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Impact of Risk on Commercial Real Estate Investment Returns in World Bank Housing Estate, Umuahia, Nigeria

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Abstract
Property investment is a popular form of investment with a potentially high return, but it also involves a certain degree of risk. This paper examines the various forms of risk that influences commercial real estate investment returns in Agbama Housing Estate, Umuahia South, Nigeria. Data was presented and analyzed using tables, while the mean was used in ranking the types of risks that impact on commercial real estate investment return in the study area. Results indicate that the potential return on investment is significantly impacted by various types of risk. This paper recommends that real estate investors and managers should be trained and enlightened on the types of risk associated with property investment and employing strategies to manage them such that investors can increase their chances of achieving positive returns on their investments.

Keywords: Risk, Real Estate, Investment, Returns

1. Background of Study

Investment can be seen as putting money into financial schemes with the expectation of making profits; (Buffett 2013) [4] an investor commits some fund with a view of safeguarding the capital investment while earning a fair return commensurate with the nature, character and risk of the savings or investment venture.

Two basic things are fundamental to investment, first, is the anticipated return which is easier to perceive and measured. Second is the risk, which is a difficult concept to perceive and it poses serious conceptual and analytical problem in terms of measurements. A rational investor is expected to maximize returns while minimizing risk (Ajayi 1998) [1].

Risk is all embracing phenomenon, which should be well evaluated in every walk of life of human existence. Risks are poorly considered by most property development and investment analyst, despite the fact that several input and their output from their appraisal are uncertain. From a property investment point of view, risk is defined as level of probability that a required return measured in terms of capital value and income will be achieved. Risk is also referred to as the possibility that some unfavorable events will occur. It may be incurred as a result of the impact of general economic and market condition upon the performance of the specific property. All the investors need to know about risk and how to protect their investment.

The idea of evaluating the nature of risk that is associated with a particular investment pen to prospective investor is to assess all possible risk inherent in that particular investment and determine the likely cost as well as how to manage such risk.

2. Purpose of the Study

The study is aimed at ranking the various types of risk that influences commercial real estate investment return in Agbama Housing Estate.

3. Concept of Risk

Risk is inevitable in every developmental project and it is described as a common feature of all forms of investment (Udoudoh, 2016) [9]. Many writers have provided and developed their own ideas on the risk analysis in commercial real estate investment, below are of their ideas. Greer (2003) [6] defined risk as the probability which is associated with various possible outcomes, which is either known or estimable.

Floyd (2005) [5] also defined risk as the chance of loss, the uncertainty about the actual rate of return which an investment will provide over the holding period risk is an additional cost that must be considered when evaluating an investment opportunity.

The Oxford advanced learners dictionary defines risk as the possibility that something unpleasant or unwelcome will happen in future, possibility of chance of meeting danger or suffering loss.

Investopedia.com defines risk as the chance that an investments actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. Different versions of risk are usually measured by calculating the standard deviation of the historical returns or average return of a specific investment.

3.1 Types of Risk in Real Estate Investment

Awotuyi (2005) [3] reported that Ajayi, (1998) [1] provided taxonomy of risk sources to include Planning, Structural, Legal, Taxation, Comparative, Timing, Default. Ibisola (2008) agrees to these sources but added Environment and Political risk to it. Going by Ogunba (2002) [8], there are eight types of down side risk that can affect property investment. These are:

(i) Planning Risk

This is the chance that government planning policies may influence property investment values positively or negatively. These planning policies vary widely between regional policies, local, transport amongst others.

(ii) Structural Risk

This arises as a result of refurbishment and re-building arising from huge repair cost, high maintenance amongst others. Demand changes such as: Changes in fashion and technological changes are also relevant under this heading.

(iii) Legal Risk

Property investment decisions are usually governed by a number of statutory regulations, which make or mar property development decisions.

(iv) Taxation Risk

The government usually taxes Property Investors. Such taxes in Nigeria include: Capital Transfer Tax (Probate), Capital Gains Tax (CTT), Tenement Rating, Stamp Duties, Consent Fees, Development Charges, etc. Taxation risk describes the likelihood that new taxes will be imposed or existing ones be reviewed. A typical illustration the introduction of the controversial land use charges 2001 introduced in Lagos States.

(v) Tenant Risk

The ultimate desire of all rational investors (property developers for this research) is to maximize profit. This is achieved in property development by putting up the property for sale or letting immediately after completion. However, the possibility of voids (usually in the case of long lease), the possibility that a tenant might go into bankruptcy or insolvency, tenants' failure to perform repairing and insuring obligations, the risk of or the realization of a lump sum in terms of the capital value.

(vi) Comparative Risk

In addition to the concern that an investor may have about the actual performance of his investment against his target, he will also be aware of his "opportunity cost risk". This presupposes that, by undertaking an investment, he has presumably turned down other opportunities and will be conscious of the returns he could have obtained elsewhere.

(vii) Timing Risk

The turning of investment is critically important to investors. The element of risk is crucial in refurbishment and development situations. Another aspect of timing risk is the length of time that will be involved in selling or letting the property. This corresponds to the liquidity of the project.

(viii) Default Risk

This can be viewed from two perspectives: The first relates to the chances that the developer may not recoup the anticipated capital necessary to amortize the loan and hence portray a bad image of himself in the face of the financiers. The second refers to the chances of tenants going broke and not being able to pay their rent as at when due.

(ix) Environmental Risk

These are the risk in the neighborhood where the development would take place. This type of risk can be natural or artificial.

(x) Political Risk

This is the political atmosphere in the country which can be stable or unstable depending on the political structure on ground that might be of influence within and outside political boundary of the country.

4. Real Estate Investment Return

Investing in real estate implies the acquisition of landed property either by purchase or development with the intention of earning income through rental or sale.

Real estate investment return is a measure of the success or otherwise of investing in real estate. Return on investment = Gain from investment – Cost of investment / cost of investment (Andru & Botchkareo, 2011) [2]. Real estate return measures are valuable tools for property investors when evaluating the viability and profitability of real estate investment opportunities, thus allowing them to sort out potentially good opportunities from bad ones (Nissi *et al.*, 2021) [7]. Besides real estate investors would also want to ensure whether the expected return is worth the risk that is being taken. Return is the driving force behind every investment. The measures of real estate investment return are income return, capital return, money weighted rate of return, time weighted rate of return, internal rate of return, financial management rate of return.

5. Methodology

The study adopted the survey research design. Primary data was collected with the aid of questionnaire administered on practicing estate surveyors and property developers in the study area. The purposive sampling technique was adopted in the selection of the sample size. Descriptive statistics using frequency tables, while the mean was used in ranking the identified risks that influences residential property investments in the study area.

6. The Study Area

Agbama Housing Estate covers an area of approximately 1,500 hectares. The occupants are mostly the low- and middle-income earners. The neighborhood accommodates schools, hotels, churches, shops as well as commercial and residential properties. The estate is inhabited by people of diverse cultural and religious groups, majority of who are civil servants, public servants, and other privately employed. The estate has about 4,000 housing units. The study area is bounded by Amakama village on the north, World Bank Housing Estate on the south, Umudike Community on the west and Low-Cost Housing Estate on the east.

Table 1: Identified Risks that influences Commercial Real Estate Investment Return at Agbama Housing Estate, Umuahia

S. No	Items	S. A (5)	A (4)	U (3)	D (2)	S.D (1)	T.S	N of R (N)	Mean $(\bar{x})$	S.D
1	Structural Risk	10	-	-	-	-	50	10	5.0	4.47
2	Environmental Risk	2	5	-	3	-	36	10	3.6	3.26
3	Planning Risk	10	-	-	-	-	50	10	5.0	4.47
4	Political Risk	2	8	-	-	-	42	10	4.2	3.69
5	Taxation Risk	4	2	4	-	-	40	10	4.0	3.58
6	Tenant Risk	6	2	2	-	-	44	10	4.4	3.95

Source: Field survey, 2023

7. Results and Discussion

From Table 1 above, the mean value of 3 is used as a criterion to accept or reject the types of risk that influences commercial real estate investment in the study area. Any type of risk whose mean is less than the criterion mean is rejected as a risk factor that influences commercial real estate investment in the study area, while any type of risk with mean above the criterion mean is accepted as a risk factor that influences commercial real estate investment in the study area.

8. Conclussion and Recommendation

Estate Surveyors and Valuers should ensure that they enlighten their prospective clients on the need for analyzing and managing the risk involved in an investment venture before decisions to invest is undertaken. This will go a long way in reducing the waste of material resources.

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