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OPPORTUNITIES & RISKS FOR FOREIGN REAL ESTATE DEVELOPERS IN NIGERIA

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Abstract

Real estate development is fundamental to human sustenance and development. The civilization of Nigeria rapid growing population coupled with her economic prosperity, provides an unparalleled destination for foreign investment in Africa. The challenges in the financial sector, legal hassle and sectorial violence are concern that portrays portent risk for real estate development in Nigeria. This study concludes that the best approach is for foreign investors to partner with local investors who are already used to the challenges of real estate investment in Nigeria. These local investors are also familiar with prospective clients who have earned their trust overtime. Unlike in developed countries, where real estate vacancy and real estate properties can generally be assessed online, in Nigeria there is less exposure of real estate properties online and the platform is yet to gain the full confidence of exploiters of real estate. However, the success story of real estate foreign investments gives the assurance that the inherent risks cannot limit successful investment.

Keywords: Real estates, Investment, Risk, Nigeria

INTRODUCTION

Real estate is fundamental to all human development. Its definition as property consisting of land and the buildings (10) on it affirm the above assertion. All the activities of men are done on land and buildings established on it, which apart from providing shelter also give room for ease of communication. Almost all forms of business require some form of real estate (Babalakin, 2004). Real estate investment or development in the contest of this article refers to the acquisition of land either by freehold or lease hold methods of land acquisition for onward development for commercial purpose. It also includes the renovation of an existing building to enhance its market value.

Inputs to real estate development are land, finance, infrastructure, labour and materials. The interactions of these inputs results in production of other forms of real estate which could be different types of buildings: residential, commercial, industrial or institutional buildings. On the account of developers, builders, landlords and homeowners, develop the primary inputs which reach end users who are renters or home owners by the process of real estate transactions. Real estate investment involves the purchase, ownership, management, rental and/or sale of real estate for profit. Real estate investment is basically the same as financial assets investment as the returns is expected through capital appreciation or regular income. The running of real estate development is however difficult as specialized knowledge is required and there is no centralized market where transaction takes place, for this reason it's said that there is no financial transparency like in other forms of investment.

Africa in terms of housing is described as the most rural region in the world. It's however urbanizing fast requiring the accommodation of 40,000 people every day for the coming fifteen years. Housing finance in Africa is mostly provided by the government it's not developed and the little available facility is only benefited by the elite. Mortgage financing almost does not exist in most African countries. Micro finance and community based savings groups make effort to provide funds for housing but their reach is small and some of them are constrained by regulatory frame works in some African countries. Only 4 out of 10 Africans currently lives in an urban area, the lowest ratio in the world. Nigeria like other sub-Saharan African countries has abundance of land (Brink, 2006). Real estate development opportunities exist all over the country especially in the urban centres. Real estate sector in Nigeria is dynamic; Lagos, Abuja and Portharcourt are cities able to support institutional quality real estate (Odusote, 2008). It's however the view of the author that the three cities mentioned can be described as the hub of real estate business in Nigeria, but all the country 36 capital cities will provide a veritable base.

OPPORTUNITIES OF REAL ESTATE DEVELOPMENT IN NIGERIA

The Goldman Sachs Economic Group ranked Nigeria as one of the next eleven (N-11), after the BRICs countries. The BRICs and N-11 are countries experiencing rapid economic growth. Nigeria the 12th world producer of petroleum is also ranked world 26th best economy in the world in terms of GDP in 2014 making the largest economy in Africa (11).The characteristic of the N-11 are growing population combined with significant industrial capacity (Enghbal, 2008). The population of Nigeria of over 170 million has witness 60% growth rate between 1990 to 2008. High population growth rate is indicative that the market growth will provide more customers (Enghbal, 2008). The quest for real estate investors to invest internationally for market diversification (Agtmael, 1980), has led to the development of local investors who are ready to partner with international investors in Nigeria. Nigeria can only boast of 17 million household and 5% of the population representing the landlords own buildings that are rent out. The shortfall of housing in Nigeria is estimated as 17 million, requiring an investment of N59.5trn ($380b) net of investment multiplier (Oteh, 2011). The government of Nigeria is aware of this gap between demand and supply. The short fall represent 180% of the country GDP; this is surely not a burden the government can bear alone. Real estate investment is currently the most lucrative asset for the Nigeria middle class income earner, businessmen and politicians prefers to have. This concur with global practice as seen in the asset mix recommendation of J.P Morgan and Goldman Sachs, which gives 5% to real estate as a defensive portfolio and 10% as aggressive port-folio (Oteh, 2011).

A study done in 2008 put total rooms in 4 or 5 star hotel in Lagos at 1200 rooms to service Lagos state population of over 14 million people. The study shows quality of service at 85% to 90% and daily average rates of about $300 per night. This yields revenue per available room (REVPAR) of about $270 as compared to $220 in New York, $240 in Paris and $250 in London (Odusote, 2008). In the aviation sector, Nigeria has only one Airport in Lagos, Abuja and Portharcourt. The Airports are always congested as the facilities are inadequate. This is a far cry of 3 in Moscow, 5 in London and 3 in Berlin. Nigeria is in dire need of real estate investment in all the economic sectors.

There are several reasons to include real estate in a multi-asset portfolio, including potential enhancement, risk diversification, long-term inflation protection, income generation and low volatility. Real estate has been identified as having relationship with inflation over the long term, it may provide some protection against inflation because real estate revenue, which is derived from periodical resetting contractual payments will adjust to changing external market conditions, such as rising price level. Other advantages of real estate investment are the opportunity to get financial freedom, real estate properties appreciates in value overtime, favourable cash flows and tax benefits. All these advantages of real estate investment holds sway in Nigeria and as such investment in real estate in Nigeria has the potential of creating stability in an investor investment portfolio.

RISK OF FOREIGN REAL ESTATE INVESTMENT IN NIGERIA

The number one risk is legal hassle and bureaucratic encumbrances especially as it deals with purchase of land and development. Land is purchased in Nigeria under the land use Act of 1978 while the development of land is done under the supervision of the Nigeria Urban and regional Planning Decree of 1992. A developer is thus under obligation to obtain two different approvals, one for the right of occupancy under the Act and the other for developmental purpose under the degree (Babalakin, 2008). The tedious and slow bureaucratic procedure to get these approvals or resolve issue that may arise in a contract will certainly be a subject of great concern to foreign investors that are used to fast automated transactions.

The risk of terrorism, civil unrest and natural disaster can cause a great damage to real estate development but such incidences seldom happen in Nigeria. Effects on properties could range from damages to installations, building components or total destruction of a building by burning. Apart from the huge cost that will be needed to restore such properties, investors will also be skeptical to make renovation work or rebuild for fear of future attacks. Risk can either be a threat or an opportunity.

Islamic fundamentalist violence in the northern part of the country is an example of risk associated with terrorism, of recent a number of residential buildings in some villages were bombed in the Northern by the sect. Even though the targets of the attacks are not against real estate investment building status, it has effects on patronage of such buildings and adverse effect on the general investment climate. However, this risk is not as prominent in the Southern part of the country. Risk assessments can be made on the following categories: Security, political stability, government effectiveness, legal and regulatory frame work, macroeconomic, and foreign trade and payment Hamilton et al (2009).

The crisis in Nigeria financial sector (though global) that saw 3 banks in Nigeria nationalized in 2011 is also another concern. Investing in Nigeria and Africa by extension is considered as scary to most investors, because you can't predict what will happen in the future. Real estate in Nigeria is also seen as not affordable to meet longer term loans or funding (Omisore, 2012). This suggests that real estate business in Nigeria lack well-defined and reliable Mortgage financing. Illiquidity as inherent risk of real estate also exist but at a minimal level.

Jones Land LaSalle ranks Nigeria 96 out of 97 in 2012 global real-estate transparency index. The transparency index assesse the ease and confidence investors have in buying commercial real estate in a certain country. The report places Nigeria in the "Opague category of transparency meaning Nigeria suffers from corruption, lack of fundamental data and poor environment sustainable programs in building large-scale properties. The result of this challenge is seeing an increased in deals with high price tags from opportunistic funds willing to take a chance on Nigeria potential (Evans, 2013).

This is an indication that adequate preparation is necessary for real estate investment in Nigeria, a foreign investor will need trusted local partners who are familiar with the hassle of practice in the market in other for successful enroot. The many challenges of real estate investment in Nigeria may be largely responsible for small presence of foreign investors in the market. Popular real estate investors prefer South Africa and Northern African countries where the investment climates are better for investment. A good partnership with local investors will help in locating good expert who provides real estate agents and brokers with powerful lead generation and management solutions designed to help gain competitive edge (Makarova, 2013).

PERFORMANCE OF FOREIGN REAL ESTATE INVESTMENT IN NIGERIA

The Nigeria number one modern shopping mall (the Palms shopping mall) in Lekki was built in 2004 as a joint venture between Actis capital headquarters in London and TayoAmusan (local investor). In Odusote (2008) research analysis, the shopping mall started with an average rent of about $300/sqm with construction cost estimate put at $160/sqm. After three years, rent increased to $750/sqm (150% increase). As at the time of writing this paper (2012), the palm has opened two other shopping malls in Lagos and one Abuja. Other success story of foreign real estate investment in Nigeria abounds.

Another good example of foreign investors real estate investment in Nigeria is the Abuja World Trade Centre, a 37 storey building valued at $1bn currently been built on 6.102 hectares, construction is still on going along constitution road, Central Business District. The foreign investor is First Intercontinental Limited, which is a subsidary of Churchgate investment limited a WTC license has been obtained to from the United States World Trade Centre to replicate the project in Nigeria (12). The Eko Atlantic or Eko Atlantic city is another important prominent real estate investment initiative that the preparation of the site on the shore of the Atlantic ocean is ongoing, the contruction valued at is currently going on in Lagos Nigeria. It's a series of commercial building being constructed on recalimed land on Lagos Bar beach (10km.sq). The waterfront plots cost $2000 sq.m while inner city costs $1000sq.m. The city is being developed to be home for 250,000 people and work place for another 150,000 people (13).

CONCLUSION

Nigeria, the seventh most populous country in the world with abundance of natural resources and a well-developed legal, communication, transport and financial sector should be investors target for real estate business in Africa. Real estate investment in Nigeria will not be without risk but the gains outshine the risk. An investor that comes into the market without a detail understanding of the challenges can be frustrated. The processes of real estate transaction are slower and the absence of secondary market makes marketing of real estate properties difficult, this is also responsible for high rate of real estate vacancy in Nigeria. For easy sail, the best approach is for foreign investors to partner with local investors who are already used to the challenges of real estate investment in Nigeria. These local investors are also familiar with prospective clients who have earned their trust overtime. Unlike in developed countries, where real estate vacancy and real estate properties can generally be assessed online, in Nigeria there is less exposure of real estate properties online and the platform is yet to gain the full confidence of exploiters of real estate. People generally prefer to make enquiries form real estate firms and registered agents; this further reinforces the advantage of foreign and local partnership.

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