# New report notes 263% growth in Lagos short-let market following pandemic

According to Estate Intel's *Boom or bust? Lagos shortlet market overview*, the Lagos short-let market has grown by 263% over the past three years. This growth was mainly underpinned by rising demand for both long-stay and short-stay apartments in the wake of the pandemic.

Ikoyi, Lagos. By Reginald Bassey, CC BY-SA 4.0, Wikimedia Commons

Ikoyi, Victoria Island, Lekki Phase 1 and Ikeja have emerged as the top short-let hubs in Lagos. However, Lekki Phase 1 emerged as a stand-out performer maintaining considerably higher occupancy levels at 80% compared to the 60% and 70% levels recorded for Ikoyi and Victoria Island respectively.

While the pandemic accelerated the growth of the short-let market, Estate Intel notes that as a niche sector, it has been alluring to both operators and tenants for a number of reasons including the strong income profile it presents to investors and the ease of access to tenants.

## Backward correction of market

“The emergence of this niche is a deeply embedded trend in the Lagos residential market. It is essentially a backward correction of the market that is not accustomed to monthly rentals. As such, the sector has leveraged on the pent-up demand that was unserved by a rigid annual rental payment market. There simply has not been an option with such flexibility before,” explained Tilda Mwai, research and insights lead at Estate Intel.

Mwai further noted that in terms of returns, short-let operators have continued to enjoy return premiums of up to 200% due to the high daily rates compared to the annual rents in the mainstream residential sector, ultimately leading to an influx in short-let operators in the market.

However, the report further notes that while the market has seen unprecedented growth due to the pandemic, the return to normalcy has seen the sector prone to the seasonal nature of demand as well as other external influences such as inflation, market oversupply and rising diesel prices.

Diesel prices, for example, have had a direct impact on the short-let market, impacting on overall returns for investors and affordability for tenants. Estate Intel’s interaction with market players indicates that the increase in diesel prices are likely to erode the high return premium by up to 117% due to the additional monthly cost of diesel incurred.


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## Looming market oversupply

Additionally, a looming market oversupply is forcing market operators to rethink their service offering. With approximately 1,975 units of ‘short-let’ type build expected to come on to the market, Estate Intel notes that this is likely to exert pressure on existing rentals, especially the converted residential stock, resulting in their low occupancy levels.

While these factors are pointing to a possible bust in the market. Estate Intel’s interaction with market players indicates there are a lot more layers to the question of market boom or bust.


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## Boom or bust?

Dolapo Omidire, CEO of Estate Intel, said, “The question of boom or bust for the Lagos short-let market is not a straightforward one. On one hand, the pipeline currently represents approximately 30% of stock. This large supply dump of new purpose-built units expected over the next 24-36 months is a threat to high occupancy rates in short-let stock within converted residential homes.

"On the other hand, operators who have refined their offering over time with higher quality design and finishing will find it easier to survive. For new investors looking to enter this space, our recommendation is the delivery of rental units that can stand out in a high-supply environment, otherwise their demand will be mopped up by newer and more formal stock.”

“While our market outlook for the sector throughout 2022 is largely neutral, we expect rising inflation and operational costs to soften the exciting returns this market has noted in recent years, ” Omidire concluded.

Download the full report here.