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# Investment Risks Associated with Property Development in Nigeria

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***Abstract- Nigerian real estate development offers investors great prospects, but there are hazards involved that need to be fully recognized and managed. This essay seeks to examine the main investment risks connected to Nigerian real estate development, encompassing risks related to markets, regulations, economy, and politics. To optimize returns and guarantee the success of their investments, investors can make well-informed decisions and put into practice efficient risk management techniques by thoroughly analyzing these risks. In order to improve investor confidence and project performance, this research attempts to critically examine the inherent risks associated with real estate development projects in the Nigerian setting. It does this by offering insights into potential mitigating techniques. The study makes use of secondary sources like journal articles, government publications, and case studies in addition to primary data gathered through surveys of industry professionals. This paper helps to advance the field of property development in Nigeria by drawing attention to these dangers, which will ultimately help investors, developers, politicians, and other interested parties.***

***Indexed Terms- Risk, Investments risk, Property Development, Nigeria, mitigation strategies.***

## I. INTRODUCTION

Investor interest in property development in Nigeria has increased as a result of the nation's urbanization, population growth, and rising need for residential and commercial real estate. However, there are a number of hazards associated with property development investing that could affect project profitability and investment returns. Risk is defined as "future uncertainty about deviation from expected earnings or expected outcome" in The Economic Times (2024). The degree of uncertainty an investor is willing to accept in order to profit from an investment is measured by risk. There are several sorts of risks, each arising from a unique set of circumstances. Risks associated with investments, liquidity, sovereign risk, insurance, business, default, etc. The uncertainty resulting from multiple factors influencing an investment or a circumstance is the source of diverse hazards. The chance or likelihood of losses occurring in relation to the projected return on any given investment is known as investment risk. To put it plainly, it's a gauge of the degree of uncertainty surrounding the realization of investor expectations for returns. It is the magnitude of unanticipated outcomes to be attained. Risk plays a significant role in evaluating the potential of an investment. When making an investment, the majority of investors view lower risk as advantageous. An investment is more profitable the lower the risk involved. But as they say, the larger the risk, the higher the reward.

Investments in real estate are made with the expectation of future revenue sources. It is impossible to predict revenue with accuracy because the future is unknown. It thus suggests that there is a lack of understanding about the future, leading to expectations that may differ to the extent that the future is uncertain, dependent on what is hoped for. According to Isaac (1998:164), making decisions "involves taking a risk if decisions are made in an environment where the future is uncertain." Investing in real estate involves taking a risk because it is dependent on future income flow projections, and one cannot predict what the future holds. In order to help investors make wise decisions and reduce any obstacles, this paper will identify and examine the main investment risks connected to Nigerian real estate development. Gaining a better grasp of these risks is essential for boosting investor confidence and encouraging long-term growth in the industry.

## II. LITERATURE REVIEW

French and Gabrielli (2004:485) define uncertainty as "anything that is not known about the outcome of a venture at the time when the decision is made." Property development, according to Peca (2009), is the use of land in the widest sense to create a comfortable environment while taking the social and economic demands of the community into consideration. Property development entails investing a substantial sum of money in a product that is fixed in terms of both time and location. The process is fraught with danger and unpredictability. Risk is the quantification of a loss that is recognized as a potential result of the choice. Risk in real estate investing was described by Issac as the degree of likelihood that a necessary return, expressed in terms of capital value and income, will be realized. The question of how that necessary return is determined now arises.

Property development investments are fundamentally risky or uncertain, and investors must embrace this fact and realize that their expectations and feelings about the future may not materialize as expected. When investing in real estate development, investors are choosing to take on risk and uncertainty. There is a chance that the result will differ from their expectations, and they cannot be sure what will happen in the future.

In the process of identifying risk sources, differences in space and time may become apparent. The locational factor and the time factor are highly variable and lack standards. risk can be assessed in terms of its probability and therefore insured against or allowed for. Since probability is a measure of uncertainty, examining the probabilities of estimate will assist in determining the likely outcomes. The real estate market is risky because it is subject to numerous influences.

- Sources of risk and uncertainty

Real estate risk varies depending on the type of property and its attributes. Compared to other investment forms like capital market investing, it is more important because of its features. According to Lucius (2001:76), real estate's constituent qualities include immobility, heterogeneity, restricted and substitutability, investment volume, transaction cost, life cycle duration, and development process duration. He goes on to say that the length of the development process and life cycle makes it more difficult to predict the factors that determine value because there may be a variety of favorable or unfavorable circumstances that affect how well the investment performs. The processes and life cycle may deviate from forecasts to a greater extent in an environment that is more unpredictable. since of its nature, the real estate market is dangerous since it is susceptible to several factors. The market can drop sharply back to its starting point in the event of a significant domestic or international economic or political shock, or even just a perceived shock (Bloch, 1997:97). This shows that although the real estate market is sensitive to its surroundings and can appear extremely profitable at certain times, sensitivity in this context refers to uncertainty. Bloch (1997:17) goes on to say that, in the end, the real world of our economy and society in its larger context is what the property market is a part of and does not exist independently. The relationship between property and an economy and society is inherent in this.

Certain types of uncertainty are, according to Byrne (1996:5), somewhat controllable by the developer. They are measurable, identifiable, and controllable. Others are harder to manage and, for the most part, must be regarded as a risk associated with development. According to Byrne (1996:14), the following additional elements are critical to the success or failure of the majority of development projects:

I. Short-term borrowing cost
II. Building cost
III. Rental income; and
IV. Investor’s yield

These are mainly quantitative issues which can easily be assessed.

He doesn't address other variables that should raise risk, like political unpredictability and patterns of land tenure. Emerging nations frequently experience political instability. For instance, political unrest in Nigeria throughout the past ten to fifteen years, ranging from military to civilian, continues to have an effect on the country's economy. There are clear instances of abandoned development projects that, when they first started, were viewed as promising signs, and investors used them as a standard by which to make judgments and execute investment projects. These investments have suffered greatly from the instability brought on by the unlawful succession of governments and a lack of continuity. The Land Use Decree of 1978, which is now known as the CAP L5 Laws of the Federation of Nigeria, has also generated controversy because it has essentially been ineffective and the government has not been able to fully implement the law. As stipulated by law, the community and family have a significant effect on how land is allocated and used, rather than the government alone.

The developer and investor face numerous challenges as a result. Depending on the degree of adverse conditions to which the development is subjected in any particular region, there are several sources of risk associated with real estate. When making decisions in property development, it is essential to have a general understanding of the causes of investment risk. According to Norwood (2000:104), it makes sense to recognize that simple property cultures frequently contribute to issues in a variety of contexts. Real estate markets come in a variety of forms, from highly developed ones like the US and UK to developing ones like China, Vietnam, and Nigeria.

All of this points to a variety of issues, including varying tenure patterns, unstable ownership structures, and inconsistent information from transaction documents and records. "Regulating environments and legal infrastructure vary between countries; they are at different stages of development and varying stages of evolution," assert Gibson and Louargrand (2002:12). Due to a variety of political, economic, and socioeconomic factors, the Nigerian real estate market has unique characteristics. Individuals who invest in real estate without conducting any kind of risk assessment or analysis are more susceptible to unfavorable outcomes in the real world. It's clear that accurate future predictions are impossible to make, and investors lose nothing by disregarding anticipated future events.

- Risks in emerging economies

Emerging economies face distinct risks in comparison to industrialized ones. They are more vulnerable to risk, which creates an unfavorable environment for investments. Any improvement in the investment climate draws in investment and boosts economic growth because it lowers the risk that investors must take. Developing nations are perceived by investors as having a high degree of unpredictability. In a broad sense, security refers to a nation's approach to safeguarding people and their property when it comes to matters of economic development, according to Okpa (undated).

It can mean intellectual property rights, investment security, socio-political risk factors, rule of law, judicial conduct, conflict settlement, etc. in a more technical sense. Economic transformation and the enormous potential for financial gain are frequently accompanied in developing nations by enormous danger. More specifically, Tooman (undated) discusses political, legal, and economic risk. The risks that are visible in the two growing nations differ greatly from one another and must be analyzed separately. The risk features of developing countries are as varied as the histories, customs, and institutional makeup of the individual countries. Examples of these include ethnic disturbance in Nigeria, civil war in Angola, and regional warfare in the Caspian region. There are differences in the socio-economic and socio-political environments, and each growing economy has a varied level of risk. Compared to industrialized economies, emerging economies are significantly more volatile. In comparison to established and mature markets, immature property markets and markets in general respond to global economic events with more volatility. Among the main dangers associated with real estate development investments in emerging economies are:

(a) Economic Risk: Building construction may be impacted by the economic status of a town, region, or the country as a whole in relation to the ensuing market conditions. Numerous properties experience a shift in usage as a result. In this way, assets originally intended for specific uses, like movie theaters, are being against their original intent and being changed into churches or shopping centers to accommodate the current economic climate. The cash flows from an investment may be positively or negatively impacted by changes in the urban or rural community's status. Therefore, it is necessary to enact and uphold specific development control mechanisms to govern the conversion of current land uses into new physical uses compliant with current zoning rules.

(b) Financial Risk: Due to financial debt, the property developer is now exposed to increased risk. While some real estate developments rely on borrowed money, the majority are supported by equity. If an average wage worker decides to quit receiving his salary or does not receive it on a regular basis for any reason, it could be difficult for him to finish the house he had planned to build out of savings. Comparably, if a political office holder's position is abruptly ended, they can encounter a similar circumstance. When this occurs, there is a chance that the funds needed to start the project and see it through to completion won't be raised. The developer's intended capital budgeting decisions are negatively impacted by this unforeseen development.

(c) Business Risk: Market conditions, changes in the cost of labor, building material prices, variations in earnings or future operational revenue, management policy changes, or reviews of rental income can all contribute to business risk. Additionally, there is a danger to the expected income from the investment and the security of the funds invested. For example, a renter may choose to vacate their residence, leaving it empty for an indeterminate amount of time. There is no income from the property during this time of void. Business risk, which represents the unpredictability of cash flows produced by real estate investors, can have both positive and negative effects on project objectives.

(d) Market Risk: This highlights the market's supply and demand for real estate items. It has to do with the potential for growth on the part of an investor and the potential for end users to buy or rent the properties that are on the market. This resulted from unfavorable market responses to active government policies that undermine the operation of the real estate market, including barriers to obtaining land for residential development, issues with title registration, housing finance, and the tendency toward rental housing, among other things. Investors are exposed to the risk of fluctuations in the property's earnings or revenues due to pressures on the supply and demand of its current products. A low return due to pure pessimism on the side of real estate market players is also linked to risk.

(e) Timing Risk: Investment risk is impacted by the time issue. The lease specifies when the beneficiary must finish development on the designated site if the development site was obtained through a site and service plan or in another public estate. In addition to the time, it could take to finish a project, there's also the danger that it won't be sold or rented to the type of tenants the developer had in mind when it's finished. This highlights the idea of critical path analysis, which contrasts the regular durations and expenses needed to finish a project via networking with the amount of time needed if the same project were to be completed under a crash program.

(f) Physical Risk: This is especially pertinent to direct real estate investment. It results from natural deterioration of the property caused by environmental degradation, flooding, soil erosion brought on by climate change, or unexpected physical growth. Other human activity, like a fire breaking out or a mechanical issue, can also cause it. Older properties may begin to lose their value too soon due to shifting consumer preferences for contemporary architecture and construction technology. This necessitates spending more cash that wasn't originally planned for.

(g) Risk of Urban Expansion: As a result of urban growth, there is a tendency in the real estate market for particular building categories to become outdated in terms of form, location, or usage. This is the result of a city's core business district growing to include land that was first intended for residential development. When this occurs, some building types can find that their original location is no longer suitable, necessitating a move or change in use. On the other hand, a city may grow to the point where its surrounding unplanned villages are absorbed by the city as a result of the process of urban expansion and incorporation. In order to make place for new building types, this calls for a renewal program in which the impacted areas are forced to undergo replanning and unneeded buildings are eliminated.

- Investment risk in property development in Nigeria.

From the mud huts and houses for extended families, which were grouped in clusters, to our contemporary nuclear family units and institutional buildings, property development in Nigeria has come a long way (Belo and Agbatekwure, 2002:3). There is ample proof of abandoned or unsuccessful real estate ventures. Investing decisions are made based more on gut feeling than methodical consideration. While many of them fail, the majority of them succeed, and even the successful ones would have reached viability had the decision been made after a formal and thorough examination of all the relevant data. A thorough study of the risk is necessary for making good decisions (Hutchinson and Nanthakumaran, 2000:36). This puts real estate investments at risk and consequently depletes limited resources. Hence, making decisions based solely on intuition in a field where risk and ambiguity are present in every aspect greatly increases the risk associated with property development investments. Because most investment decisions are not based on objective criteria, project failures can happen on an enormous scale (Ayodele, 2000:3).

According to Hemuka (2000:22), if one examines closely at the underlying reasons of our failure in real estate development and investment during the past millennium, it is hard to overlook the Nigerian factor. The Nigerian element in this situation essentially alludes to Nigerian behavior. A combination of political degradation, dishonesty, indiscipline, and a complete disregard for law and order characterizes the modern Nigerian political system. Among the principal hazards associated with property development investments in Nigeria are:

1. Infrastructure: The inability of the government to provide basic infrastructure for the development of green field sites and the non-provision of public infrastructure often results in the exposure of real estate development to declining rental and capital values, other than those projected at the onset. Mayaki (2004), commenting on the inability of the government to provide infrastructure and serviced sites as it is done in other countries, says, here (Nigeria) they allow the property developers to do everything and expect the houses to be cheap. A property may suffer long void periods because of the effects of unfavorable conditions such as bad accessibility and inadequate supply of water and electricity.

2. Planning control: In real estate development, it is critical that planning authorities are unable to uphold the required planning regulations and protect future investment opportunities. One of the main issues the Nigerian real estate market is thought to be dealing with is planning control. Planning results in better property values and coordinated development. According to Hui (2004:135), a few research, land laws raise property values by improving community facilities. In Nigeria, development is done without consideration for nearby homes, which compromises the neighborhood's aesthetic, safety, and health standards. By ignoring and abusing political authority, these detrimental consequences on values—which the government can control through the issuance of building laws and planning consent—introduce risk to financial gains.

3. Government policy: Instability of government policies and programs which may boost or dampen property development initiatives from time to time. The government has the key to stimulate and reduce the risk in property investment by bringing about favorable policies. Mayaki (2004) referring to the Nigerian property market says the government should take decisions that will allow the private sector flourish in the industry.

4. Finance: In Nigeria, there is no long-term funding source available for building societies. In real estate development, financing typically refers to the ways in which capital can be obtained to purchase, develop, and manage real estate. Another significant obstacle to investment in Nigerian real estate development is a lack of capital. It is impossible to overlook the lack of sufficient and well-organized finance systems for private property ownership as it exists in developed nations. According to Akujuru (2001:12), lenders are developing and employing strategies to earn higher returns on their investments in order to offset any potential future decline in real value. This is because traditional long-term, fixed-rate mortgage financing for property development has not yet reached the true value of the lender's investment. Due to high lending rates, developers are forced to either postpone

developing equity or turn to unusual sources of funding. Conventional funding sources can be employed in situations where interest rates are reasonable and low. Real estate development in Nigeria is allowed to bid for funding at commercial rates. This can make the investment initially unprofitable for the basic residential building.

## III. METHODOLOGY

A thorough analysis of the body of prior research, interviews with professionals in the field, and a compilation of survey data from Nigerian real estate professionals comprise the methodological approach used. Descriptive statistics and thematic content analysis methods were used to analyze the data.

- Case study methodology.

A case study, according to Cresswell (1998:61), is an investigation of a "bounded system" or a case (or multiple cases) across time using thorough, in-depth data from numerous sources of contextually rich information. This bounded system is the case under study—a program, an event, an activity, or a set of people—and it is bounded by time and space. The process of placing the case within its setting—which could be either physical or social, historical, or economic—is known as the case's context. This suggests a thorough investigation or analysis of a specific environment, location, or topic. The investigation of investment hazards in real estate development in emerging economies was the focus of this study. Regarding emerging economies, this study's parameters were established within the Nigerian economy, with an emphasis on the property market's distinct risk characteristics as well as its geopolitical and socioeconomic features. According to Denscombe (2003:38), a clear understanding of the case's boundaries and a precise description of them are essential components of excellent case study research. There is a ton of material and methods in the technique from which to construct a case study. Numerous benefits are well-known for the case study approach, and its advantages can be viewed from various angles. This approach is particularly suitable where the researcher has little control over events (Denscombe (2003:38) because it is concerned with investigating phenomena as they naturally occur, and there is no pressure on the researcher to impose controls or change circumstances. It enables an investigation of the risk phenomenon in Nigeria as it is.

The method conveniently enables the combination of different sources of data which enable a rigorous study of the research problem. One of the strengths of the case study is that it allows the researcher to use a variety of types of data collection methods and a variety of types of data collection methods and variety of research methods as part of the investigation Denscombe (2003:31) and this was very suitable to this study. Observation of events within the case study setting, were combined with the collection of documents from official meetings and interviews with people involved. Questionnaires were used to provide information on a particular point of interest. The most appropriate methods were used for investigating the relationship and processes that are of interest in the study. Creswell (1998:62) states that, "data collection is extensive, drawing on multiple sources of information such as observations, interview, documents and audio-visual materials". This feature of the case study method helped this study because through a combination of different methods a clearer picture of the case under study was obtained. It more or less encourages the use of multiple methods in order to capture the complex reality under scrutiny, which was done. He further explains that in parallel with the use of multiple methods, the case study approach fosters the use of multiple sources of data. This in turn, facilitates the validation of data through triangulation. It builds the comfort on relying on the outcome of the study as there tends to be security and validation of data within the method.

The case study method of analysis supports a holistic rather than isolated factor which helps the researchers to understand relationships and social processes. Denscombe (2003:38) states that, "The main benefit of using a case study approach is that the focus on one or a few instances allows the researcher to deal with the subtleties and intricacies of complex social situation". Small scale social research can adequately benefit from the use of case study method though small scale research can adequately benefit from the use of case study method though small scale research maybe characterized by time and resources the case study method can be utilized to achieve the research objective. Denscombe (2003:38) indicates that the case study approach can fit in well with the needs of small-scale research through concentrating efforts on one research site (or just a few sites). He is also of the view that theory –building and theory-testing research can both use the case study approach to good effect.

## IV. FINDINGS & ANALYSIS

A number of noteworthy risk issues were recognized, such as unstable political environments, unclear regulations, difficulties acquiring land, building setbacks, unstable markets, variations in currency values, and financial limitations. The primary source of information for recognized hazards that are currently included in assessments was secondary data in the form of published works, such as textbooks and journals, which helped identify the risks connected with investing in real estate development. The remaining ones, which are unique to Nigeria, were mainly taken from unprocessed field data and empirical research. Desk research and electronic databases were used to gain access to journals. Questionnaires were distributed for this study in Lagos and Port Harcourt, two significant cities. Real estate surveyors and valuers in practice who specialize in appraisal and related fields, along with project managers and property developers and investors, comprised the study's target demographic. They were selected from the cities of Lagos State and Rivers State, two states in Nigeria. Lagos serves as the hub for business, industrial, administrative, and commercial activity. It boasts the most developed real estate market in Nigeria together with the most dynamic economy. Rivers State's capital, Port Harcourt, is an administrative hub with a growing corporate community. Because to Rivers State's abundance of natural gas and oil, the state is referred to as Nigeria's "treasure base" and is home to the headquarters of numerous global oil corporations operating in the country. Eighty responders received the eighty prepared surveys. Forty surveys were distributed in Lagos and forty in Port Harcourt. Property developers received 25% of the questions, investors received 25%, and estate surveyors and valuers received 50% of the total. Respondents in Port Harcourt returned a total of 21 questionnaires, indicating a 52.5% response rate. 37 surveys with a 92.5% response rate were returned from Port Harcourt and Lagos. The response rate is 72.5% when the responses from Port Harcourt and Lagos are combined.

The market for property development is nearly impossible to reach due to a number of elements that defy established trends, according to data collected from the sector. In more developed nations like the UK, there are some fundamental problems that help to mitigate the risk associated with real estate development projects. These, however, are quite different in the Nigerian context and make it exceedingly difficult to forecast the future of property; as a result, risk and uncertainty are at the core of investment in Nigerian real estate development. Nonetheless, it was noted that the market is profitable during the time this study was conducted. Because the market is a demand market, this is a result of the nature of market forces.

The study demonstrates that because of the structure of the system, investments in real estate development in Nigeria are subject to risk and uncertainty. Issues also occur because of the following:

1. Lack of infrastructure
2. Planning control
3. Finance
4. Land title

The Nigerian system is viewed as a significant barrier to investment in real estate development. In Nigeria, development exacerbates surrounding developments and the community since there is no fundamental framework in place to guarantee that the built environment is developed harmoniously and promotes wellbeing, but in the UK, development improves the community.

## IV. DISCUSSION

It appears that a thorough examination of the hazards associated with property development investments has not been done in Nigeria. According to the study, 94.83% of respondents said they considered these risks. 70.96% of respondents say that analysis and feasibility studies helped them decide whether to invest. 25.59% said friends' input helped them make their decision, and 6.90% said their intuition alone guided them. Other factors, including viability indicators, retirement advantages, hobbies, the need to own real estate, and the desire to investigate development potential, accounted for 15.52% of the total. The degree to which these risks are taken into account in the feasibility analysis demonstrates that the analysis is not done thoroughly enough to illustrate the ramifications of such hazards. It was also observed that presumptions were formed regarding the absence of burdensome levies and restrictions on property. In reality, though, property development faces a variety of costs and levies, as well as interference from the community and young people. While completion deadlines are taken into account in feasibility analyses, they are simply recognized as being dependent on consistent funding sources. Interference from the community and young people may delay the execution of a project. Even delays of a few weeks to years may result from it.

## CONCLUSION

This study has demonstrated that the risk associated with investing in Nigerian real estate development can be seen from a variety of angles, differing from those encountered in the developed real estate market. Investments in real estate development are more hazardous in Nigeria than they are in industrialized nations due to the country's system, environment, population attitudes, built environment, and overall economic progress. The property market in Nigeria is affected by a number of factors, including infrastructure, planning control, finance, land title, inflation, shifting political democratic movements, and interference from the community and young. Because of the ineffectiveness of the planning structure, planning control and permission are unlikely to prevent a development from becoming feasible. This puts the environment at large at danger and makes neighboring properties less successful. Although investing in property development in Nigeria presents profitable prospects, it also carries inherent hazards that need to be carefully addressed. Investors can successfully manage the intricacies of the Nigerian real estate market and generate sustainable returns on their capital by comprehending and mitigating risks connected to regulations, the economy, politics, and the market. Efficient risk mitigation tactics are vital for mitigating obstacles, seizing prospects, and guaranteeing the sustained prosperity of real estate development initiatives in Nigeria. Investors, developers, and governments will be better prepared to negotiate the difficulties of property development in Nigeria if they are aware of and take steps to mitigate the risks described in this article. In the end, the region's real estate industry will experience faster economic growth, more positive outcomes, and improved investor confidence as a result of this increased understanding of and application of best practices.

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