

# INTRIQUES IN REAL ESATE INVESTMENT ANALYSIS AND ITS ROLE AS A PANCEA FOR A RECESSED ECONOMY

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- **DEFINITIONS:**

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- **REAL ESTATE INVESTMENT:**

- Real Estate investment is the practice of engaging in real estate transactions with the motive of generating income or profit both tangible or intangible. Such transactions include purchase of ownership, rental, commercial property development for sales or letting purposes, property management as a career purchases for speculation, investment in property as a form of holding money and capital gains, others include investment for residential purposes, recreational, industrial, commercial, agricultural and many more.

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- **PRIVATE REAL ESTATE EQUITY:**

- This is an investable asset class that consists of debt and equity investment in the property markets allowing multiple investors to pool their funds. It is an alternative way to capitalize commercial real estate to real estate syndications. It requires a longer term consideration, an active management strategy and significant upfront capital commitment to a fund that seeks potential investment opportunities in the space. However, given real estate popularity as an asset, class, it provides high potential levels of income with strong price appreciation in the future.

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- **RECESSED ECONOMY:**

- Is an economy in trouble, suffering economy, unable to meet its obligations, nor to pay its debts. A recessed economy is characterized by the following; unemployment, reduced consumer spending, tightened credit standards and limited operating income.

- **CAPITAL STRUCTURAL DISTRESS:**

- This occurs when the value of the asset has declined below the debt balance, and current equity holder is cash trapped and is now defaulting in repayments that may lead to foreclosure.

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- **ORGANIZATIONAL DISTRESS:**

- Disputes among the organizational structure or the workforce, legal disputes and organizational dysfunction and mis-appreciation among the parties.

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- **NEGLIGENCE:**

- The physical appearance or the state of the Estate could put it in distress, in Nigeria a reasonable percentage of commercial property owners neglect the physical look of their buildings and hardly accept any maintenance advice which in turn affects the value and use of the property, and directly affecting the income capacity of the structure.

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- **A DISTRESS REAL ESTATE INVESTMENT**

- Real Estate Market reacts to economic and political changes negatively or positively. Government policies and economic changes of a nation impact directly an real estate.
- In economic boom more people build or buy houses; demand is higher and property values grow, tenants pay their rents as at when due, new estates and neighbourhood are created and practitioner in the industry make money and their career grow.

# CAUSES OF ECONOMIC RECESSION:

- FOREIGN EXCHANGE RESTRICTION
- FALLEN PRODUCTION CAPACITY:
- HIGH INTEREST RATES:
- IMPRUDENT SAVINGS:
- CORRUPTION AND MIS APPROPRIATION OF FUNDS
- POLITICS AND WRONG ECONOMIC POLICIES:
- WORLD OIL GLUT:
- WAR AND INSURGENCY IN THE NIGER DELTA:
- NEGLIGENCE:

# POLITICS AND WRONG ECONOMIC POLICIES:

- The politics of a nation and its economic policies can plunge the nation into recession. In my opinion the current economic recession is principally rooted on the politics of the government and wrong decision. The foreign exchange regime embarked upon by the present administration created the highway to this recession. The World Bank, the IMF and well-meaning economist home and abroad warned the government against the initial foreign exchange policy fashioned against that of Venezuela which landed them into recession. Venezuelans have been on the streets for several months now calling on their President to step down because of the hardship they are facing.
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- The present government failed to run the economy more than six months into the administration by refusing to establish a cabinet and even when they did, ministers were not empowered because they were considered as corrupt and wasteful. Even the strongest economy in the world will fall if it is not run for one month but Nigeria did that beyond six months. Even now the government does not have a clear cut economic agenda.
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- I also came to the conclusion, that the operators of the economy presently may be incompetent judging from the Central Bank Governor's statement in the Guardian Newspaper of September 19<sup>th</sup>, 2019, page 41.
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- *"We said there was a need for an adjustment in the currency. We adjusted the currency from #155 that it was then o #168 sometime around November 2014. As if that was not enough, our friends kept saying that the currency was overvalued, and we began to ask our friends, 'if you feel the currency was overvalued, what do you think it should be? Some said #180 will be fine, some said #190 will be fine, and by March just to satisfy them, so the supply can come in, we adjusted again to #197.*
- *We went back to them and we asked, ' Is there a way you can come back and It's begin to do business as usual? But they said "well, sorry we're still not convinced; the fundamentals don't look right and for that reason, we're not coming unless you continue to adjust' 'But we said we could not continue with indiscriminate adjustment of the currency. Of course, they were not happy with us, but we held on to faith that #197 to the dollar were adequate and appropriate at that time".*

# **CURRENT STATE OF THE PROPERTY MARKET AND ITS IMPACT ON THE ECONOMY**

- **MORTGAGES**
- **RENT PAYMENT FAILURE AND RENTAL DIFFICULTIES:**

*Newly completed luxury office block still letting  
in Alausa CBD, Alausa, Lagos*



- **RENT REVIEWS ARE DISCOURAGED:**
- **PROPERTY SALES AND TRANSFERS STAGNATED**
- **REAL ESTATE PRACTITIONERS AND PROFESSIONALS ARE NEGATIVELY AFFECTED**
- **THE MANUFACTURING SECTOR AND COMMERCE ARE VICTIMS OF THE RECESSION:**

*Abandoned Urban renewal project of Lagos Homes at  
Ijora Badiya Lagos*



# **REAL ESTATE INVESTMENT OPPORTUNITIES IN A RECESSIONED ECONOMY:**

- **MULTIPLE OPPORTUNITIES**
- **THE SPIRAL EFFECT OF THE REAL ESTATE MARKET**
- **OPPORTUNITY FOR FOREIGN INVESTORS**
- **LOW AND MEDIUM RANGED PROPERTIES STILL SELLING**
- **OPPORTUNITIES FOR DIVERSIFICATION**
- **CONSUMPTION OF MADE IN NIGERIA GOODS**
- **SPECULATION IS PROFITABLE IN RECESSION**
- **PROCESSING AND EXPORT PROMOTION:**

*Farm products at display in the mall.*



# REAL ESTATE AS A PANACEA FOR RECESSIONED ECONOMY

- REDUCTION IN PRICES
- FUTURE PROFIT
- SOURCE OF CAPITAL
- COLLATERAL FOR CREDITS
- RENTAL INCREASES ARE DISCOURAGED
- REBATES AND TAX CUTS

# CONCLUSION

- Economists have said that there is every likelihood for economics to descend into recession in every 10 years. Nigeria has her last major recession before this in the early 1990's. The global recession of 2008-2011 were not as devastating as the present one because the real estate sector was largely driven by private sector and personal savings. The mortgage sector still controls a small fraction of the real estate transactions in Nigeria owing to collaterals and high interest rates.
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- Government should inject money in the economy to push production and empower spending. Government should borrow from the pension funds and the unclaimed dividends accounts that runs into several trillions of Naira and some other funds that lying idle and unproductive. Other sources of funds include recovery from treasury looters etc. I think Government can ignore foreign loans for now and look inwards

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