

**ASSESSMENT OF THE FACTORS INFLUENCING COMMERCIAL PROPERTY  
INVESTMENT DECISION  
(A CASE STUDY OF AUCHI)**

**BY**

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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF ESTATE  
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## **CERTIFICATION**

This is to certify that this project titled “Assessment of the Factors Influencing Commercial Property Investment Decision (A Case Study Of Auchi) was written by **OKELEKE ONWEAZA STEPHEN** with Matriculation Number **ENV/2082030149**, in partial fulfillment of the requirements for the award of Higher National Diploma (HND Estate Management and Valuation Department, Auchi Polytechnic, Auchi.

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## **DEDICATION**

This project work is dedicated to Almighty God, for giving me life, strength, wisdom, understanding to complete my education.

## **ACKNOWLEDGEMENTS**

My gratitude goes to Almighty God for His guidance, wisdom, knowledge and understanding throughout the duration of my programme.

My profound gratitude goes to my project supervisor, **ESV. (Mrs) Ohiro, E.I** for her wonderful contribution, advice and guidance he rendered to me during the course of carrying out this study and to the Head of Department, **ESV. Ojeh P.A.P** and all lecturers in the Department of Estate Management and Valuation.

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I am also grateful to my Siblings, Cousins, Friends, Course mates and well-wishers, I pray God to meet you all at the point of your needs in Jesus Name Amen.

## TABLE OF CONTENTS

Title page	-	-	-	-	-	-	-	-	-	-	i
Certification	-	-	-	-	-	-	-	-	-	-	ii
Dedication	-	-	-	-	-	-	-	-	-	-	iii
Acknowledgment	-	-	-	-	-	-	-	-	-	-	iv
Table of contents	-	-	-	-	-	-	-	-	-	-	v
List of tables	-	-	-	-	-	-	-	-	-	-	vii
Abstract	-	-	-	-	-	-	-	-	-	-	viii

### CHAPTER ONE

1.0	Introduction	-	-	-	-	-	-	-	-	-	1
1.1	Background to the Study	-	-	-	-	-	-	-	-	-	1
1.2	Statement of the Problem	-	-	-	-	-	-	-	-	-	2
1.3	Research Questions	-	-	-	-	-	-	-	-	-	2
1.4	Aim and Objectives of the Study	-	-	-	-	-	-	-	-	-	2
1.5	Scope of the Study	-	-	-	-	-	-	-	-	-	3
1.6	Significance of the Study	-	-	-	-	-	-	-	-	-	3
1.7	Study Area	-	-	-	-	-	-	-	-	-	3
1.8	Limitation of the Study	-	-	-	-	-	-	-	-	-	4
1.9	Operational Definition of Terms	-	-	-	-	-	-	-	-	-	4

### CHAPTER TWO:

2.0	Literature Review	-	-	-	-	-	-	-	-	-	6
2.1	Concept of Commercial properties	-	-	-	-	-	-	-	-	-	6
2.2	Commercial properties uses/ types	-	-	-	-	-	-	-	-	-	6
2.3	Challenges associated with commercial properties	-	-	-	-	-	-	-	-	-	8
2.4	Factors influencing commercial real estate investment decision	-	-	-	-	-	-	-	-	-	9
2.5	Concepts of investment decision	-	-	-	-	-	-	-	-	-	11
2.5.1	Review of swot analysis decision making	-	-	-	-	-	-	-	-	-	12
2.5.2	Challenges of real estate investment decision	-	-	-	-	-	-	-	-	-	13
2.6	An alternative framework for the real estate market analysis-	-	-	-	-	-	-	-	-	-	15
2.6.1	The structural market analysis of commercial property market	-	-	-	-	-	-	-	-	-	16
2.7	Reason for investing in commercial property-	-	-	-	-	-	-	-	-	-	18
2.8	The downside of investigating in commercial property time commitment-	-	-	-	-	-	-	-	-	-	19
2.9	Ways of minimizing risk in Real Estate Investment	-	-	-	-	-	-	-	-	-	21

### CHAPTER THREE: RESEARCH METHODOLOGY

Research Methodology										
3.0	Introduction	-	-	-	-	-	-	-	-	24
3.1	Research Design	-	-	-	-	--	-	-	-	24
3.2	Population of the Study	-	-	-	-	-	-	-	-	24
3.3	Sample/Sampling Techniques	-	-	-	-	-	-	-	-	24
3.4	instrumentation/ data collection procedure	-	-	-	-	-	-	-	-	25
3.5	Method of Data Analysis	-	-	-	-	-	-	-	-	25

#### **CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION**

4.1	Data Analysis	-	-	-	-	-	-	-	-	27
4.2	Discussions of Findings	-	-	-	-	-	-	-	-	33

#### **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1	Summary of Findings	-	-	-	-	-	-	-	-	34
5.2	Conclusion	-	-	-	-	-	-	-	-	35
5.3	Recommendations	-	-	-	-	-	-	-	-	35
	References	-	-	-	-	-	-	-	-	36
	Appendices	-	-	-	-	-	-	-	-	38

## LIST OF TABLES

Table 4.1	Respondents Socio Economic Characteristic -	-	-	-	-28
Table 4.2:	Types of commercial properties found in Auchi	-	-	-	-29
Table 4.3:	Identified factors influencing commercial property investment decision	-	-	-	-30
Table 4.4:	Identified challenges faced by would be developers in the study	-			-31
Table 4.5:	Measures in curbing investment decisions challenges in the study area				-32

## ABSTRACT

*Investment decisions are crucial for the growth of the business and the individual taking the decision. And the fact remains that there are factors that should be considered before investing in commercial property. It is on this basis that this research is conducted to investigate the major factors influencing commercial property investment decision using Auchi as a case study. Sets of objectives were set and questionnaires administered using simple random sampling techniques to property owners, occupiers and Estate Surveyors and valuers, as well as personal observation and interview. Respondent's responses were analyzed using percentage, mean score and relative important index and presented in tables and textual. Finding reveal major factors that influences commercial property investment decision as finance, neighbourhood population, location, potential income. Etc. the study made useful recommendations based on the finding thus; Government and other stake holders should encourage joint venture and participations in National Housing fund scheme by eligible citizen. To crown it all, all manners of crime should be checked, and government should live to their responsibilities as promised.*



## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

The process by which human beings make decision has been a topic of interest for the past century. In this regard, Ye and Dent (2009) argues that understanding people's behavior in a decision making context can enhance the decision making process. Research on decision making is often based on assumption relating to human rationality, including consistency and coherence (Tversky & Kahneman 2013).

Investment decisions are crucial for the performance of the economy in twofold, i.e. with respect to both macro and micro perspectives. From macro perspective, in a regular business cycle, they account for the majority of volatility in the Gross Domestic product (G.D.P) dynamics and their magnitude serve as significant leading indicator of economic performance (Zamowitz 1992). From the micro perspective they are crucial for the growth of individual companies, increasing the efficiency by reducing unit costs.

Investing in commercial real estate can be a very profitable venture. Commercial property analysis focuses on the detailed aspects to be considered before making this decision such that you are completely convinced and ensured that it's a sound investment choice. Most commercial spaces have the potential to bring in much more money than what goes out for the mortgage loan. In order to make any purchase worthwhile, however it is extremely important to conduct a thorough commercial property analysis beforehand. Several factors will determine where or not your investment will be rewarded with profit and growth. The greater attention given to the development of those types of properties is justified by factors influencing the decision of the investors.

## **1.2 Statement of Problem**

The apparent financial stress faced by many commercial property investors in Auchi is the primary motivation for this study. Nigeria is an emerging market, with prospects for international property investment opportunities. However, there are significant indications ‘that international investors would have their risks grossly understated as they might be unable to fully comprehend our market peculiarities at the initial stage. The problem would be that investors would not have accurate information because we do not have it.

Local valuers are not also equipped with tools to account for risks comprehensively. Resultantly, the foreign investors and their trusted partners with deep local insights and experience may be unable to navigate the risk opportunity tightrope, given the perceived variances between appraisal reports and market realities.

Auchi as a fast growing community for commercial activities, investors could be faced with decision on which type of property to invest their hard earned income. Investment decision invariably affects every type of real estate although in varying degrees. It appears that these changes are more evident in commercial properties. This perhaps is due to the fact that these properties are majorly built for business transactions and as the name implies could easily be prone to varying economic upheavals

## **1.3 Research Questions**

1. What are the various types of commercial properties present in Auchi?
2. What are the factors influencing commercial property investment decision in the study area?
3. What are the challenges faced by real estate investors in commercial properties, investment decision in the study area.

## **1.4 Aim and Objectives**

The aim of this research work is to examine the factors influencing commercial property investment decision in Auchi, Edo State.

#### **1.4.1 Objectives**

1. To identify the various types of commercial properties in Auchi.
2. To identify the factors influencing commercial property investment decision
3. To examine the challenges faced by real estate investors in commercial property investment decision in the study area.

#### **1.5 Scope of Study**

This study is focused on the factors influencing commercial property investment decision in Auchi and is limited to commercial property investors in the study area.

#### **1.6 Significance of the Study**

This study is significant because it reveals the challenges faced by commercial property investors. The need to analyze the factors influencing commercial ' property investment decision would aid entrepreneurs in their planning and cash flow projections assist developers in investment decision making. It is useful to real estate professionals in appraisal and evaluation of propostd development projects, as well as provides information for researcher. It would also expose the l challenges which are being encountered in acquiring commercial properties and management and how to mitigate these challenges. Finally, it would enlighten and redeem the image of various professionals, and real estate practitioners in the builtenvironment whose negligence action has cost the present generation. This study is also expected to contribute to the existing knowledge and provide basis for further research.

#### **1.7 The Study Area**

Auchi is a town in Edo State, Nigeria. It serves as the administrative headquarters of Etsako West Local Government Area. According to the 1991 population census of Nigeria, Auchi population was estimated at 42,610. Auchi is very nice and wonderful place to live in. The town has an official Post Office. It is located at latitude 7, 0667 (740.012"w) longitude 6, 2667 (6, 60.012E Altitude 164m

Auchi is the administrative head quarter of Etsako West local government, area of Edo State, it shares common boundaries with Warake and Ibvairo to the west, Jattu and Iyuku to the north, Ibie to the East and Aviele to South and Auchi is located within the Savanna region of Southern Nigeria.

Its location is very unique in that, it is along the main transport routes linking the northern parts to the southern parts of the country.

Demographically, the 2006 Census, which is the latest Census, put the population of Auchi at 62,907 persons, this population figure, when projected to year 2010 put Auchi 70,802 inhabitants.

Auchi soil is mainly loamy and sandy soil, the soil is good for growing of food crops like maize, groundnut, cassava e.t.c. but due to the location of the areas it is very low valley land is prone to erosion which washes away the soil of the area and cause ditches, holes that are not all beyond repair in most part of the area, there is a problem, erosion almost in every corner of the area. Auchi has loose soil that can be prone to any hazard.

## **1.8 Limitations of the Study**

The limitations of the research study are time constraint insufficient fund and lack of adequate information. The respondents were reluctant in accepting the questionnaire administered to them but they were therefore persuaded by assuring them that, the information will be treated with strict confidence.

## **1.9 Operational Definition of Terms**

- i. **Commercial property:** These properties that are used for commercial activities such as shops, offices, hotel etc. it can be seen as property occupied by tenant for the purpose of carrying out business activities e. g. trading services ( Nwakaji, Ohiro 2006).
- ii. **Decision:** according to English dictionary, it is a choice or judgment.

- iii. **Investment:** a placement of capital in expectation of deriving income or profit from its use ( Nair, 2011).
- iv. **Development:** it is the improvement which means erection, re-election protraction, renovation that increases the value of land from where it was (Nwakaji, Ohiro and Adjekphori 2022).

## **CHAPTER TWO**

### **2.1 The Concept of Commercial Properties**

Commercial properties as a concept entail all and any real estate property which is committed to business and for the purpose of making profit (Ali, Z., Mc-greal, S., Adair, A. and Webb, J. (2008).

Commercial properties by this definition include; banks, petrol filling station, hotels, cinema, ware house, industrial buildings, shops offices, eateries, hospitals and supermarkets.

Commercial properties have been recognized by investors as lucrative business opportunities especially in urban centres in cities and have regarded as prime properties and therefore attract much competition from intending investors. So in the decision by investors in the cities for investment choices, careful

### **2.2 Commercial Property Uses/Types**

Some sizable portion of land is usually set aside for commercial uses. This is where the buying and selling activities takes place within any economic setting.

Commercial land are in different categories ranging from the local market shopping complexes, stores, shops, offices and well as warehouses. The types and quality if these commercial properties in a particular neighbor hood depends on the social, economic and political status of the supporting settlement.

Nwakaji and Ohiro (2006), described commercial properties as those real estate assets which are designed and developed for the purpose of providing accommodation that will sustain the business environment. Those properties which are often located on the Central Business District (CBD) of an urban environments are often attractive to potential users based on the surrounding environment.

There are different types of commercial properties in the study area but for the purpose of this study, certain properties will be mentioned; which include:

- i. Retail stores
- ii. Banking halls
- iii. Leisure facilities
- iv. Shopping malls
- v. Plazas
- vi. Detached/semi-detached offices.

In addition, Oyakhire, Omorogieva and Adjekphori (2016), described commercial properties as a place where exchange of interest that subsists in shops offices and warehouses are carried out. They described commercial properties like shops and offices as:

- i. **Office:** Its is a property wherein clerical activities are being done. It ranges from countered space to purpose built with its elaborate services and organizations within host of other types of offices. Offices varies in sizes and characters depending on the business potentials of the locality.
- ii. **Shops:** These are buildings or part of building where goods are displayed for sale on wither retail or wholesale basis. They are very wide in spectrum ranging from small sized shops cover floor spaces of about 20m/2 or less net floor area, The medium sized cover floor spaces of between 50m/” and 100m/ net floor area and are found to be located in major streets or roads in some parts of the town. They are usually occupied for sale of various items and they are sometimes called departmental stores.
- iii. **Commercial Warehouse:** A warehouse ‘becomes a commercial property when it has something to do with the storage and sale of goods at the same time. However, he term “warehouse” has been generally understood to mean a building used primarily for the storage of goods or ‘housing of wares and has been defined as a property or structure designed and used for storage of wares, goods and merchandise.

### 2.3 Challenges Associated with Commercial Properties

According to Emoh Fidelis (2012), he opined that despite the encouraging and evolving trends, the Nigeria property market is experiencing and the rapid urbanization of various cities in the country, the Nigeria real estate industry is still burdened by several issues that are hindering its growth. These pressing challenges includes:

- i. **High Costs Of Property Development:** Building a house in Nigeria especially in some urban cities like Lagos, Abuja and Port Harcourt can be very high. Some of the reasons for this include: high cost of building materials, high skilled labor costs, costs associated with poor roads and sewage systems. About 75% of dwellings in Nigeria's urban areas are built of concrete, cement prices in Nigeria are rising by the minute than in other neighbouring countries and compared to world market prices, there is the issue of lack of adequate infrastructure. All these and more makes it hard to invest on real estate sector of the economy.
2. **Limited Source Of Funding:** Real estate is usually capital intensive in Nigeria and possesses all the key factors for a lot of real estate investment, a growing middle-class population, growth in consumption, rapid urbanization and a young demographics compared to more matured economies yet, financing remains a problem both for property developers and prospective home owners. Whether you are thinking of investment in real property, financing or securing real estate loans for financing a personal home purchase, you would still have to deal with the insufficient funding down the line.
3. **Devaluation of the Naira:** The recent devaluation of naira is a huge obstacle for the development of Nigeria's real estate sector. Mainly because Nigeria construction industry is heavily dependent on the importation of the raw materials and equipments they use for construction from foreign countries. However, a devalued naira increases the cost of purchasing these raw materials and equipment.



The effect of the devalued naira would have been much milder if the construction materials 'would reduce, in turn, making properties more affordable to the average Nigerian citizen.

4. **Bribery And Corruption:** Bribery and corruption have a negative impact on the Nigerian real estate sector. They have been various instances where developers who have not satisfied preconditions or who simply do not qualify for the allocation of land are granted allocation, while those who are qualified are denied. More often than none, some staff of regulatory bodies prefer to take bribes rather than ensure that developers obtain the necessary permits and conform to statutory construction standards.

5. **Taxation:** Real estate investors are usually subjected to multiple taxes. Some of these taxes levied against them include development levy, income tax, building plan approval, property tax, land use tax and there are instances where real estate investors are expected to pay renovation tax whenever they want to renovate their properties. All these factors listed above hinder the development of this thriving and highly potential sector of the economy. Examination of the strength and weakness among other criteria of business opportunities which commercial property as one is done. (Bragg and Bragg 2005).

According to Epley (2011). The decision to invest on commercial property like any other business opportunity takes a process which involves identification, setting aims and objectives, making attractive plans.

6. Difficulties in land acquisition and cost of title registration etc.

#### 2.4 **Factors Influencing Commercial Property Investment Decision:**

Investing in commercial real estate can be a very profitable venture. Most commercial spaces have the potential to bring in much more money than what goes out for the mortgage loan. In order to make any purchase worthwhile however, it is extremely important to conduct a thorough commercial property analysis before hand. Several factors will determine

whether or not your investment will be rewarded with profit and growth. (Braggy and Bragg, 2005) - |

**Location:** The old saying "location, location, location" definitely applies when it comes to buying commercial property. Where the building is located will determine how easy it will be to attract customers or how easy it will be for employees to get to work. In general, buildings within city limits are more valuable than those outside the city and those closer to the center of town and: major roadways are worth more than those on small or obscure side streets. The area around the building will also determine the value and profitability of the real estate. The nicer and cleaner the area, the safer your investment will be. (Geltner, et. al., 2007)

**Price:** During your commercial property analysis, you should make sure that the price offered is based on the fair market value and that it closely resembles the price offered for comparable buildings in the area. Your analysis should also include an inspection of the building to find out if there are any issues or problems that would bring down the asking price.

**Potential Income:** Calculating the amount of money you are likely to bring in each month from renting the property is an important part of the commercial property analysis. You will have to make a monthly mortgage payment and profit; you will need to! make at least that much back in rent plus some. This means, attracting and keeping tenants will be essential. Check out nearby properties to discover if they have good rates of renting and retaining tenants. If buildings in the area have changed hands often in the past few years, the realty may be a financial dud. (Ye and Dent, 2009).

**Tax:** You will spend a fortune getting into a commercial property mortgage with a twenty percent or more down payment, closing costs, and insurance fees. One thing you may forget to plan for is property tax. These can be very hefty in some places depending on the city and state tax codes and they may add thousands of dollars to your investment expenses. Be sure

to check into any local tax incentives available and figure out how much you will have to pay each year. Factoring in these taxes into your budget may limit the price tag of the property you buy.

**Zoning Laws:** Each city has its own set of zoning laws setting forth how certain areas of town are allowed to be used. Part of your commercial property analysis should include finding out what the zoning laws are and if you will be able to lease out your building as you please. These laws can sometimes be confusing, so be sure to learn all the details before making your purchase.

A commercial property analysis that takes all the important ‘aspects into account is the best way to assure yourself that you are making a sound investment. Don't be afraid to ask lots of questions and request help from professionals when needed. (Tversky and Kahneman, 1981). Any type of property, whether it's commercial or residential, can be a good investment opportunity. For your money, commercial properties typically offer more financial reward than residential properties, such as rental apartments or single-family homes, but there also can be more risks. Understand the full pros and cons of investing in commercial properties are important so that you make the investment decision that's right for you.

## 2.5 Concepts of Investment Decisions

Even though there are practical and frequent used methods for investing in commercial property various investment issues exist. Below follows a description of the type of investment issues that arise when investing in commercial properties and how these can affect the market analysis.

When considering the large amount of capital being allocated to commercial real estate investment, Nair (2011) highlights the importance of the potential investors need to make more informed and better decisions. For example, potential investors must dig into

research on the location and demand factors of the potential investment, such as the attractiveness of the location of the property, the employment market, the regional or local economy and the population growth. Nair (2011) further states that property specific attributes such as current and future cash, vacancy rate, maintenance and repairs, taxes, lease terms etc, also to be investigated more thoroughly by the potential commercial real estate investor.

Another aspect to consider when investing in commercial real estate is, according to Roque (2011), the property valuation process. The potential real estate investor has to know the market of the property, its operating costs and cash flows as well as the future potential of the property. The potential investors need to be aware of the existing and alternative uses of the property he or she is considering invest in. The benefits from future alternative uses of the property and the cost that come with converting the property also have to be investigated. The location specific attributes must also be considered, such as how growth can affect the properties in the specific area (Roque, 2011).

Rabianski, Delisle & Carn (2001) further argue that there is a need for a more sophisticated and efficient site selection process for firms in which real estate has a strategic function. In order to perform better site selection decisions, the more community specific factors also have to be taken into consideration in the cash flow analysis so that firms can 'better avoid short term argues that defining the retailers' sales volumes, the trade areas, consumer demographics and target Customers is of utmost importance when evaluating a real estate investment opportunity and when performing a site selection. Fickes (2007, April 30) points out that the modern retail market consultant also are knowledgeable in what product and services the consumers buy in retail centers and where these consumers live and how far they are willing to travel to consume.

### 2.5.1 Review of Swot Analysis Decision Making

It is not every investment idea one has that may create an opportunity. An opportunity has one unique distinguishing characteristic what sets it apart from an ordinary idea. Most investments fail, not because the owners are not hard working but because there was no opportunity in the first place.

SWOT is an acronym for strength, weaknesses, opportunities and threats.

- a. **Strengths:** These indicate all the capabilities and positive points which the investor has, from experience to contacts.
- b. **Weakness:** These relate to all the negative points that the investor faces, like lack of capital, or training, or inability to set up an efficient accounting system.
- c. **Opportunities:** The Positive and favourable external trends or changed which the investor might want to take advantage of.
- d. **Threats:** These represent negative and unfavourable trends and changes that the investor will probably want to avoid or at least provide a buffer against them (Lawani and Shittu 2009 in Thomas).

### 2.5.2. Challenges of Real Estate Investment Decision

The liquidity of the asset class is the main concern for those investing in real estate. This is defined as the ability to turn a property asset into cash or convert } cash into the asset. Real estate suffers from two sources of illiquidity. The first relates to the mismatch between pricing and valuations, and the second is derived from the delays inherent in the purchase and sales process.

In a market which relies upon valuations as proxies for pricing, liquidity is likely to be impaired during periods where valuations and prices differ substantially from one another. This is evident in sharp downturns, where valuations tend to lag pricing as there is limited transactional evidence upon which valuer can make appropriate assessments of pricing. This

is often amplified because investors may be reluctant to sell at prices that differ significantly from recent valuations.

In markets where prices and valuations are similar, trading often takes place over a reasonable time frame. In periods of market stress or dysfunction, it will often take longer for investors to buy or sell assets or to enter or exit unlisted funds. The sector's limited liquidity is most often mentioned during periods of credit stress when investors are looking to reduce their exposure. However, as compensation, a liquidity premium is expected to be earned for funds being locked-up.

In theory, this means that real estate should deliver a higher return than cash, if only because of the inability to convert property assets instantaneously into cash, and vice versa. As mentioned above, listed REITs or shares in real estate companies can offer higher levels of liquidity, but at the expense of greater volatility and a higher correlation to the wider stock market. While there are many positive reasons to invest in commercial real estate over residential, there are also negative issues to consider.

**Time commitment:** If you own a commercial retail building with five tenants, or -even just a few, you have more to manage than you do with a residential investment. You can't be an absentee landlord and maximize the return on your investment. With commercial, you are likely dealing with multiple leases, annual CAM adjustments (Common Area Maintenance costs that tenants are responsible for), more maintenance issues, and public safety concerns. In a nutshell, you have more to manage; and just as your tenants have to worry about the public eye, you do as well.

**Professional help required:** If you are a do-it-yourselfer, you better be licensed if you are going to handle the maintenance issues at a commercial property. The likelihood is you will not be prepared to handle maintenance issues yourself and you will need to hire someone to help with emergencies and repairs. While this added cost isn't ideal, you'll need to add it on

to your set of expenses in order to properly care for the property. Remember to factor in, property management expenses when evaluating the price to pay for a commercial investment property. Property management companies can charge between 5-10% of rent revenues for their services, which include lease administration. Evaluate beforehand if you want to manage leasing and the relationships yourself, or if you want to outsource those responsibilities.

**Bigger initial investment:** Acquiring a commercial property typically requires more capital up front than acquiring a residential rental in the same area, so it's often more difficult to get your foot in the door. Once you've acquired a commercial property, you can expect some large capital expenditures to follow. Your property might be humming along for a few months and wham, here comes a \$10,000 bill to address roofing repairs or a new furnace. With more customers there are more facilities to maintain and therefore more costs. What you hope is that the gains in revenue outweigh the gains in costs, to support purchasing a commercial property over a residential one.

**More risks:** Properties intended for commercial use have more public visitors and therefore have more people on the property each day that can get hurt or do something to damage your property. Cars can hit patrons in parking lots, people can slip on ice during the winter, and vandals can spray paint the sides of the building. Incidents like these can occur anywhere, but chances of experiencing something like these events go up when investing in commercial properties. If you're risk adverse, you may want to look more closely at putting your money in residential properties.

## 2.6 An Alternative Framework For The Real Estate Market Analysis

Clapp and Messner (1988) put forth a somewhat different method for the market analysis when compared to Geltner and Miller's structural market analysis. The focus in Clapp and Messner's market analysis is on using scenario analysis to address the risk factors

present in the ingoing data in the market analysis, focusing | more on analyzing the competition and focusing on thé demand factors that actually translate into an identification of the “demand groups” that will most likely use or fuel the property that is being evaluated by the investor. A detailed market analysis should always be performed prior to any financial analysis.

The first step is to analyze the location of the real estate and analyze the linkages between the demand factors and the competing supply. This approach is similar to the structural market analysis. The next step, however, involves identifying the demand factors that exploit the property. This can be don’ by identifying the population and employment group that will most likely use the property and the other demand factors that can be converted into a potential demand for the property, such as square feet of retail/office/housing etc per person.

In the final stages, Clapp and Messner (1988) suggest a thorough analysis of the existing and future competing properties that are similar to the investment object (market comparables) and an analysis of the market conditions. The market comparables’ location and property specific attributes are to be compared to those of the investment object.

Assessing the risks involved with investing in the property is of large importance in Clapp and Messner’s approach to the market analysis. The risk associates with the investment can be expressed as probability of attaining a lower return, cash flow or revenue than was expected prior to the investment. This can be attended by setting the ingoing demand factors in the market analysis to positive, neutral and negative values in order to capture their impact in different scenarios and thus efficiently evaluating the risk associated with the investment.

#### **2.6.1 The Structural Market Analysis of Commercial Property Market**

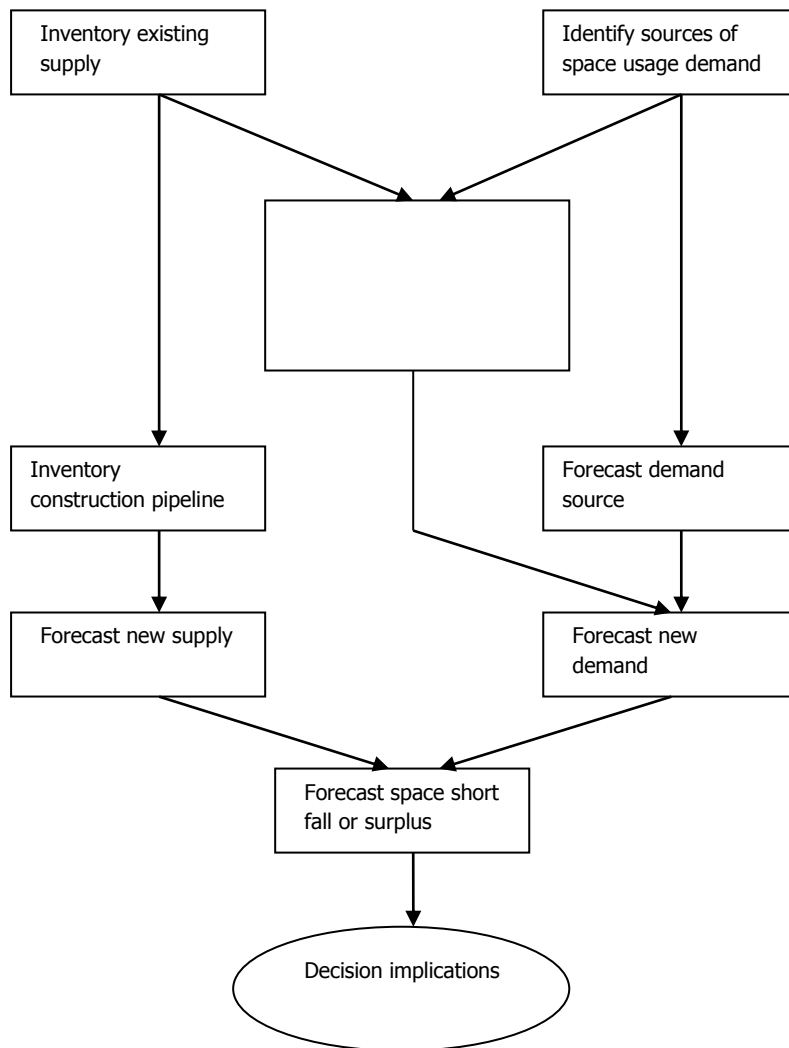
There exists a solid framework for the market analysis presented by Geltner and Miller (2007), that if followed and applied correctly can solve or avoid some of the above



discussed investment issues that investors might be subjected to. By systematically analyzing both the supply and demand side of the real estate market, of interest and by combining the two in the final stages of the process, the investor possesses strong tools for making a final forecast and final decision.

Geltner and Miller (2007) further described the real estate market analysis process as the various practical and analytical tools and procedures that real estate investors apply in their decision making process connected to real estate. The authors continue to describe it as a tool for assisting in performing quantitative and qualitative analysis of both the supply side and the demand side of a specific real estate sector. Examples of real estate decisions in which the market analysis may assist in when deciding what type of size of building to develop, when to begin developing a project, what type of tenant to work for and foremost when deciding which regions and property types to invest in based on where the rents are most likely to grow and when deciding where to locate new retail malls or where to liquidate retail malls. (Zamowitz, 1992)

Fig 1: Structural market analysis



Geltner and Miller (2007)

## 2.7 Reasons for Investing in Commercial Property

There are some of the pros of buying commercial real estate property. Income Potential: the best reason to invest in commercial rentals is the earning potential. Commercial properties generally have an annual return off the purchase price between 6% and 12%, depending on the area which is a much higher range than typically exists for single family home properties (1% to 4% at best). Public Eye: Retail tenants have a vested interest in maintaining their store and storefront, because if they do not it will affect their business. As a result, commercial tenants and property owner interests are aligned, which helps the owner

maintain and improve the quality of the property, and ultimately, the value of their investment. (Thrall, 2002).

**Limited Hours of Operation:** Business usually go home at night in other words, you work when they work. Barring emergency calls at night for break in or fire alarms; you should be able to rest at night without having to worry about receiving a midnight call because a tenant wants repairs or has lost a key. For commercial properties it is also more likely you will have an alarm company will notify the ; proper authorities.

**More Objective Price Evaluation:** it's often easier to evaluate the property because you can request the current owner's income statement and determine what the price should be based on that. If the seller is using a knowledgeable broker, the asking price should be set, at a price where an investor can earn the area's prevailing cap rate for the commercial property type the area looking at (retail, office, industrial etc). (Lawani and Shittu, 2007).

**More Flexibility in Lease Terms:** fewer consumption protection laws govern commercial leases, unlike the dozens of state laws such as security deposit limits and termination rules that covers residential real estate.

## 2.8 The Downside of Investing in Commercial Property (Time Commitment )

If you own a commercial retail building with five tenants, or even just a few, you have more to manage than you do with a residential investment. You can't be an absentee .landlord and maximize the return on your investment. with commercial, you are likely dealing with multiple leases, annual CAM adjustments (Common Area Maintenance costs that tenants are responsible for), more maintenance issues, and public safety concerns. In a nutshell, you have more to manage; and just as your tenants have to worry about the public eye, you do as well. (Clapp and Messner, 1988)

### **Professional Help Required**

If you are a do-it-yourselfer, you better be licensed if you are going to handle the maintenance issues at a commercial property. The likelihood is you will not be prepared to handle maintenance issues yourself and you will need to hire someone to help with emergencies and repairs. While this added cost isn't ideal, you will need to add it on to your set of expenses in order to properly care for the property. Remember to factor in property management expenses when evaluating the price to pay for a commercial investment property. Property management companies can charge between 5-10% of rent revenues for their services, which include lease administration. Evaluate beforehand if you want to manage leasing and the relationships yourself, or if you want to outsource those responsibilities (Carr et. al., 2003).

### **Bigger Initial Investment**

Acquiring a commercial property typically requires more capital up front than acquiring a residential rental in the same area, so it's often more difficult to get your foot in the door. Once you've acquired a commercial property, you can expect some large capital expenditures to follow. Your property might be humming along for a few months and wham, here comes a \$10,000 bill to address roofing repairs or a new furnace. With more customers there are more facilities to maintain and therefore more costs. What you hope is that the gains in revenue outweigh the gains in costs, to support purchasing a commercial property over a residential one. (Rabianski et. al., 2001).

### **More Risks**

Properties intended for commercial use have more public visitors and therefore have more people on the property each day that can get hurt or do something to damage your property. Cars can hit patrons in parking lots, people can slip on ice during the winter, and vandals can spray paint the sides of the building. Incidents like these can occur anywhere,

but chances of experiencing, something like these events go up when investing in commercial properties. If you're risk adverse, you may want to look more closely at putting your money in residential properties.

## 2.9 Ways to Minimize Risk in Real Estate Investment

**1. Develop a commercial real estate investment team of advisors:** Each of these advisors will bring their unique expertise to the transaction enhancing your chances that all the potential issues will be identified upfront with a proposed course of action taken to mitigate the risk. At the very minimum you should have on your advisory team a:

- ❖ Commercial mortgage broker
- ❖ Commercial real estate agent
- ❖ Property management company
- ❖ Real estate attorney
- ❖ General contractor/Inspector

**2. Become an expert in one particular property type:** Each type of property has its own unique idiosyncrasies. Learning the nuances of a specific property type increases your chances of being a successful commercial real estate investor.

**3. Don't be afraid to deviate from the crowd:** The “herd mentality” usually results in poor long-term investment results. If you have well thought out investment criteria that run counter to the prevailing view, don't be afraid to chart a different course than rest of the pack.

**4. Know intimately your geographic market:** Know the macroeconomics of the metropolitan area you're investing in. More importantly know which neighborhoods are better than others. Understand the long term growth patterns. Know which neighborhoods are going to be the up and coming areas of the city over the next ten years.

**5. Use objective measurements to determine the worthiness of buying a property:** Whether you use a Cash-on Cash analysis, Internal Rate of Return, Net Present Value or

some other criteria, live and die by it. Don't get sucked into someone else's method of determining the value of an investment. And don't use a subjective criteria that has no rational basis to it, e.g., buying a "trophy type" property that looks great but is so overpriced it would be better if you invested your money in bonds with a 2 percent rate of return. Use whatever object criteria makes sense to you and then stick to it.

**6. Never, ever use the seller's pro forma for evaluating an investment:** Assume that all sellers and listing brokers are liars and you won't be far off. I can't recall ever receiving the listing broker's marketing package where either the . rents weren't overstated or the operating expenses weren't understated, or both. Always ask for the actual operating statements for the past three years and a current rent roll. Base your numbers from the historical operating statements, not from the marketing package.

**7. Buy properties with a potential to add value:** Let's face it. At this moment in the Real Estate. cycle properties for sale are overvalued. Let me state it very Clearly: If you are buying a property today, you are buying a property close to the top of the market. There are only two ways to make money on commercial real estate at today's prices, either: a) have a long term hold strategy (10 years or longer), or b: find properties that have the potential to add value. Generally these are properties that have some type of "hair" on them. Solve the issue and you'll be rewarded with a substantial increase in the property's value.

**8. Choose a property management company that specializes in your property type, your property's size, and its geographic location:** For example, let's say you buy an 80 unit apartment. Find a property management company who Specializes in apartments, who has several apartments under management in that size range and who manages properties within close proximity to your property.

**9. Remember, you get what you inspect, not what you expect:** Some will tell you that owning commercial real estate is a passive investment. For most property types, that's a myth.

If you want to maximize your chances of getting a good return on your commercial real estate, you must be proactive in overseeing your properties. Even if you hire -a quality property management company they are too busy with the day-to-day operations of the property to do much more than “put out fires.” Quite frankly, they don’t get paid enough to do more than that. It is imperative that you regularly inspect your property to make sure something is not being overlooked. And you need to regularly review the property’s operating statements and ask questions when something doesn’t make sense to you.

**10. Don’t overleverage your properties:** Take advantage of all the “blue light specials” that lenders are offering today except for one: don’t overleverage your properties. Those investors with overleveraged properties at the beginning of the Great Recession can you tell you that if they had to do it over again, they would have been far more conservative on leveraging their properties.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

Research methodology can be defined as the strategies of collecting information on the subject of the study. This chapter discusses the methodology used for this study to investigate the research questions raised in his study. The chapter comprises of research design, population of the study, sample frame, sample size, sampling techniques, data collection instrument, procedure for data collection as well as method of data presentation and analysis.

#### **3.1 Research Design**

The quest for knowledge has always been characterized with investigation, experiment and all other method perceived as deemed necessary at for the provision of this research work. This study is designed to investigate the factors influencing commercial property investment decision in Auchi in this regard: used as tool to collect data for the purpose of answering the postulated research questions.

#### **3.2 Population of the Study**

The populations under study in this research work are the landlords of commercial properties. The research also extends its study population to Estate surveyor and values within the study area.

#### **3.3 Sample/Sampling Techniques**

Sample sizes of one hundred and twenty five (125) respondents were adopted to represent the total population, because of the nature of the population, one hundred and twenty (120) landlords were randomly selected and five (5) Estate surveyor and values were randomly selected.



### 3.4 Instrumentation/Data Collection Procedure

Data for this study were generally through an opinion based questionnaire survey. The questionnaire comprises of close and open ended questions. The close ended questionnaire was adopted for this study because close questionnaire have a set number of response as determined by the research, and open ended was also adopted so as to capture the respondent belief and aspiration on an unbiased basis.

### 3.5 Method of Data Analysis

According to Aje, (2008), there is the need to employ appropriate method of data analysis, so as to accurately process the data collected on the research from the survey. Data analysis could involve the use of multiple analytical techniques to facilitate the ease of communicating the results and at the same time improving its validity. Based on this assertion, two methods were used to analyze using percentile and mean score.

**Percentile:** Wikipedia, (2012) defines statistics and rank for series of measurement  $y^1, \dots, y^N$  denote that data ordered of magnitude called order statistics. The percentile is a value,  $y(P)$  such that at most  $100(1-P)\%$  are greater it splits a set of data into hundredths (deciles split data into tenths.) generally it involves the use of percentages.

**Mean Score:** This is the arithmetic average of the set of response it is calculated by summing all responses and dividing by the number of response, possible score can range from 0 to 10.

Mean Score =  $\frac{\sum fx}{EF}$  where F = frequency X = range value

Example: Mean Score =  $\frac{(f \times 5) + (f \times 4) + (f \times 3) + (f \times 2) + (f \times 1)}{fx}$

while the weighted mean score will be determined using

$$WMS = \frac{5n_5 + 4n_4 + 3n_3 + 2n_2 + n_1}{N}$$

Where;

N5 = Number of respondents who answered very important

N4= Number of respondents who answered important

N3 = Number of respondents who answered neutral

N2 = Number of respondents who answered less important

N1 = Number of respondents who answered not important

Therefore, data will be presented by coding the statistical package for social science (SPSS) software and Ms Excel for graphical presentation.

Table showing method of data Analysis to be Adopted

Objectives	Analysis
1. To identify the various type of commercial properties present in Auchi	Frequency table
2. To identify factors influencing commercial property investment decision in Auchi	Weighted means score
3. To assess challenges faced by real estate investors of commercial property	Relative importance index (RII)

The relative importance index will be determined using

$$RII = \frac{W (w_1 + w_2 + w_3 + \dots + w_N)}{A \times N}$$

Where; W = weights given to each factors by respondents ranging from 1-5

1 is less important

5 is very important

A = Highest weight

N = Total number of respondents

## CHAPTER FOUR

### Data Analysis, Interpretation and Discussion

This chapter presented the analysis, interpretation and discussion of findings from data obtained from the field.

#### 4.1 Data Presentation

Table 4.1.1: Questionnaire Distribution and Retrieved

S/N	Questionnaire	Frequency	Percentage
1	Number distributed	125	100
2	Number retrieved	110	

Source: Field survey, 2022

A total of 125 questionnaire representing the sample size were administered to the respondents and 110 were retrieved.

The table above showed the analysis of the questionnaire distributed and retrieved.

Table 4.1: Socio-Economic characteristics

<b>Gender</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Male	80	73
Female	30	27
<b>Total</b>	<b>110</b>	<b>100%</b>
<b>Academic Qualification of Respondent</b>		
Primary Leaving Certificate	15	14
SSCE/WAEC	42	38
OND	18	16
HND/BSc/ above	35	32
<b>Total</b>	<b>110</b>	<b>100%</b>
<b>Age Distribution</b>		
20-40	65	59
40-60	40	36
60-80	05	05
80- above	-	-
<b>Total</b>	<b>110</b>	<b>100%</b>
<b>Years of Business Operation</b>		
1-5 years	15	14
6-10 years	40	36
11-15 years	05	05
16-20 years	20	18
21 years and above	30	27
<b>Total</b>	<b>110</b>	<b>100%</b>

Source: field survey, 2022

Table 4.1.2 above showed the gender distribution of the respondents. 80 respondents representing 73% of the total respondents are males while 30 respondents representing 27% of the total respondents are females. This shows that there more males respondents among the respondents.

The table above shows Academic Qualification of the respondents. 15 respondents representing 14% of the total respondents are Primary Leaving Certificate holder, 42 respondents representing 38% of the total respondents are SSCE/WAEC holder, 18 respondents representing 16% of the total respondents are OND holder, while 35 respondents

representing 32% of the total respondents are HND/BSc/ above. This shows that there are more HND/BSc/above respondents among the respondents.

Table above shows Age Distribution of the respondents. 65 respondents representing 59% are between the age bracket of 11-15 years, 40 respondents representing 36% are within the age of 40-60years, while 05 respondents representing 0.5% are within the age bracket of 60-80years, while the age bracket of 80 and above has no respondents.

Table above shows Years of Business Operation of the respondents. 15 respondents representing 14% are between 1-5 years in business operation. 40 respondents representing 36% are between 6-10 years in business operation. 05 respondents representing 05% are between 11-15 years in business operation. 20 respondents representing 18% are between 16-20 years in business operation. While 30 respondents representing 27% are between 21 years and above in business operation.

**Table 4.2: Types of commercial properties found in Auchi**

<b>Commercial Property</b>	<b>Frequency</b>	<b>Percentage</b>
Shops/ Retail stores	50	45
Offices	27	25
Shopping complexes	10	09
Leisure facilities, hotels & gymnasium	10	09
Plazas	04	04
Others e.g banking halls, petrol stations	09	08
<b>Total</b>	<b>110</b>	<b>100%</b>

Source: field survey, 2022

The table above shows that shop/retail stores dominate commercial properties found in Auchi with the highest percentage of 45% as compared to others like Offices with the percentage of 25%, shopping complexes with 9%, leisure facilities, hotels & gymnasium with 9%, plazas with 4% and other with 8%.. From the analysis above it can be deduced that majority of the commercial properties were shops/retail stores.

**Table 4.3: Identified factors influencing commercial property investment decision**

S/N	Factors	5	4	3	2	1	Total	MIS	Rank
1	Location	70 350	30 120	10 30	- -	- -	110 500	4.5	2 <sup>nd</sup>
2	Neighbourhood population/ human traffic	80 400	10 40	- -	10 20	- -	110 460	4.2	5 <sup>th</sup>
3	Land price and accessibility	70 350	- -	10 30	30 60	- -	110 440	4.0	6 <sup>th</sup>
4	Availability of infrastructural/ social services	60 300	20 80	30 90	- -	- -	110 470	4.3	4 <sup>th</sup>
5	Prescense of complementary/ social services	30 150	30 120	10 30	10 20	30 30	110 350	3.2	8 <sup>th</sup>
6	Potential income	75 375	20 80	- -	15 30	- -	110 485	4.4	3 <sup>rd</sup>
7	Zoning law	- -	10 40	50 150	20 40	30 30	110 260	2.4	9 <sup>th</sup>
8	Availability of work force (professionals)	- -	- -	30 90	60 120	20 20	110 230	2.1	10 <sup>th</sup>
9	Finance availability	90 450	10 40	- -	10 20	- -	110 510	4.6	1 <sup>st</sup>
10	Neighbourhood crime	59 295	15 60	- -	30 60	- -	110 415	3.8	7 <sup>th</sup>

Source: Field survey, 2022

Table 4.3 Identified factors influencing commercial property investment decision, among the variables Finance availability was ranked number 1<sup>st</sup> with a mean score of 4.6; Location and Potential income were ranked 2<sup>nd</sup> and 3<sup>rd</sup> with mean scores of 4.5 and 4.4 respectively. The least factors influencing commercial property investment decision are Availability of work force (professionals) and Zoning law with mean scores of 2.1 and 2.4 respectively.

**Table 4.4: Identified challenges faced by would be developers in the study**

S/N	Challenges	5	4	3	2	1	Total	MIS	Rank
1	Investment risk	100 500	10 40	- -	- -	- -	110 540	4.9	1 <sup>st</sup>
2	Lack of access to land and title perfection cost	80 400	30 120	- -	- -	- -	110 520	4.7	2 <sup>nd</sup>
3	Neighbourhood crime	80 400	20 80	10 30	- -	- -	110 510	4.6	3 <sup>rd</sup>
4	Financial challenges	30 150	28 112	40 120	10 20	02 02	110 404	3.7	6 <sup>th</sup>
5	Low capitalization	35 175	30 120	30 90	- -	15 15	110 400	3.6	7 <sup>th</sup>
6	Land policies / zoning	30 150	20 80	60 180	- -	- -	110 410	3.7	5 <sup>th</sup>
7	Lack of infrastructural/ social services	50 250	30 120	10 30	10 20	10 10	110 430	3.9	4 <sup>th</sup>
8	High tax rate	40 200	35 140	- -	15 30	20 20	110 390	3.5	8 <sup>th</sup>

Source: Field Survey, 2022

Table 4.4 Identified challenges faced by would be developers in the study, among the variables Investment risk was ranked number 1<sup>st</sup> with a mean score of 4.9; Lack of access to land and title perfection cost and Neighbourhood crime were ranked 2<sup>nd</sup> and 3<sup>rd</sup> with mean scores of 4.7 and 4.6 respectively. The least challenges faced by would be developers in the study are High tax rate and Low capitalization with mean scores of 3.5 and 3.6 respectively.

**Table 4.5: Measures in curbing investment decisions challenges in the study area**

S/N	Measures	5	4	3	2	1	Total	MIS	Rank
1	Economic stability and good governance	85 425	40 80	- -	5 10	- -	110 515	4.7	1 <sup>st</sup>
2	Encouraging participation in N.H.F scheme	40 200	40 160	15 45	10 10	5 5	110 420	3.8	6 <sup>th</sup>
3	Government financial policies regulations	75 375	30 120	5 15	- -	- -	110 510	4.6	2 <sup>nd</sup>
4	Reduction in cost of title perfection	80 400	15 60	- -	- -	15 15	110 475	4.3	4 <sup>th</sup>
5	Use of professionals in development process	30 150	25 100	35 105	- -	20 20	110 375	3.4	8 <sup>th</sup>
6	Public enlightenment	25 125	30 120	20 60	40 80	5 5	110 385	3.5	7 <sup>th</sup>
7	Encouragement of joint venture	60 300	40 160	10 30	- -	- -	110 490	4.5	3 <sup>rd</sup>
8	Making land available by land owners	50 250	20 80	40 120	- -	- -	110 450	4.1	5 <sup>th</sup>

Source: Field Survey, 2022

Table 4.5 determines the measures in curbing investment decisions challenges in the study area, among variables Economic stability and good governance was ranked number 1<sup>st</sup> with a mean score of 4.7, Government financial policies regulations and Encouragement of joint venture were ranked 2<sup>nd</sup> and 3<sup>rd</sup> with mean scores of 4.6 and 4.5 respectively. The least measures in curbing investment decisions challenges are Use of professionals in development process and Public enlighten with mean scores of 3.4 and 3.5 respectively.



## **4.2 Discussion of finding.**

Data were analyzed based on the responses gotten from the questionnaires distributed. 125 questionnaires were administered, while 110 were retrieved representing 88%. Analysis was made on the socio economic background of the respondents and the research questions were also treated. Table 4.1 above examined the Personal Data of respondents 73% of the respondents were male while 27% of the respondents were females. From the above statement it is very clear that majority of the respondents were males. 14 of the respondents were primary leaving certificate holders while 38% of the respondents were SSCE/WAEC, 16% of the respondents were OND holders, 32% of the respondents were HND/B.Sc holders. This shows that majority of the respondents were SSCE/WAEC holders. From the analysis above it can be deduced that majority of the respondents were within the age range of 20-40 years. From the above analysis it can be deduced that majority of the respondents years of Business operation. 36% of the respondents were within 6-10 years of business operation while 45% of the respondents were Shops/Retails stores. From the analysis above it can be deduced that majority of the respondents uses Shops/Retails stores.

## **CHAPTER FIVE**

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

This section of the research present the summary of the findings, the conclusion drawn by the researcher as well as the recommendation

#### **5.1 Summary of Findings**

After a careful analysis of the questionnaires administered, the following findings were discovered and highlighted below:

- i. The study revealed that retail stores are more in numbers, of the types of commercial properties found in Auchi, and are mostly owned by the male gender between ages 20-40 years.
- ii. That finance, neighbourhood population, in terms of human and vehicular traffic, closely followed by potential income and location that affects the land price, are top most factors that influences commercial property investment decision in the study area.
- iii. That a lot of challenges are inherent in, commercial property development decisions. Top most are investment risk, land accessibility. And neighbourhood crime amongs other.
- iv. Lots of measure were suggested to curb or mitigate the challenges. Top on the list is good governance and economic stability in the country.

## **5.2 Conclusion**

Prompted by the findings from the research study, the researcher considered it necessary to conclude that, the state of the present economy is affecting decision to develop commercial properties in the study area; Except for handful of youth who has taken over the development and re-development of commercial properties in the study area.

Findings reveal the age of property owners/ business operators being between the age of 20 and 40 years, thus, only those who earn money fraudulently are able to build comfortably this days. But with government intervention and good governance, every citizen would be comfortable and be sustained.

## **5.3 Recommendation**

Having considered the resulted findings from the research work, and the conclusion, drawn, the following recommendations are suggested below:

1. It is recommended that the government should have a good economic policies/ programs that would enhance economic stability and job opportunities for every youth
2. The government and stake holders should encourage joint venture.
3. Cost of land acquisition and title perfection should be looked into
4. Eligible citizen should be encouraged to participate in National Housing Fund Scheme.
5. Improvement of government financial policies to favour prospective developers.
6. Every citizen, and mostly the security units should do more to fight/ curb neighbourhood crime
7. Provisions of infrastructural facilities are sinequanon to development, so the necessary infrastructures should be provided.
8. Potential developers should always consult the estate surveyors and valuer for professional advice.

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## **Appendix I**

Department of Estate Management and  
Valuation,  
School of Environmental Studies,  
Auchi Polytechnic, Auchi  
Edo State,  
P.M. B. 13,

15<sup>th</sup> September, 2022

Dear Respondent,

This questionnaire is administered for a Higher National Diploma (HND) Research at the Department of Estate Management and Valuation, Auchi Polytechnic, Auchi. It is designed to get relevant information on “**Assessment of the Factors Influencing Commercial Property Investment Decision (A Case Study OF Auchi)**”

Attached to this is a questionnaire meant to gather relevant information for the research.

Your response will be treated with utmost confidentiality and shall be used strictly for academic purpose only.

Thank you.

**OKELEKE ONWEAZA STEPHEN**  
Researcher

## QUESTIONNAIRE

**Instruction:** Please, tick [☐] where appropriate.

### Section A: Personal Data

1. **Sex:** (a) Male ( ☐ ) (b) Female ( ☐ )
2. **Age of Respondent** (a) 20-25 ( ☐ ) (b) 26-30 ( ☐ ) (c) 31 – 35 ( ☐ ) (d) 36 – 40 ( ☐ ) (e) 40 and above
3. **Educational Background:** HND/B.s Sc. / Above ( ☐ ) OND ( ☐ ) SSCE/WAEC ( ☐ ) Primary Leaving certificate ( ☐ )
4. **Respondent's years in operation/ Business (a)** 1 – 5years ( ☐ ) (b) 6 – 10years ( ☐ ) (c) 11 – 15years ( ☐ ) (d) 16-20years ( ☐ ) (e) 20years and above

### SECTION B

5. Are there factors that affect commercial properties investment decision? (a) Yes ( ☐ ) (b) No ( ☐ )
6. If yes, to what extent does these factors influence commercial properties investment decision? (a) Very high ( ☐ ) (b) High ( ☐ ) (c) Low ( ☐ ) (d) Very low ( ☐ ) (e) No effect ( ☐ )
7. What are the different types of land uses established through development in Auchi? (a) Residential use ( ☐ ) (b) Commercial use ( ☐ ) (c) Agricultural use v (d) Others
8. What are the various types of commercial propters development found in Auchi (a) Leisure facility ( ☐ ) (b) Shopping complexes ( ☐ ) (c) Shops / Retail ( ☐ ) (d) Bank ( ☐ ) (e) Office v (f) Others specify  
.....
9. Does investment decisions affects the occupant/tenants (a) yes ( ☐ ) (b) No ( ☐ ) (c) If yes, how?.....
10. What effect does investment decision have on the development of commercial properties? (a) Positive effect ( ☐ ) (b) Negative effect ( ☐ ) (c) Both ( ☐ )
11. The following have been identified as the factors influencing commercial property investment decision in Auchi. Kindly rank these problems in your own opinion, using the table below.

## SECTION B

Table 1: Rate your level of agreement using the Likert scale of 1- 5, where 5= strongly Agree, 4 = Agree, 3= Undecided, 2 = Disagree, 1 =strongly Disagree

S/N	Identify Factors	5	4	3	2	1
1	Neighbourhood Population					
2	Social services / infrastructure					
3	Access to land and price					
4	Other commercial properties					
5	Location					
6	Potential income					
7	Zoning law					

Table 2: The following have been identified as the challenges faced by real estate.

S/N	Challenges	5	4	3	2	1
1	Investment Risk					
2	Access to land and title perfection					
3	Planning approval					
4	Zoning laws					
5	Social laws					
6	Financial challenges					
7	Low capitalization					



**Table 3: Do you agree with the following measures started below as being able to curb the challenges faced by real estate practitioners in the investment decision of commercial properties in Auchi?**

S/N	Measure	5	4	3	2	1
1	Economic stability and encouraging participation in NHF scheme					
2	Government financial policies regulations					
3	Reduction in cost of title perfection					
4	Use of professional					
5	Public enlightenment					
6	Encouragement of joint venture					