LAGOS RESIVISTA:

A FINANCIAL ODYSSEY IN MULTI-RESIDENTIAL REAL ESTATE

INTRODUCTION:

The following report conducts a thorough financial analysis of a multi-residential property situated in Lagos, Nigeria. The analysis encompasses critical aspects such as project financing, expenses, income projections, yield calculations, and discounted cash flow analysis over a 20-year timeline. Furthermore, it explores the contrasting impacts of financing and equity-backed approaches in Lagos State, with sensitivity analysis offering insights into their respective effects on project feasibility.

PROJECT INFORMATION:

- The multi-residential property comprises 60 units, with 6 units per floor.

- The average annual rent per unit, inclusive of annual service charge, stands at ₦8,500,000.

- Annual rent increases by 1%.

- Occupancy rate is estimated at 90%.

- A marketing budget of ₦1,000,000 is allocated annually, decreasing by 25% each year.

- Maintenance and repairs costs per unit per year are ₦50,000.

- Annual insurance cost amounts to ₦1,000,000.

- Property taxes are ₦800,000 per year.

- The loan amount for the project is ₦2,000,000,000, with an annual interest rate of 21%, and a term of 20 years.

- Land cost and size are ₦2,000,000,000 and 2090 sqm, respectively.

- Construction cost per sqm is ₦220,000, with a construction area per floor of 1152 sqm and 10 floors.

EXPENSES ANALYSIS:

- The total acquisition cost, including land and construction expenses, is ₦4,534,400,000 for both financing approaches.

- Annual operating expenses per unit, encompassing maintenance and running costs, are ₦3,000,000, reflecting the property's fully serviced nature.

- Marketing expenses are managed efficiently to ensure effective property promotion.

- Yearly operating costs are meticulously calculated, considering loan payments and operating expenses, revealing significant disparities between financing methods.

INCOME PROJECTIONS:

- Despite identical rental income projections, the analysis indicates marked differences in annual cash flows and financial metrics between financing methods.

- For the financed approach, the Net Present Value (NPV) plunges to -₦4,362,308,757.63, with a negative IRR of -13.28%, indicating the project's failure to generate positive returns.

- Conversely, the equity-backed approach yields a positive NPV of ₦4,737,400,000 and an IRR of 8.05%, signifying a lucrative investment opportunity.

DISCOUNTED CASH FLOW ANALYSIS:

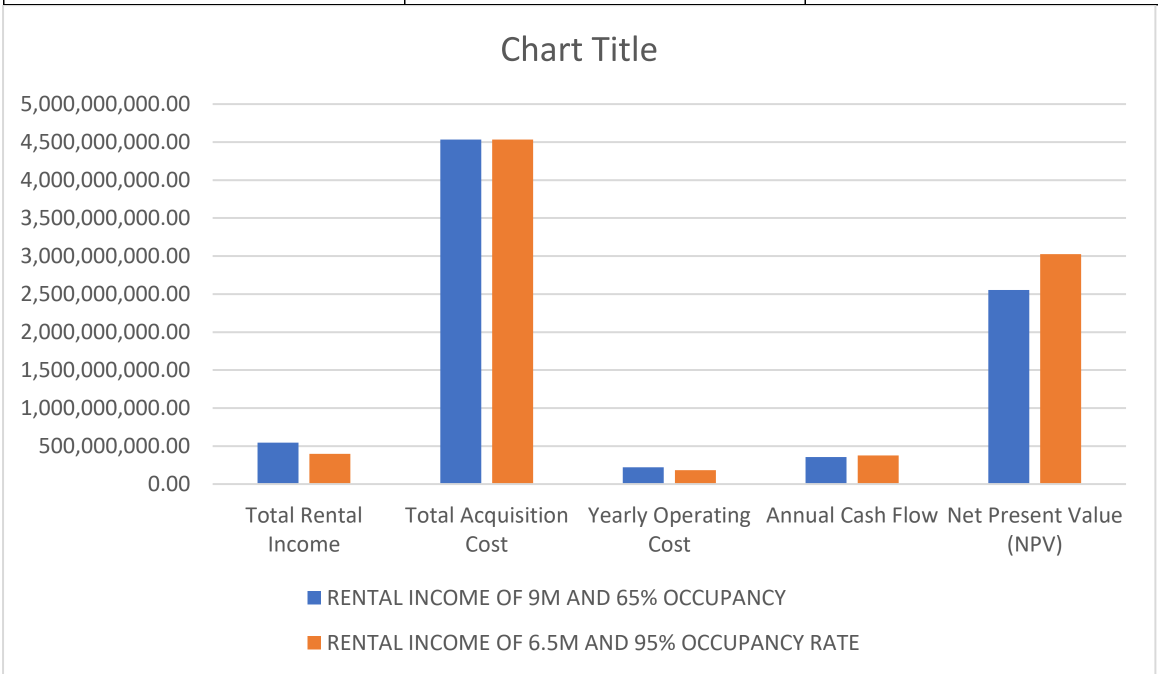
- The discounted cash flow analysis over 20 years, with a 13% discount rate, underscores the inherent risks associated with financing, resulting in negative NPV and IRR.

- Sensitivity analysis demonstrates the critical importance of funding strategies, with the equity-only approach presenting significantly higher yields compared to the financed option.

SENSITIVITY ANALYSIS:

In assessing the robustness of the financial analysis, sensitivity analysis considers different rental rates and occupancy rates. Scenarios include a higher rental income of ₦9,000,000 with a lower occupancy rate of 65%, and a lower rental income of ₦6,500,000 with a higher occupancy rate of 95%. The results of these scenarios are detailed below:

	RENTAL INCOME OF 9M AND 65% OCCUPANCY	**RENTAL INCOME OF 6.5M AND 95% OCCUPANCY RATE**
Total Rental Income	545,400,000.00	397,800,000.00
Total Acquisition Cost	4,534,400,000.00	4,534,400,000.00
Yearly Operating Cost	219,300,000.00	185,300,000.00
Annual Cash Flow	354,510,000.00	377,910,000.00
Net Present Value (NPV)	2,555,800,000.00	3,023,800,000.00
Internal Rate of Return (IRR):	4.70%	5.45%
Yield:	93.82%	100.01%



CONCLUSION:

The financial analysis emphasizes the critical role of funding strategies in determining the success of multi-residential property projects in Lagos. While rental income projections remain consistent, the financed approach yields negative NPV and IRR, indicating financial instability. Conversely, the equity-backed approach offers positive returns, making it the preferred choice for investors seeking long-term profitability. Prudent financing decisions are paramount for navigating Lagos' real estate landscape, ensuring optimal returns and risk mitigation.