

Challenges in Commercial Real Estate Development in Onne, Eleme Local Government Area, Rivers State

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Abstract— The paper looked at the challenges faced by investors in the development of commercial properties in the study area. Commercial properties under construction in the study area suddenly become abandoned or take longer periods to be completed. The study aims at finding out these challenges or factors responsible for these abandonment or delay and proffer ways to ameliorate these challenges. The respondents for the study were the corporate and private property investors in Onne. The study utilized questionnaire surveys to collect data using Likert Scale method. Out of 122 questionnaires that were administered, 105 questionnaires were retrieved from the respondents, representing a response rate of 86.06%. Data analysis utilized percentage, mean and relative importance index (RII) methods and the results from the analysis are presented using tables. The findings confirm that the challenges that confront the development of commercial real estate in Onne are numerous but from the ranking, Increase in construction cost ranked 1st with a relative importance index of 0.75, followed closely by Project Approvals and Permits and Poor infrastructural facilities with same RII of 0.74. The study therefore recommends that the government should encourage the manufacture of local construction materials and encourage investors to avail themselves with the local building materials so as to reduce construction cost and improve the economy. Government should also remove the bottlenecks in the process of getting building permits and approval, thereby discouraging the activities of fraudsters. The government should provide investment in basic infrastructure and services to aid opening up of areas suitably located and suitable for commercial property development. It further recommends that real estate investors should also seek professional advice before commencing investment.

Keywords— Commercial, Real estate, Development, Onne, Eleme.

I. INTRODUCTION

Commercial property, also called commercial real estate, investment property or income property is real estate intended to generate a profit, either from capital gains or rental income. Jens Mehrhoof (2017) considers commercial real estate as rental housing and investment properties.

Despite the fact that the real estate development process is complex, the problems or challenges differ from one country to the next. These differences in challenges are also handled differently by the countries as they approach these challenges in ways deemed fit considering their unique circumstances. Major components have been highlighted as being important in preventing corporate real estate investors from effectively participating in the real estate market in Nigeria. Increased construction costs, high cost of capital, access to land, sharp depreciation of the Naira, access to housing finance facilities, cost of labour, poor infrastructural provision, extortion by government agents, cost of building materials, and government

policies and guidelines were identified by Windapo (2007) in Okulaja (1990) and Okupe (2000). However, in Nigeria, access to suitable land is a major barrier to real estate development (Omirin, 2003), and this has a significant impact on project timetables, development costs, and, as a result, development pricing Windapo (2007).

Real estate investors have experienced their Certificate of Occupancy revoked by a new government due to the fact that the owner does not belong to the same political party. Investors are put off by policy inconsistencies of this magnitude. Regardless, anytime investors seek to purchase land in a certain location, they need consult professionals (such as surveyors) to determine whether the land is under government acquisition or whether it could or could not be sold (Black, 1986).

Other times, after the government has taken over family property and compensated the relevant families, some traditional landowners continue to sell portions of those lands to the general public. Many people purchase such lands and begin to build without government building approvals. As many people have learned the hard way, when the government decides to take possession of such lands and demolish the constructions on them, the purchaser will not be paid by the government. It's also worth noting that some land has already been purchased or that development in such regions has been restricted (Syz, 2008).

In Onne, evidence abounds of property development failures and abandonment with the attendant social, environmental, and economic consequences. Development projects are abandoned before completion or completed projects are not disposed over six months. In other cases, completed projects are foreclosed by development lenders due to inability of the developers to service their loan; thus, leading to financial distress.

II. THE STUDY AREA

Onne is a community in Eleme Local Government Area, Rivers State, Nigeria. It is located in Rivers South-East Senatorial District in the Southern Part of Nigeria. It is the most industrious and commercial community in Eleme, Ogoni, Rivers State being host to two prominent ports. It is a principal transportation spot of the whole region of Africa, with the capacity to receive large cargo ships (over 60,000 tones). Onne Latitude and longitude coordinates are: 4.723816, 7.151618. The settlements of Alode, Ebubu, and Ngololo Creek, a branch of the Bonny River, border it.

Onne is chosen as the study area because of the high level of commercial real estate development in the area.

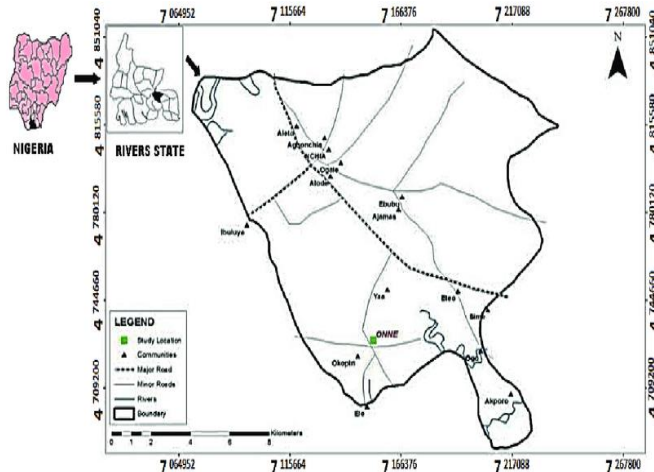


Fig. 1. Map of Eleme local government area showing Onne town
Source: Retrieved from Oyebadé & Buochuama (2016)

III. LITERATURE REVIEW

Challenges in Commercial Real Estate Development

i. Increase in Construction Cost

Construction cost includes cost of building materials and cost of labour or workmanship. According to Mbachu and Nkado (2004) investors in real estate and stake holders in the real estate industry are affected negatively by this construction cost. This cost also has implications on both investors and end users as rents will definitely appear high while investors may not get the full rent of their properties so as to reduce impending vacancy rate.

ii. Community Opposition

Community opposition has been known to be one of the challenges of real estate development around the world. This form of response to the location of a project is categorized by Dear & Long (1978), as leaving the area in the light of a proposed development, protesting the proposed development, or even resorting to illegal activity and so many other responses. This is a challenge in commercial real estate development because a project that is about to be developed can be stalled or stopped entirely by the resistance of neighbours or community. Davison et al (2013) noted in their report amongst other findings that opposition to affordable housing development is highly localised, mostly coming from people living close to the site of the development.

iii. Project Approvals and Permits

Before the commencement of any building development starts, it is pertinent that an approval of the building plans are sought for and obtained from the planning office. This procedure is not without hitches as developers and investors have always struggled to go through this phase of property development. Nwanekezie and Nwanguma (2020) in their study opined that building plan approval procedure is a challenge in real estate development in Uyo. They observed that the time frame to receive approval was on an average of 6 to 12 months and that the existing procedure of building plan approval usually slows down the pace of construction and encourages unapproved construction of buildings.

iv. High cost of capital

Ibrahim & Ibrahim (2015) defines Cost of capital as the price of external financing and therefore the investors' required rate of return. It is also referred to as the price of obtaining fund/capital. It is the rate which is paid for the use of capital. It has been observed by Emo and Uzuanje (2015) in their study on the effect of increasing cost of capital on the profitability of real estate development in Benin City that high capital cost affects profitability of real estate development negatively.

v. Community leadership opposition

This is a major challenge facing commercial real estate developers. According to the United Nation Centre for Human Settlement (Habitat) (1988) Community leadership crises can be of great danger on any development in the community. It is one important area of decision-making in a community. Almost nothing is known about the relative contributions of various types of leadership on the nature of community participation and project development success. This is because, when a developer purchases land from the owner of the land, he deem it fit to recognize the leadership of the community, but if there are crises rocking in the community, a developer can't easily recognize any leadership until a proper assessment of the right leadership is done.

vi. Choosing the wrong Site

Babade (2003) in his study asserts that, a developable plot of land is one that meets the following criteria: suitability for the types of investment desired (as defined by location, size, terrain, and topography), acceptability (as defined by planning status and market prospects), and lack of known serious disputes. For such land to be accessible, it must be readily available and affordable, with a stable tenure that can be easily transferred. Site selection is the process of selecting a parcel of land for the construction of a new structure throughout any development. It entails locating the best real estate prospects for new sites and ensuring that you select the appropriate location for your target audience considering their demographics (Olaseni, Iyiade & Agbaro, 2013).

Considering the importance of choosing a suitable site in both the corporate and private real estate development process is the major difficulty posed and it impacts on real estate development greatly.

vii. Misreading the Real Estate Market

The forecasting of the performance of commercial real estate performance is of utmost importance in order to guide investors on the expected returns of the investment before a decision to invest is made. The real estate investment is an expensive venture and so every detail has to be considered before investing. Umeh and Adilieme (2020) observed that reliable forecasts in terms of total returns on investment in commercial property must consider factors such as inflation rate, unemployment, GDP, vacancy rates and others including how the market revolves as these factors influence investment performance.

viii. Inconsistency in government policy

The study's findings show that government initiatives have little impact on the real estate market. According to the econometric research, neither monetary nor fiscal policy had a significant impact on the real estate sector, particularly price

development. On the other hand, interest rates were seen as a most notable government policy tool to have an effect on the real estate sector in the expert interviews while Nguyen (2015), opined that the four main factors that influence the property market are demographics, interest rates, the health of an economy and government policies.

Government policies on real estate development changes from time to time in some places. That is, government policies are not staying the same throughout. Policies over development changes as power changes in most cases and this may cause a great difficulties to new investors who wishes to go into commercial real estate development. Change of policies often by the government has caused several challenges to commercial real estate developers.

ix. *Poor infrastructural provision*

Infrastructural facilities such as road is a major infrastructure that can greatly affect the development of real property. In the study carried out by Ihuah (2015) observed that poorly maintained road network affects cost of development. He went further to state that it increases the cost of transportation of building material which in turn impacts on the development of the property.

x. *Flooding*

A flood is an overflow of water that submerges land that is usually dry and causes destruction of property in the event of its occurrence especially during a heavy rainfall, and in some developing countries poor drainage system could also be a cause of flood. An acknowledgement can be found in Wechie and Kakulu (2020) where they identified that flooding can be attributed to the property development terrain, the plot elevation and the frequency and intensity of the rain.

In the study of Huffman and Longhofer (2016) where a regression analysis was run between the flood zone and the commercial property value where it revealed that flood impacts on property value of commercial properties negatively. Ping et al (2019) also added that because flood decreases commercial property values, an intending developer should carry out research on the location and surroundings before development.

IV. METHODOLOGY

The entire population for the study was stratified into two different strata; 30 corporate real estate investors assessed through snowballing and 120 private real estate investors retrieved from the records of the landlord association in the area giving a total of 150 respondents. The 30 corporate real estate investors were administered questionnaires but for the private investors 92 were administered with the questionnaire giving a total of 122 questionnaires administered. The major instrument used for this study is the questionnaire, administered on the Real Estate Developers and Private Property Owners. The questionnaire was structured as a five-point likert scale measuring attitude of Strongly Agree (SA)=5, Agree (A)=4, Undecided (U)=3, Disagree (DA)=2 and Strongly Disagree (SD)=1.

The number of questionnaire retrieved from the two groups were 105 representing about 86.06 percent of the respondents. The study employed a combination of self-administered questionnaire and personal observation backed up with

literature for data collection. Data analysis techniques employed in the study were Relative Important Index (RII) and mean score.

V. FINDINGS AND INTERPRETATION

A total number of 122 questionnaires were administered to the respondents: 30 questionnaires were administered to staff of corporate real estate developers in Onne and 92 questionnaires were administered to the private property owners, making a total of 122 questionnaires.

Out of 122 questionnaires administered, 105 were retrieved representing a response rate of 86.06%. This is shown in table 1 below.

TABLE 1. Questionnaire Administration

S/N	Category of Respondent	Number distributed	Number Retrieved	Percentage Retrieved
1	Corporate Real Estate Developers	30	25	20.49%
2	Private Property owners	92	80	65.57%
	Total	122	105	86.06%

Source: Field Survey, 2021

The results from table 1 shows that the number of respondents for this study is representative of the population and the results from the study reliable.

Challenges in Commercial Real Estate Development in Onne.

Challenges in commercial real estate development that both corporate or private investors encounter in the process of property development were looked at as the study identified from literature 10 (ten) factors that affect commercial real estate development process. The survey sought to know from the property developers in Onne on their level of agreement that these factors or challenges affect investors in commercial real estate development in the study area.

From tables 2 and 3, the challenges in the development of commercial real estate in the study area has been revealed to be increase in construction cost with RII of 0.75. This could be due to the high inflation rate that has affected every item in the market with construction materials and workmanship not left out, this is supported by the study of Mbachu and Nkado (2015) who observed that cost of construction has a negative effect on the development of real estates. Project approval and permits ranked second with poor infrastructural provision with RII of 0.74 for the two of them. The investors are usually meant to have approvals before projects are commenced and this is often faced with delays, bottlenecks due to the bureaucracy and unnecessary expenses from extortions by some of the officers involved, Nwanekezie and Nwanguma (2020) supports this finding as in their study it was found that building plan approval procedure is a challenge in real estate development in Uyo as delays lead investors to build without proper approvals. Poor infrastructural provision is one reason given by the respondents as a challenge inhibiting the development of commercial real estates in Onne. This factor ranked second and is a crucial factor as no development can occur in a place without good road network, electricity and water. Definitely, these challenges will

tend to affect project commencement, schedules, cost of development and eventually rental values and property prices.

TABLE 2. Showing factors that affect commercial real estate development in Onne

S/N	Factors	SA	A	N	D	SD	RII Values	Ranking
1	Increase in construction cost	18	66	0	16	5	0.75	1 st
2	Community opposition	5	46	15	30	9	0.62	4 th
3	Project Approvals and Permits	26	49	5	20	5	0.74	2 nd
4	High cost of capital	0	17	11	69	8	0.47	8 th
5	Community leadership opposition	5	8	51	23	18	0.52	7 th
6	Choice of site	17	51	11	18	8	0.70	3 rd
7	Misreading the real estate market	7	21	43	27	7	0.59	5 th
8	Inconsistent government policy	4	26	19	40	16	0.53	6 th
9	Poor infrastructural provision	25	55	0	17	8	0.74	2 nd
10	Flooding	12	39	19	17	18	0.62	4 th

Source: field data (2021).

TABLE 3. Overall ranking of the factors that affect commercial real estate development in Onne.

S/N	Factors	RII Values	Ranking
1	Increase in construction cost	0.75	1 st
2	Project Approvals and Permits	0.74	2 nd
3	Poor infrastructural provision	0.74	2 nd
4	Choice of site	0.70	3 rd
5	Community Opposition	0.62	4 th
6	Flooding	0.62	4 th
7	Misreading the real estate market	0.59	5 th
8	Inconsistent government policy	0.53	6 th
9	Community leadership tussle	0.52	7 th
10	High cost of capital	0.47	8 th

Source: field data (2021)

VI. CONCLUSION

The study identified from literature challenges of commercial real estate development in Nigeria. The study was able to identify ten challenges peculiar to the study area, after which a thorough data gathering from the corporate commercial real estate investors and the private landowners in the study area was done. Having considered all these, the study has confirmed that there are challenges that affect the development of commercial real estate in the study area with increase in construction cost as the number one challenge, followed closely by project approvals and permits, poor infrastructural provision and choice of site being the major challenges.

VII. RECOMMENDATIONS

The following under listed recommendations are made based on the research findings.

To reduce the real estate development challenge posed by the increase in construction cost for development, government

should encourage the manufacture of local construction materials and encourage investors in real property to avail themselves with the local building materials so as to reduce construction cost and improve the economy.

Government should also remove the bottlenecks in the process of getting building permits and approval, thereby will discourage the activities of fraudsters. The government should ensure the provision of basic infrastructure and critical services while taking up effective planning and development standards as a means of assessing land appropriate for developmental potentials.

Investors in commercial real estate development should also seek the services of professionals like the estate surveyor and valuer to assist in both site selection and type of development to carry out so as to optimize returns.

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