Challenges of International Real Estate Investment amidst COVID-19 Pandemic: Nigeria Perspective

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Abstract:
The study focused on examination of the challenges facing international real estate investment and impact of COVID 19 in Nigeria. Relevant twelfth challenges surveyed from related literatures were subjected to study. Relative Importance Index (RII) was used to determine the significance of each challenges based on the respondents' rating. From the study land registration process, real estate taxes payable, financial sector risk and legal risk were ranked as the most significant challenges with RII of 4.47, 4.38, 4.24 and 4.05 respectively. The least significant challenges are capital importation/repatriation and expropriation/nationalization with RII of 2.75 and 2.56 respectively. The research also recommend the government to reduce the processes and cost of land registration as well reduce the taxes paid for real estate ownership.

Keywords: Challenges, international real estate, investment, COVID, Nigeria.

1.0 INTRODUCTION

Real estate is an immovable asset or property that is fixed permanently to one location. This includes land and anything that is built on the land. It also includes anything that is growing on the land or that exists under the face of the land (Badmus, Yusuff & Ali, 2017). Real estate refers to land, as well as any physical property or improvements affixed to the land, including houses, buildings, landscaping, fencing, wells, air right above the land, mining right under the land etc. Vacant land and residential lots, plus the houses, outbuildings, decks, trees, sewers and fixtures within the boundaries of the property are all referred to as real estate. Nowadays, with modern method of construction and technology, mobile houses may be referred to as part of a real estate. Finhnh (2017) stated that from time immemorial, real estate has shown to be an excellent source of profit through the increase in investment property value over time. People have been investing in real estate because of its benefits of generally capable of appreciating in value with time, all things being equal. Real estate is important because it is a basic need for individual, family, corporate organisations and government, and demand for it will be directly correlated with increasing population, increasing production and increasing quality of living determined by increasing per capita income.

Real estate investment is among the key investment that enables the investor to recover his investment as at when due (Braimoh and Onishi, 2007). For any investment to flourish one has to make any aspect of the business feasibility and viability studies for proper dealings and carefulness from avoiding fraudulent business, real estate business has less harm if the owner or the buyer makes a proper investigation of the subject matter. Eichholtz, Gugler, and Kok, (2011) stated that an increase in international real estate capital flows could foster increasing demand for stronger institutions across global real estate market. A number of article have argued that real estate investment has realized tremendous positive abnormal risk adjustment returns, return on real estate investment is certain as rent or prestige (Olawande, 2011). Sale or lease of parcel of land by a speculator or prospective seller to willing buyer entails good returns to the seller and asset possession to the willing buyer. Another good aspect of investment on real estate is tenants selection. However, real estate investment is strictly related to the housing price. It has been pointed out by many researchers that the housing price is affected by many factors, such as interest rate, land supply, government policies and inflation rate (Hui, and Yu, 2010).

International real estate investment is necessitated by real estate investors seeking to diversify risks inherent in such investments in their domestic markets. Risks here encompass both variability in expected returns from investment (Byrne and Cadman, 1985) and expected uncertainties (unknown occurrences) inherent in such investments (Kalu, 2001). Some of the risks are specific to the class of investment while others are in the macro economy of the country or the area where the investment is undertaken. Specific risks can be diversified while risk inherent in the macro economy (the systematic risks) cannot be diversified. Investors are compensated by the market for bearing systematic risks but not unsystematic risks. In going international investors hope to diversify their domestic market risks and tap into the benefits of going international (Solnik, 1993). To this end investors must seek to enter countries with low systematic risks. Chrstner (2009) and Solnik (1993) and other eminent scholars advise that there exist certain factors the foreign investors must note in the destination market they intend to explore and adequate precautions taken in order to avoid pitfalls and failure. The country and continent chosen for investment matter so much as expected returns can be affected either negatively or positively (Chrstner, 2009). International real estate investments are made in a foreign country's property market in order to reduce the investor's portfolio risk. Such investment risk reduction is possible because real estate markets of different countries generally have low levels of correlation (Chua, 1999; Conover et al, 2002; and
Baum, 1999 among others). In addition, real estate investments overseas may help investors increase returns. However, investing in real estate markets overseas means venturing into the unknown, where you meet unfamiliar political and economic environments, unstable currencies, strange cultures and languages, and so although the advantages of international diversification might appear attractive, the risks of international portfolio investment must not be overlooked (Sirmans and Wozrala, 2000); and Kateley (2002). Nonetheless, capital markets are becoming global markets and commercial real estate markets are no exception so despite the difficulties posed by venturing overseas, no investor can overlook the potential international real estate investment holds out.

According to the World Health Organization (WHO, 2020), the coronavirus is a large family of viruses which may cause illness in animals or humans. In humans, several coronaviruses are known to cause respiratory infections ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). COVID-19 has become a global pandemic affecting many countries which Nigeria is one of them as reported by the World Health Organization (WHO, 2020). The most common symptoms of COVID-19 are fever, dry cough, and tiredness. Other symptoms that are less common and may affect some patients include aches and pains, nasal congestion, headache, conjunctivitis, sore throat, diarrhea, loss of taste or smell or a rash on skin or discoloration of fingers or toes. As a result of the constant rapid increase of coronavirus cases in Nigeria and the application of social distancing to curb the spread of the virus, real estate has been affected greatly compared to the major financial asset classes owing to the peculiar characteristics of real estate. Real estate investments are largely traded in private, non-centralized market, with inaccessible private data and often poor quality data. However, the recent developments in global economy has necessitated that real estate investment decision needs to be properly informed (Oyewole, 2019). In Nigeria, real estate investment was seen in the past as a means to obtain security and regular income, thus decisions were often made on the basis of intuition and past experience (Ajayi & Fabiyi, 1984). Appraisal of portfolio performance was limited to financial holdings, while limited interest was shown on the level of performance achieved by real estate investments. Location and sound management were recognized as the only important factors influencing the return on real estate investment. Such considerations as basis of investment decision sufficed for the period of the economic boom (Oyewole, 2019). However, the recent happenings in the global and national economy require thorough investigation of all forces that influence real estate performance including the impact of COVID-19 on real estate investment.

Urbi (2016) stated that international real estate investing offers opportunities for enhanced diversification. Investors often begin real estate investing domestically because local opportunities are more familiar and easier to undertake than cross-border (international) investments. As investors gain experience investing in a variety of domestic real estate projects, they often look to other countries for new opportunities. Institutional investors pursuing direct access to real estate assets often begin investing abroad by becoming a limited partner in an international project somewhat similar to the domestic opportunities with which they are already familiar and experienced. He further stated that the primary problems encountered with international investment include lack of local knowledge, agency costs, regulatory restrictions on foreign ownership, higher transaction costs, complex taxation, small-scale markets, political and economic risks, exchange rate risk, and access to local services. The growth in the use of real estate funds for real estate investments has facilitated an increase in international real estate investments. Real estate funds allow investors who lack the resources or skills to invest directly to enjoy the benefits of diversification into cross-border products without the need to know the characteristics and functioning details of foreign property markets. The growth in international real estate investments, while widening the potential pool of properties available for purchase, does not come without challenges. In particular, real estate funds are exposed to foreign exchange risk. Currency exposure is particularly apparent in the case of international real estate investments, given the relative low volatility of property operating income. This low volatility of operating income often renders exchange rate movements as the main source of short-term risks and returns (positive or negative) from investing abroad, unless currency risk is hedged. The globalization of economy activity through deregulation and liberalization and advances in information and communication technologies present an appetizing environment for world real estate investors to go international. Advantages 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 having huge funds 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. Real estate investment faces many challenges such as land acquisition and Registration, interest rate, Government policies, real estate pricing, lack of clear and proper real estate legislation, scarcity of land, Bureaucracy in registering title deeds (Kazimoto, 2016). However, the study examine the challenges facing international real estate investment in Nigeria.

2.0. LITERATURE REVIEW

2.1 Challenges of international Real Estate Investment

Even though Nigeria has the above beautiful economy prospect, she has been known to be in high risk market for investment (Agu, 2015). The challenges of international real estate investment today are:

Land Registration Process

International real estate investors need security to access mortgage fund. Such security must necessarily be registered both at the co-operate affairs commission and the Land Registry to give it legal backing (Lovells, 2013). According to World Bank Doing Business Report (2013), Nigeria is ranked 182 out of 185 countries. She is among the worst in land registration. The process can take up to 12 processes, last between 6 months to 2 years and cost about 20.8% of the property value. Developers are usually frustrated and sometimes lose their source of funding or incur further costs in interest on bank loans (Emiedafe, 2015).
Real Estate Taxes Payable

The taxes payable include Value Added Tax (VAT) on the services of Estate Agents (5% of the fees charged), Capital Gains tax (10% on the value of the property), withholding tax(5% - 10%), stamp duties (assessed and paid by the payee on annual or ad valorem bases). Other taxes and levies include development levy, income tax, building plan approved levy, property tax, renovation tax (in the occasion of renovation of buildings) and other miscellaneous charges and levies. Most of these charges, in practice are arbitrarily charged. This informs the present advocacy by The Estate Surveyors Registration Board of Nigeria (ESVARBON) that the assessment and payment of Stamp duty and Estate Duty should be on Dutiable basis while Capital Gains Tax should be on Chargeable Gains (CG) (Mekadolf, 2015). As Christner (2009) and other authors reviewed above state, numerous, arbitrarily, and unfriendly taxes repress investment outcomes in returns.

Bribery and Corruption

This factor tops Lovells (2013) risk list for foreign real estate investment in Nigeria. This is because Nigeria is currently ranked by the Transparency International as the 35th most corrupt country globally. Buildings collapse because of non-compliance to building regulations by contractors engaging in sharp practices. The staffs of government Regulatory Agencies prefer taking bribes rather than ensuring that building regulations are adhered to. Investors can overcome this by keeping close personal monitoring on building projects or employ reliable project managers to do same.

Fraud

Fraud dominates real estate business in Nigeria. This was clearly demonstrated by Jones, Lang, Lasalle ranking in 2012, when Nigeria was ranked96/97 in transparency index. By the ranking, Nigeria was x-rayed to suffer from corruption, lack of operational real estate data and poor environment sustainable programs in massive property development (Emiedafe, 2015). Unqualified people are allocated land and the qualified developers denied. Popular global real estate investors prefer countries in North and South Africa where the investment environment is friendlier and more transparent. Makarova (2013) suggest that partnership with local investors can solve the riddle and eminent estate surveyors and valuers too. A lot of those who desire to invest in real estate are afraid because of fraudulent practices that are prevalent in the industry. The greatest fraud today is being perpetrated through sales of off-plan properties. Off-plan properties are properties sold before completion. Off-plan properties are usually lucrative because they are sold below market values. Gbonegun (2018) stated that the concept of buying off-plan properties in Nigeria has been fraught with sharp practices. Most of the sellers of off-plan properties fail to deliver.

Financial Sector risk

Nigeria mortgage industry is still under-developed. This is evidenced by statistics from World Bank. Between 1960 and 2009, its transaction profile stands at less than 100,000 (Emiedafe, 2015). The contribution of mortgage financing to Nigeria GDP is almost zero with real estate contributing 5% and mortgage loans and advances contributing 0.5%. Alfred (2014) posits that finance sector risk is a great worry to foreign real estate investors to Nigeria. Omisore (2012) posits that Nigerian real estate sector lacks well-defined and reliable mortgage financing as it is seen not being affordable to support longer terms 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 transfer may be huge considering the processes involved in the country.

Legal Risk and Bureaucratic Encumbrances

This is the major risk as postulated by (Alfred, 2014) plaguing Nigerian real estate sector. The apex legislation controlling all land matters in Nigeria is the Land Use Decree, of 1978 now Land Use Act (Cap 202) of 1990. Land development is under the auspices of the Urban and Regional Planning Department by Decree of 1992. The bureaucracy of obtaining either the Right of Occupancy over a purchased land or the Development approval are very cumbersome to domestic operators not to talk of foreign investors. Government can be erratic and changing in its policies. Delays exist in passing relevant laws by National Assembly. The courts handling land matters are no better. Cases are left unresolved for years on end (Lovells, 2013). Aggrieved persons die and live cases unresolved. This discourages investors into the sector.

Political Instability/Violence

Lovells (2013) and Agu et al. (2013) write that political instability and violence have killed the interest of both domestic and foreign investors in Nigeria. Bombing attacks, stampede, fighting, bomb explosions, kidnappings, killings have discouraged investors. Boko Haram sects terrorized the north east while Niger Delta militants hold sway in the South South, bombing and blowing off oil pipe lines. Buildings are destroyed and probability of rebuilding by investors is very slim for obvious reason – fear of repeated attacks. Hamilton et. al. (2009) posits that the risk assessment in the regions is very high.

Capital Importation/Repatriation and other Foreign Exchange rules

Foreign investors operating jointly with or without Nigerian investors must register with the Nigerian Investment Promotion Commission (NIPC) and obtain the certificate. The certificate will be needed before funds can be repatriated by foreign investors in non-exempt companies. Foreign investors are allowed free access to import into Nigeria with recognized foreign currency to fund their operations, but subject to the country’s money laundering law. Such importation must be through an authorized Agency (Bank) which must issue to the operator Certificate of Capital Importation (CCI) to evidence the inflow of such funds into Nigeria (Lovells,2013). The same rule applies to other imported resources like raw materials and equipment. The CCI will further on assist in the purchase of foreign exchange from official market for easy repatriation of the investors proceeds.

Devaluation of Naira (Exchange Rate)

The recent devaluation of Naira as compared to other world currency in international market has made housing cost to go up 25% to 35% and there is prospect for higher rise (Lovells, 2013). Some foreign developers peg their construction costs and value

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of selling finished product in the US dollars while they pay their clients in Naira. There will be no problem if the cost and value of the development in Naira translates into its anticipated equivalent in dollars. But this is not so as Naira continuous fall constitutes a loss to developers (Ekpenyong, 2015). Emiedeafe (2015) believes that higher construction cost is as a result of over dependent of the real estate industry on foreign equipment and raw materials. Naturally developers shift high construction costs on consumers. Real estate investment is actually a hedge against inflation as high inflation is rewarded by high interest yield on capital invested as income will go up if demand is strong (Solnik, 1993; Shapiro, 1993; Hoesli, et. al.,2000). If demand is not strong resulting in low rentals or voids, then losses will ensue. Even at high rental yields, the real value of money (purchasing power) is low, meaning a loss to investors.

**Opportunity cost of rival investments**

The opportunity cost of investing in shares, bond and motor vehicles. The temptation and or opportunity costs to invest in shares of quoted companies, government bonds and motor vehicles may lead one not buying real estate.

**2.2 Impact of COVID-19 on Real Estate Investment in Nigeria**

The outbreak of COVID-19 has had a massive impact on financial markets and the economy worldwide. The impact of the COVID-19 pandemic on real estate can be deemed to be an indirect one; as the pandemic affect humans, their characteristics and activities, these in turn lay impact on the real estate sector. The demand for living space for several years now, has exceeded the scarce supply of real estate in many cities and regions. This trend is believed will not change significantly even in the present times, as the reasons for the excess demand will continue to exist (Okafor and Keke, 2020).

The pandemic has disrupted life and performance in most sectors. Some have been lucky to have the capacity to withstand the shocks. The telecommunications sector, for instance, has been the bright spot during the pandemic as business owners and individuals rely on technology for meetings and milestone celebrations. Other sectors, such as aviation, education, and trade, have crashed under the weight of the pandemic. Social distancing guidelines have affected their ability to conduct business and resulted in a significant loss of revenue. Unfortunately, the real estate sector is among the significant losers of the current crisis. The impact of the pandemic on the real estate sector is unique in that it is not felt immediately by key stakeholders. The sector is a lagging indicator, which means that it can confirm long term trends but not predict them. The fragmentation of the sector means that different sub-sectors will feel the pinch of the virus differently than others. However, one common factor is that all sub-sectors will be negatively affected.

Okafor and Keke (2020) stated that marketing and prices of real estate have remained stable despite the emergence of the coronavirus, however demand for some specific classes of property, such as recreational may drop, while demand for some others such as medical and agricultural are on the increase. Nevertheless, investors as well as all individuals are likely to put their scarce resources only to necessities due to the uncertainties of the global economic situation and this can affect the real estate sector activities indirectly in the long run. Marketing of real estate for sale or rental is going virtual in order to reduce personal contact and observe the required social and physical distancing rules. The agricultural real estate sector is predicted to remain stable as the demand for agricultural products both for food and export will always be on the rise. This makes the agricultural sector relatively inelastic, thereby giving it the potential of growing, particularly in the manufacturing of medical and herbal products which are believed to help fight against the virus. Overall, investing in real estate remains a safe investment.

**3.0 METHODOLOGY**

The data for this research work was obtained through the use of structured questionnaires from Real Estate Investor/Developer, Estate Surveyors and Valuers, Builders, Quantity Surveyor and...
Engineers. 88 completed questionnaires where use for the analysis. Relative Importance Index (RII) was used to analyse the respondents’ scores of the basic challenges. In this study, an ordinal measurement scale 1 to 5 was used to determine the effect level. With the use of Likert scale, respondent’s opinion on the challenges facing international real estate investment was obtained and they were asked to score challenges associated with international real estate investment, according to the degree of important: Strongly agree with 5 points, Agree with 4 points, Indifferent with 3 points, and Disagree with 2 points and Strongly disagree with 1 point. The relative importance index (RII) is given by equation (1)

Relative Importance Index = $\frac{\sum wF}{N}$

Where W is the weighting given to each factor by the respondents, ranging from 1 to 5, F is the frequency of responses and N is the total number of samples. The rating of all the challenges for degree of significance was based on the value of their respective relative importance index (RII).

### 4.0 DATA PRESENTATION

Responses and Ranking on Challenges Associated with International Real Estate Investment Scored on the Degree of Importance

<table>
<thead>
<tr>
<th>S/N</th>
<th>Challenges</th>
<th>Scales and number of respondents</th>
<th>R II</th>
<th>Ranking</th>
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<td>5</td>
<td>4</td>
<td>3</td>
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<tr>
<td>1</td>
<td>Land registration process</td>
<td>52</td>
<td>27</td>
<td>7</td>
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<tr>
<td>2</td>
<td>Real estate taxes payable</td>
<td>50</td>
<td>25</td>
<td>9</td>
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<tr>
<td>3</td>
<td>Financial sector risk</td>
<td>47</td>
<td>22</td>
<td>12</td>
</tr>
<tr>
<td>4</td>
<td>Legal risk and bureaucratic encumbrances</td>
<td>44</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>Fraud</td>
<td>44</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>Political instability/violence</td>
<td>39</td>
<td>23</td>
<td>11</td>
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<tr>
<td>7</td>
<td>Devaluation of naira exchange rate</td>
<td>39</td>
<td>23</td>
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<tr>
<td>8</td>
<td>Bribery and corruption</td>
<td>35</td>
<td>25</td>
<td>13</td>
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<tr>
<td>9</td>
<td>Absence of secondary real estate market/illiquidity</td>
<td>25</td>
<td>26</td>
<td>15</td>
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<td>10</td>
<td>Opportunity cost of rival investment</td>
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<td>11</td>
<td>Capital importation/repatriation and other foreign exchange rules</td>
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<td>12</td>
<td>Expropriation and nationalization</td>
<td>5</td>
<td>8</td>
<td>30</td>
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</tbody>
</table>

**Rank:** (Strongly agree -5, Agree -4, Undecided-3, Disagree -2, strongly disagree -1)
From the result in table above, land registration process ranked first, real estate taxes payable ranked second, financial sector risk was ranked third and Legal risk and bureaucratic encumbrances ranked fourth and they are most significant challenges facing international real estate investment in Nigeria.

5.0. CONCLUSION AND RECOMMENDATIONS

International Real estate investment is one of the best investment products available in any economy. The rate of appreciation of real estate and the services it provides make investment decision in it a wise one. Location is the major factor in decision-making before buying a property. Real estate investment is desirable by both the rich and the poor because it is a basic need and has lower comparative risk on investment. International real estate investment is faced with many challenges which when not handled properly would affect Nigeria economy. COVID-19 pandemic have an impact on real estate supply, demand, sale value and rental value in Nigeria. From the discussion so far, it is correct to state that the real estate sector of the Nigerian economy has been greatly affected by the outbreak of COVID-19 so much so that investors are very scared to invest in the sector. The following recommendations were made to mitigate the influence of the problem of international real estate investment during similar pandemic in the future. Nigeria foreign real estate investment terrain should be safer for investors to achieve their diversification benefits. The paper recommend that the Federal Government should work on the macro economy indices to stem most of the risk factors to make the investment arena conducive for international investors to operate profitably. Furthermore foreign investors need to partner with reliable domestic investors and estate surveyors and Valuers who are more familiar with the economy terrain to safeguard against losses. The research also recommend the government to reduce the processes and cost of land registration as well reduce the taxes paid for real estate ownership.

6.0. REFERENCES


