An Assessment of Commercial Real Estate Performance as an Investment Option in Nnewi, Anambra State, Nigeria

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ABSTRACT

Nnewi in the past two decades has grown considerably not only in size and infrastructural development but also as a commercial town to reckon with in Anambra State South-East Nigeria. This work therefore tries to assess the performance of commercial real estate development as an investment option in Nnewi using shops, offices and warehouses. This study is also delimited to old Nnewi-Onitsha road, Edo-Ezemewi Road and Nwagbara Road which are important commercial roads (CBD) in Nnewi. The study tries to determine the performance of the selected commercial uses in the selected roads from 2006 – 2010 and 2011 – 2015. Thereafter a comparison of the two periods was made. The survey research method was adopted. Data was collected through questionnaires distributed to Landlords of commercial properties in the study area, Estate Surveyors and Valuer, property developers in Nnewi and other secondary sources. The hypothesis developed was tested using ANOVA. The study shows a significant difference in the performance of shops offices and warehouses in Nnewi. The study recommended among other things that real estate investors in Nnewi and indeed in Nigeria should seek the help of professionals (Estate Surveyors and Valuers) who will carry out market and consumer preferences research/analysis before they venture into commercial real estate development.

Keywords: *Assessment, Performance, Investment options, Real Estate, Commercial Estate.*

I.   Introduction:

Nnewi, a town in Anambra State South-East Nigeria is well known because of the scale of commercial and industrial activities going on there. Infact from time immemorial indigenes of Nnewi are known for their prowess in automobile parts trading. However, before the Biafran civil war in Nigeria which took place between 1966 and 1970, Nnewi was a rural town with very little commercial activities going on at Nkwo market roundabout (Okafor, 2016). With the undeclared Biafran civil war in 1966 and the

pogrom in the North, the incidence of returnees, escapees and refugees gave rise to the urbanization of Nnewi as a town.

Today the town has become a centre for commercial and industrial activities and is recognized as the second largest city in Anambra state, Nigeria. It experiences high level financial activities and thus hosts the branches of major banks, other financial institutions, and communication companies to mention but a few (Okafor 2016). According to Onwutalobi (2016) the major products of the town are in the areas of palm oil products, cosmetics, motor and motorcycle parts, books and stationeries, textile material, electric cables etc. The economy of the town is currently positively affecting neighbouring towns and villages (Onwutalobi 2015).

The high level of commercial and industrial activities in the town soon started attracting migrants from other states, towns and villages (Obichere, 1982). This led to continuous increase in the population of the town, leading to serious investments in real estate development to meet with demand for residential, commercial and industrial development. It is against this background that this study decided to assess the performance of commercial real estate development in Nnewi as an investment option.

II.   Statement of the Problem:

Commercial real estate investment in Nigeria is quite diverse and is influenced by conditions existing in the places where they are located (Okafor 2016). Since Nnewi started developing as a major industrial and commercial hub in Anambra State traders, industrialists and merchant see it as a safe haven. Thus, Nnewi started experiencing sharp increase in population. This is followed with corresponding demand for shops, offices, warehouses and other commercial properties needed to accommodate the expansion of the town and the ever increasing demand for products of business units in the town.

Hence real estate developers in Nnewi have little or no option than to go into massive development of commercial properties. Besides commercial uses are taking over residential uses in quick succession. The most favoured types of commercial developments are shops, offices and warehouses. Thus this paper is interested in assessing the performance of commercial real estate development as an investment option in Nnewi.

III.   Aim and Objectives of the study:

The aim of this study is to determine the performance of commercial real estate as an investment option in Nnewi town, Anambra state Nigeria. In order to achieve the above stated aim the paper intends to pursue the following line of objectives:

a. To assess the performance of shops, offices and warehouses in Nnewi between 2006 and 2010
b. To determine the performance of shops, offices and warehouses in Nnewi between 2011 and 2015.
c. To compare the performance of shops, offices and warehouses in Nnewi between 2006 and 2010 and between 2011 and 2015.

IV.   Research Questions

The following research questions were put forward:

a. What are the performances of shops, offices and warehouses in Nnewi between 2006 and 2010
b. What are the performances of shops, office and warehouses in Nnewi between 2011 and 2015.
c. How could the performances of shops, offices and warehouses in Nnewi between 2006 and 2010 and 2011 and 2015 be compared.

V.   Scope of the Study

In view of the broad nature of commercial investments, this study covers only shops, offices and warehouses. Also the study is delimited to old Nnewi-Onitsha road, Edo-Ezemewi road and Nwagbara road in Nnewi town.

VI.   Hypothesis Formulation:

To investigate the research questions, the following hypothesis was put forward:

H_0:   There is no significant difference in the performance of shops, offices, and warehouses in Nnewi town, Anambra state Nigeria.

H_1:   there is a significant difference in the performance of shops, offices and warehouses in Nnewi town Anambra state Nigeria.

VII.   Literature Review:

7.1   Concept of Investment

According to Okofor (1983) investment can simply be defined as expenditure in cash or its equivalence done during one or more time periods in anticipation of enjoying a net inflow of cash or its equivalence in some future time period. Investment according to Hemuka (2014) can also be seen as tying down or sacrificing the liquidity of capital with expectation of returns. Emoh (2004) concluded by asserting that the essential nature of any investment is the foregoing of a capital sum in return for a regular income over a period of time.

7.2   Classification of Investment

Ogbuefi (2002) classified investment into financial assets and non-financial assets. According to him, financial assets are made up of (a) direct ownership (equity) securities (such as common and preferred stocks (b) indirect ownership securities (shares of close-ended and open ended investment companies) (c) Monetary claims (such as government bonds, corporate bonds and savings / fixed deposit accounts) and (d) contingent claims (such as warrantees, options and convertibles). However, Non financial assets include (a) real estate (in the form of residential, commercial, industrial, recreational agricultural, etc) (b) collectibles (such as art, antiques, coins and stamps) and (c) precious metals and stones.

Kalu (2001) however classified investment into shares, bank deposits, stock & bonds and property. Finally, Udechukwu (2009) made his classification into gilt-edged securities (such as treasury bills, treasury certificates, and government stocks), company stocks (such as shares and debentures and property investment.

7.3   Real Estate Investment

Thorncroft (1965) opined that investment in real property can be seen as the employment and application of a capital sum in real property in expectation of a return either in the form of a reoccurring income or in the form of a gain due to appreciation in value or both.

Udobi (2014) quoting Millington (1992) noted the distinguishing characteristics of real estate investment as follows: heterogeneity, proof of ownership, imperfect market, adaptation, durability, capital requirement, transfer of ownership, source of income, limited supply of land and demand for land. Kalu (2001) equally stated the features of real estate investment as follows: high cost of transfer, indivisibility, income and capital growth, perpetuity, imperfect knowledge, risk, liquidity and heterogeneity. Finally, Udobi (2014) enumerates the qualities of property investment which distinguishes them from other types of investment as indivisibility, cost of ownership transfer, taxation, ease of marketability, capital appreciation, capital growth, form of security (collateral), turnover, provision of savings, management problems, direct control, liquidity of income and profitability index, etc.

Ifediora (2009) classified real estate for valuation purposes into (a) investment properties such as block of flats, office blocks, tenement buildings, shopping centers, leasehold interests, residential houses, commercial properties, hotels, industrial, patent, copyrights, royalties, stock, shares, etc (b) marketable non-investment, properties such as owner-occupied houses, staff housing estates, goodwill, furniture & fittings, equipment, antiques, paintings and artworks, gems and jewellery (c) service properties (non marketable non investment) such as churches, town halls, government houses, government schools, government hospitals, road networks and bridges.

7.4   Commercial Real Estate Investments

Udechukwu (2009) pointed out that commercial properties include the various types of income-producing properties that are basically used for trading (buying & selling). Olusegun (2011) classified these into stalls, shops, purpose built shopping mall, supermarkets, banking halls, offices and warehouses. Also included are chain stores, departmental stores, mobile shops, etc. Johnson, Davis and Shapiro (2000) in their own opinion identified four common categories of commercial properties as follows retail (properties where goods are sold to public), industrial warehouses and offices.

7.5   Real Estate Performance Measurement Tool

Kalu (2001) opined that the need for property portfolio performance measurement arises due to four important reasons namely, communication, actual performance against goals, accountability and basis for future action. He further enumerated the property portfolio performance measurement methods as follows:

a.   Measurement of Past Return (Holding Period Return (HPR)
b.   Arithmetic Mean Rate of Return (AMRR)
c.   Geometric Mean Rate of Return (GMRR) and
d.   Money – Weighted Rate of Return (MWRR)

Udobi, Ugonabo and kalu (2013) adopted the Holding Period Return (HPR) method to analyze the performance of Real Estate Investment in Onitsha Metropolis and Investment in Bank Shares in Nigeria

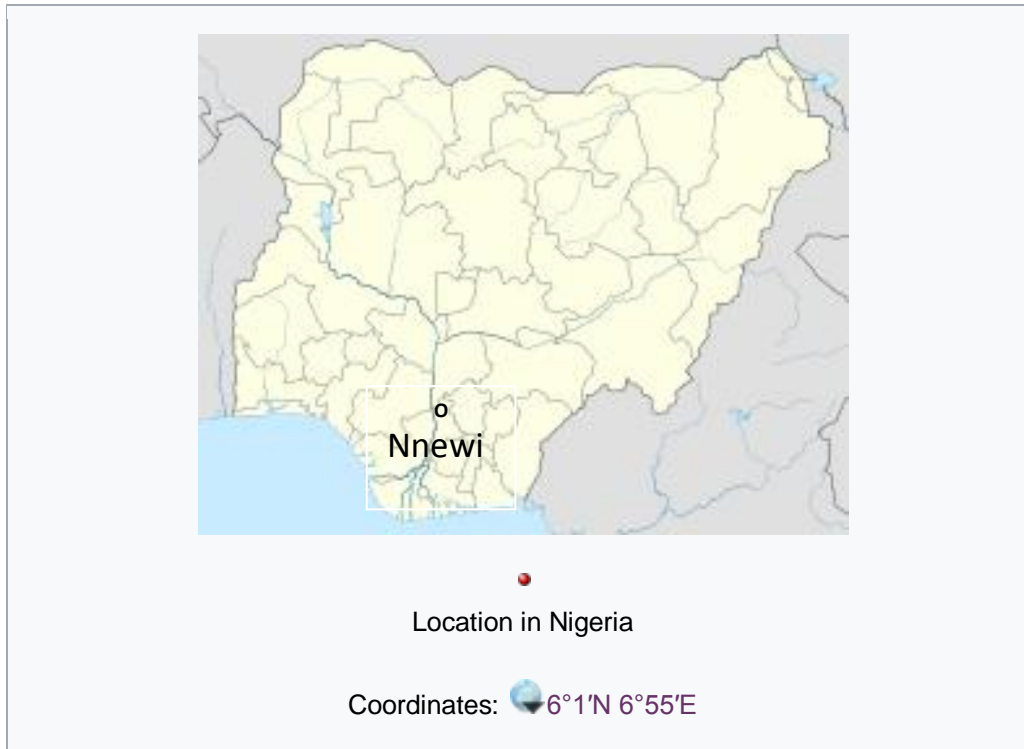## VIII.   Research Methodology:

8.1   Research Design:

The research design adopted in this work is the Survey Research Method. According to Nwabuokei (1986), survey research method studies large and small populations or universe by selecting and studying samples chosen from population to discover the relative incidence, distribution and inter-relationships of sociological variables.

8.2   Brief Description of the study Area:

The study area is Nnewi which is the second largest town in Anambra state after Onitsha the commercial nerve of the state. According to Onwutalobi (2015), Nnewi covers two Local Government Areas (county councils) namely Nnewi North and Nnewi South. Nnewi can be located on the globe with the following co-ordinates: $6^0\,1^{'}$N, $6^0\,55^{'}$E. The town forms part of the tropical rain forest region of Nigeria and is located about 22 kilometers South-East of Onitsha. According to NPC (2006), Nnewi has a population of 391,227 (as at 2006 population figure which happens to be the last population census in Nigeria).

Nnewi City
Motto(s): Leading Innovations

Location in Nigeria

Coordinates: 6°1′N 6°55′E

The main occupation of Nnewi indigenes is trading and they stand tall in any trading business across National and International boundaries. They are also well known in the area of farming, arts and craft, music etc. Notable festivals in the town include new yam festival, (Ifejioku) and other masquerade festivals. Nnewi is the industrial hub of south-East, Nigeria and arguably the largest automobile spare part market in Africa. It is the home of the late Biafran war Lord Dim Chukwuemeka Odumegwu Ojukwu.

8.3 Sources of Data:

Data for this work were collected from both primary and secondary sources as follows:

a. Primary sources:

The primary sources of data include reconnaissance survey of the three roads that were used in the study, distribution of questionnaires, personal observations, oral interview etc. The questionnaire helped in the collection of data on rental values and capital values of properties within the study area.

b. Secondary Data:

The secondary data came from the internet, journals, text books, published and some unpublished materials. This was useful in the review of related literature.

IX. Data Presentation:

9.1 Presentation of data on performance of shops, offices and warehouses in Nnewi between 2006 and 2010:

To determine the performance of shops, offices and warehouses in the study area the rent passing on such properties in the study areas within the period in view was collected and analyzed for old Nnewi-Onitsha road, Edo-Ezemewi road and Nwagbara road. The results are presented in figure 1, 2 and 3 respecively.
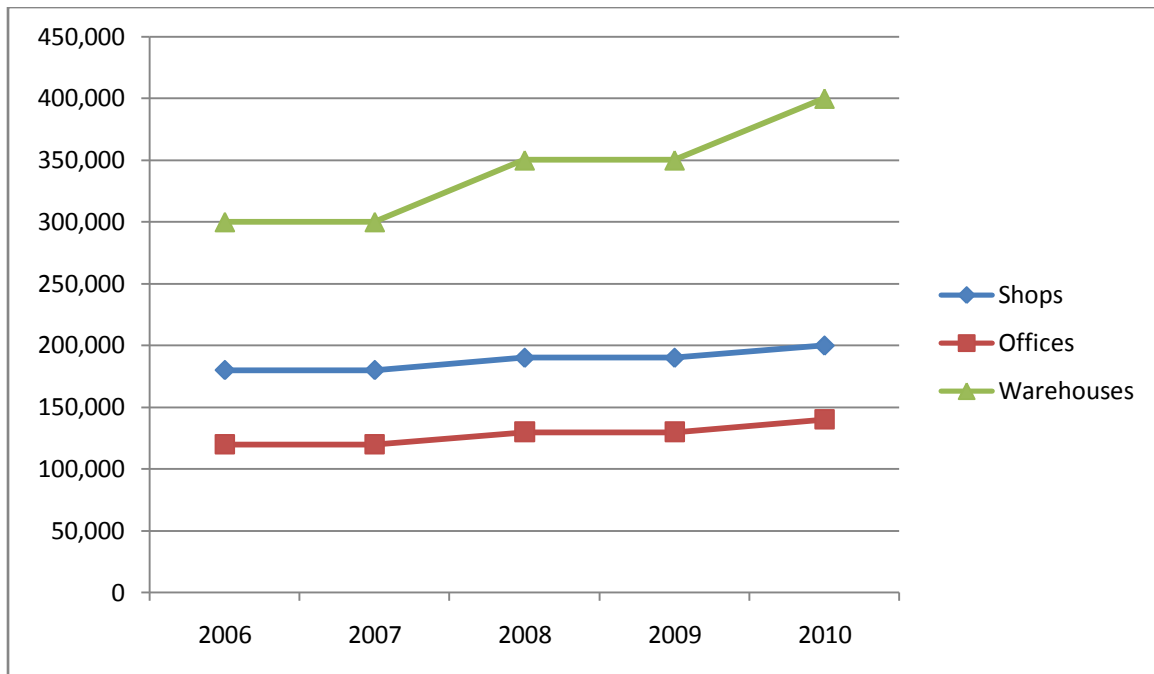
Fig. 1: **Graph showing Rental Trend in Old Nnewi – Onitsha Road between 2006 – 2010 for Shops, Offices and Warehouses**
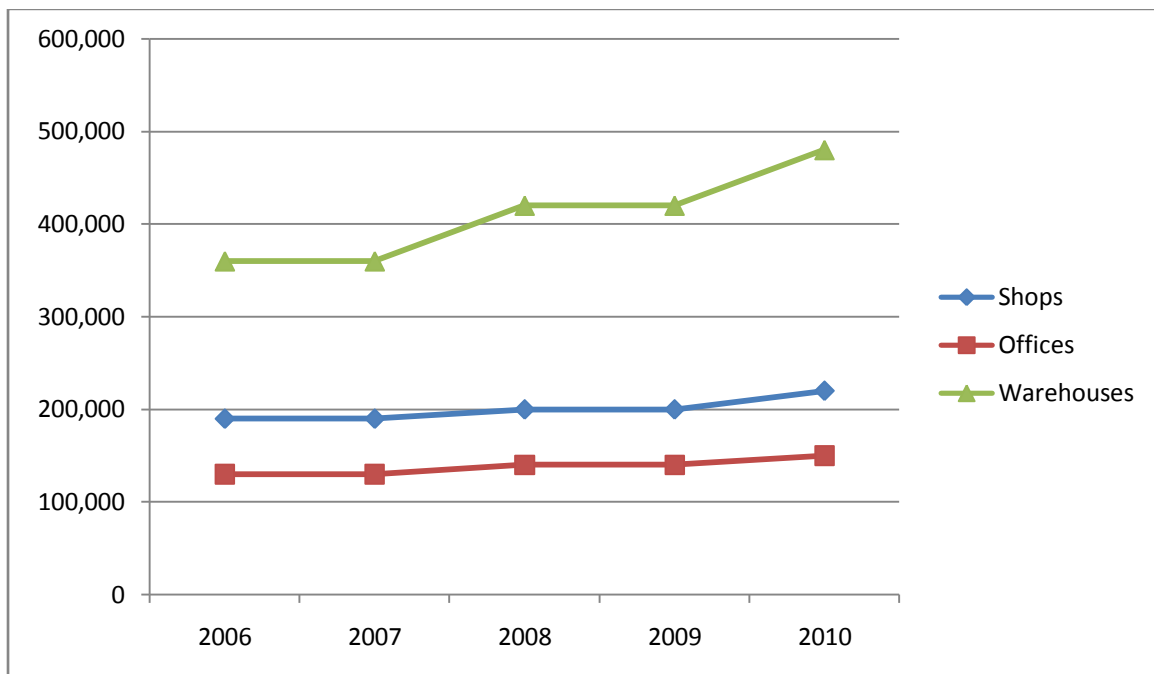
Source: Field Survey, 2016

Fig. 2: **Graph showing Rental Trend in Edo Ezemewi Road between 2006 – 2010 for Shops, Offices and Warehouses**
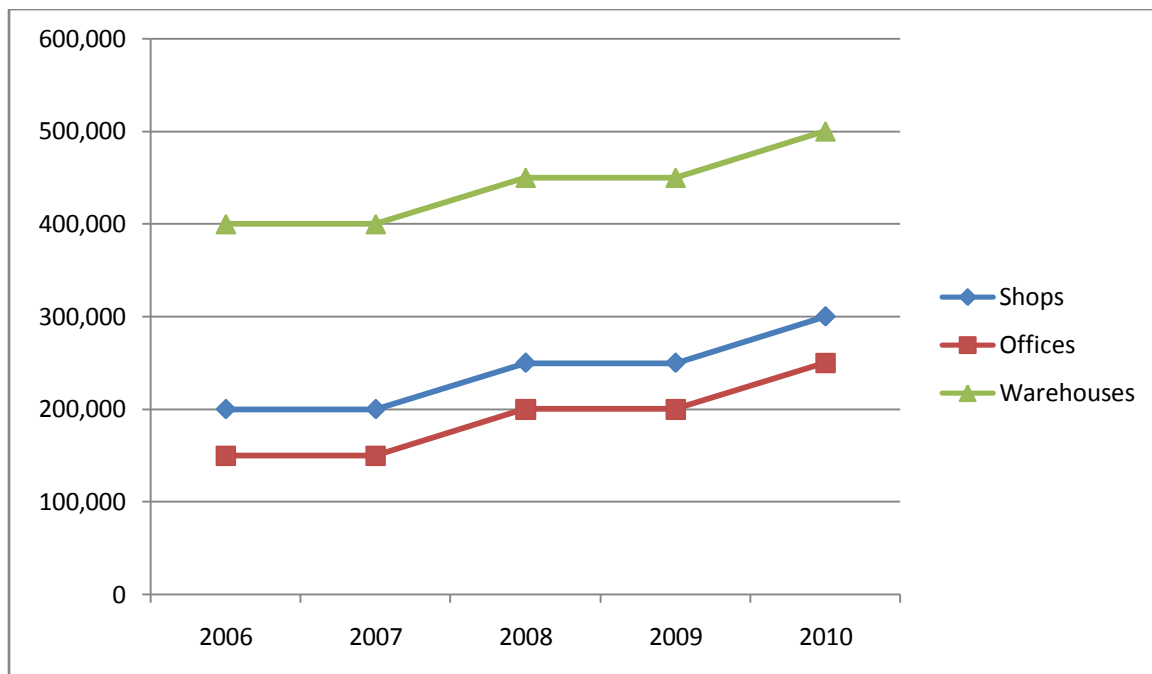
Source: Field Survey, 2016

Fig. 3: Graph showing Rental Trend in Nwagbara Road between 2006 – 2010 for Shops, Offices and Warehouses
Source: Field Survey, 2016

The rate of return on investment was then determined by comparing the average annual value of each type of commercial property by either the capital sum invested by the owner or the estimated value of the property. The result of the computation in the three roads studied as presented in table 1.

Table1:
Presentation of data on the Rate of Return on investment for shops, offices and warehouses in the study area (2006 - 2010)

Categories of properties	Rate of Returns on investment		
	Old Nnewi-Onitsha road	Edo-Ezemewi road	Nwagbara road
Shops	17%	19%	24.3%
Offices	11%	11.5%	15.8%
warehouses	8.5%	10.2%	11%

Source: Field Survey 2016

From the above it could be seen that between 2006 and 2010 for shops, Nwagbara road shows the highest rate of return, followed by Edo-Ezemewi road and old Nnewi-Onitsha road respectively. The trend was also maintained for offices and warehouses.

9.2 PRESENTATION OF DATA ON PERFORMANCE OF SHOPS, OFFICES AND WAREHOUSES IN NNEWI BETWEEN 2011 AND 2015:

Similarly, rental data was collected from old Nnewi-Onitsha road, Edo-Ezemewi road, and Nwagbara road for shops, offices and warehouses for 2011 – 2015. The rent was equally analyzed and is presented in figure 4, 5 and 6.
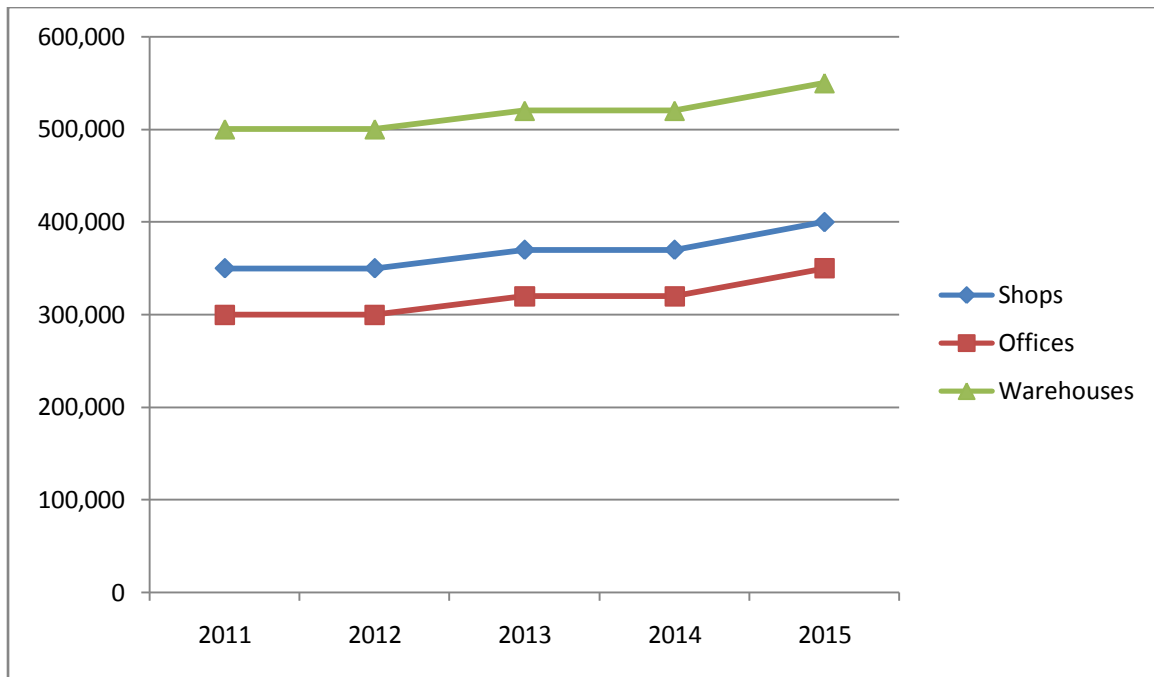
Fig. 4: *Graph showing Rental Trend in Old Nnewi – Onitsha Road between 2011 – 2015 for Shops, Offices and Warehouses*
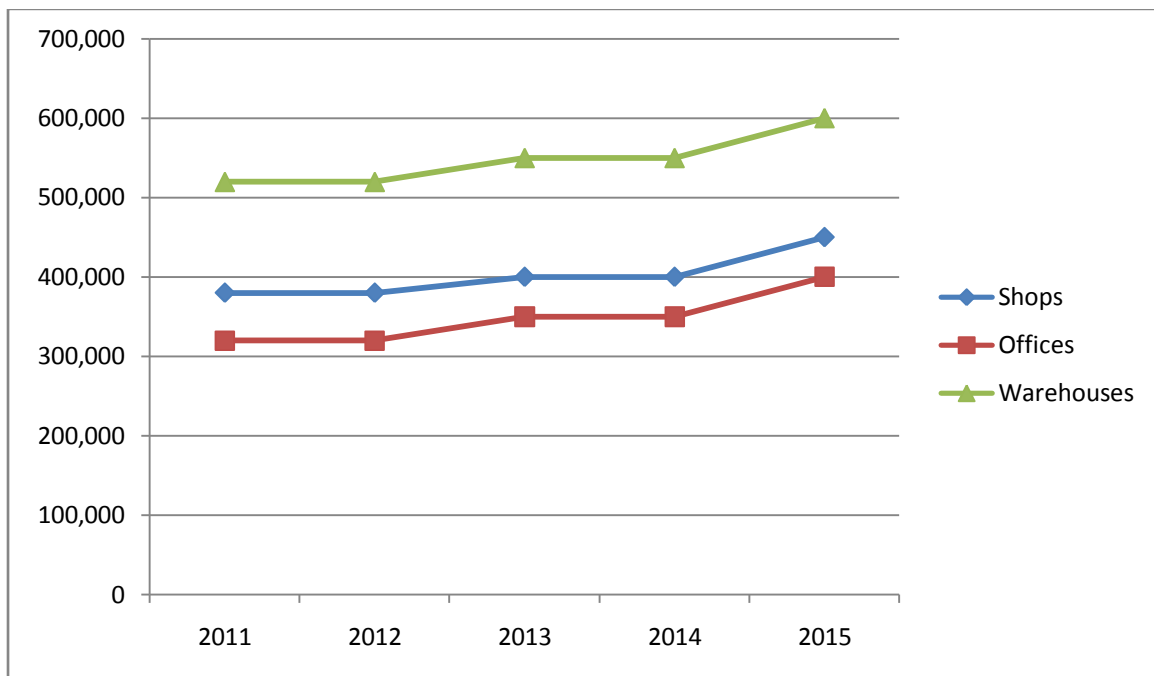
Source: Field Survey, 2016

Fig. 5: *Graph showing Rental Edo Ezemewi Road between 2011 – 2015 for Shops, Offices and Warehouses*
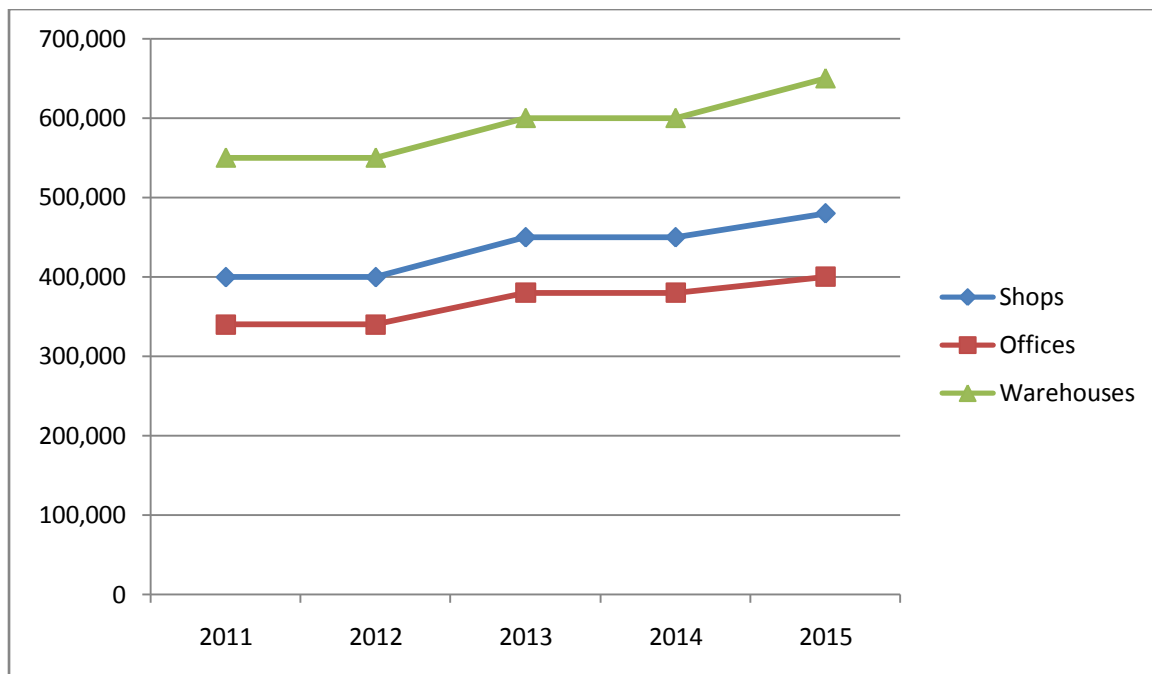
Source: Field Survey, 2016

Fig. 6: *Graph showing Rental Trend in Nwagbara Road between 2011 – 2015 for Shops, Offices and Warehouses*

Source: Field Survey, 2016

Again, the rate of return on investment was determined by comparing the results in figure 4, 5 and 6 with the capital value of the properties or cost of the owner's investment. The result is equally presented in table 2.

Table 2:
Presentation of data on the Rate of Return on Investment for shops, offices and warehouses in the study area for 2011 – 2015:

Categories of properties	Rate of Return on investment		
	Old Nnewi-Onitsha road	Edo-Ezemewi road	Nwagbara road
Shops	16.8%	20.2%	23.6%
Offices	14.6%	26.8%	28.3%
warehouses	11.5%	12.2%	13.1%

  Source: Field survey 2016.

As seen in table 2, Nwagbara road shows a superior rate of return than that of Edo-Ezemewi and old Nnewi-Onitsha roads respectively.

9.3   PRESENTATION OF DATA ON THE PERFORMANCE OF SHOPS, OFFICES AND WAREHOUSES IN NNEWI BETWEEN 2006 AND 2015:

The study then considered the performance of shops, offices and warehouses in the study area from 2006 – 2015. Data on rental annual values of the commercial properties under consideration was again used for the analysis and the result is presented in table 3.

Table 3:

Range and Mean of Rental Value of Commercial properties in Nnewi from 2006 - 2015

Amount	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
shop	30	305666.67	104243.86	19032.237	266741.37	344591.96	180000	480000
offices	30	249000	104694.96	19114.597	209906.26	288093.74	120000	400000
warehouses	30	474000	94453.053	17244.689	438730.65	509269.35	300000	650000
Total	90	342888.89	138752.42	14625.79	313827.76	371950.02	120000	650000

Source: Field survey 2016.

X.   Test of Hypothesis

The hypothesis formulated for this reason work still remains:

Ho: There is no significant difference in the performance of shops, offices and warehouses in Nnewi town Anambra State, Nigeria.

HI: There is a significant difference in the performance of shops, offices and warehouses in Nnewi town, Anambra State, Nigeria.

An analysis of variance (ANOVA) was conducted to discover if there is a significant difference in the performance of shops, offices and warehouses in Nnewi town, Anambra State, Nigeria. The result of SPSS analysis is presented in tables 4 – 7.

Table 4:

Descriptive

Descriptives

Amount	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
shop	30	305666.67	104243.86	19032.237	266741.37	344591.96	180000	480000
offices	30	249000	104694.96	19114.597	209906.26	288093.74	120000	400000
warehouses	30	474000	94453.053	17244.689	438730.65	509269.35	300000	650000
Total	90	342888.89	138752.42	14625.79	313827.76	371950.02	120000	650000

Source: Field survey 2016.

Table 5:
Analysis of Variance

ANOVA

Amount					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.217E11	2	4.109E11	40.085	.000
Within Groups	8.917E11	87	1.025E10		
Total	1.713E12	89			

We can see that the significance value is 0.000 (p=.000), which is below 0.05 and therefore there is a statistically significant difference in the performance of shops, offices and warehouses in Nnewi town.

Table 6:
Post Hoc Tests

Multiple Comparisons

Tukey HSD

(I) Property	(J) Property	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Shops	offices	56666.667	2.614E4	.083	-5664.35	118997.69
	warehouses	-168333.333*	2.614E4	.000	-230664.35	-106002.31
Offices	Shops	-56666.667	2.614E4	.083	-118997.69	5664.35
	warehouses	-225000.000*	2.614E4	.000	-287331.02	-162668.98
warehouses	shops	168333.333*	2.614E4	.000	106002.31	230664.35
	offices	225000.000*	2.614E4	.000	162668.98	287331.02

*. The mean difference is significant at the 0.05 level.

The table above shows which groups differed from each other. From the table, there is a statistically significant difference in the rental values between the shops and warehouses (p=0.000) as well as between the offices and warehouses (p=0.000). However, there was no statistically significant difference in the rental values between the shops and offices (p=0.083).

Table 7:
Homogeneous Subsets (Shops, Offices and Warehouses)

Amount

Tukey HSD

| Property | N | Subset for alpha = 0.05 | |
		1	2
offices	30	249000	
shop	30	306000	
warehouses	30		474000
Sig.		.083	1.000

Means for groups in homogeneous subsets are displayed.

There was a statistically significant difference between groups as determined by one-way ANOVA [$F_{(2,89)}$ = 40.085, p=0.000]. A Tukey Post Hoc test revealed that the rental values were statistically significant for offices (₦249, 000 $\pm$₦104, 694.96, p= .000) and warehouses (₦474,000 $\pm$₦94,453.05, p= .000) compared to the shops (₦305,666.67 $\pm$₦104243.86). There was no statistically significant difference between the rental values for shops and offices (p= .083).

Finally, this shows that there is a significant difference in the performance of shops, offices and warehouses in Nnewi town, Anambra State.

XI. RECOMMENDATIONS

The study therefore recommends that firstly, the government at all levels (local, state and federal) in Nigeria should work had to provide the enabling environment for investment (especially in the area of real estate development) to thrive. Secondly, investors in Nigeria should seek help from investment and/or real estate development analysts before embarking on real estate development. This can equally be done by employing such analysts in their firms for assured performance. Thirdly, Real Estate practitioner should equally endeavour to acquire the requisite skills in real estate performance analysis so that they can be in the best position to handle briefs as they come. Fourthly, firms of Estate Surveying and Valuation and other players in the real estate industry should work hard to create, operate and maintain a roburst data bank that can supply the required information at all times. Finally, the government, professionals and other stakeholders should partner to provide a very active market for building materials which is currently responsible for over 70% of cost of construction in Nigeria.

XII. CONCLUSION

This study has assessed the performance of commercial real estate development as an investment option in Nnewi, Anambra State, Nigeria. The study discovered that the rate of return on shops and offices out shined that of warehouses in Nnewi. Investors in Nnewi are therefore advised to concentrate more in the development of shops and offices since this would ensure better returns on their investment.

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