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PROPERTY INVESTMENT TRUST: A VEHICLE FOR REAL ESTATE DEVELOPMENT IN NIGERIA

Ayeni Ekundayo and Esv. Adamu Musa Keffi

Estate Management Department, School of Environmental Studies, Nasarawa State Polytechnic, Lafia

ABSTRACT: *Property development requires huge capital which in much way cannot be provided by one person. Sourcing fund traditionally had proved inadequate overtime. Therefore, there is need for better sources of financing property development in Nigeria. This research examines the suitability of real Property Investment Trusts (PITS) in financing property development in Nigeria. To this end, questionnaire were administered on Estate Surveyors and Valuers, Real Estate Developers Security and Exchange Commission (SEC), Mortgage Institutions, Nigeria Stock Exchange (NSE), etc. the research reveals that inadequate property finance constituted the most critical problem to real estate development in the country, it also shows that there is a large property market to support the application of REITS which has be found to adequately meet such capital requirements in developed countries which is still not popular in Nigeria. The research also reveals that for REITS to flourish in Nigeria, property development and capital market, government has to improve on legal and institutional frame works establish and support the mortgage market and ensure a stable economic environment. Percentages and frequency tables were used in analyzing the data collected.*

KEYWORDS: Property, Investment Trust, Real Estate Development, Stock Exchange

INTRODUCTION

Real estate development everywhere in the world is a capital-intensive venture. In the past, Onibokun (1985) ranked land acquisition and its documentation in addition to the ever-rising costs of building materials as major problems facing real estate development in Nigeria. He asserted that this had influenced the various housing policies and the subsequent establishment of many relevant programs such as the Site and Services Scheme and institutions like the National Institute for Road and Building Research. However, gone are the days when land used to be a major factor influencing the outcome of any real estate development. Umeh (1977) noted that finance influences the phasing, timing, scale of operation and marketing strategy for the finished products. In the same vein, Afolayan (1991) mentioned finance as playing a leading role in real estate development because it determines whether or not a project would be successfully completed or abandoned.

Omirin (2004) observed that financing real estate development has in recent times become more problematic due to complex interaction of several factors such as high interest rates being charged on loans, stringent repayment requirements, cumbersome loan requirements imposed by lenders and inflation. As noted by Onyiuke (2002), the economic situation in the country over the years had influenced the availability or otherwise of fund for real estate development.

The author made references to the 'social' nature of housing in an attempt to distinguish housing sector from other capital-intensive sectors of the economy. Governments, at all levels in Nigeria have come to realize that inadequate finance had been the main hindrance in the implementation of various development programs.

Also, real estate is unable to effectively compete with other investment opportunities such as shares, due to its capital-intensive nature, illiquidity, low yield, and long pay-back period. The various conventional methods of real estate financing are grossly inadequate while non-banking institutions such as insurance, pension funds are strictly limited by government regulations to provide the required capital. The failure of conventional sources to provide the required finance for real estate developments created the need for alternative sources such as securitization, unitization and real estate investment trusts.

Sources of Real Estate Finance

There are two (conventional and contemporary) major sources of finance for real estate development.

Traditional/Conventional Sources

Conventional sources of real estate finance are usually grouped into formal and informal.

Formal sources are usually debt financing through loan able funds sourced from banks, pension funds, insurance companies and primary mortgage institutions. According to Bruegeman and Fisher (2002), debt financing is very common but constrained by the long-term nature of the real estate developments as against the short-term nature of the lenders' sources of funds. Debt financing is available through non-bank institutions such as pension funds, finance houses and insurance companies, but these are limited by regulations that dictate the proportion of total funds that can be invested in real estate development. With short-term nature of lending by financial institutions coupled with regulatory limitation on loan ceiling, it is certain that a sustainable source of funding, such as REITs will be required for real estate development in Nigeria.

Informal sources include equity contribution from personal savings, which is usually less than 10% of the project cost and are mostly used for preliminary works like site acquisition, clearing and processing of necessary planning approvals. Other informal sources include esusu/ajo, age grade association, village development scheme and town's union (especially those living outside their place of births), loans from traditional money lenders, social club contributions, aaro/owe (where members contribute in kind by providing labour on members' site until all members have been so helped in building their houses by rotation). Good as these sources may be in the traditional settings, the complex economic situation and the need for huge capital had made finance from informal sources grossly inadequate for any meaningful real estate development.

Five distinct challenges have been identified with the use of conventional sources of funding real estate developments. First, funds from private equity, retained earnings or profits, accumulated savings or revenue reserves are small in nature and granted on short term thereby making it grossly inadequate. Second, debt financing is constrained by the long-term nature of real estate investments as against the short-term nature of the lender's own sources of fund. These resources are limited by regulations that dictate the proportion of total funds that can be lent for real estate development purposes. Third, there are uncertainties concerning real estate property titles as evidenced by revocation of rights of occupancy within the Federal Capital Territory, Abuja in the immediate past democratic setting in Nigeria. Such experiences make certificates of occupancy (C of Os) vulnerable to litigations. Fourth, the time consuming, cumbersome and high cost of title registration processes coupled with high interest rate and high equity/debt ratio conditions demanded from the borrowers do not encourage the use of conventional sources of funds for any appreciable real estate development. Fifth, there are investments with lower risks and higher earnings within shorter periods (shares and stocks, LPO financing etc) than investments in real estate development competing for investor's funds. For this reason, these other investment vehicles often attract available loan able funds away from real estate investment opportunities.

Requirements for REITs Operations

For REITs to be dominant vehicle for real estate ownership in Nigeria there is need for government to take six major steps. First, there is need to have set of laws that gives backing to the establishment operations of REITs. The investment and Security Acts and other Federal Internal Revenue laws will have to be amended to create the required enabling environment for it take off. Second, though institutionally, Serbe-Yiadom (1993) describes REITs as an alternative vehicle to going to the bank offering investors the benefits of profitable investment without having to invest huge sum of money however, REITs still requires the cooperation of sub-sectorial institutions within the finance industry. The operation of REITs also requires the ability of financial institutions to analyze credit in relation to collateralized real estate development. Third, an enabling macro-economic environment that could generate the required demand for real estate developments and mortgage loan, which in turn affects return on investments, must be in existence. Periods of unstable economic situations resulting from high inflation, high interest rate, unemployment, and insufficient money in circulation, and low level of consumer affordability culminating in to high rate of loan defaults must not be allowed to prevail. The economic recession in USA in 1973 resulted in high level of default in loan repayment forcing the share price of REITs to fall to as low as 33% which equally resulted in lower dividend paid from $2 to $0.13 at a stretch. Such unstable economic environments make forecasting difficult thereby putting the investors in the danger of uncertainty and risk.

Fourth, in most states in Nigeria, title registration goes through arduous processes. Registration of title especially when there is change of ownership, takes a huge sum which may discourage investor in real estate development. There is therefore urgent need to review the various laws relating to transactions in real estate development, with particular reference to the Land Use Act No.6 of 1978. Fifth, Abayomi-Sanya (2006) posited that secondary mortgage market creates the avenue for mortgage documents to be structured, underwritten and sold in form of securities to investors thereby creating stream of funds for further investment. Sixth, Nubi (2003) emphasized that there is need for standardized and computerized mortgage software that will encourage centralized control of all the mortgage processes from origination to foreclosure so as to reduce transaction costs in addition to a market driven interest rate and predictable cash flows.

Sirota (2004) stated that for a company to qualify as REIT, it must:

- be a State registered corporation, business trust or similar association;
- be managed by a Board of Directors or trustees;

- have shares that can be fully transferable;
- have a minimum number of 100 shareholders;
- pay dividends of at least 90% of REITs taxation income;
- ensure that not more than 50% of the shares are held by five or fewer individuals during the last half of each taxation year;
- ensure that not less than 75% of its total investment is on real estate;
- derive at least 75% of gross income from rents or mortgage interest;
- have not more than 20% of its assets in stocks in taxable REIT subsidiaries.

MATERIALS AND METHODS

A total of 500 questionnaires were administered on Primary Mortgage Bankers, Real Estate Consultants and Property Investment Companies. 375 questionnaires representing 75% were returned. Personal in relevant units in Nigerian Stock Exchange Commission, Federal Mortgage Bank of Nigeria, Security Exchange Commission and Stock Brokers were orally interviewed. Surveyors and valuers as advisers on property indices for mortgage operations, property investment companies as investors in summing up the state of the art on real estate investment. In-depth discussions were carried out with members of staff of the Nigerian Stock Exchange; Loans and Advances Section of the Federal Mortgage Bank of Nigeria, Stock brokers and the Security Exchange Commission. Information so generated is analyzed as shown in Tables 1 -7:

ANALYSIS AND DATA PRESENTATION

Table 1: Real Estate Development Problems

Challenges	**Ranking**
High Inflation Rate due to unstable economic climate	5
Rigid Government Policies	6
Low Demand	7
High Cost of Building Materials	3
High Cost of Land	2
Costly, Cumbersome Registration of Interest in Land Processes	4
Inadequate Finance	1

Source: Field Survey, 2013

Table 1 reveals that finance is the greatest problem facing real estate development in Nigeria. This is followed by high cost of land and building materials, Inflation is ranked as 5th of all the problems encountered by real estate development. A situation whereby inadequate finance, high cost of land and high cost of essential building materials top the list of problems confronting real estate development in a country, as highlighted by the data generated should be a big concern to the government.

Table 2: Adequacy of Traditional Sources of Finance

Opinion	Frequency	Percentage
Very adequate	38	10.13
Slightly adequate	50	13.33
Adequate	50	13.33
No	200	53.34
Not sure	37	9.87
	375	100

Source: Field Survey, 2018

From Table 2 it is clear that the traditional sources of finance are not adequate for real estate development. While 200 respondents (53.34%) declared that traditional sources are not adequate, 100 respondents, (26.66%) were for slight adequate to very adequate. More than half of the respondents, as indicated in Table 2, agreed that the traditional sources of finance were inadequate as against approximately one third that felt some measure of adequacy.

Table 3: Need for Better Source(s)

Opinion	Frequency	Percentage
Strong agree	150	40.00
Agree	175	46.67
Disagree	12	3.33
Indifferent	38	10.00
Total	375	100

Sources: Field survey 2018

A total of 325 respondents (86.67%) testified positively to this while only 50 (13.33%) could not see any need for better source(s) of financing real estate. Approximately 87% of respondents noted that there is a dire need for better source(s) of financing real estate development in Nigeria. Despite the National Housing Fund and the Primary Mortgage Institutions in operation, there is need to look for other forms of real estate funding as being projected through REIT.

Table 4: REIT's Applicability in Nigeria

Opinion	frequency	Percentage
Very applicable	100	26.67
Applicable	200	53.33
Not applicable	50	13.33
Not sure	25	6.67
Total	375	100

Sources: Field survey 2018

The result obtained in Table 4 above is not unexpected bearing in mind the earlier claim by respondents in Tables 3 that there is the need for other sources of funding real estate development and acquisition. A total of 300 respondents (80%) agreed that REIT is applicable in Nigeria real estate industry while 75 respondents (20%) do not agree.

Table 5: Sustainable Real Property Market

Opinion	Frequency	Percentage
Strongly agree	100	26.67
Agree	188	50.13
Partially agree	50	13.33
Disagree	37	9.87
Total	375	100

Sources: field survey 2018

The Federal Government's earlier desire of providing for housing for all by year 2000 could not materialize and government having realized the enormity of the financial need of the housing sector had introduced and gave adequate backing to the National housing Fund with the Federal Mortgage Bank of Nigeria granting mortgage loans at 9% as against going interest rates of between 18% and 30% on commercial bank loans currently in vogue. Based on this, the result in Table 5 indicating that the real estate market in Nigeria will sustain REIT is justified. While 100 respondents (26.67%) strongly agreed, 188 respondents (50.13%) agreed, 50 (13.33%) moderately agreed and only 37 respondents (9.87%) did not agree.

RESULTS AND DISCUSSION

Stakeholders' views, as summed up from the respondents and in-depth personal interviews, showed that while finance is of great importance in real estate development (Table 1) the traditional sources of funding real estate are not enough for the kind of funding required for real estate development. This is clearly evident from Table 2 above. Hence there is need for strong and viable alternative source(s) of finance for real estate development in Nigeria (Table 3). Respondents were of the opinion that REIT could be applied in Nigeria (Table 4), since there is a virile real estate market that could sustain it (Table 5). However, it is observed that there is no an operational guideline for REIT's implementation, in the country. A greater percentage of the stakeholders interviewed were of the opinion that there is the need for enhanced public awareness among employers of labour in a bid to financially support employees in owning homes while still active and productive to enable beneficiaries fully repay the loan before retirement from services.

CONCLUSION AND RECOMMENDATION

Ability to provide alternative sources of funding real estate development during this era of global efforts at providing houses for all is one of the greatest challenges facing the Federal Government of Nigeria. With the fastest urban growth occurring in the cities, the impact of inadequate housing in the various environments is no longer news. In addition, the growing problem of urban poverty is a serious confounding factor in the effort to manage funds accumulated into the National Housing Fund by the Federal Mortgage Bank of Nigeria. The range of policy options for solving many of the problems of financing the country's real estate development sector has been highlighted. These policies may not deliver the required results except there are sufficient administrative and legal resources, or sufficient political will in addition to adequate public support. Meeting this urban challenge will require the concerted efforts of everyone with a stake in the country be they members of staff of the three tiers of government, operators of private enterprises, community members or the ordinary citizens.

REITs are becoming appealing instruments to investor all over the world. They are excellent ways from small investor to pool their resources together and invest in real estate developments without the major commitment of time and capital require for direct ownership of real estate.

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