RETURN AND RISKS IN REAL ESTATE INVESTMENT: A CURSORY LOOK AT THE UYO PROPERTY MARKET

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Abstract
Real estate investing is a popular choice for many investors, who often assume it will always result in a positive return due to its unique characteristics. Unfortunately, this is not always the case. Sometimes, investors' expectations still need to be met, and the outcome is far from what they had anticipated. As a result, investing in real estate requires careful consideration and understanding of the potential risks and rewards. Thus, the paper hinges on assessing the return and risks in real estate investment in Uyo, Akwa Ibom State. Consequently, identifying the significant risks involved in real estate investment and assessing the factors that bring about negative cash inflows in the sector is the fulcrum of this paper. The study utilizes a survey design and collects data primarily from questionnaire responses provided by resident surveyors in Uyo to accomplish its objectives. Data from the field is collated and analyzed for interpretation using the Relative Importance Index. The result shows that high interest rates, high cost of building materials and tenants' preferences are the significant factors that affect returns. It also reveals that people invest in real estate for a steady income and long-term financial security. Nevertheless, findings identify asset, market, location, and financial risks as significant in real estate investment. In contrast, poor management, high maintenance costs, high financing costs, and voids are causes of negative cash inflows. The paper recommends boosting the economy's manufacturing sector to enhance the production of suitable quality building materials at reduced rates and providing capital at low interest rates.

Keywords Cash inflow, investment, real estate, return, risk.

Introduction

Investment, in its basic concept, is the giving up of a capital sum to earn a stream of income over a period of time or to have the capital appreciate or both. Real estate investment has been defined by Udoudoh (2021) "as the employment and application of capital sum in real property in expectation of a return either in the form of a recurring income or in the form of a gain due to an appreciation in value or both".

As opined by Etuk, Raphael and Udosen (2022), real estate means "land, building, infrastructure and other tangible property which is usually immovable but transferable. Some of the examples of real estate are houses, office buildings, agricultural land, commercial plots and lots more".

However, notwithstanding the benefits derivable from investing in real estate, it has been observed that many people and organizations who ventured into real estate business had sold off such business concerns in the course of time. Their decision to sell off must have had something to do with the inherent challenges in real estate investment in Nigeria (Etuk & Ebong, 2016). Therefore, this study seeks to assess the factors that affect real estate return in Nigeria using Uyo, Akwa Ibom State as a case study and also to examine the reasons people invest in real estate, identify the various risks involved in real estate investment and assess the factors that bring about negative cash inflows in the sector.

Literature Review

Investment is an asset procured to secure income and value appreciation. Any individual who acquires an asset for investment purposes does not intend to satisfy an immediate need but uses it for future wealth creation. An investment always concerns the outlay of some resource, be it money or intellectual property today, expecting a bigger payoff tomorrow than the initial goal (Udoudoh, 2021).

Etuk (2021) states, "Real estate is the physical land, and appurtenances affixed to land structures as immobile and tangible. It includes tangible components such as land, all things that are natural parts of the land such as trees, mineral resources, things that are attached to the land by people such as buildings, electric poles, underground wires and all other site improvements". On the other hand, Real Estate Investment embraces all transactions involving land and building rights.

Real estate investors are generally grouped into two, namely: (i) The public investors, which include the Federal, State and Local Governments and their
agencies and (ii) the Private investors, which include limited liability companies, organized private groups, societies and clubs and individual investors (Nwaibe & Ogbuefi, 2013).

Real estate has different classifications called land uses; these are residential, commercial, educational, recreational and agricultural, among others. According to Opara (2017), real estate investment involves some phases, from initiation through evaluation through design and costing to the disposal phase.

Figure 1 is a typical property development and investment process:

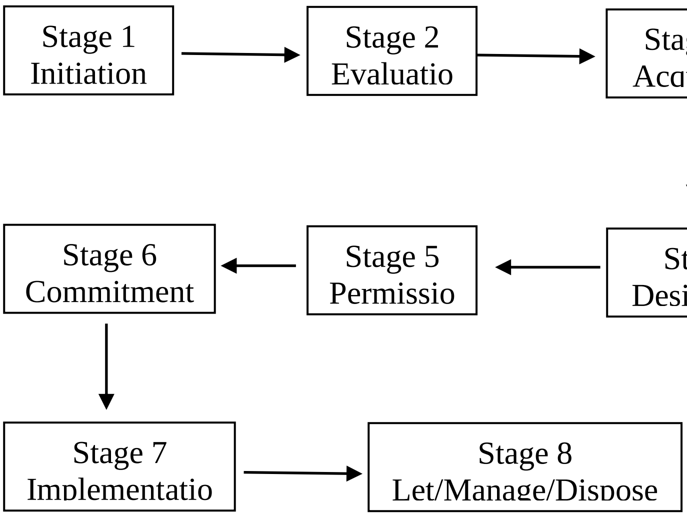

Fig. 1: Typical Property Development and Investment Process

The stages in Figure 1 are consistent with event-sequence of development. The following are the phases of investment:

i. Site selection
ii. Market Analysis
iii. Site investigation to determine its suitability
iv. Appraisal study to determine the practicability and the profitability
v. Engagement of professionals
vi. Sourcing of funds
vii. Planning Application
viii. Site Assembly/Purchase
ix. Design
x. Tendering/contracting
xi. Construction
xii. Promotion
xiii. Letting
xiv. Sale

Investment in real property according to Oyedele (2021) takes either the form of Financial or Real Investment (the creation of new assets). Financial investment in real property has to do with acquisition of landed property for the purpose of enjoying rents. Investments like this is similar to purchase of stocks or shares.

Acquisition of real property may take any of the forms listed below:

i) auction
ii) tender
iii) private treaty
iv) purchase

Investing in it (real property) also takes various forms: of sale and lease – back. The principle here involves outright sale of one's interest to obtain finance. This has the merit of securing adequate fund while also helping to secure occupation. There are many gains accruable from investing in the real estate sector. Among these are:

a) prospects for steady income
b) long term financial security
c) tax advantage
d) appreciation of real estate value
e) hedge against inflation
f) wealth creation
g) Provision of leverage and Diversification benefits (Kuburat and Ilori, 2021).

Real estate investment is a popular means of investing, but it has its challenges. A number of studies have investigated these challenges. For example, Etuk, R. & Udosen (2022) suggest that lack of efficiency and external effectiveness are significant indicators of problems in real estate investment. Prince (2017) believes that real estate investment failures are due to a mixture of inefficiency in work and individual contributions rather than just one reason. There are many failed, abandoned, and uncompleted real estate projects in Nigeria, both by public and private institutions. The problems facing real estate investment in Nigeria include high costs of building materials, lack of available land in central business districts, fraud, lack of knowledge, and more (Efekalam & Diala, 2017). To address these issues, investors should seek professional advice before investing. Negative cash inflow happens when cash inflow is less than cash outflow, resulting in a loss. Reasons for negative cash flow include poor rental strategy, high maintenance costs, high financing costs, high vacancy, and incorrect rent charging (Oyedele, 2021). The high cost of property development, limited sources of funding, devaluation of Naira, bribery and corruption, and taxation are the issues that hinder the growth of real estate investment and the property market in Nigeria

(Oyedele, 2021). Alpheaus (2019) highlights overpriced houses, land registration processes, and a need for more competent contractors as challenges associated with real estate investment. Schena (2021) suggests that six risk types need to be evaluated before committing resources to property development: operator risk, market risk, location risk, asset risk, financial risk, and strategy risk.

To avoid adverse cash flow risks, conducting a thorough market analysis and performing due diligence is imperative while ensuring the property is in a prime location. Real estate is a complex subject, and its peculiar nature has spawned complex legal theories and very distinctive fact situations, making it a captivating topic for centuries (Ogbuefi, 2013). Etuk & Ebong (2016) suggest solutions to real estate investment challenges, including reducing the cost of building materials while maintaining their quality, amending the Land Use Act, which has led to high land prices, offering loans for real estate investment at reasonable interest rates, and acquiring in-depth knowledge of selected markets and staying up-to-date with current trends, including changes in consumer spending habits. Several studies by scholars have revealed reasons why there are problems in real estate investment. Etuk, R. & Udosen (2022) highlight the significant indicators, including lack of efficiency and external effectiveness.

Prince (2017) opines that failure in real estate investment is not a function of one reason but a mix of inefficiency in work with individuals' contributions. The Nigerian investment sector is replete with many failed, abandoned, uncompleted projects by public and private institutions. The challenges of real estate investment include the high cost of building materials, non-availability of land in the central business district (CBD), fraud, lack of knowledge and lots more (Efekalam & Diala, 2017). Hence, the study recommends, among others, that investors should seek professional advice before investing. Negative cash inflow occurs when the cash inflow exceeds the cash outflow. This means that one is losing money and running at a loss. Reasons for negative cash flow include not using the best rental strategy, too much maintenance, high financing costs, high vacancy, and not charging the correct rent. Oyedele (2021) looked at the issues that hinder the growth of real estate investment and the property market in Nigeria and highlighted them to include the high cost of property development, Limited source of funding, Devaluation of currency (Naira), Bribery and corruption and Taxation. In a related study, Alpheaus (2019)
enumerated the challenges associated with real estate investment to include: Overpriced houses, Land registration processes and lack of competent contractors.

Real estate investment is subject to many risks despite the general belief that it is safe. Schena (2021) advised prospective real estate investors to evaluate six risk types before committing their resources to property development. The six types of risk are Operator risk, market risk, location risk, asset risk, financial risk and strategy risk.

The best way to reduce the risk of negative cash flow is to do a proper market analysis before investing in real estate. Take time to accurately and realistically calculate the anticipated income and expenses and do the due diligence to ensure the property is in a good location. Real estate is a distinct subject, and because of its peculiar native, it has spawned complex legal theories and very distinctive fact situations and remained a captivating topic for centuries (Ogbuefi, 2013).

Etuk & Ebong (2016) have advanced solutions to real estate investment challenges, including that Building materials should be produced at a reduced cost with good quality. The Land Use Act should be amended as it has considerably affected the land supply and caused investors to purchase land in the "black" land market at very exorbitant prices. Other solutions are: loans meant for real estate investment should be given out to investors at a very considerable interest rate, and real estate investors should acquire an in-depth knowledge of selected markets and keep abreast of current trends, including any changes in consumer spending habits.

Study Area

Uyo Urban is situated about 70 kilometres inland from the coastal plains of South Eastern Nigeria between latitudes 7047" and 8003" North and longitudes 4052" and 5007" East. Uyo is relatively at the centre of Akwa Ibom State and is easily accessible to all the South-eastern and South-south States (Etuk, 2021).

Many residents of Uyo are public and civil servants. Others are engaged in commercial and agricultural activities, which the location of Uyo has enhanced in a nodal position with road links to all local government areas in the state and other commercial towns like Aba, Port Harcourt, Umuahia, etc. Also, its nearness to the river ports of Calabar, Ifiayong, Adadia, Okobo, Issiet Ekim, Oron and Eket gives Uyo an excellent impetus for commercial ventures.

Agricultural products which support the population come from within and outside the state.

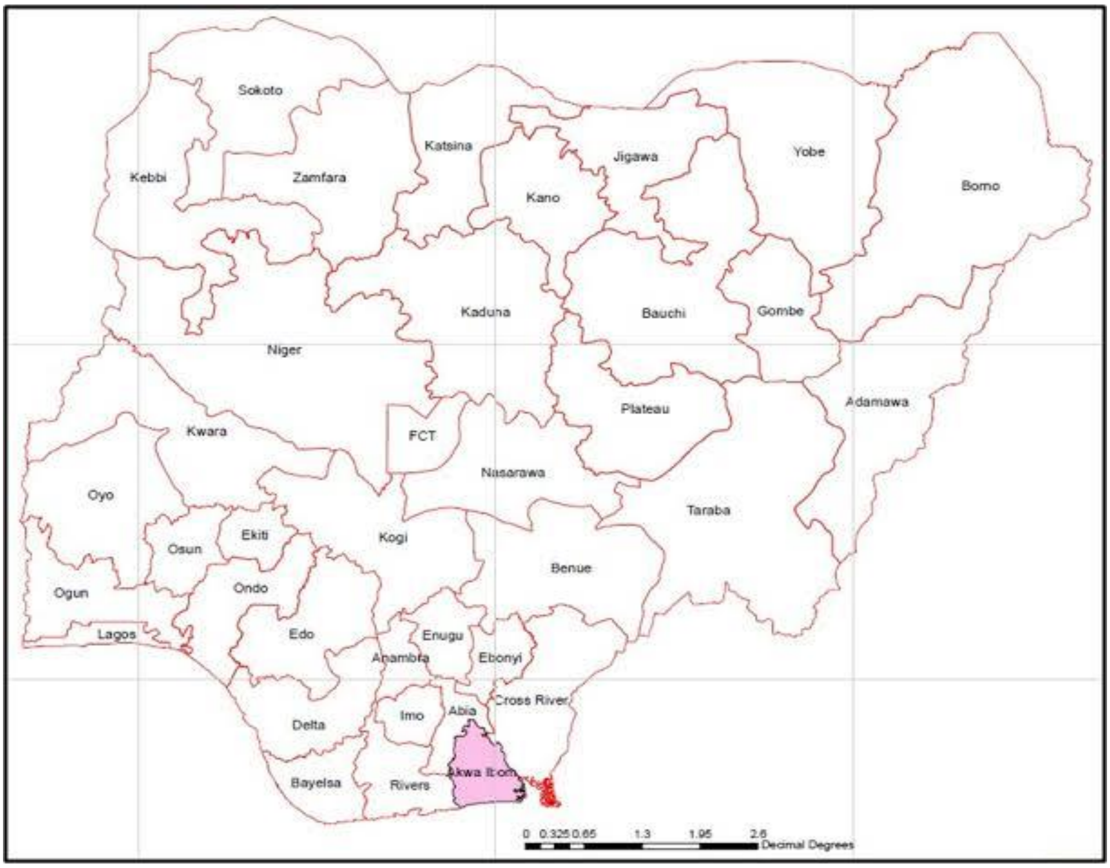

Fig 2.- Map of Nigeria Showing Akwa Ibom State.
Source: Wikipedia

Methodology

The study used a well-structured questionnaire as a means of getting relevant from Resident Surveyors practicing in Uyo. The State Secretariat of the NIESV gave a list of 42 registered Estate Firms. These 42 Firms formed the population for the Study.

In view of the small size of the population and the fact that the firms were located with close proximity to one another, there was no need for sampling. Consequently, copies of questionnaire were given out to the 42 Registered Firms in the study area, out of which 25 copies representing 59.5% were retrieved for analyses.
The data from field were analyzed using Relative Importance Index (RII).

$$RII = \frac{\Sigma a_i n_i}{\Sigma xj}$$

Where: i= response category index
xj = the sum of j factors 1,2,3 ……….N
ai = constant expressing the weight given to the ith response.
ni = the variable expressing the frequency of the ith

Data Analysis and Presentation
The study relied primarily on the returned copies of the administered questionnaire. The data obtained were presented and analyzed with the help of descriptive and simple statistical tools.

Respondents' biodata
Table 1 shows the biodata of respondents for the study.

Table 1: Biodata

Characteristic(s)	Sub-headings	Frequency	Percentage (%)
Gender	Male	23	92
	Female	2	8
Total		25	100
Age	25 – 30 years	2	8
	31 – 35 years	4	16
	35 – 40 years	5	20
	41 – 50 years	8	32
	Above 50 years	6	24
Total		25	100
Status of Respondent	Resident Surveyors	18	72
	Branch Managers	5	20
	Heads of Practice	2	8
Total		25	100
Years of Experience	1 – 5 years	2	8
	6 – 10 years	3	12

	11 – 15 years	2	8
	16 – 20 years	5	20
	21 – 25 years	6	24
	Above 25 years	7	28
Total		25	100
Highest Professional Qualification	FNIVS	1	4
	ANIVS	22	88
	Probationer	2	8
Total		25	100
Higher Academic Qualification	HND.	5	20
	B.Sc.	19	76
	M.Sc.	1	4
	PhD.	0	0
Total		25	100

Table 1 reveals that there were more male respondents than the female. It also reveals that majority of them were middle aged with many of them being in practice for over twenty-five years. The table furthermore shows that almost all of them had been elected into the corporate membership of the Institution. Having had the requisite educational training in the tertiary institutions and necessary practical exposure, the respondents were in a good position to give the needed pieces of information to help in achieving the aim and the objectives of the study.

Results and discussion on the factors that bring about negative cash inflows in the real estate sector

Table 2 shows the result of the Relative Importance Index (RII) on the Factors that bring about negative cash inflows in the real estate sector.
Table 2: Factors that Affect Real Estate Investment Return

Options	Weight(s)	Tota	RII	Ranki

	5	**4**	**3**	**2**	**1**	**l**		**ng**
	14 70	9 36	1 3	1 2	0 0	25	4.4 4	1st
Lack of adequate knowledge in Real Estate Investment	1 5	2 8	16 48	4 8	2 2	25 71	2.8 4	4th
Fraud	1 5	1 4	17 51	3 6	3 3	25 69	2.7 6	5th
High Cost of Building Materials	13 65	10 40	1 3	1 2	0 0	25 110	4.4 0	2nd
Tenants' Tastes and Preferences	10 50	8 32	5 15	1 2	1 1	25 100	4.0 0	3rd
Poverty	1 5	1 4	15 45	4 8	4 4	25 66	2.6 4	6th

Source: Author's Field Survey

Table 2 reveals respondents' ranking of factors that affect real estate investment return. High Interest Rate came first with a score of 4.44. High Cost of Building Materials with a score of 4.40 was second while Tenants' Tastes and Preferences with a score of 4.00 came third. Other factors ranked in order of severity were Lack of adequate knowledge in Real Estate Investment (RII = 2.84), Fraud (RII = 2.76) and Poverty (RII = 2.64).

Results and discussion on the reasons people invest in real estate
Table 3 shows the RII results of the major reasons people invest in real estate in the study area.

Table 3: Major Reasons People Invest in Real Estate

Options	**Weight(s)**	**Total**	**RII**	**Rankin**

	5	4	3	2	1			g
Steady Income	19 95	5 20	1 3	0 0	0 0	25 118	4.72	1st
Prestige	11 55	8 32	3 9	3 6	0 0	25 102	4.08	3rd
Capital Appreciation	11 55	7 28	3 9	4 8	0 0	25 100	4.00	4th
Long Term Financial Security	16 80	7 28	2 6	0 0	0 0	25 114	4.56	2nd

Source: Author's Field Survey

Table 3 shows respondents' ranking of major reasons people invest in real estate. Steady income ranked the highest with an RII of 4.72 followed by long term financial security with an RII of 4.56 and prestige with a score of 4.08 taking second and third positions respectively and the desire for capital appreciation being the fourth.

Results and discussion on the major risks involved in real estate investment

Table 4 shows the RII results of the major risks involved in real estate investment in the study area.

Table 4: Major risks involved in real estate investment

Options	Weight(s)					Total	RII	Ranking
	5	4	3	2	1			
Asset risk	19 95	5 20	1 3	0 0	0 0	25 118	4.72	1st
Financial risk	11 55	7 28	3 9	4 8	0 0	25 100	4.00	4th
Market risk	16 80	7 28	2 6	0 0	0 0	25 114	4.56	2nd
Operator risk	1 5	1 4	17 51	3 6	3 3	25 69	2.76	5th

Location risk	11 55	8 32	3 9	3 6	0 0	25 102	4.08	3rd
Strategy risk	1 5	1 4	15 45	4 8	4 4	25 66	2.64	6th

Table 4 presents major risks involved in real estate investment in the study area. Asset risk followed by market risk, location risk and financial risk ranked the first, second, third and fourth respectively. Minor ones operator risk and strategy risk.

Results and discussion on the causes of negative cash inflows

Table 5 shows the RII results of the causes of negative cash inflows in the study area.

Table 5: Causes of negative cash inflows

Options	**Weight(s)**					**Total**	**RII**	**Ranking**
	5	**4**	**3**	**2**	**1**			
High Maintenance Cost	13 65	10 40	2 6	0 0	0 0	25 111	4.44	1st
Poor Management	5 25	11 44	7 21	2 4	0 0	25 94	3.76	4th
High Maintenance Cost	6 30	8 32	9 27	2 4	0 0	25 93	3.72	5th
High Financing Cost	9 45	13 52	3 9	0 0	0 0	25 106	4.24	2nd
Voids	8 40	11 44	6 18	0 0	0 0	25 102	4.08	3rd

Source: Author‘s Field Survey

Table 5 presents causes of negative cash inflows. High maintenance cost followed by high financing cost and voids ranked the first, second and third causes respectively. Other causes are poor management and high maintenance cost.

Conclusion

For centuries, investing in real estate has proven to be a profitable venture. Many experts argue that a nation's wealth depends on the investment level in its real estate sector. However, the possibility of negative returns from such investments is concerning and requires careful consideration of the factors that contribute to it. This study has identified those factors and recommends a boost to the manufacturing sector for producing high-quality building materials at reduced rates and providing low-interest capital to support the economy further.

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