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INTERNATIONAL INVESTMENT IN REAL ESTATE MARKET IN NIGERIA: ISSUES, CHALLENGES, AND SOLUTIONS

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ABSTRACT: *The need for diversification of investment portfolio has led to increased investment in the real estate sector. Investors, both domestic and international, are always on the lookout for options that will provide optimum return but at less or no risks. Although the Nigerian real estate market is an attractive one due to its many untapped opportunities and potential, there are challenges faced by international investors who venture into this market. Issues such as political risks, bribery and corruption, lengthy land registration process, devaluation of the Naira, bureaucratic encumbrances among others, pose risks which may deter potential international investors from moving forward with such investment. This paper recommends that the government and relevant stakeholders address the political issues within the country, streamline and ease the land registration processes, invest in infrastructural development, and work towards stabilizing the Naira and the economic climate at large. Proffering these solutions is crucial in order to fully maximize the hidden investment potential in the Nigerian real estate market.*

KEYWORDS: Challenges, international investors, real estate investment, Nigerian real estate market.

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INTRODUCTION

In recent times, real estate investment has gained worldwide popularity due to its capacity to provide diversification, profitability, and protection against inflation. This has necessitated the need for investors to seek out alternative means of diversifying the risks inherent in domestic markets by engaging in real estate investment internationally where productivity and expected returns are high.

According to Reily and Brown (2011), investment is the commitment of money or capital sum for a certain period of time by an investor in anticipation of future returns or streams of income that will reward such investors for the time, risk and uncertainty of these expected incomes.

Investment also entails the purchase or acquisition of new capital equipment such as machines, buildings, and other means of production that boost the economy's productive capacity. It plays a critical role in a country's economic growth by allowing for the use of modern production methods, stimulating innovation, technology transfer and expanding countries' production efficiency. Countries see investment as a major element in increasing productivity by advancing technological progress and reducing unemployment as they advance toward economic growth (Bidemi et al., 2018).

An investment constitutes an effort that is undertaken by an investor to advance money, with the intention of making profit in the future. Investors may put their money into many instruments such as stock, bond, mutual fund, gold, real estate and bank deposit. Real estate investment is considered as a long-term investment compared to other types of investment (Awa et al., 2019). Investors may invest in income producing property and non-income producing property depending on the motive involved. When investing in income producing property, investors expect to get profit from the income stream which is reflected in cash flow during the holding periods or duration of ownership.

The nature of the real estate market makes it an attractive and lucrative asset for many investors. Real estate investment offers opportunities to investors who can invest directly in physical real estate or may choose to invest indirectly through managed funds.

Investing in real estate or property is concerned with the acquisition or disposal of real assets such as land, and the improvements thereon (buildings). David et al. (2017) noted that real estate or property investment has become a popular investment opportunity all over the world because of its peculiar or unique characteristics; it is believed that returns on real estate investments appreciate in real terms, even in adverse economic situations. It is a low-risk investment asset whose value is believed to appreciate even during economic downturn, and hence a good source of portfolio diversification capable of preventing unsystematic risks (Nittayagasetwat & Buranasiri, 2016).

Investment choices are made among various competing investment asset classes. Investors make choices from within direct real estate investment assets, between direct and securitized investment assets as well as property investment and other investment assets such as stocks and shares (Agava et al., 2021).

Investing directly in real estate involves purchasing the residential or commercial property for use as an income-producing property or for resale at a future time.

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Indirect ways to invest in the real estate market include investing in real estate investment trusts (REITs), real estate exchange traded funds (ETFs), commingled real estate funds (CREFs) and infrastructure funds. Indirect real estate investing offers pension funds and offers other institutional investors all of the benefits of direct property ownership while eliminating many of the drawbacks of direct ownership. In addition, indirect investing allows much greater diversification across geographic regions and real estate industry sectors, enhancing further the benefits of the asset class.

Due to the higher liquidity available in the market, the lower transaction costs and lower capital requirements, average investors prefer to indirectly invest in real estate. This is noticeable in countries where real estate investment trusts are operational (Awa et al., 2019).

Real estate investment in Nigeria has steadily grown in recent years, driven by population growth, urbanization, and increasing demand for commercial and residential properties. Nigeria offers a promising environment for real estate investment due to its booming economy and fast growing middle class population.

Despite this seemingly positive report, real estate investment in Nigeria is faced with several challenges posing a setback in attracting international investment. This study is aimed at exploring the challenges affecting real estate investment in Nigeria, with a view to proffering solutions to mitigate these challenges, thereby making the Nigerian real estate market an attractive investment option for international investors.

REAL ESTATE INVESTMENT AND PORTFOLIO THEORY

Real estate investment involves the purchase of real estate for profit. Profits are accumulated either by renting out properties or improving and reselling for capital gain.

Portfolio Theory, originally developed by Harry Markovitz in the early 1952, sometimes referred to as Modern Portfolio Theory, provides a mathematical framework in which investors can minimize risk and maximize returns. The central focus of this theory is that investors are always profit driven. They will always move from one investment to another which has the same expected return but less risk, or one which has the same risk but greater expected return, or one which has both greater expected return and less risk (Kazimoto, 2016). Although this theory outlines challenges facing real estate investment, it does not proffer solutions on how stakeholders in the real estate market can make the business viable for economic growth.

According to Kaklauskas and Zauadskas (2009), investors can reduce risk, and improve the level of risk relative to return, by diversifying their portfolios. The key to diversification is to choose investments whose prices are not strongly correlated. Investing in different sectors, geographical regions and classes of security improves diversification. The values of shares, bonds and pieces of real estate will be more correlated with each other than with investments of completely different types (Kaklauskas & Zauadskas, 2009).

Life cycle portfolio models are intended to pinpoint the best investment and savings strategies for investors throughout their lives. Since it examines investment decisions for a single time period, Markowitz's conventional portfolio theory, which was first presented in 1952, is static in nature. The multiperiod component of the portfolio choice problem requires taking it into

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consideration in a more realistic context. The ideal portfolio structure is time invariant under extremely certain conditions. In this particular instance, a one-period optimization is sufficient to characterize the best portfolio selection in a multiperiod setting. On the other hand, in more general circumstances, investors will rearrange their portfolios in response to shifts in income, total wealth, and the pool of available investments (Wallmeier & Zainhofer, 2006).

REAL ESTATE INVESTMENT IN NIGERIA

Nigeria is described as the economic and commercial hub of Africa partly because of its high-level commercial activities and its housing of all land, sea, rail and air ports. Over time, one of the major drivers of the Nigerian economy in terms of its GDP has continued to be the country's real estate sector.

According to Oyewole (2019), policies aimed at diversifying the economy away from being oil dependent toward the non-oil sector have helped the real estate market in recent times and led to the government investing a lot of money in infrastructural development. Nigeria's real estate market has expanded, especially in the Federal Capital Territory (Abuja) and the states of the Federation with high rates of urbanization, such as Lagos.

The Nigerian real estate industry contributed 6.4% to Nigeria's GDP in 2019 and is projected to grow at a compound annual rate of 6.4% from 2020 to 2024. The sector is expected to continue to grow due to increasing demand for affordable housing, rising middle-class income, and the government's efforts to attract foreign investment. (PwC, 2020 as cited in Makata & Udobi, 2024).
The market's current trends indicate a rise in demand for upscale real estate in desirable areas. The need for upscale developments is widespread in both the residential and commercial real estate markets, and ventures such as Lagos State's new beachfront city Eko Atlantic City is setting the standard.

Following the completion of Dangote oil refinery in Lagos State, large scale investments are anticipated across the country, making it an attraction for international investment. Despite this positive outlook, the real estate market is faced with several challenges such as inadequate provision of basic infrastructures that are necessary for real estate development. Furthermore, the industry's expansion is still hampered by high transaction costs and taxes, an unclear and complicated legal structure, political unrest, and corruption (Akintoye & Skitmore, 2019).

However, due to the huge potential for growth and development, the Nigerian real estate industry is still a viable investment option for investors, both domestic and foreign.

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BENEFITS OF REAL ESTATE INVESTMENT

Real estate investment has several benefits and rewards which makes it an attractive and viable investment option for potential investors. According to Edumoh (2023), some of these benefits are as follows:

1. **Hedge against Inflation and Capital Appreciation:** Traditionally, real estate has been seen as a type of asset with opportunity for long-term growth and relative stability. Investors can benefit from the income provided by renters and capital growth, which can help them accumulate wealth over time. The value of real estate holdings can increase in line with rising costs of goods and services, serving as a hedge against inflation.

2. **Gross Domestic Product (GDP) Contribution:** An important portion of a nation's GDP comes from the real estate sector. It covers building projects and related services in addition to residential, business, and industrial properties. A nation's overall GDP growth is therefore directly impacted by any development or improvement of the real estate industry.

3. **Commercial and Industrial Development:** Commercial and industrial properties, such as factories, shopping centers, and office buildings, are another focus of real estate development. These developments lead to an expansion of the economy and the creation of job opportunities. Furthermore, the growth of commercial and industrial areas usually necessitates improved transportation and utility systems, which promotes public and private investment in infrastructural development.

4. **Foreign Direct Investment (FDI):** In an effort to capitalize on the rising real estate market, foreign investors are drawn to a stable and thriving real estate sector. Foreign direct investment infuses cash into a nation, fosters economic growth, and facilitates the transfer of technologies. It also boosts the real estate industry and related sectors.

5. **Government Revenue Generation:** Property-related taxes and real estate transactions both help the government generate revenue. Tax revenue from real estate transactions and related activities rises as the real estate sector expands, funding public services and infrastructure.

6. **Urbanization and Housing Demand:** People migrate to cities in a search for better opportunities, which fuels real estate growth. Better transportation systems, including public transit, highways, and bridges, are required as cities grow and expand. As a result of this trend, demand for housing and related services is rising, creating opportunities for real estate investors and developers to fill this growing need. The government frequently spends money on improving transportation infrastructure as a result of real estate initiatives to support the expanding population.

7. **Population Expansion and Housing Market Stabilization:** Urbanization which is as a result of significant population expansion raises demand for residential and commercial real estate. Real estate is a potentially profitable investment because of the potential for its demand to boost property values and rental income. A well-regulated real estate market can also contribute to the housing industry's greater stability.

8. **Improved Mortgage and Finance Industry:** The real estate industry may help a nation's financial stability by providing mortgage loans, home financing, real estate investment

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trusts (REITs), and other financial instruments that allow individuals and institutions to participate in real estate. A more inclusive economy is promoted by the growth of a strong mortgage business, which makes it easier for people to get loans and buy homes.

INTERNATIONAL REAL ESTATE INVESTMENT IN NIGERIA

International real estate investment is a necessary requirement by real estate investors seeking to diversify risks inherent in such investments in their domestic markets. According to Okoro and Anya (2017), the globalization of economic activities through deregulation and advances in information and communication technologies, present an appealing environment for global real estate investors to go international. Several benefits abound for international real estate investment and include risk reduction by eliminating non-systematic volatility, higher expected returns and large size of international markets. Again, most countries of the world have limited properties for overwhelming domestic demand and yet there exist investors who have huge funds at their disposal but lack avenues to invest. Nigeria is one of such countries. Domestic investors battle with country systematic risks which cut down on their returns on investment yet there exist prospects internationally to better their investment outcomes through international diversification.

Nigeria is often referred to as the giant of Africa by reason of her land mass, population (above 200 million) and growing economy. It is the 6th most populous country in the world and the most populous in Africa (Lovells, as cited in Okoro & Anya, 2017). It is an economy mostly dependent on oil production. When the global oil prices are strong, her economy booms and radiates. With the tumbling of global oil prices globally, the economy caves, and focus is now tilted towards telecommunications and real estate. Fourteen percent (14%) of the country’s investment capital goes into the real estate sector (fDi, 2015).

Nigeria has emerged as a promising frontier for real estate investment, attracting the interest of international investors seeking lucrative opportunities beyond their borders. With the country’s growing economy and flourishing middle class, the Nigerian real estate market beckons on international investors with the promise of good returns.

Nigeria’s real estate market presents diverse investment opportunities across residential, commercial, and industrial sectors. The opportunities available are enormous. The demand for housing, driven by population growth and urbanization, creates a compelling case for residential developments.

Additionally, the commercial real estate sector is thriving, especially in major cities like Lagos, Ibadan, and Abuja, where a favourable business environment fuels demand for office spaces and retail outlets, (Uroko, 2024).

Nigeria Enterprises Promotion Decree (1972) was promulgated to allow Nigerians sole control and ownership of certain businesses in Nigeria to the exclusion of international investors in those businesses. However, due to some changes, this policy was changed in 1995 by the enactment of NIPC Act (Nigerian Investment Promotion Commission Act) which made all sectors available for the participation of international investors except those on the negative list (Lovells, as cited in Okoro & Anya, 2017).

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According to Okoro and Anya (2017), this policy and the current global quest for real estate investors to invest internationally for market diversification has propelled local investors to partner with their international counterparts to invest in Nigeria.

Nigeria's real estate market size is predicted to hit $137.8 million by 2030, at a CAGR of 6.1% from 2024 to 2023 (NMSC, 2024). This is due to Nigeria's annual population growth rate of 2.52% and urban growth rate of 4%. 54.6% of Nigerians live in cities and towns and therefore different types of accommodation are needed to solve the housing needs.

CHALLENGES OF INTERNATIONAL REAL ESTATE INVESTMENT IN NIGERIA

According to authors such as Hoesli and Macgregor (2000) and Christner (2009), there are some factors or issues to be considered before investors engage in real estate investments internationally, which could pose a hindrance to such investments.

These factors include:

1. The local laws – Are these laws tenant/landlord friendly?
2. Familiarity with foreign cultures, languages, times, zones and markets.
3. The relative size of transfer and the related costs
4. The rules for taxing capital gains, rental income and inherited properties.
5. The level of rents and rental yields.
6. Country regulations regarding who are allowed to purchase, develop and hold what quantity of land.
7. Risk perception, particularly currency risk; that is the variability of the purchasing power of the currency across the two countries.
8. Investment cost. Domestic investment costs tend to be lower than international investment. Many variables contribute to this, including transport cost, exchange rate and importation of capital.
9. Market efficiency regarding ease of conversion of properties into cash and price manipulation.

Other factors include: political risk and the threat of restriction on the repatriation of investment profit, difference in lease structures and legal frameworks, different relationship between inflation rates and changes in exchange rates, amongst others.

Although the Nigerian real estate market has strong economic growth potential and untapped opportunities, there are numerous challenges faced by international investors seeking to diversify their investment options. As there are risks associated with any investments done domestically as a result of uncertainties involved, these risks tend to escalate when investments are made on an international scale.

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Some of the challenges faced by foreign investors in Nigeria are as follows:

1. **Political Risks:** Political climate of any country can influence economic decisions and the country's degree of openness to foreign investment. According to Quinn et al. (2001) democratic governments are less likely to impose capital controls. This is because with democracy, citizens have the constitutional rights and freedom through which they can clamour against any restriction on their investment option. Many foreign investors consider political risk to be one of the biggest determinants in real estate decision (Ganster, 2007 as cited in Udobi et al., 2016). Country risk analysis involves an examination of the country's economic outlook and stability of its government, as well as factors including corruption and crimes. A major political risk associated with real estate investment in unstable markets is expropriation of property by the military government, or physical damage to real estate from revolution, rebellion, or civil war. Politically incited violence discourages both foreign and domestic investments in Nigeria. Issues such as kidnappings, riots, vandalism, civil unrest, shootings, have contributed to discouraging international investors. Properties and infrastructures are vandalized and left abandoned in such a state due to fear of repeated attack.

2. **Currency Risks:** Movement and flow of currency can have a dramatic impact on equity returns for foreign investors. A possible irony of international investment is that many developing economies manage to keep exchange rate volatility lower than that which is typical in industrial economies. This is not surprising, as many developing economies try to peg their exchange rates to the U.S. dollar or to a basket of currencies (Bekaert, 1995 as cited in Baum & Murray, 2010). Nigeria is faced with a risk of currency devaluation due to her dependency on the dollar. With the volatile nature of the naira, devaluation will continue to pose a risk. Nigeria has legal restrictions on the international transfer of funds associated with capital employed in investment, which is also an issue investors are faced with. The country's currency risk is consequently rated (B) and that poses a challenge to international real estate investors (Udobi et al., 2016).

3. **Land Registration Process:** In order to access mortgage loans, collateral is needed by international investors as security for such loans. For such security to be legally accepted, it must be registered at the relevant land registry. The World Bank ranked Nigeria 183rd out of 190 countries in the ease of registering a property ranking, which is one of the worst positions among other African countries. The registration process involves so many steps which take about 2 months to about a year to complete. Thus, lengthy processes and its accompanying monetary implications leave investors frustrated and to sometimes lose their source of funding or incur further costs in interest on bank loans (Okoro & Anya, 2017).

4. **Bribery and Corruption:** on the Transparency International's 2023 Corruption Perception Index, Nigeria is ranked 145th among 180 countries, which makes it the 35th most corrupt and dishonest country globally. Due to this factor, buildings collapse because of non-compliance to building regulations by contractors engaging in sharp practices. The staff of government regulatory agencies prefer taking bribes rather than ensuring that building regulations are adhered to (Okoro & Anya, 2017). This discourages investors who want a safe and organized environment where they are sure to get optimum returns on investment without setbacks.

5. **Financial Risks:** Risks inherent in Nigeria's financial sector are of major concern to international investors. According to Omisore (2012, as cited in Okoro & Anya, 2017), the

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Nigerian real estate sector lacks well-defined and reliable mortgage financing as it is not seen as affordable to support longer term loans and funding. The Federal Mortgage bank and its subsidiary are the only mortgage institutions in Nigeria funding real estate investment and the cue to access the fund is unending. Therefore, investors must move capital for investment into the country. The cost of such a transfer may be huge considering the processes involved in the country.

6. Property Market Transparency: Transparency refers to the quality and quantity of information made available to participants, as well as the consistency of the rules and regulations with respect to property rights in the market. Transparency is what differentiates a developed country from a developing one. According to Udobi et al. (2016), high transparency in the market eases the flow and reliability of information, and also makes it harder to find market inefficiencies that would earn a "risk premium." On the other hand, low transparency imposes additional risks and transaction costs.

Nigeria ranks low in property market transparency due to lack of reliable current market statistics (including investment performance indexes and market data), as well as a weak record for property rights. There is also no requirement to report sales or transfers of property, and therefore many real estate transactions are not transparent to the market.

7. Legal Risk and Bureaucratic Encumbrances: The bureaucratic roadblocks and legal issues pose as one of the factors discouraging international real estate investors in Nigeria. These issues not only affect domestic investors but also international investors. The apex legislation controlling all land matters in Nigeria is the Land Use Decree of 1978, now Land Use Act (Cap L5 LFN 2004). Land development is under the guidance of the Urban and Regional Planning Department by Decree of 1992 now the Nigerian Urban and Regional Planning Act (CAP N138 LFN 2004). The bureaucracy in obtaining either the Right of Occupancy over a purchased land or the development approval is very cumbersome to domestic operators let alone foreign investors. Government can be erratic and change its policies. Delay exists in passing relevant laws by the National Assembly. The courts handling land matters are no better. Cases are left unresolved for years on end (Lovells, 2013 as cited in Okoro & Anya, 2017). This discourages investors into the sector.

Other challenges include:

- Real estate taxes
- Capital Importation/Repatriation and other foreign exchange rules
- Devaluation of the Naira
- High cost of development/disparity in currency purchasing power of the Naira
- Illiquidity and Ease of entry into the real estate market (Okoro & Anya, 2017).

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SOLUTION AND STRATEGIES TO MITIGATE CHALLENGES FACED BY INTERNATIONAL REAL ESTATE INVESTORS

Solutions to the challenges faced by international investors, when implemented, will make the Nigerian real estate market an attractive front for international investors. These solutions, according to Makata and Udobi (2024) are given below:

- Actively monitoring the political climate and conducting regular risk assessments to stay informed of potential risks. Political analysts and consulting firms can provide the much-needed insights into possible risks and help develop strategies for preventing them.
- Building strong relationships with local communities and relevant stakeholders to gain their support and mitigate social risks. Investing in community development projects and maintaining open communication will help curtail violence and civil unrest.
- Investment in the real estate market can be diversified across the various types of real estate in different regions to spread risks. This method can help to minimize the impact of economic volatility on the overall investment portfolio.
- Employ financial instruments such as forward contracts, options, and swaps to hedge against currency risk. These instruments can protect against adverse currency movements and stabilize returns on investment.
- Due diligence needs to be conducted to verify land titles, understand local laws, and assess any legal risks associated with real estate acquisition. Engaging experienced local legal counsel can help navigate the complexities of the Nigerian legal system and reduce the risk of encountering fraudulent transactions.
- Working closely with regulatory bodies to streamline the compliance process. This may involve lobbying for more transparent and efficient regulations and working with industry associations to advocate for reforms that simplify land acquisition and property development processes.
- Partnering with government agencies and other private sector entities to invest in infrastructure development. PPPs can help to share the financial burden and leverage public resources for infrastructure projects, improving the overall investment environment.
- Investing directly in infrastructure projects that support real estate development, such as power plants, water supply systems, and transportation networks. These investments can make real estate attractive and reduce development costs.
- Technology can be used to manage compliance and streamline documentation processes. Implementing digital platforms for record-keeping, title verification, and regulatory filings can enhance transparency and reduce bureaucratic delays.

Okoro and Anya (2017) posited that the exchange rate of the naira needs to be stabilized to curtail its erratic changes. The inflation rate, though a blessing to investors due to high demand, will affect the real return on investment in the long run. The regulatory laws must be streamlined and enforced by specific agencies. Bilateral treaties on mitigation of repatriation of investment proceeds and other related matters should be ratified, accepted into Nigerian

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domestic laws and adopted by the Nigerian government. Fraudsters must be brought to book and made to face punitive measures to checkmate their excesses. Security also needs to be addressed to ensure the safety of both domestic and international investors. Processes of land registration must be overhauled and made to function effectively.

CONCLUSION

Real estate investment is one of the most valuable ways by which investors seek to diversify their investment portfolio in order to get optimum yield in return. As it is with every type of investment, there are issues and challenges which pose risks which may deter prospective investors from venturing into such. Hence, in order to make the Nigerian investment climate attractive to international investors seeking a different investment option in the country, government and relevant stakeholders must address the issues and challenges, thereby making it safe and attractive for international real estate investors to reap the reward for investment.

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