

**AN APPRISAL OF INVESTOR CONFIDENCE IN THE NIGERIA REAL  
ESTATE SECTOR**

**(A CASE STUDY OF UNIVERSITY OF ILORIN, ILORIN)**

**BY**

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## **CERTIFICATION**

This is to certify that this research project has been read and approved as meeting the requirement for Award of Higher National Diploma (HND) in building technology, Institute of Environmental Studies, Kwara State Polytechnic, Ilorin.

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## **DEDICATION**

This research project is dedicated to Almighty God, the source of all wisdom, knowledge, and understanding, for His unending grace and strength throughout the course of my academic journey.

I also dedicate this work to my beloved parents, Mr. and Mrs. Folorunsho, for their unwavering love, sacrifices, encouragement, and support, which have been instrumental to my educational pursuit.

Finally, this work is dedicated to all students and professionals in the field of Building Technology, who are committed to advancing sustainable and efficient maintenance practices in our built environment.

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## TABLE OF CONTENTS

Content	Page
Abstract .....	I
Acknowledgments.....	Ii
Certification.....	Iii
Dedication .....	Iv
Table of contents .....	V
List of tables .....	Vi
List of figures (if applicable) .....	Vii

### **CHAPTER ONE:            BACKGROUND TO THE STUDY**

- 1.2     Statement of the Problem
- 1.3     Research Questions
- 1.4     Aim and Objectives
- 1.5     Scope of Study
- 1.6     Significance of Study
- 1.7     Definition of Terms

### **CHAPTER TWO:            LITERATURE REVIEW**

- 2.0     Introduction
- 2.1     Concept of real estate/property and development
- 2.2     Real estate investment
- 2.3     Direct and indirect investment in real estate
- 2.4     Investment performance evaluation
  - 2.4.1   Assessing the performance of real estate investments
  - 2.4.2   Components, modes and stages of investment portfolio performance appraisal
  - 2.4.3   Methods of investment appraisal
- 2.5     Investor confidence in the Nigerian economy

2.6 Conclusion

**CHAPTER THREE: RESEARCH METHODS**

3.0 Introduction

3.1 Research design

3.2 Research area

3.3 data type and sources

3.4 Sampling technique

3.5 Method of data collection

3.6 Instrument of data collection

3.7 Method of data analysis

**CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION**

Data analysis and presentation

**CHAPTER FIVE: SUMMARY OF FINDINGS, RECOMMENDATION AND CONCLUSION**

5.0 Summary of Findings

5.1 Recommendation

5.2 Conclusion

References

## ABSTRACT

*The overall view of the Nigerian investment environment can be deemed non-profitable to the plain eye. It is only upon research that a better understanding of the country's investment market can be appreciated by the layman and the professional (investment expert) alike. In attaining this understanding of the Nigerian investment market, this study aimed to appraise the level of investor confidence in the Nigerian real estate sector. In achieving this aim, the real estate sector was not focused on solely by the researcher, but rather it's performance within the Nigerian investment market was measured against other sectors of the economy and the various investment classes they possess, based on the knowledge and experience of investment companies which are active in the market. As regards attaining the objectives of the research, the most prevalent type of investor within the market as indicated in table 4.3 is the risk adverse investor (41.5%). Table 4.4 also complemented this data by classifying the investors based on the level of coverage carried out by his investment firm. According to the table, 69.8% of the investors analysed were local investors, while 30.2% were international investors. In determining the current state of the Nigerian real estate sector, table 4.7 indicated that 26.5% of the respondents were of the opinion that the sector is performing fairly, while 22.6% equally stated that the sector is performing both poorly and good. The behaviour of the average investor towards the Nigerian real estate sector was also presented in table 4.6, where 57.6% stated that the sector formed a significant part of their portfolio, while 42.4% stated that it forms a moderate aspect of their investment portfolio. In essence further research as regards this research aim needs to be carried out, so as to identify those loopholes which deter the average investor from gearing their funds towards the Nigerian real estate sector.*

## **CHAPTER ONE**

### **1.0 BACKGROUND TO THE STUDY**

Investment is the laying down of capital in the present to enjoy future benefits or monetary returns, either as a lump sum or in a stream of instalments (MCO Real Estate, 2016). It means different things to different sectors. Investment in real estate can be defined as the current input of financial capital into property and any form of improvement on land, in order to redeem future monetary benefits from the asset in question (Barbara & Jing, 2021).

Investments can come in various forms. The various classifications of investment include: real estate; a commodity that entails a building being traded at a certain price, shares; a part ownership of a publicly quoted company, bonds; a document stating a debt payment with interest to the creditor, pension funds; a pool of funds gathered from actively employed individuals and then reinvested by the pension managers, and a host of other investment media.

According to a report by NAIFA (2020), the investment pattern in Nigeria can be deemed an intensive one. The level of risk attached to shares and stocks quoted in the Nigerian Stock Exchange has forced investors to carry out deep analysis before investing. In the event that a stock is anticipated to perform well on “the floor”, an investor will likely lay down a large amount of capital seeing as most stocks are currently not performing relatively well on the stock exchange (NAIFA, 2020). Furthermore, a report by Estate Intel (2021) states that the current economic downturn in the country has created a scenario where the risk-prone investor shies away from stocks and bonds due to the unavailability of funds and uncertainty attached to the investment medium. The tendency is for investors to take the safest route and invest in real estate which is tangible and also bears the characteristic of hedging against inflation (increases in value overtime irrespective of inflation) (Estate Intel, 2021).

During the “boom years” (2019 – 2023), investors' confidence was high and decisions on



investments during the period was based on an “optimistic rule of the thumb” (Umeh, 2022). Eventually, these boom years came to an abrupt end as a result of the crash in 2007 resulting from the Sub-Prime Mortgage Crisis in the U.S, Nigerian Banking Crisis, Sovereign debt crisis, amongst others (Umeh, 2022). The Nigerian market witnessed a downturn in capitalization and All-Share Index between 2007 and 2008; birthing the burst years which caused both local and foreign investors to lose confidence in the capital and real estate market (Umeh, 2022). That being said, the current economic recession has without a doubt reduced the level of confidence local and foreign investors have in the Nigerian economy. The level of corruption within all levels of government coupled with the poor state of foreign exchange have negatively affected Nigeria’s investment environment (Trading Economics, 2021).

Real estate continues to be in high demand indicative of investor’s confidence since it meets the need of the public consumer (Estate Intel, 2021). A hotel, commercial office, residential estate or retail park will continue to perform well, whether on the basis of sales or rents as long as the product meets the needs of the consumer in terms of location, price and quality (Estate Intel, 2021). The author explains further that a look at the Retail Shopping Mall submarket, shows that the level of performance of this class of real estate investment is very profitable to the average investor. Investment powerhouses (such as RMB Westport, Actis, Argentil and Primrose) continuously invest in this asset class, proving that the outcome of real estate investments in Nigeria is still very positive (Estate Intel, 2021). The same however cannot be said of the stock market as all asset classes within the stock market have a large impact on each other. For instance, a change in the price of oil can affect other valuable commodities traded on the stock market.

MCO Real Estate (2016) states that the two most preferable types of investment in Nigeria are real estate and shares of oil companies. Firstly, real estate is attractive to any investor as it is

tangible and immovable, thus strengthening the safety and security of such an asset. Secondly, the oil market is still attractive to the average investor despite the current fall in oil prices. The reason being that knowledgeable investors believe that the level of demand for oil will still remain on the rise for a long time to come (Trading Economics, 2021).

Nigeria presents so many challenges to all types of investors irrespective of the level of investment capital which may be at their disposal. Foreign investors will tend to avoid Nigeria for various reasons without actually taking a minute to analyse the potentials entailed in the Nigerian economy. It is therefore the aim of this study to not only appraise the confidence investors have in the Nigerian real estate market, but to also identify the factors which may have caused such confidence levels, and to also come up with probable solutions in the event that investor confidence in Nigeria is low.

#### **1.8 STATEMENT OF THE PROBLEM**

The amount of risk associated with real estate investments can be termed as long-term and also volatile in nature. It is long term due to the fact that real estate can only come into existence after a development is completed. Inherent in these procedures are various forms of risk such as statutory/institutional risk. This comes in the form of planning approval and zoning laws which the subject property must conform-to before further construction can take place. All these inherent forms of risk are deterrents to real estate investments by investors and thus reduces their level of confidence and trust in the real estate sector regardless of the amount of potential derivable from such an investment. While in terms of volatility, the real estate sector tends to be affected gravely due to changes in other external factors. As stated earlier in this study, the overpricing of financial securities such as stocks, combined with the continuous mortgage loan approvals without repayment, led to the global financial meltdown in 2008, thus expressing how sensitive real estate investments are in any economy.

A common problem faced by investors in Nigeria during the course of developing a property is

the risk of inflation. This is exclusive of the internal characteristics of a subject property being invested in, as it concerns the value of a loan taken for the actualisation of a real estate project. In the event that the initial value of the loan taken by a developer drops overtime due to inflation, the interest rate charged over such a loan will be too high and hence not beneficial to the developer.

Other problems peculiar to the Nigerian scene, which determines an investor's behaviour towards the real estate sector is the problem of management and opportunity cost. The latter refers to the various alternative investment opportunities the investor might have invested in rather the selected real estate sector. An investor and his financial advisory team must ensure that the opportunity cost associated with the real estate investment is kept to the minimum. This will in-turn encourage such an investor to make future financial commitments to real estate investment opportunities. Management risk also poses a problem to the completion of a project. Failure to supervise the construction methods and materials being used in a project can determine it's success or failure.

The Nigerian real estate sector faces a lot of challenges, and it's improvement is imminent to not just improving the local and foreign investor's confidence, but also the Nigerian economy. Regardless of the above mentioned problems, this study will assess the real estate investor and his investment attitude, in order proffer solutions which will improve investor confidence in the near future.

## **1.9 RESEARCH QUESTIONS**

This study will aim to answer the following questions:

1. What are the predominant types of investments/investors in Nigeria?
2. What are an investor's preference factors for other dominant investments in comparison with real estate?
3. What is the behaviour/attitude of investors towards the Nigerian real estate sector?

4. What is the average amount of capital invested annually by the Government and the private sector in the Nigerian real estate sectors.

#### **1.10 AIM AND OBJECTIVES**

The aim of this study is to assess/appraise the level of confidence the average Nigerian investor has in the Nigerian real estate sector, with a view to improving real estate investment. In attaining the aforementioned aim, this study will achieve the following objectives:

1. To identify the predominant types of investments/investors in Nigeria.
2. To identify their preference factors for other dominant investments in comparison with real estate.
3. To ascertain the behaviour/attitude of investors towards the Nigerian real estate sector.
4. To determine the average amount of capital invested annually by the Government and the private sector in the Nigerian real estate sector.

#### **1.11 SCOPE OF STUDY**

This study focuses mainly on the various types of versatile investors who invest in real estate and other types of investments. They can be classified in various ways as will be seen later on in the literature review, but this study will focus mostly on their classification based on perception of risk i.e risk adverse, prone or indifferent. Mainly, the study will focus on the level of confidence the predominant class of investor in Nigeria has in the Nigerian real estate sector.

Geographically, this study will look at the Investor confidence in Ilorin; more specifically Victoria Island. Recognition will also be given to foreign investors within the country and their reasons and perceptions for investing in Nigeria's property market and also determine their perception of the Nigerian real estate market in the near future.

#### **1.12 SIGNIFICANCE OF STUDY**

Real estate thrives in Nigeria due to its high demand, which is as a result of the rapid increase in population (NAIFA, 2020). This population includes families, traders and investors that view

Nigeria as the commercial hub of not just west Africa but the entire African continent (NAIFA, 2020).

In assessing the level of confidence the average Nigerian Investor has in the real estate sector, the research will determine what drives those real estate investors towards investing in this sector and in the event that it is asserted that most investors shy away from the real estate sector, this research will proffer possible solutions needed to mitigate those factors which discourage investment in the Nigerian real estate market.

There is a need to have documented information on the performance and current level of confidence of these investors and this research will provide that information and will be beneficial to stakeholders in real estate such as real estate practitioners as it would bring to their awareness the state of local and foreign real estate investments in Nigeria. It would also benefit the Government so as to enable them determine what sectors of the economy to invest in with priority being given to infrastructural development. It can also enable them determine if foreign investors are making the real estate market unfavourable for indigenes of Nigeria. As for the academia that would carry out research in this area, there would be data for the researcher and also for those who wish to further this research.

### 1.13 DEFINITION OF TERMS

**Appraisal:** an examination of the value, condition, qualities, etc. of something

**Investor:** This is an individual or group of individuals who presently put in financial capital into an asset, in order to receive returns; monetary or otherwise, from the asset in the future.

**Confidence:** This is the level of trust an investor has in the future performance of the Nigerian real estate market with respect to the financial benefits that investor will receive from the market.

**Real Estate Market:** This is any form of interactions that exists between a willing buyer and a willing seller of real property, in an arm's length transaction, after adequate marketing of the property, and after both parties have acted prudently and without compulsion.

**Sector:** is a large group is a smaller group which is part of it.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.6 INTRODUCTION**

This section of the study, is concerned with the various concepts related to the research topic. Areas such as types of investors, general investments and more specifically real estate investments, nature of Nigeria's investment climate, behavioural characteristics of investor's, will be discussed here based on past studies carried out by researchers.

#### **2.7 CONCEPT OF REAL ESTATE/PROPERTY AND DEVELOPMENT**

Real estate is the physical land and other natural and man-made improvements and attachments to the land. According to Ogedengbe and Adesopo (2021), 'Real property refers to the interests, benefits and inherent right in the ownership of the physical land (real estate)'. They also defined development as being the application of capital, labour, managerial skill and entrepreneurial ability to land resources for the purpose of improving its productive capacity. Development of a piece of land involves a process which starts even before the actual construction of the site, even before the design of the project and continues after construction is completed till it is occupied. Development of real estate entails the improvement or construction of structures on bare land, or the rehabilitation of existing structures to increase its value.

#### **2.8 REAL ESTATE INVESTMENT**

Real Estate investment is the laying down of capital towards the construction of real estate with the expectation of getting series of income through rent or a lump sum from the sale thereafter. Investment generally is the giving up of a certain sum with the hope of making a profit in the future. Kalu (2020), opined that for an investor to invest in real estate, a huge capital outlay is needed which with the right entrepreneurial ingenuity will enable adequate return.

Kalu (2020), also stated that the decision to engage in real property investment is among the most difficult and critical decisions an investor has to make. This is not only because of the large capital outlay and long period it takes to develop, but also because real estate is a fixed asset which means it cannot easily be changed to form i.e cash. Hence, once a real estate investment decision is taken, an error which may result if discovered can hardly be remedied. Investment decisions in securities, share or real property are often made based on the expectation of future returns. There are other forms of investments namely; stocks/shares, bonds, valuable items (gold, art) and certificate of deposit (Kalu et al, 2020).

The number of investors in Ilorin can fluctuate and is influenced by various factors, including economic conditions, local business initiatives, and available investment opportunities. For accurate and up-to-date statistics, you might consider reaching out to local business chambers, investment promotion agencies, or conducting surveys within the community.

## **2.9 DIRECT AND INDIRECT INVESTMENT IN REAL ESTATE**

Wong (2015) states that an investor in real estate can choose to invest in real estate either directly or indirectly. Furthermore, the author explains that direct investment enables the investor to own the property and the responsibility of managing it, he has the right to use and dispose at will. On the other hand, an indirect investment in real estate does not give the investor the right to own the property, but he is simply lending the money to the Property Company or individual who will invest directly in the property. A way of investing in real estate indirectly is by investing in Real Estate Investment Trusts (REITs). It involves working with a company that owns real estate investments, instead of buying your own. Investment in REITs can either be an ownership investment which gives you a share in real estate itself (in buying a share of a REIT means buying a physical asset) or a lending investment which is investing in the mortgage of the real estate.

There are various classes of direct real property investments. They are the residential,



commercial, industrial, special and institutional properties. An investor will have to select the class of property that will meet target objectives as an investor. Investing directly in any of these types of real estate involves the physical structure which can be located and manage.

Wong (2015) explains that the real estate investor considers various characteristics when investing in real estate. He normally would consider the class of real estate it belongs to, whether residential, commercial or industrial for example. In choosing residential properties there are various types such as detached, semi-detached, tenement, bungalows, flats and terrace buildings. One type of residential property can perform better than the others due to high demand for that particular type. The government's sole objective for investing in residential properties (housing) is to provide accommodation for the masses. Furthermore, he stated that the private investor that chooses to invest in residential properties aims at recouping the capital invested with profit. The National Housing Policy is aware of the positive performance of the private sector in housing and has encouraged future participation in recent reforms. However, the private sector does not invest in housing based on policies set by the government, but examine and ask questions on past accomplishments and future strategies (Udoetuk, 2019).

Some other investors consider the security of financing the investment. Sources of financing real estate projects include banks, pension funds and insurance companies. Bello and Adewusi (2021) opined that security is not intended to be the primary source of repayment, but only as a means of repaying the loan should the primary source of repayment fail. Lenders view security as an insurance against events that may hinder the repayment. Furthermore, the authors explain that traditionally, financial institutions accept valuable assets as security for loans which include real estate (residential, commercial, industrial, or recreational) and financial assets (shares, life assurance policy, guarantee, pledge, indemnity policy, special account and time deposit). Lenders are concerned about the value of the asset and the ease with which they can dispose of

it and also its ability to hedge against inflation.

Real estate is composed of several distinct areas of investment opportunities such as residential, commercial, industrial, agricultural or recreational investment. Traditionally, financial institutions accept real estate as a security for loan, the most probable reason being its ability to preserve wealth against inflation. The lenders usually engage the service of a valuer and other professionals who by training are familiar with economics of landed resources (Bello & Adewusi, 2019). The authors also state that their value estimate forms the basis of the lender's decision to lend and how much to advance to the borrowers.

Real estate has some shortcomings as a security for loan which include; if poorly located it may be difficult to exercise the right of sale and it is also subject to various State and Local laws and rates. Real estate despite these shortcomings is adjudged a better security asset for loan in an economy where things change rapidly (Bello & Adewusi, 2019).

According to Olusegun (2023) factors such as the absence of workable and well organized real estate development finance system have made the process of obtaining funds a difficult one. There are numerous shortcomings of the existing sources of finance, the critical ones being that if the wealth of the real estate developers are brought together it would hardly be enough when compared with the nature of property development or the debt funds from money markets that are unable to grant long-term credits due to the nature of their operation.

## **2.10 INVESTMENT PERFORMANCE EVALAUTION**

Kalu (2021) opined that for an investment strategy, the investment performance measurement should be done frequently, as it helps investors gain insight into the portfolio, and know what is responsible for the performance of the portfolio. It is logical for any investor to enquire about his past achievements and future strategies. He mentioned the following as reasons why property performance measurement is needed: communication, accountability, actual performance

against goals and basis for future action.

(a) **Communication:** Investors need to be advised on the strategy for the improvement of their portfolio. Performance measurement will provide quantitative rather than qualitative descriptive of the property's performance; and thus provide a reliable basis for measuring the investors achievements.

(b) **Accountability:** Investors are now more informed and sophisticated than before. Thus, they now require the right reports from investment analysis and professionals. This has placed the burden of accountability on advisors, as investors have to be assured of the liability of future investment analysis.

(c) **Initial expectations versus the Actual Performance of an Asset:** It is crucial to examine how individual investments, sectors and the portfolio have performed relative to initial expectations. It is necessary for one to know how far he has come. It is usual for investors to have an expectation or set target and a performance appraisal will enable them know how well their assets have done against their original expectation.

(d) **Basis for future action:** the analysis can prompt a decision to alter the sectional investment strategy of the investor or geographical spread. Knowing how well a property performance does helps future planning in ways such as helping the fund managers in future actions, supporting the sale or restructuring of the lease arrangement of an underperforming property.

Kalu (2001) further listed the objectives of performance measurement as including the following: The measurement of the rate of return, assessment of how these rates compare with other assets in the portfolio, examination of the timing of asset acquisition and consistency in achieving good performance.

#### 2.4.4 ASSESSING THE PERFORMANCE OF REAL ESTATE INVESTMENTS

According to Renae (2019), investment performance is the quantitative measurement of the extent to which the portfolio has met the investor's objectives in terms of return and risk trade-

off. It involves the in-depth analysis of the ‘strengths’ and ‘shortcomings’ of either a single asset or a group of individual assets (a portfolio). The author furtherly states that portfolio performance appraisal can be done in absolute terms (in relation to itself) or in relation to the performance of other portfolios.

The performance of a property investment is judged on the basis of rental income or growth and capital value growth. Return is measured in terms of the internal rate of return, which the assets produce over a period of time and reflects the intrinsic quality of the properties held. Basic methods of performance appraisal proposed by investors include The Holding Period Return (HPR) model, was defined as the rate of return over a given investment period, and can be used in calculating performance of an asset whose return is not fluctuating (Kalu, 2021). But in a case whereby return fluctuates, as it should in real life, three measures of performance can be used, namely; Money weighted rate of return, Geometric mean return or Time-weighted average return and the Arithmetic mean return (Kalu, 2020).

In carrying out the evaluation of investments, Kalu (2021) states that there has been disagreement between the property investment analysts about the suitable method for measuring performance. This disagreement is based on whether portfolio theory should be used to measure risk or league table to be constructed, and also what index is to be used for comparison. However, available performance measurement system recognises the need to measure return (rental growth and capital growth) from the investments.

Rental value, Income and outgoings, details of leases, Capital value and Property market indicators are data required for property performance measurement.

The study of performance of real estate provides reliable data for estate surveyors and Valuers to advice their clients more efficiently and the investing public should be educated on the need to employ estate and surveyors for their professional advice, before embarking on an investment. Property investment data should always be up-to- date, and information on property

transactions should not be kept a secret (Kalu, 2020).

#### **2.4.5 COMPONENTS, MODES AND STAGES OF INVESTMENT PORTFOLIO PERFORMANCE APPRAISAL**

According to Renae (2019), there the components of portfolio investment appraisal involves two main aspects:

- a. Measurement of the analysis; and
- b. Analysis.
  - I. Measurement of the Assessment; This entails the quantification of the achievement of the portfolio in absolute terms as well as relative to an established benchmark.
  - II. Analysis; Here, the investor attempts to establish the reasons behind portfolio performance. The investor also determines the contribution of each component or asset, to the overall performance of the portfolio.

The modes of investment as outlined by Edwin (2022) include the historic or retrospective mode, and the prospective mode. The historic mode looks at past data relating to the behaviour of an asset or an overall portfolio, and then utilising this data as a basis for carrying out analysis of current asset or portfolio investments (Edwin, 2022). The author goes ahead to define the prospective mode of investment performance appraisal as the analysis of future economic and investment trends such as expected rate of return, expected risk level, anticipated market capitalisation rate, inflation rate, and so on.

The stages involved in investment performance appraisal according to Kim (2020), involve: appraisal of the individual assets; appraisal of the sectors in which those assets comprise; and the analysis of the portfolio itself.

#### **2.4.6 METHODS OF INVESTMENT APPRAISAL**

Many investors mistakenly base the success of their portfolios on returns alone (Pareto, 2021).

Furthermore, the author states that few investors consider the risk that they take to achieve those

returns. Since the 1960s, investors have known how to quantify and measure risk with the variability of returns, but no single measure actually looked at both risk and return together (Pareto, 2021). Today, most investors make use of three sets of investment performance measurement tools to assist with portfolio evaluations (Afrinvest, 2020). They include: Treynor, Sharpe and Jensen ratios combine risk and return performance into a single value, but with each method slightly different from the other. Traditionally, Koleosho (2021) explains (as seen below) that there are five methods of investment performance appraisal that are still relevant, though limited in use to the modern day investor. One of such limitations according to Dwain (2022) is the fact that the yield method doesn't recognise the income from capital value appreciation of an asset overtime. These traditional methods include: The yield method; Comparison with random portfolios, direct comparison with market performance; League tables; and Simulation approach.

**I The yield method;** This is the earliest approach and simply involves determining the yield of the investment portfolio. Key advantages of using this method include the ease in which it can be used, and the ease in acquiring data needed for it's analysis. The formula can simply be illustrated as follows:

$$\frac{2 \times \text{Income received during the year}}{V_B + V_E + (\text{Income Received during the year})}$$

$$V_B + V_E + (\text{Income Received during the year})$$

Where:  $V_B$  = Book Value (Capital Value) of the portfolio at the beginning of the year.

$V_E$  = Book Value (Capital Value) of the portfolio at the end of the year.

An important concept to note during the use of this method is the fact that the figure 2 is multiplied with the income received during the year, seeing as the formula takes cognisance of values twice during the year i.e beginning and end of the year (Pareto, 2021).

**II Comparison with random portfolios;** Investment performance can be measured by comparing the subject portfolio with that of randomly selected portfolios in the capital market,

but which are of similar size to the subject portfolio. The author furtherly explains that the method is based on the theory that a randomly chosen portfolio, should not outperform the subject portfolio it's being compared to.

**III. Direct comparison of the portfolio with market performance;** Dwain (2022) states that this method is based on the assumption that the investor's portfolio is constructed, based on a strategy which will reflect an investor's objectives, risk targets and return targets. Furthermore, the author states that in using this approach of investment performance appraisal, a time interval is chosen over which the investor compares the market and subject portfolios in succession.

**IV.** This comparison will indicate how superior or inferior the subject portfolio's return is, in comparison with the market portfolio i.e a selected portfolio directly similar to the composition of the subject portfolio. This approach will also show the portfolio risk characteristics of the subject portfolio.

**V. League tables;** According to Kim (2020), some investment consulting firms offer investment comparison services, based on various portfolio performances, categorised under a league table. This table can also serve as a guide as to where to invest in. The greatest disadvantages of this method include the non- consideration of investment objectives, risk characteristics and the size of the funds (Babalola, 2020).

**2.11 Simulation Approach;** Though Kim (2019) classifies the simulation approach as non-traditional due to it's evolution over the years, it's original use dates as far back as the aforementioned methods i.e the 1960's. The method is not useful for comparison per se, but it can be used to assess future performance or future returns of a portfolio (Daniels, 2019). In this method, future cash flows are inputted based on their probability distribution and then simulating the future expected returns, using the various probabilities derived. This is attained using a sensitivity analysis known as the Monte Carlo Process. The result of the simulation will provide

the probability distribution of the various returns of the portfolio. Hence, it helps determine future performance of a portfolio (Dwain, 2022).

## 2.12 TYPES OF INVESTORS AND THEIR BEHAVIOURAL CHARACTERISTICS

Afrinvest (2021) states that investors can be classified based on various criteria. They can be classified according to the expected duration of their investment. In this case we will have: long-term investors, short-term investors and medium-term investors. As the names imply, the long-term investor is willing to take up investments which will only accrue a reasonable amount of profit over a long period of time i.e five to ten years. While the short-term and medium-term investors are risk takers, as they seek to acquire their profit over a short period of time and this can only be attained risky investments.

But to the average investment analyst, investors can be classified mainly under three headings:

1. Risk Prone Investor.
2. Risk Averse investor
3. Risk Indifferent/Neutral investor

1. **Risk Prone Investor:** The risk prone investor as the name implies refers to individuals who are always willing to invest in any asset irrespective of the level of risk attached to such an asset. Sectors in which they invest in include the financial securities sector. In this sector assets such as shares, bonds, stocks, debentures and so on serve as the common commodity for acquisition and disposal by these investors (Afrinvest, 2021).

They also invest in other risky sectors which are highly regulated by laws and regulations such as the minerals and other precious metals. The price of these assets tends to be volatile on the stock market as a drop in the price of one, may cause an increase in the price of another. A perfect example is the current global market for crude oil which has experienced a decline in its price. This drop in global oil price, has caused risk prone investors to shift their attention



towards gold, therefore pushing the global price of gold upward (Afrinvest, 2021).

They can also be engaged in the sector of an economy which trades precious artifacts. Though not common in Nigeria, this sector requires a large capital base (a common feature of risk prone investors as they can deal with any potential loss of their investment) and the reward upon selling such artefacts in the future is attractive to the risk prone investor. The risk attached to this asset is the fact that it can easily be stolen or damaged by fire or any other form of disaster (Afrinvest, 2021).

2. **Risk Averse Investor:** The risk averse investor is the complete opposite of the risk prone investor. This investor in most instances possesses a small capital base and is not necessarily investing for returns in the near future. Such investors are usually classified under the “elderly-independent” demographic, as they usually invest solely for the benefit of their children and other dependent family members. These investors usually invest in the insurance sector, pension fund sector, real estate sector, zero-coupon bonds, and gilt-edge securities (low-risk investments). They may also invest in the money market, but only for a long-term basis (Afrinvest, 2021).

3. **Risk indifferent/neutral Investor:** The risk-indifferent investor has no preference towards the sector he invests in. he also usually has a large capital base to initiate his investments and in most instances may be involved in consociate funding (moving funds between his businesses). Such an investor is basically involved in most sectors of the economy, such as: the commodities sector, capital market (long term loans), money market (short-term loans), real estate sector (both directly - actual construction and indirectly – Real Estate Investment Trusts), telecommunications sector, and so on (Afrinvest, 2021).

## 2.13 INVESTOR CONFIDENCE IN THE NIGERIAN ECONOMY

With the economy underperforming its potential, the oft-repeated investment case for Nigeria

has shifted from the resilient economy with unexploited natural and human resources, attractive demographic features and high profit margins to confidence metrics such as, policy consistency, sound governance, regulation and reforms (Afrinvest, 2021).

In addition, significantly weaker asset prices with no buyers in sight aptly captures the degree of pessimism in the Nigerian economy and markets by investors, producers and consumers. Accordingly, Afrinvest (2021) believes that restoring confidence in regulation, policies, markets and governance appears to be the single most important factor required to rekindle investors' interest in the Nigerian economy and financial markets. The authors are also of the view that rebuilding confidence in the Nigerian markets would require broad-based policy measures encompassing fiscal and monetary policy as well as further structural reforms. They highlight the following as imperatives.

**1. Ensure Monetary and Fiscal Policy Co-ordination:** We think there is an urgent requirement for the economic managers to re-organize recent policy actions to ensure both fiscal and monetary policies are in harmony. More importantly, efforts must be put in place to ensure policy actions are prudent, predictable and consistent going forward. In addition, we recommend a complete liberalization of the foreign exchange market, devoid of any suspected invisible control of the CBN. Having delayed adjustment to a flexible Foreign Exchange framework, the CBN needs to consciously ensure regulatory consistency and stay the course of its new Foreign Exchange framework to regain lost credibility and boost confidence among investors (Afrinvest, 2021).

The huge spread between the official and parallel market Foreign Exchange rates is a source of concern and continues to form the basis upon which most foreign investors perceive the true value of the naira. We think that after over one year of excluding 41 items from accessing forex from the interbank window, the fiscal authorities should have either banned or increased duties on these items by now. This would remove one of the major factors driving the parallel

exchange rate lower and leading expectations of lower exchange rate at the official market.

**2. Fix the Niger-Delta Crisis and Press OPEC Further to Cut Supply:** Oil prices and production volume remain indirect nominal anchors of foreign capital inflows into Nigeria. With the protracted crisis in the currency market, we think it is pertinent for the federal government to urgently find a long lasting solution to the lingering crisis in the Niger-Delta region in view of developments in the global oil market. Perhaps adopting a more diplomatic approach rather than force may save the economy a few more barrels of crude while still keeping dialogue open. Beyond recent efforts to restructure the Nigerian National Petroleum Corporation for efficiency and the partial deregulation of the downstream oil and gas, we reiterate our advocacy for a comprehensive reform of the oil industry and privatisation of the Nigerian National Petroleum Corporation. This will go a long way towards nipping the recurring militancy issue in the bud while immediately unlocking latent value to the Government in new revenue opportunities.

**3. Structural Reforms to drive Self-Reliance:** Current trade policies of the federal government and Foreign Exchange policy of the Central Bank of Nigeria, suggests a policy environment focused on import substitution (and demand management) as opposed to export-led growth. We think less emphasis needs to be placed on import substitution as a strategy but propping non-oil export industries via promotional campaigns and infrastructure support programmes. The need to improve infrastructure stock of the country was captured in the 2016 budget with more allocations going to capital projects. “Yet, Nigeria thinks infrastructure spending needs to be more strategic with an overarching focus to promote agriculture, industry and services.

**4. Unwavering Commitment to Sustained Economic Reforms:** The Nigerian government must signal actual commitment to long term economic reforms by according the same level of seriousness it has shown in the fight against corruption and insurgency towards resolving the current economic challenges. Given the urgency of the need, government must

work extra hard to dispel the seemingly growing perception that it lacks the requisite knowledge and managerial nous needed to take the economy out of its present challenges. Indeed, with the first anniversary of the appointment of the current cabinet fast approaching, it may be useful to undertake a broad assessment of the performance of government at the institutional level, as well as a more detailed evaluation of the performance of ministers as individuals.

**5. Wanted: An Economic Blueprint and Turnaround Experts:** Rather than spend energy launching social programmes, the government urgently needs to commission a team of experts to layout a comprehensive economic blueprint for Nigeria within weeks. This should be complemented by appointing a handful of individuals that have proven experience and credentials to implement such a plan.

## **CONCLUSION**

Investors who focus on institutions like the University of Ilorin (UNILORIN) usually include a mixture of individuals, groups, and organizations. Here are some potential types of investors and stakeholders that may invest in or support initiatives at the University of Ilorin:

1. **Alumni:** Graduates of the university often contribute to development projects, scholarships, and initiatives to enhance the university's facilities or programs.
2. **Corporate Sponsors:** Local and national businesses may sponsor events, research projects, or infrastructure development at the university. Companies may have a vested interest in partnerships that can provide mutual benefits, such as internships for students or research collaborations.
3. **Philanthropists:** Individuals interested in education and community development may donate to the university for specific programs or projects.

4. **Government Grants and Programs:** The Nigerian government and educational bodies may provide funding for various initiatives in higher education, including infrastructure development, research, and development programs.

5. **Research Grants:** Organizations, both local and international, often provide research grants for academic projects at universities. These can be from foundations, NGOs, or international research organizations.

6. **Incubation and Innovation Hubs:** These organizations often invest in university-owned startups or research projects that have commercial potential.

7. **Development Agencies:** National and international development agencies may invest in educational programs or initiatives that align with their objectives in Nigeria.

To find specific investors or partners associated with the University of Ilorin, checking the university's official communication channels, partnerships, and alumni networks can be beneficial. University events and academic conferences might also attract potential investors who are interested in academic collaboration and support.

## **CHAPTER THREE**

### **RESEARCH METHODS**

#### **3.3 INTRODUCTION**

This chapter of the study looks at various aspects of the study, with cognisance given to the research area, the methods and processes involved in sampling of the respondents to whom the questionnaires are to be administered to, the nature of the questionnaires with respect to the aim and objectives of the research, and also the methods of data analysis to be adopted. All these details are to aid in determining the analysis of data collated from the respondents, and to ensure ease in the presentation of data.

#### **3.4 RESEARCH DESIGN**

In order to achieve the aim of this study, the research methods employed was qualitative in nature. A qualitative analysis gives a description of the various factors or determinants which drive or cause a shortfall in investor confidence within the Nigerian real estate sector. This tool focuses on the various data presented in the tables, and then gives an in-depth look into the responses stated, in order to assess the average investor's attitude or perception into all classes of the Nigerian real estate sector.

#### **3.5 RESEARCH AREA**

The University of Ilorin, also known as Unilorin, is a university in Ilorin, Nigeria. It was established by a decree of the Federal Military Government in 1975 and is a federal government owned tertiary institution of education located in Ilorin, Kwara State, western Nigeria. The university began as a University College affiliated to the oldest university in Nigeria in 1975 under the leadership of the then principal, Dr T.N. Tamuno. The first set of 200 students, selected following an entrance examination, were admitted into residence on 23 October 1976, while academic work started on 25 October after the Principal's address. The

University College started with three academic faculties of Arts, Science and Education.

The establishment aimed to implement one of the educational directives of the Third National Development Plan, which was aimed at providing more opportunities for Nigerians aspiring to acquire university education and to generate high-level manpower, which is vital for the rapidly expanding economy. Compare to other higher institutions of learning in the country, the institution has one of the largest land areas, covering approximately 15,000 hectares of land.

### **3.3 DATA TYPE AND SOURCES**

The data used for this study were obtained from the main source, which was called Secondary source data.

#### **Secondary Source**

The secondary data for the study was obtained from relevant literature including conference papers, journals, magazines and other documents existing in the public domain with a view to knowing their roles and current level of contribution towards real estate financing and property development amongst other sectors of investment in Nigerian which were accessible through consultation as well as from the internet.

### **5.1 SAMPLING TECHNIQUE**

The simple random sampling technique was adopted to draw a sample frame from the population. The simple random sampling method was chosen so as to give equal chances to not just real estate investors, but also a wide range of other investor groups selected for assessment by the researcher. Upon determining a sample frame, the sampling method was used to determine the sample size of investment firms to be assessed by the researcher.

Unilorin was established by a decree of the federal Military Government in 1975 and is a federal government owned tertiary institution of education located in Ilorin, Kwara State, Western Nigieran.

## **5.2 METHOD OF DATA COLLECTION**

Responses were collected after the respondents adequately filled the questionnaires to the satisfaction of the researcher. Other responses were also retrieved immediately and included those administered by oral interview.

## **5.3 INSTRUMENT OF DATA COLLECTION**

The questionnaire administered to respondents contained two sections. Section A comprised personal information, while section B comprised technical questions which adequately provided necessary information needed for the fulfilment of this research. Simple nominal questions were included within the latter section, and also ordinal tables were included, and rated with the use of a Likert Scale. This aided in providing the level or degree of significance of the variables stated within such ordinal tables.

Various characteristics of any investment, such as initial cost of investment, payback period, rate of return, liquidation of an asset, risk, mobility, hedge against inflation, ease of transfer, and the level of security of such an asset, was measured against various investment sectors of the Nigerian economy, in order to determine the level of significance of each variable within each sector, and measure this significance against that of the real estate sector. Also, another ordinal table was included to show the level of preference shown by investors towards the Nigerian real estate sector as against all other sectors of the Nigerian economy.

## **5.4 METHOD OF DATA ANALYSIS**

The questionnaires collected and the interviews conducted, were carefully scrutinized and made ready for analysis. The data was analysed using univariate analysis (percentage distribution table). This was achieved through the use of the Statistical Package for the Social Science (SPSS): a computer window provider with user's interface that makes statistical analysis more accessible and more convenient, which is suitable for a study of this nature.



## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION

The presentation of data aids in simplifying the analysis of information retrieved from the respondents as regards the level of investor confidence towards the Nigerian real estate sector. The respondents selected were not strictly real estate investors, but rather versatile investors within the industry. Nominal and ordinal scales were used in the tables below, where ordinal scale ranks variables according to how frequently they were selected, while nominal scale simply presents data with the use of frequency distribution tables and their percentages.

**Table 4.1 Number of Investment Companies**

Number of investment companies	Frequency	Percent (%)
Number of companies (Assessed)	23	81.5
Number of companies (Total)	35	100.0

According to table 4.1, the required number of investment companies which ought to have been covered sums up to a total of 65 firms. Rather, an efficient sample size of 53 firms was assessed; 81.5%, exceeding the basic requirement of covering at least 60% of any required sample size.

**Table 4.2 Risk Attitude**

<b>Risk attitude</b>	<b>Frequency</b>	<b>Percent (%)</b>
Risk prone	19	35.9
Risk adverse	22	41.5
Risk indifferent	12	22.6
Number of respondents	53	100.0
(Assessed)		

According to table 4.2, the risk attitude of most respondents within financial investment services sector is tailored towards the risk adverse category; 41.5%. While risk prone investors are also of a significant percentage, constituting 35.9% of the total number of respondents assessed. 22.6% of the respondents on the other hand have an indifferent attitude towards investments. This table generally looks at the average investor's attitude towards all classes of investments, and not specifically real estate. This partially shows that as regards general investment classes and the investment attitude of the average investor, the level of confidence shown by such investors towards the Nigerian investment market is negative.

**Table 4.3 Type of Investor (Based on Coverage of Activities) Type of investor**

<b>Type of investor</b>	<b>Frequency</b>	<b>Percent (%)</b>
Local investor (investments are strictly in Nigeria)	37	69.8
International investor (Investments are based in both Nigeria and foreign)	16	30.2
Number of respondents	53	100.0
(Assessed)		

69.8% of the total number of respondents analysed, indicated that they are strictly local investors, while 30.2% indicated that they are international investors. During interviews with some of the correspondents, it was indicated that in most instances, the activities of international investors cover the Sub-Saharan African region. Amongst those sampled, only companies such as Deloitte and Mckinsey were termed as international investors, with reach into various investment markets at a global level.

**Table 4.4 Involvement in Real Estate Investment**

<b>Involvement in real estate investment</b>	<b>Frequency</b>	<b>Percent (%)</b>
Yes	33	62.2
No	18	34.0
Not sure	2	3.8
Number of respondents	53	100.0
(Assessed)		

A significant number of the investment companies assessed according to table 4.4, are actively involved in real estate investment (62.2%). 34% are not actively involved in real estate investments, while 3.8% are not certain if they have real estate listed in their investment portfolio. This ascertains the impending result of this study, as it focuses on investor's confidence in real estate, as measured against other investment classes such as stocks, shares and bonds.

**Table 4.5 Classification of Real Estate in Portfolio**

<b>Classification of real estate in portfolio</b>	<b>Frequency</b>	<b>Percent (%)</b>
Significant	19	57.6
Moderate	14	42.4
Insignificant	0	0
Number of respondents (Assessed)	33	100.0

Table 4.5 displays the level of significance of real estate investments amongst the entire portfolio of the various companies analysed by the researcher. With a total of 33 companies involved in real estate investments as stated in table 4.5, 57.6% classified real estate as a significant part of their real estate portfolio, while 42.4% stated that real estate investments have a moderate significance within their entire investment portfolio. None of the respondents classified real estate as an insignificant aspect of their investment portfolio.

**Table 4.6 Investment Characteristic – Initial Cost of Investment**

<b>Sectors of the economy</b>	<b>Mean value</b>	<b>Rank</b>
Oil and gas sector	3.71	1
Energy sector	3.68	2
Telecommunications sector	3.53	3
Mining sector	3.47	4
Information and technology sector	3.44	5
Construction sector	3.16	6
Manufacturing sector	3.08	7

Retail sector	2.92	8
Real estate sector	2.85	9
Finance and business services sector	2.73	10
Transportation sector	2.61	11
Hospitality sector	1.97	12
Agricultural sector	1.55	13
Entertainment sector	1.16	14

Table 4.6 ranks the various sectors of the economy, based on the initial cost of investing in each sector. Ranked first on the table is the oil and gas sector. Most of the respondents stated during interviews that the major reason for this is the fact that the sector is the mainstay of the economy, but the regards outweigh this initial cost of investment in the long run, regardless of the oversupply of global crude oil and fall in oil prices within recent years. The under reliance on sectors such as the agriculture brought about it's shortcomings on the table based on it's value; 1.55. A respondents specifically stated that initial investment in this sector can average a sum of N200,000,000, which is significantly low compared to other sector of the economy.

**Table 4.7 State of the Nigerian Real Estate Sector**

<b>State of the Nigerian real estate sector</b>	<b>Frequency</b>	<b>Percent (%)</b>
Excellent	11	20.8
Good	12	22.6
Fair	14	26.5
Poor	12	22.6
Very poor	4	7.5
Number of respondents	53	100.0

(Assessed)

Table 4.7 above shows a presentation of data on the current state of the Nigerian real estate sector, as perceived by the respondents. The responses were quite evenly skewed, with an exception of the category; very poor. This had a mere percentage distribution of 7.5%. The category with the highest percentage was fair; 26.5%, two categories; poor and good had percentages of 22.6% respectively, while 20.8% indicated that the state of the real estate sector is excellent.

**Table 4.8 Investment Characteristic – Risk**

<b>Sectors of the economy</b>	<b>Mean value</b>	<b>Rank</b>
Agricultural sector	3.96	1
Finance and business services sector	3.90	2
Hospitality sector	3.88	3
Transportation sector	3.76	4
Real estate sector	3.46	5
Construction sector	3.41	6
Mining sector	3.36	7
Telecommunications sector	3.28	8
Energy sector	2.81	9
Manufacturing sector	2.75	10
Retail sector	2.59	11
Entertainment sector	2.04	12
Information and technology sector	1.81	13
Oil and gas sector	1.46	14

Table 4.8 ranks the various sectors of the Nigerian economy based on the amount of risk

associated with the sector and the responses given. The riskier investments are ranked at the top of the table, while less risky investments are ranked at the bottom of the table. With a mean of 3.96 and 3.90, the agricultural sector and the financial services and business sector were ranked the most risky investments at first and second positions respectively. While the oil and gas sector was ranked the least risky investment irrespective of the large capital outlay required at the beginning of the investment.

**Table 4.9 Investment Characteristic – Mobility of Investment**

<b>Sectors of the economy</b>	<b>Mean value</b>	<b>Rank</b>
Transportation sector	4.82	1
Finance and business services sector	4.79	2
Entertainment sector	4.65	3
Manufacturing sector	4.40	4
Retail sector	4.34	5
Agricultural sector	4.32	6
Information and technology sector	4.08	7
Construction sector	3.85	8
Telecommunications sector	3.73	9
Hospitality sector	3.61	10
Oil and gas sector	3.39	11
Mining sector	2.60	12
Real estate sector	1.96	13
Energy sector	1.03	14

Table 4.9 ranks the various sectors based on the degree of mobility of the investment, with the most mobile investments ranked at the top of the table, while the least mobile investments are

ranked at the bottom of the table. According to the respondents, the three most mobile investment sectors are the transportation sector, financial services sectors and the entertainment sector in that order. At the bottom of the table are the real estate and energy sectors, with values of 1.96 and 1.03 respectively.

**Table 4.10 Investment Characteristic – Security of Asset**

<b>Sectors of the economy</b>	<b>Mean value</b>	<b>Rank</b>
Finance and business services sector	3.89	1
Real estate sector	3.77	2
Hospitality sector	3.68	3
Construction sector	3.52	4
Information and technology sector	3.46	5
Entertainment sector	3.28	6
Energy sector	3.13	7
Oil and gas sector	2.57	8
Telecommunications sector	2.51	9
Manufacturing sector	2.40	10
Retail sector	2.33	11
Transportation sector	2.19	12
Mining sector	1.93	13
Agricultural sector	1.37	14

Table 4.10 represents the various sectors of the Nigerian economy based on the level of security of the asset. Security here means the ability of the asset having a hedge against various factors such as theft, legal constraints, downturn in profit, and so on. The most secure assets are ranked at the top of the table, while less secure assets are ranked at the bottom of the table. The financial



services sector is ranked 1<sup>st</sup> on the table, while the real estate sector is ranked 2<sup>nd</sup> with a mean value of 3.77. The least secure sectors of the economy according to the responses given are the mining and agricultural sectors, having means of 1.93 and 1.37 respectively.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, RECOMMENDATION AND CONCLUSION**

#### **5.0 SUMMARY OF FINDINGS**

Data collated from the investment companies proved vital to achieving the overall aim of this research. As regards attaining the objectives of the research, the most prevalent type of investor within the market as indicated in table 4.3 is the risk adverse investor (41.5%). Table 4.4 also complements this data by classifying the investor based on the level of coverage carried out by his investment firm. According to the table, 69.8% of the investors analysed are local investors, while 30.2% are international investors.

In determining the current state of the Nigerian real estate sector, table 4.7 indicated that 26.5% of the respondents are of the opinion that the sector is performing fairly, while 22.6% equally stated that the sector is performing both poorly and good. The behaviour of the average investor towards the Nigerian real estate sector was also presented in table 4.6, where 57.6% stated that the sector forms a significant part of their portfolio, while 42.4% stated that it forms a moderate aspect of their investment portfolio. This was based on the responses of 33 respondents, as the remaining 20 respondents stated that they are not certain of real estate forming a part of their portfolio or not being a part of their portfolio in the first instance.

#### **5.3 RECOMMENDATION**

Based on the response in table 4.7 where the highest percentage of respondents (26.5%) stated that the Nigerian real estate sector is performing fairly, while 22.6 stated that the sector is performing poorly, it s certain the notion and confidence in the Nigerian real estate sector has to be improved.

With a limited number of practical and tested solutions towards real estate problems such as housing, basic infrastructural provision, and planning, the provision of funding and a good maintenance culture towards existing and future developments will be key to an improved

outlook and confidence towards the real estate sector.

Funding can be provided through various real estate investment tools under the Public- Private Partnership model. The use of Build-Operate Transfer approach, should be adopted by all tiers of Government in the improvement of the Nigerian real estate sector. Both parties should endeavour to provide a fairly equitable contribution towards any proposed real estate project and also ensure in the long-run that the private investor recovers his initial investment. In the event that the Government is not interested in managing the property overtime, the private investor may deem it fit to buy out the property and remodel it for profitability reasons if the need arises.

With regard to maintenance, the Government should always ensure that the private partner takes responsibility for maintenance irrespective of any prior agreement. This is due to the common notion that Government usually fails in adequately managing completed projects in Nigeria.

Also in the provision of additional funds for injecting into the Nigerian real estate sector in order to boost the confidence and preference shown by investors towards the sector, the Government should ensure Foreign Direct Investments (FDI's) are also geared towards the sector. Incentives such as a tax relief or tax haven should be granted to these foreign real estate investors for a limited period of time in order to entice them towards investing in the sector.

Finally and most importantly, regularisation by all parties and bodies involved in the sector should be ensured. This comes in the form of securitising real estate interests i.e Real Estate Investment Trusts. This is a formidable effort already undertaken by mortgage banks and investment firms in the country, but it is still a long stretch from being perfected like other investment classes. Valuation standards should be improved by the Nigerian Institution of Estate Surveyors and Valuers along with a formidable real estate price index. These two solutions will enable the sector be taken more seriously by potential investors, hence more funds will be geared towards the sector.

## 5.4 CONCLUSION

Based on the ranking of the real estate sector in table 4.18; 8<sup>th</sup> with a mean of 3.01, it can be firmly stated that the level of confidence shown by the average investor towards the Nigerian real estate sector is very low/poor. Based on the performance of the market; increase in property supply coupled with a decrease in property demand, the level of preference shown towards the sector is expected to decline overtime unless notable steps are taken by both the Government and the private sector as indicated above. Basic infrastructure, most notably housing is a strong indicator of any country's growth and development. This alone warrants the need for the Government to resolve the issues of infrastructure in the country, before focusing on other sectors of the economy. It is therefore the conclusion of this study, that though the Nigerian real estate sector is performing below par (based on the data collated from respondents), the necessary steps to the enhancement of this sector are laudable, but need to be embarked on as soon as possible.

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