EMERGING ISSUES IN URBAN LAND USE AND DEVELOPMENT IN NIGERIA

A Book of Readings in Honour of Professor James Idemudia Ighalo
(One of Nigeria's foremost Professors of Estate Management)

Edited by:

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Dedication

This Book of Readings is dedicated to

Professor James Idemudia Ighalo

M.A (Sheffield), Ph.D. (Cambridge), ANIVS, MRICS, MRTPI, MNITP

For his significant contribution to the growth and development of Estate Management Education in Nigeria

Foreword

Emerging Issues in Urban Land Use and Development in Nigeria is a book of readings on contemporary issues concerning the use and development of urban land in the country. The book is published in honour of Professor James Idemudia Ighalo, one of Nigeria's foremost Professors of Estate Management.

Prof Ighalo has contributed immensely to the growth and development of Estate Management Education in Nigeria for over four decades now. The Department of Estate Management and Valuation of this University is one of the beneficiaries of his teaching, research and mentorship. He, with other elders in the University provided great counsel that enabled me to settle down upon my appointment into a divided environment. Indeed, the University is grateful for this and in particular, I am glad that this book is published in his honour.

As its title suggests, this book of readings provides insight on emerging issues in urban land use and development in Nigeria. The topics covered in the book are based on specific sub-themes such as land administration and management, property valuation and appraisal, property taxation, housing, urban security, environmental sustainability, real estate education and practice.

It is my hope that all policy makers at the various tiers of government in the country and professionals involved in urban land use and development will find the book very useful. All libraries in tertiary institutions in the country offering courses in built environment should have copies of the book to aid teaching, learning and research.

I congratulate the Department of Estate Management and Valuation for this outstanding achievement

Prof. Musbau Adewumi Akanji, *FNSBMB, FAS*
Vice-Chancellor
Federal University of Technology, Minna, Nigeria.
August, 2017.

Acknowledgements

First of all, we are eternally grateful to the Almighty God for standing by us throughout the process of preparing this book and for making the publication of this book a reality despite several challenges experienced in the course of its publication.

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We are indebted to all the reviewers who reviewed the manuscripts published in each chapter of this book. We appreciate you for adding value to the manuscripts.

We remember with gratitude some of our senior colleagues in the Departments of Estate Management of various Universities in the country who provided editorial advice necessary for the publication of this book. They are: Prof. Olatoye Ojo (Obafemi Awolowo University, Ile-Ife), Prof. A. S. Asaju (Federal University of Technology, Akure), Prof. Abel Olaleye (Obafemi Awolowo University, Ile-Ife), Prof. M. O. Bello (Federal University of Technology, Akure), Dr. P.S. Ogedengbe (University of Benin), Dr. I. R. Egbenta (University of Nigeria, Nsukka) and Dr. (Mrs.) I. I. Kakulu (Rivers State University of Science and Technology, Port-Harcourt).

We appreciate the moral and technical support of our colleagues in the sister Departments of Architecture, Surveying and Geoinformatics and Urban and Regional Planning in the School of Environmental Technology of the Federal University of Technology, Minna.

We are grateful to all academic, technical and clerical staff of our Department, too numerous to be listed here who in one way or the other contributed to the successful publication of this book. All views expressed in each chapter of this book are entirely those of the contributors of the chapter and not of the editors.

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Chapter 16

Assessing Some Associated Risk Factors in Corporate Real Estate Development

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Abstract
This Chapter focuses on the various challenges inherent in corporate real estate development as they relate to the provision of shelter for the workforce in an organisation. In view of the corporate names attached to such estates and their special usage as residences, such estates become very essential in terms of providing shelter for an organisation's workforce. It argues that the economic downturn witnessed by the country within the past decade, coupled with high maintenance costs of the housing units over time, led to the variations that shattered the initial goal of the huge investments in corporate real estate business. These identified challenges led to the various types of staff housing loan schemes across the corporate organisations' urban workforce. It concludes with a framework whose validity and usefulness could be tested in practice.

Keywords: *Corporate Real Estate, Risk Management, Business Strategy, Decision Making*

Introduction
During the era of oil boom in Nigeria, the establishment of corporate real estates blossomed since real estate and associated facilities support and enhances such organisations' public image. Ugonabo and Emoh (2013) noted that unfortunately, despite all efforts at achieving sustained housing delivery to the common people to date, especially in the urban areas in Nigeria, existing realities indicate that the goal is far from being achieved. The era of oil boom has long been over hence the need to assess the efficiency and effectiveness of corporate real estates and search for innovative ways of managing these existing infrastructures so that it adds greater value to the enterprises. In many organisations, strategic outsourcing arrangements that seek to transfer the entire portfolio to a third party has been put in place. However, there is still the need to examine the risks associated with more traditional patterns of owning and leasing property. Also, in view

of the need to firm up expenditure across board, corporate real estate managers need to understand the impact of their corporate real estate portfolio on their core business in greater depth than ever before especially with respect to properties that are "mission critical" and those that are less crucial in supporting their business plans.

Decisions as to whether to invest or de-invest in corporate real estate acquisition or sustenance of the ones owned currently should be driven by transactions and projects related to new or changing workplace requirements. In the view of Louargand and Sandra (1996), the dwindling fortunes of corporations and the staff downsizing, due to the application of computer softwares in handling official matters, renters acquire less spaces and this development, in turn, creates surplus property assets. Downsizing of staff by corporations can also affect the residential estates occupied by staff since they would be required to vacate such units upon their exit from the company, thus bringing to the fore unanticipated financial and property market risks.

When businesses were booming, low level tasks (soft furnishing, power supply, security, cleaning and regular repair works) were carried out for the comfort of staff. To a greater extent, the cost of maintaining the properties acquired years ago, in a sustainable manner, is currently astronomical. For office buildings, modern technology has made designs of yester years obsolete. The features of green buildings were, in most cases absent, hence tenants at the earliest opportunities inclined to moving to modern buildings with better open office spaces that allow for office partitioning and repartitioning with dismountable/flexible materials, cross ventilation, less energy consumption, larger open spaces for movement and car parks (Quinn, 1999).

Types of Risk

In any real estate investment setting, there are bound to be areas of concern but its extent would be a function of the responses of the investor. On the positive side, Elsinga and Hoestra (2005) found that the advantages of homeownership over renting are many as home ownership gives households security of tenure, freedom from arbitrary rent increases or threats of ejection, self-esteem and financial advantage in case of sale of such housing units in the future. In addition, home ownership confers a positive effect on both the individual/corporation and the society at large. However, on the negative aspect, Elsinga and Hoestra (2005) identified environmental risks which are disasters that affect lives and properties, as well as the values of such properties within a given environment, as a result of the actions of man and other natural phenomenon.

These disasters range from pollution, land degradation, flooding, soil erosion and atmospheric contamination. The study however identified various strategies of managing or curtailing environmental risk through risk avoidance, risk reduction, risk retention, risk transfer, diversification, provision of contingency fund and/or by insurance arrangements. In their study, Lizieri, Ward and Lee (2001) identified air pollution, water pollution and noise pollution. They noted that air pollution arises from people's economic and domestic activities, industrial activities, thermal power stations, burning fossil fuels and harmful pollutants emitted by moving vehicles. Nwite (2004) identified the distribution of unchecked gully erosion as a source of water pollution. Some of these environmental risks are avoidable if the choice of site for any housing estate in any urban setting is done carefully after considering the neighbourhood potentials, present and future, on all fronts based on expert advice.

Strategies for Minimizing Corporate Real Estate Risks

Strategic risk is defined by Simons (1999) as "an unexpected event or set of conditions that significantly reduces the ability of managers to implement their intended business strategy". Simons listed risks that may affect corporate institutions as operations risk, asset impairment risk and competitive risk. Thompson (2001) further noted that these risks may be caused by financial, product and market diversification, managerial ability and competence, environmental and competitive challenges affecting such corporate bodies at any specific period in time. However, when the activities of the organisation that are critical to the creation of value are disturbed either as a result of economic downturn, political upheaval, unhealthy competition, structural failure of a key facility, power failure, etc., there may occur heavy loss of revenue and reduced customer confidence, thus inhibiting future growth and overall competitiveness. Exposures to property market and economic/political risks are often unpredictable while successive format shifts or innovations cause obsolescence in existing sites without any change in the physical condition or the surrounding property market.

In terms of physical damage to an asset, property assets are exposed to fire, floods, terrorist attacks and other disasters. Being alive to the chances of such things occurring and determining the likely extent to which they are likely to occur and whether the facility houses operations that affect the business value must be looked into. In the words of McIvor (2000), competitive risks can occur if a competitor secures a key site that gives it some strategic advantage or government decides suddenly to change its planning and transport policy in such a way that, not only affects current values, but also restricts future growth. By so doing, property costs may escalate due to lack or dwindling supply.

Managing Corporate Real Estate Risks

Simons (1999) identified three general categories of risks associated with corporate property as financial, property market and business risks. In managing financial risks, the organisation needs to identify on-going workplace costs with a degree of certainty. The cost of workplace infrastructure is, to a large extent fixed, hence the challenge of determining accurately either the average or marginal cost. Real estate maintenance costs are largely uncontrollable and inflexible sources with higher impact on both the short and long run plans of an organisation.

Corporate organisations that fail to readily align their expansion and contraction requirements with the property market cycles can get trapped while signing leases during property market booms, only to find that rents do fall from such a peak without notice (Gibson, 2000). The secondary effect of such a situation is the consumption of part of the firm's credit capacity in guaranteeing the sublease. Sharp increases in occupancy costs, deteriorating location quality, a shift in the types of sub-market occupancy; as well as tax obligations created by the sale of appreciated assets create headaches to unsuspecting consumers. Subtle risks such as failure of air conditioning systems, though highly unpredictable, can have disastrous consequences on the fortune of an organisation. The use to which a property is put, whether owned or leased, according to Joroff *et al* (1992) can make it to be seen as a core asset. The weight of the asset's utility to the enterprise, in terms of its location and physical structure could be core to the success of operations. Capital investment decisions regarding them tend to follow traditional capital budgeting models.

Harris (2001) observed that some corporate organisations use their residential estates as cyclical assets. This occurs, where they are used to varying degrees, as the business or product cycle waxes and wanes. These are the properties that are more tightly linked to the ultimate level of demand for the organisation's products or services and therefore need to expand and contract with the firm's market. Such residential estates, which cater for staff in regional operations' offices, call centers or staff managing contracts, may vary over the business or product cycle.

Where large firms that are multi-national or global in nature are involved in owning residential estates, according to Glagola (1999), they may be exposed to environmental risk as a result of regulatory frameworks and legal infrastructure which tend to vary between countries at different stages of development and varying stages of evolution. Simply put, decision-making and risk management strategies must recognize these differences whether in the domestic, stable or in an emerging economy. Decision makers in this setting must ensure that the domestic setting of the property rights, legal procedure, contract execution and business practice in the real estate market are well understood. The legal and political risks can be minimized by following due diligence procedures through outsourcing. This is because the risk in corporate real estate in emerging economies has several characteristics that may not appear in other settings especially as it relates to the local custom, security, the contractual relationships envisioned in the corporate real estate strategy, immature legal systems and infrastructure to the point of impeding the successful completion or operation of the planned facilities or political activism unrelated to the business purpose.

Assessing Risks in the Structured Framework

It may be difficult to estimate a quantitative value for all the three types of risks (financial, property market and business risk) or for each of the cells within the matrix. However, it is acknowledged in the management literature that the issues are qualitative rather than finite and judgment must come to bear (Thompson, 2001). It is believed that these risks are likely to vary across asset type as well as the usage pattern since generic properties used in a core setting should be managed with the expectation that they are fairly low-risk asset from the operating costs, long usage and well understood by both developers and occupiers from the design and operation standpoint. But corporate real estate, by nature of its long duration, might have high financial risk due to its appearance on the firm's balance sheet in one form or another. Since it is a generic type of property in long-term use, it is moderately well insulated from the property market risk. In contrast to this, special purpose-built properties are likely to bear a high level of risk in four areas as they are typically not easily saleable, investors charge a premium for supplying them, they have little value in the marketplace and design flaws can render them inefficient or obsolete thus negatively impacting business operations. However, the actual level of risk in each of these cells will be related to the individual circumstances of the organisation; its core processes, markets and existing corporate real estate portfolio (Gibson & Lizieri, 1999). The real benefit of this risk matrix is that it provides a structured framework to allow the management identify the depth of risk in different parts of the portfolio thoughtfully so as to concentrate efforts where risks are greatest. From an outsourcing perspective, Nwite (2014) believes that the analysis can influence an organisation's decision regarding which risks it is willing to transfer and thus which properties. It also provides a framework with which to develop the contractual and partnership arrangements. This tool, therefore, may have more value in its role of providing a focus for discussion, than as an instrument for any more formal or detailed evaluation. If organisations are increasingly to work towards strategic outsourcing arrangements, then a mechanism to help develop a shared understanding of the corporate real estate portfolio will be essential.

Conclusion

Through this analysis, a framework for thinking about the critical variables in most corporate real estate settings has been specified. Two over-arching issues for management to confront with are proposed. The first is to fully understand the nature and source of the risks borne or created in any real estate decision. The second concerns an understanding of the intensity of each risk as well as the appropriate risk management strategy required before contemplating the legal and organisational structure that will help deliver the real estate assets and services. Research efforts in this area of real estate have expanded considerably in the past decade though heavily weighted to descriptive and normative studies. Empirical study of employee satisfaction, productivity, creation or destruction of shareholder value and economic efficiency of real estate costs need to be pursued from the foundation that these earlier researches have established. The contribution of this work has been to provide a framework on which empirical work could develop by testing its validity and usefulness in practice. It could also help in the elusive search for understanding and evaluating the real contribution of corporate real estate to organisational performance.

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