ANALYSIS OF UNIQUENESS OF AND RETURNS ON DIRECT REAL ESTATE INVESTMENT IN ILARO, NIGERIA.

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ABSTRACT

Peculiar characteristics of real estate investment set it apart from other investment windows. Therefore real estate investors need to enhance prospects of and minimize impacts of identified peculiar characteristics on their investments. This paper conducted analysis of real estate investment characteristics, their advantages and disadvantages vis-a-vis coping strategy adopted by direct real estate investors to earn returns in Ilaro, Ogun State, Nigeria. The study population consists of 180 residential and commercial buildings in Ilaro town identified as physically productive for investment and having standard conformity. The researchers employed scientific method to select a sample size of 123 accessible property owners and estate agents which represent the units of analysis (respondents) of the study. The respondents who participated in the filed survey were carefully selected through probability-based simple random sampling from the population of the study to obtain important through well-structured questionnaire which contained 20 metrics. The study employed descriptive statistics including average for data analysis. The findings indicate that residential and commercial properties were predominant and real estate investment was healthy in the study area as average returns on invest were positive at 4.2% and 7.0% respectively. All investors adopted strategies that enable them enjoy prospects and minimize drawbacks of real estate peculiar characteristics which offered them opportunity to earn returns on their investments. It recommends that the real estate investors in Ilaro should invest with caution, because despite healthy real estate investment, it is still fraught with negative impacts, due to its overt uniqueness with associated risk and uncertainty.

Keywords: *Coping strategy, direct real estate investment, Ilaro, returns, uniqueness.*

1.0 INTRODUCTION

Worldwide, investors stake their fund in all kinds of business mainly to generate returns. The return may be a stream of income obtainable at regular or irregular intervals or a lump sum at once (Yusuffand Olaniran, 2019). As hopeful as investors are to generate and earn returns on their investments, investment generally is full of uncertainty and risk. These twin elements usually work against the aspirations of the investors and prevent them from generating and earning the expected returns if not losing their entire investments. Therefore, investors consider different sectors of (and) many investment windows before making their choices.

One of the investment windows that people finance is real estate (Hungria-Garcia, Lind, and Karlsson, 2004 and Yusuffand Olaniran, 2019). Real estate investment is grouped into many sectors that include: residential, commercial, industrial, agricultural, etc. In the same vein, investors in real estate are grouped into two: direct real estate investors - (private, corporate and government) - and listed real estate investors, such as pension funds, sovereign wealth funds, insurance and institutional investors (AMP Capital Investors Limited, 2014).Real estate has its peculiar characteristics, apart from being vulnerable to generic uncertainty and risk, which make it either more attractive or repugnant to investors the world over (Havard.and Rahmann, 1997).

These characteristics include immobility, indivisibility, inelastic supply, illiquidity, imperfect information and imperfect market,land is subjected to registration at the Lands Registry, hedge against inflation, among others as shown in Table 1.

These real estatet characteristics are inherent with their advantages and disadvantages and these could be analyzed to gain full understanding of how to mitigate their negative impacts on real estate investment as well as enhance their positive impacts on the same. Consequent upon these is the opportunity to develop coping strategy that could be adopted by real estate investors in order to successfully navigate murky water of real estate investment with the aim of maximizing returns and sustaining the business.

Real estate investors therefore specifically need, more than general astute investors, deep-rooted knowledge of real estate in order to have clear view, understanding and grip of their investments and take meaningful decision from time to timewith the aim of maximizing returns therefrom (Yusuffand Olaniran, 2019). Astute investors understand the import of this necessity and therefore conduct the assessment periodically or as the case arises in order to have rational,informed and quantitatively based decisions (Roberts and Henneberry, 2007; Gallimore et al., 2000; Gallimore and Gray, 2002). For example, importance of knowledge of business is that it aids performance analysis which shows level of profitability of business, its rating among other forms of businesses, how much loan it could attract, among others advantages which investors consider when they are making vital decisions on the businesses.

Direct real estate investors (mainly private) are very active to satisfy and reap advantage of the teeming population who need different types of house to live and transact business. However, many real estate investors in Nigeria and especially local areas like

Ilaro are neither aware of real estate peculiar characteristics, their inherent advantages and disadvantages nor conduct analysis of returns. Many real estate investors are not really conscious of their investments as they were considered as products of excess amount of cash or easily acquired loanable fund and besides building being durable in nature attracts them as long term investment and is also apparent evidence of their success in businesses or trades (Yusuffand Olaniran, 2019).

What are unique characteristics of real estate investment? What are the advantages and disadvantages of each of these characteristics? What strategies are adopted by real estate investors to minimize impacts of identified peculiar characteristics on their investments in order to break-even and remain in business? How do returns on real estate investments – residential and commercial - look like? In order to provide answers to the above-listed questions, this paper carried out analysis of real estate investment characteristics, their advantages and disadvantages vis-a-vis coping strategy adopted by direct real estate investors and returns earned in Ilaro, Ogun State, Nigeria.

2.0 LITERATURE REVIEW

Urbanization and urban population are growing as more and more people are migrating to urban centres across the globe. United Nations as far back as 1995 warned that urbanization had become inevitable trend and accordingly advised on global preparation for its consequences (Hjerppe and Berghall, 1996). The phenomena are simultaneously taking place in Nigeria too and even small towns including Ilaro are experiencing the developments.

Researchers have tried a lot in measuring towns and cities expansion. For instance, Amindarbari & Sevtsuk, (2018) used seven metrics – Size, Coverage, Polycentricity, Compactness, Discontiguity, Expandability, and Land-Use Mixto track growth and developmental change in cities. Ilaro would fit in well as a growing town if measured by the metrics. For instance, the Federal Polytechnic, Ilaro started with 175 students in 1979 and had 7, 170 students in 2018, (Aluko, 2018 and Sadauki, 2018) plus 903 members of staff.

Real estate investments especially large scale residential and commercial ventures are mostly urban phenomenal because of presence of huge population, capital (fund), thriving economy and active commerce. Real estate possesses some characteristics that make it unique among other forms of investments and which increase or decrease its risk as an investment.

Real estate suffers **immobility**. This is to say that real estate is fixed in nature and geographic specific. Once developed, it becomes permanent feature of its location as it could not be transferred elsewhere. Thus, it is subject of vagary of local economic indices whether favourable or hostile.

Despite leaving a home behind in his place of origin due to its immobility, man, as soon as he appears in another area where he intends to stay long, and without any house of his own in place, ultimately seeks at least rental housing or purchases one (Olaniran, 2012). The continuous influx of many people to somewhere increase demand for housing tremendously and this hikes rental and/or capital values of existing houses and profit realizable therefrom. Real estate investors elsewhere could not transfer their investment to a certain place that is currently experiencing influx of migrants and business boom like, for example, Dubai in recent time.

Real estate investment also faces arduous task of supply that tends to be **inelastic** in the short run. Prospective real estate investors are therefore not always able to harness the momentary gain that could be accrued when there is short business boom in a certain economy due to inability to construct and let property within the short-while of the boom only for existing investors to revel in gain. Construction of real estate takes time to complete and couple with this is **huge capital outlay** that frightens away many would be investors or prevents existing investors opportunity to expand as they may wish to grow their real estate investments.

Likewise, existing real estate investors are not able to achieve drastic reduction of existing stock whenever there is business lullsothey suffer their loss within some months of inactivity. Time taking to realise sale of existing real estate investment is usually very long (**illiquidity**) and this does not create transient chance of recouping capital so invested in real estate whenever there is market lull too (AMP Capital Investors Limited, 2014).

The law of demand and supply states that the higher the quantity of good and service demanded, other things being equal, the higher the price which in the case of real estate is rent and this is same as return – the one of the central themes of this research. Olujimi and Bello, (2009) predicted that the increasing demand for residential property in our urban centers would continue to attract the investment interests of real estate investors as supply trails behind demand and in obedience of the above law there is increase in rent. It has been observed that house rent even trails inflation in the same direction and there is most times**capital appreciation** which ensures real value of money (Oduwaye, 2009 andAMP Capital Investors Limited, 2014).Hence, it is a **hedge against inflation**.

Another characteristic of real estate that makes it a worthwhile investment venture is **durability** for use over time as it lasts for long period. There is also chance of **separation of ownership and the right of use** -which commands payment for such use. The owner gives the right to use to another person in return for a periodic payment - a rent, which is, return on the owner's investment (Lean and Goodall,1983).

Other includes**imperfect information and imperfect market (**Hungria-Garcia, Lind, and Karlsson, 2004**)**. There is no central market for real estate transaction, where observation and monitoring of events can take place, leading to sentiment and judgmental, subjectively based inputs and decisions (Havard and Rahmann, 1997; Roberts and Henneberry, 2007; Gallimore et al., 2000; Gallimore and Gray, 2002). Real estate investors capitalize on this shortcoming to dictate rent and capital values of their investments. This in recent time is changing due to evolvement of institutional real estate investors (AMP Capital Investors Limited, 2014).

Real estate (building) is relatively **indivisible**. Or how does one divide a 3-bedroom flat? It is also **heterogeneous** as no two properties are the same at least in term of geographical location making true comparison a bit difficult to do. Likewise, land, the platform for real estate investment, is subjected to **registration at the Lands Registry**which ensure security of business but it is time consuming and costly in third world countries like Nigeria. There is also need for **expert property manager** to undertake management of real estate investment in order to enhance its condition, environment, lifespan and value but this comes with a price – payment of management fees.

Regarding rental value of real estate investment, there is sharp contrast of objectives of landlord and tenant. The transcending objective for the manager of an urban estate, be it in the public or private sector, is to secure the maximum economic return from available resources, including housing, having considerationfor present and future exigencies. Landlord and property manager also seek to attract high rent to keep their property comparable to other forms of investments. On the other hand, tenant wants maximum utility for his money, so in the meantime, tenant labours to secure low rent and satisfactory facilities in order to have maximum enjoyment.

The divergence of objectives creates troubles for tenants who possess poor bargaining power and are exposed to unfavourable terms from their landlords, thus, **government usually intervenes**with the aid of **rent control** that prevents free negotiation to make whatever lease terms landlords and tenants could agree upon with rent being the principal matter among other things.

However, rent control has failed woefully especially in Nigeria. Many factors accounted for the failure.Bright and Gilbert, (1995) observed that "…while the law is an important mechanism, it will seldom, by itself, be pivotal to change. Instead, it should be seen as playing a part, alongside other economic and social factors of the process of change within the housing system".

For example, it is statutory function of the Federal Government of Nigeria as stated in section 16(2)(b) of the 1999 Constitution that "suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wage, old age care and pensions and unemployment, sick benefits and welfare of the disabled are provided for all citizens". To the chagrin of the people of Nigeria, the Government made a bold but humiliating U-turn when in National Housing Policy 2002 it states categorically its intent to disinvest in **public housing** and only wills to encourage private driven housing provision. Private real estate investor is out to earn and maximize return on his investment.

Real estate investment like any other business is always conducted to generate returns or incomes and then make profit. The profit is realized only when its return on investment (ROI) is greater than its current expenditure (CE) or in the long run, when the value of its investment ((VOI) is greater than its total cost (TC). Business can continues to exist when at least it breaks-even, that is, when its return on investment (ROI) equals to its current expenditure (CE) or when the value of its investment ((VOI) at least equals to its cost (TC) (Stankeviciene, 2012 and Yusuffand Olaniran, 2019). This is easily achieved in real estate because of its **durability** and **appreciation of values**. *Return on Capital Employed*, that is, N. P. B.

I. T. divided by Net Total Asset multiplied by 100 is a suitable way of comparing the efficiency of capital in two or more firms in the same industries or across sectors of economy.

As business environment is not stable, the profit realizable from the business is always fluctuating. Investors therefore watch their businesses, monitor their profits continuously and make and review their decisions in line with their objectives and expectations from time to time and real estate offers periodic **rent review**as short a time as possibleandoffsets inflationary effects (Ajayi, 1997). The main reasons for this is that profit determines the direction of capital flow, that is, rational investors will invest his capital, other things being equal, in an investment that produces better profit than others (Omar& Mugabe, 2016). Other business opportunities to invest in include stock and share, bond, fixed deposit and Treasury bill, trading, etc. Property investment market includes residential property, commercial property (shops and offices), industrial property, agricultural and recreational properties, etc. Residential property is predominant in Ilaro and next to this is commercial property. The paper therefore directs its research light on the two types of property.

The rent review for residential houses and shops and offices is now every 2 years in Nigeria. Rent review or increase must meet certain conditions before it can see the light of the day andthere are somefactors that affect rent review determination. Also important in business management is the competence of management team, uncertainty and risk which combine together in varying degrees to determine profitability and survival of any certain business. All these demand for expert knowledge and that is why the service of estate surveyor and valuer is germane to success of real estate investment.

Assessment of investment return on real estate makes it easy to determine expected rental income realizable and the total amount actually realized from the investment/property in a particular period. It shows amount of arrears yet to receive from the defaulting tenant(s) and indicates the amount of rent that has fallen into bad debt, etc.

3.0 STUDY AREA

Ilaro is located at coordinate point of 6.8873232°N Latitude and 2.9931438°E Longitude, and at South West of Ogun State, Nigeria. It is a semi-urban settlement and Headquarter of Yewa South Local Government. It plays host to The Federal Polytechnic, Ilaro. The newly established Dangote Cement Factory at Ibese is a few kilometers away from the town and this makes it possible for the company’s employees to live in Ilaro. Ilaro and its environ have been witnessing growth in term of physical development, land mass expansion, infrastructure, population, knowledge, economy, commerce, real estate investment, etc. It has witnessed progressive investment in rental housing and construction of retail shopping and small office structures, etc.

4.0 RESEARCH METHODOLOGY

The researchers conducted field survey using structured questionnaire to obtain data on real estate investment from total enumeration of real estate investors in the study area. This technique was adopted to ensure unbiased representation of interest of identified 180 residential and commercial buildings as population of the study. From this population, 123 alive and resident property owners and real estate agents who combined project with property management were eventually sampled on the basis of their readiness to oblige the researchers. The respondents were asked to use a copy of the questionnaire for a building or a single estate (a collection of buildings within a curtilage or premises and owned by a single person) as such building or estate was taken as unit of the analysis.

In addition, the researchers scooped the literature to identify the characteristics of real estate and examined their purported advantages and disadvantages on how they impact on real estate investment returns vis-a-vis coping strategies adopted by direct real estate investors to earn returns in the study area. A total of 20 metrics were considered in this analysis with the aid of descriptive statistics including average.

5.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

Out of these administered questionnaire copies, only 116 representing more than 94% were recovered. However, seven (7) questionnaire copies were either found unusable or with missing key variables of interest. In other words, just 109 questionnaire instruments (approximately 87% of total administered) were used for analysis using descriptive statistics tool including average to arrive at important results.

Herein, 20 metrics are developed from the characteristics of real estate as an investment window in this study. Their advantages (positive impact) and disadvantages (negative impact) are discussed and juxtaposed with coping strategies of real estate investors in Ilaro. For clear reference, it is presented in tabular format in Table 1 below.

Table 1: Analysis of Characteristics of Real Estate Investment its Advantages and Disadvantages

S/N	Characteristic	Advantages	Disadvantages	Ilaro scenario
1.	Immobility It is fixed in nature and geographic specific Once developed, it becomes permanent feature of its location.	Real estate investment enjoys monopoly and goodwill in its area.	It is subject of vagary of local social, cultural, religious, political, environmental and economic indices or hostile.	All the investors (100%) could not take away their real estate neither could migrants bringing in their houses. With the aid of advertisement landlords and tenants continue to transact real estate mostly on rental basis.
2.	Durability	Real estate investors reap benefit of their investments for long period except in the case of natural or human disaster.	As building advances in age, its process of deterioration and cost of repair increase.	About 50% rental housing had been on for more than 15 years and investors were still cashing rent. Ilaro's peace and firmness of terrain have sustained real estate investment for long.

3.	Huge capital outlay	It reduces competition as only few investors could afford the capital requirement.	It frightens away many prospective investors or prevents some existing investors from expanding	Investors raised capital mostly through personal savings and cooperative society to invest in housing
4.	Inelastic supply in the short run	It offers existing investors opportunity to optimize.	It prevents investors from taking advantage of instant opportunity.	Ilaro has witnessed decrease and increase in demand that could not be matched by corresponding reduction in existing stock or increase in construction of new building.
5.	Illiquidity Time taking to realise sale of existing real estate investment is usually very long.	It prevents frivolous decision making and thus safeguards the investment.	Its disposal time-frame is unpredictable. It does not create transient chance of recouping capital so invested in real estate as capital is tied down. It prices are susceptible to market speculation.	Sale of property was not very active. The few investors who tended disposal suffer brunt of illiquidity as they waited long for infrequent buyers. Less than 10% had early made attempt to sell and 3% bought their own
6.	Imperfect information and imperfect market No central market for real estate and transactions where observation, data gathering and monitoring of events can take place	For big investment, only very few shrewd investors are in operation and returns could be optimized.	Sentiment, judgmental, and subjectively based inputs and decisions are rife. It necessitates need for expertise to manage at a cost.	Information on real estate investment did not flow freely. Small direct real estate investors did not do appraisal thus 90% used less information to sustain and manage their investments.
7.	Real estate (building) is relatively indivisible	Mutual or joint investment boosts capital and enhances the value of the investment.	Direct joint owners of real estate find it difficult to separate physically.	About 30% direct joint ownership evolved through inheritance and family bond is high to sustain the it Single owners 70% Joint owners 0%.
8.	Heterogeneity No two properties are the same(at least in term of geographical location).	It offers uniqueness in term of design, construction, demand, supply, rent, capital value, taxation, management, etc.	Direct comparison is hard to make.	All (100%) direct investors had buildings with different designs, shapes, locations, ages, stages of development, condition, directions, facilities, and mostly had their separate and transactions.

9.	Land registration at the Lands Registry	Registered title offers security and opportunity to attract fund, and thereby boosts investment.	It is costly and takes time in Nigeria.	About 98% real estate investors did not register their land.
10.	Hedge against inflation	Long lease provides for rental increase indexed to inflation Short lease or letting offers rent review. It offers real value of money most times as there is less volatility in prices for direct real estate investment.	It is not easily determined or predictable.	Ilaro is in Nigeria with high inflationary rate thus 100% real estate investors reaped real value for their investments by constant upward review of rent.
11.	Capital appreciation	It records gain in the long run in term of capital and rental values	It is not easily determined or predictable.	All (100%) investorsenjoyed increase in return on investment (ROI) and capital values.
12.	Ownership is separable from right of use.	Lease/lettingof real estate is practicable. Direct real estate offers relatively stable returns due to the rental payments that tenants are required to pay under leases and in advance.	Short lease or letting on annual basis leads to high rate of tenant turn over, aggravates deterioration and increases cost of repairs	About 80% investors let yearly to predominant student populace with corresponding rent increment while 20% let and collect rent for 2 years, from non-student.
13.	Housing is a basic need of man.	Its demand is high, vacancy rate is very low hence rent income is stable and not volatile.	There is increasing housing affordability problem and high rate of rent default and abscondment and negligent of repair.	All (100%) investors collected advance rent, service charge, etc. All (100%) inserted clauses for periodic renewal of lease and rent into tenancy/ or lease agreements. About 59% had property managers.
14.	Commerce (need for commercial property) is inevitable	Demand for commercial property is sustained by buoyant economy.	It is not always fully occupied. Rent default sometimes occurs.	
15.	It is easily used to raise capital.	It is capable of being used as mortgage or pledge for loanable fund	It has stringent requirements. It attracts high interest rate. It increases the cost of construction. Few investors accessed it.	About 99% raised capital mostly through personal savings and cooperative thrift society using rent from real estate and 1% took loan.
16.	Wasting Asset Developments on land naturallydepreciate in value, and also physically, socially, functionally and economically	It affords opportunity to plan ahead and save for recoupment of invested capital.	It is a wasting asset. It increases cost of maintenance. It eventually collapses	Investors (100%) hardly make room for Annual Sinking Fund for recoupment of capital invested.
17	Government intervention in form of rent control	Rent is moderated to boost rental affordability and prompt payment.	Rent control is used to checkmate high rent collection.	Open market rental value subsisted in Ilaro (100%)

18	Government intervention in form of public housing	It takes care of low and middle income earners. Many renters still prefer rental housing to public housing.	It reduces effective demand and might reduce the rent cahargeable.	Public housing was very limited in Ilaro. Government had since 2002 stopped direct housing provision. Open market system was still operating
19.	It is heavily taxed	Tax collected is usually ploughed back to the community to enhance value of real estate investment among other gains.	Taxation drains return and profit realizable from real estate investment.	Real estate investors in Ilaro seemed to be enjoying tax holiday as at the time of this study.
20	Need for expert property manager to undertake management of real estate investment.	Property manager enhances the property condition, environment, life, values and returns	It attracts huge cost	Some 55% investors employed property managers and many practiced self-management.

Source: Developed from literature review and field survey by the authors, 2019

Table1 shows that real estate investors were already harnessing the positive impacts to their delight and ameliorating the negative impacts in order to enhance their real estate investments.

Table 2 deals with analysis of real estate investment return in Ilaro and incorporates real estate investors, types of investment, average total cost, net incomes per annum and return on capital invested which is calculated as.

$$\text{Return on Investment (ROI)} = \frac{Average\ \text{Net}\ Income(Rent)\ p.a.}{AverageTotalCost} \times \frac{100}{1}$$

Table 2: Real Estate Investment Analysis in Ilaro

Type	Frequency	Average Total Cost	Average Net Income (Rent)	ROI (%)
Residential	99	₦ 7, 643,055.57	₦321,154.00	4.2
Commercial	10	₦10, 000,000.00	₦700,800.00	7.0

Source: Authors' Field Survey, 2019

Table 2 shows that 91% of the sampled investors invested in rental housing and9% chose commercial building (retail shops andsmall offices) as their investment. It also reveals that average total cost of rental housing and commercial property to be ₦7, 643,055.57 and ₦10, 000,000.00 respectively while average net income per annum in residential and commercial buildings are ₦321,154.00 and ₦700,800.00 respectively. Average return on investment (ROI) indicates positive and high net returns on investment in both sectors being 4.2% for residential 7.0% for commercial properties. Net

Income (Rent) from investment (NI) is greater than its current expenditure (CE) as subsumed under Average Net Income (Rent). The capital employed in real estate investment was very efficient and investment was healthy in the study area as at the time of this study. Commercial property brought more than residential but Table 1 reveals in row 14 that risk (especially vacancy rate) is associated more with commercial property than residential property.

6.0 DISCUSSION OF FINDINGS

The findings indicate that residential and commercial properties were predominant and real estate investment was healthy in the study area. All investors had adopted different but common strategies that enable them enjoy positive impacts and minimize negative impacts of real estate peculiar characteristics. This had gone a long way to help them reduced the associated risk and offered them opportunity to earn returns on and sustained their investments. However, the study discovered that real estate investors had not availed themselves some overt opportunities in the study area. They did not use their real estate holdings to raise capital which might be predicated on inability to register their titles. They had never made room for Annual Sinking Fund for recoupment of capital invested when, as a wasting asset; the investment finally reaches its end of life.

Limitation of this study is that the two sectors of real estate investment were covered on composite basis and not segregated into identifiable units, for example, residential into bungalow, block of flats, duplex, high rise (condominium) and commercial into retail and office properties. This revealed wide ranges of total cost of construction and rents being generated from the investments. Further studies are recommended on these bases.

7.0 CONCLUSION AND RECOMMENDATIONS

This study identified 20 unique characteristics of real estate investment and examined their advantages and disadvantages vis – a – vis the coping strategies adopted by real estate investors in Ilaro, Ogun State, Nigeria to navigate the murky water of uncertainty and risk associated with real estate investment and achieve returns on and sustain their investments.

It was found that investing in direct real estate in Ilaro, whether residential or commercial afford the investors positive returns amidst some negative impacts of real estate peculiar characteristics. The study therefore concludes that it is profitable and healthy to invest in direct real estate in Ilaro.

The paper recommends that the real estate investors in Ilaro should invest with caution, because despite healthy real estate investment, it is still fraught with negative impacts, due to its overt uniqueness, that might probably promote uncertainty and risk and then adversely affect the investment. Real estate investors must make room for Annual Sinking Fund for recoupment of capital invested because it is a wasting asset. Real Estate Investment Trust (REIT) has now combined with direct investment, separate holding and management; investors are hereby implored to tap the new opportunity as well as register their titles to enable them gain access to loanable capital.

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