosanct and upheld by whatever administration is at the helm of affairs; especially as a lot of these projects will outlast the present administration. The reduction in the level of corruption within the public sector is also an imperative in these transactions. Transparency and accountability have to be present at all times to give credibility to the transactions.

Other important risk factors that are exogenous to the deals themselves - but affect the outcomes - include such issues as the unrest in the Niger Delta region of the country; this has heated up over the last year affecting the oil centered economy of the region and indeed the larger oil markets of the world.

It is, however, true that these issues are being attended to by the present governments: Progress has been recorded and there are strong signs that this will continue, ensuring a more prosperous future for the country. The point to be made however that is despite opportunity, there are risks involved in the prospects of that future; it is only prudent that the investor be aware.

\textsuperscript{91} Investors such as CARE looking to invest in real estate have had to handle their own developments as a result of this lack of professional developers to partner with required skill sets – From discussions with CARE Fund manager
\textsuperscript{92} Interest rates are in the 17-20\% range.
Qualifying and Quantifying

A qualification has been made of the opportunities presented in terms of their sources, the motivations behind them and overview of the deal structures. This gives an informed idea of what transactions may look like for the interested investor. To complete the picture however there is a need for the quantification of these opportunities.

Parameters such as the amount of real estate owned by the various governments are needed: The valuation of these properties: supply and demand data in these markets etc. The emerging nature of the markets means that, a lot of the information needs to come from primary data gathering and thus was beyond the scope of this paper. It would however be suitable for a more in depth study of these markets.
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INTERVIEWEES

Mr. Amaechi Ndili (CEO, Lionstone Group)

Mr. Dale Ramsden (Developer, Actis Capital)

Arc. Taiwo Adetunde Adedeji, (Permanent Secretary, Lagos State Ministry of Physical Planning and Urban Development)

Engr. Tokunbo Oyenuga (Assistant to the Executive Secretary, Lagos Private Sector Participation (PSP) Roads, Bridges and Highway Infrastructure Board)

Mrs. Funmi Roberts (Principal, Funmi Roberts & Co., Legal Practitioners)
APPENDIX

Satellite Maps of Major cities in Nigeria

Lagos

*Source: Google maps*

Port-Harcourt

*Source: Google maps*
Abuja

Source: Google maps