ANALYSIS OF THE MACRO-ECONOMIC FACTORS INFLUENCING COMMERCIAL PROPERTY INVESTMENT IN BENIN CITY

BY

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BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF ESTATE MANAGEMENT AND VALUATION, SCHOOL OF ENVIRONMENTAL STUDIES, AUCHI POLYTECHNIC, AUCHI, EDO STATE.

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CERTIFICATION

We the undersigned hereby, certify that this project work: **"Analysis of the Macro-Economic factors influencing commercial property investment in Benin City"** was carryout by **Gabriel Blessing** with Matric no.: **ENV/2082050244** in partial fulfillment of the requirement for the award of Higher National Diploma (HND) in Estate Management and Valuation of the Department of Estate Management and Valuation, Auchi Polytechnic, Auchi Edo state

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DEDICATION

This project work is dedicated to Almighty God

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ABSTRACT

The aim of this study is to analyze the macro-economic factors influencing commercial property investment in Benin City. Descriptive research design was used to describe the relationship between the selected macro-economic factors and commercial property investment. The study employs simple descriptive statistics in the analysis of data. The study established that unpredicted inflation is the major macro-economic factors influencing commercial property investment and the major effect of micro-economic factors is availability of employees in Benin City. It was discovered that the major effects are macro-economic factor brings about unpredicted inflation. The study recommends that Estate Surveyors and other regulators should plan in advance and influence the macro-economic variables in the right direction. For instance, the economy should have sufficient money supply to ensure that there is enough money to conduct trade in the economy. Further, exchange rate and inflation should be managed to ensure that commercial property prices are stable, because if investors incur more costs they would pass over the costs to property buyers by increasing property prices. The government should also aim to grow the country's real GDP as this would enhance the growth of commercial property investments in the economy as established by the study. The investment community should plan for the adverse effects of the changes before, during, and immediate years following an election. The government should ensure that contestants do not engage in bad politicking as this may deteriorate the effect of macro-economic variables and therefore investments in commercial property and possibly other sectors. Furthermore, the electoral body should tighten controls of politics and quality of election results.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Commercial property investment plays the crucial role of providing employment opportunities, offering shelter to households, enhancing income distribution and poverty alleviation (Masika, 2010). Wisniewski (2011) indicates that the processes occurring in commercial properties are subject to different impulses, and these impulses are different depending on the financial and economic situation of a given country. For example, different macro-economic factors vary over time and they influence economic processes, practices and outputs in an economy. Lynn (2007) states that since macro-economic factors often influence one another, and at times very correlated, when one factor changes, ripple effect occurs and the economy is affected much more. To this end, measuring the effect of macroeconomic variables is usually a difficult endeavor.

Notably, the fluctuating rates of interest do fluctuate the interest charged by lending institutions on loans – cost of capital for investment. Also, the level of national output/income affects various aspects of the economy including investments. Also, an increase diaspora remittance represents an injection of capital for investment. On the other hand, an employment rate represents a capital addition in the economy which may be spent or invested.

Macroeconomic factors such as economic output, unemployment, inflation, savings and investment are key indicators of economic performance and are closely monitored by governments, businesses and consumers (Khalid, Iqtidar, Muhammad & Mehboob, 2012). Fischer (1993) posits that the interplay or relationship between various macroeconomic factors is the subject of a great deal of study in the field of macroeconomics. While macroeconomics deals with the economy as a whole, microeconomics is concerned with the study of individual agents such as consumers and businesses and their economic decision-making.

The macro-economic factors are; real GDP, the unemployment rate, the inflation rate, the interest rate, the level of the stock market, and the exchange rate (Khalid et al., 2012). The five common macro-economic factors; rate of inflation – affects prices for inputs and outputs in the short run and interest rates over the longer run in an economy, rates of interest – affects cost of capital which is the interest expenses hence property values, rate of unemployment – affects available income and hence disposable income for investments since this is an important source of internal equity capital, rate of growth in GDP – affects the domestic demand for national outputs, and rate of foreign exchange – affects the value of the currency relative to international currency hence affecting property values where different currencies are involved as well as the export demand for outputs.

Like any other sector of investment, commercial property is affected by diverse factors including; fluctuations in exchange rate, interest rate, inflation rate, money supply, national output etc. O'Sullivan & Sheffrin (2003) indicate that an exchange rate between two currencies is the rate at which one currency will be exchanged for another.

As Lynn (2007) notes, the primary cause of investment failure for real estate is that the investor goes into negative cash flow for a period of time that is not sustainable, often forcing them to resell the property at a loss or go into insolvency. A similar practice known as flipping is another reason for failure as the nature of the investment is often associated with short term profit with less effort (Thalmann, 2006). Real estate markets in most countries are not as organised or efficient as market for other more liquid investment instruments. The individual's properties are unique to themselves and not directly interchangeable, which presents a major challenge to an investor seeking to evaluate prices and investment opportunities (Renigier-Biłozor, 2011).

1.2 Statement of the Problem

The growth of commercial property investment in any context is highly affected by a myriad of economic factors. The growth in commercial property could be measured as the collective total investments (costs of investing in real estate) or the price index (the asking prices). In this sense, then different factors can cause growth, for example, the property bubble is associable with; excessive desire for commercial property ownership in an economy, buying for speculation rather than using them for business, low interest rates, viewing commercial real estate as a safe port, and bad lending practices. To this extent, variables that influence the above variables such as inflation, GDP, Money supply, including international remittances are bound to affect the growth of commercial property and other sectors in the economy.

As of 2012, the National Housing Corporation (NHC), the Vision 2030 estimates that the country requires 200,000 new commercial properties per year, but the industry could only avail 35,000 units each year. Masika (2010) posits that demand for commercial properties in Nigeria continues to outstrip the supply. Makena (2012) postulates that level of money supply can influence the level of commercial property investments as well as the property prices. According to Otwoma (2013) property prices display a high inverse relationship with interest rates especially when interest rates are high. He adds that this inverse relationship reverses when interest rates are relatively low and stable. In his study, Muthee (2012) established a relationship between the variables (GDP growth, inflation, and unemployment) and a quarterly change in commercial property prices yields.

1.3 Research Questions

The research questions that will enable the researcher carry out the research successfully are as follows:

i. What are the macro-economic factors influencing commercial property investment in Benin City?

ii. What is the effect of macro-economic factors on commercial property development in the study area?

iii. Is the effect of macro-economic factors on commercial property investment positive or negative to the economy?

iv. Does macro-economic factor affect the GDP growth rate on the investment of commercial properties in the study area?

1.4 Aim and Objectives of the Study

1.4.1 Aim of the Study

The aim of this study is to analyze the macro-economic factors influencing commercial property investment in Benin City.

1.4.2 Objectives of the Study

The objectives of the study are posited below:

i. To identify the macro-economic factors influencing commercial property investment in Benin City.

ii. To determine the effect of macro-economic factors commercial property development in the study area

iii. To identify whether the effect of macro-economic factors on commercial property investment positive or negative to the economy.

iv. To examine if macro-economic factor affects the GDP growth rate on the investment of commercial properties in the study area.

1.5 Scope of the Study

This study will cover several areas of macro-economic factors that influence commercial property investment with focus on Benin City, Edo State, Nigeria. It will also reveal the effect macro-economic factors have on the development of commercial property and how it determines inflation on a nation. The impact of interest rate on the development of commercial property will also be discussed and the impact of GDP growth rate on the development of commercial property.

1.6 Significance of the Study

The study will provide useful information to policy makers, market players and finance academicians on the extent to which macroeconomic influence commercial property investment. The outcome of this study will provide insight to policy makers and real estate players as to whether macro-economic factors can be used as a useful tool in ensuring housing affordability in Nigeria.

The study will add value to theoretical discussion by testing the relationship of macroeconomic factors and investment under an environment where demand outweighs supply. The findings of the study will be useful resource base to students pursuing Finance and to researchers exploring the area of real estate. The study will provide useful data for comparative study purposes in future researches on this topic.

1.7 Limitation of the Study

In the course of carrying out this research certain limitations were encountered. Problems were encountered during the field work due to lack of corporation from some of the respondents, some often shy away from providing certain information, some fear the researcher is a government agent and also the fear of strangers. Traditionally, it is difficult to obtain honest/factual information from these sources as responses are usually ‘official’, stating ‘what ought to be’ rather than the reality.

This makes it challenging to decipher the facts from the deceptions. In many other situations, government officials bluntly refuse to make any statement. This constituted a form of limitation during the field study, although, some key officials were interviewed. Despite all the hindrances, the aim of this research was achieved and it is hoped that this research will contribute to academic knowledge.

1.8 Study Area

The study area of this research is Benin City. Benin City is the capital and largest city of Edo State in southern Nigeria. It is the fourth-largest city in Nigeria after Lagos, Kano and Ibadan, with a population of 1,782,000 as of 2021. It is situated approximately 40 kilometres (25 mi) north of the Benin River and 320 kilometres (200 mi) by road east of Lagos. Benin City is the centre of Nigeria's rubber industry, and oil production is also a significant industry.

Edo state is one of the states that contribute significantly to GDP in Nigeria. The state currently has the fifth highest internally generated revenue in Nigeria (Vanguard, 2016) and is currently Nigeria’s second largest producer of rubber and oil palm (World Bank, 2015). Agriculture is the mainstay of the Edo economy and a large proportion of the state citizens depend on agricultural activities for their income. Included among the crops cultivated in the state are oil palm, rubber, cassava, rice, plantain, yam, sweet potatoes, sugar cane, cashew, groundnuts, tomatoes, cotton, and tobacco. A number of agro-processing businesses in the oil palm and rubber processing industry like Okomu Oil Palm Plc and Presco Nigeria Plc and several agricultural research institutes such as the Nigerian Institute for Oil palm. Research (NIFOR) and the Rubber Research Institute of Nigeria (RRIN) are located in the state (World Bank, 2015). Based on its abundant land and water resources, Edo has a great potential to expand agriculture activities and thus improve livelihoods in the state. However, as it applies in most other states in Nigeria, the deplorable state of the rural life, especially the rural housing and resultant migration to urban areas create doubts on the possibility of achieving this since the seat of primary production activities lies in the rural areas.

1.9 Operational Definition of Terms

Macro-Economic: Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on the aggregate changes in the economy such as unemployment, growth rate, gross domestic product and inflation**.**

Commercial Properties: According to Malys (2012), this refers to buildings or land intended to generate a profit, either from capital gain or rental income. It includes office buildings, industrial property, medical centers, hotels, malls, retail stores, farm land, multifamily housing buildings, warehouses, and garages.

Investment: An investment property is real estate purchased to generate income (i.e., earn a return on the investment) through rental income or appreciation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides literatures from past researchers and scholars on the macroeconomic factors influencing commercial property investment. The chapter examines the concepts and theories on the topic with major focus on macro-economic variables; Exchange rate, inflation rate, money supply, real output – Real Gross Domestic Product and diaspora remittances. By considering literatures from diverse past authors, the chapter forms the theoretical and the conceptual framework of the study on the factors affecting real estate investment.

2.2 Concept and Meaning of Macro-Economic Factors

Macro-economic factors refer to variables that are pertinent to the broad economy at the regional or national level and affect a large population rather than a few select individuals. A macroeconomic factor is an influential fiscal, natural, or geopolitical event that broadly affects a regional or national economy. Macroeconomic factors tend to impact wide swaths of populations, rather than just a few select individuals. Examples of macroeconomic factors include economic outputs, unemployment rates, and inflation. These indicators of economic performance are closely monitored by governments, businesses and consumers alike. Macroeconomic factors such as economic output, unemployment, inflation, savings and investment are key indicators of economic performance and are closely monitored by governments, businesses and consumers (Khalid et al., 2012).

Fischer (1993) posits that the interplay or relationship between various macroeconomic factors is the subject of a great deal of study in the field of macroeconomics. While macroeconomics deals with the economy as a whole, microeconomics is concerned with the study of individual agents such as consumers and businesses and their economic decision-making. The macro-economic factors are; real GDP, the unemployment rate, the inflation rate, the interest rate, the level of the stock market, and the exchange rate (Khalid et al., 2012). The five common macro-economic factors; rate of inflation – affects prices for inputs and outputs in the short run and interest rates over the longer run in an economy, rates of interest – affects cost of capital which is the interest expenses hence property values, rate of unemployment – affects available income and hence disposable income for investments since this is an important source of internal equity capital, rate of growth in GDP – affects the domestic demand for national outputs, and rate of foreign exchange – affects the value of the currency relative to international currency hence affecting property values where different currencies are involved as well as the export demand for outputs.

The relationships between various macroeconomic factors are extensively studied in the field of macroeconomics. While macroeconomics concerns the broad economy as a whole, microeconomics narrows its realm of study to individual agents, such as consumers and businesses, and their respective economic behaviors and decision-making patterns. A macroeconomic factor may include anything that influences the direction of a particular large-scale market.

2.2.1 Negative Macroeconomic Factors

Negative macroeconomic factors include events that may jeopardize national or international economies. Fears of political instability caused by a nation’s involvement in a civil or international war, are likely to heighten economic turbulence, due to the reallocation of resources, or damage to property, assets, and livelihoods. Unanticipated catastrophic events subsequently created a far-reaching ripple effect, resulting in tighter capital preservation requirements for banking institutions on a global scale. Other negative macroeconomic factors include natural disasters, such as earthquakes, tornadoes, flooding, and brushfires.

2.2.2 Neutral Macroeconomic Factors

Certain economic shifts are neither positive nor negative. Rather, the precise implications are determined by the intent of the action, such as trade regulation across state or national borders. The nature of the action in question, such as enacting or rescinding a trade embargo, will trigger myriad effects, depending on the economy being influenced.

2.2.3 Positive Macroeconomic Factors

Positive macroeconomic factors include events that subsequently foster prosperity and economic growth, within a single nation or a group of nations. For example, a decrease in fuel prices might drive consumers to purchase more retail goods and services. Moreover, as the demand for goods and services increases, national and international suppliers of those items will invariably enjoy increased revenues from the heightened consumer activity. In turn, increased profits may drive up stock prices.

2.3 Concept and Meaning of Microeconomic Factors

Microeconomics literature and books indicated that deficiencies in the employment market causes earnings (wages) to vary from an economical (competitive) equilibrium. One of the diverse deficiencies in the employment market is Trade Unions. This means that in specific circumstances, Trades unions will bargain for earnings (wages) higher the economical (competitive) equilibrium. This will be accomplished by limiting the supply of labor (for example, down tools at Denel aeronautics or threatening to go on strike). Most countries Transport and Allied Workers' Union bargaining strength is enriched by the ratio of all employees they represent and leads to a greater union earning (wage) premium (Forth and Millward, 2002).

Classic microeconomic theory explains how wages can be determined in the perfectly competitive Labour market: there will be many firms participating, that there is perfect information out there, which is the same job offered and that worker skill levels are equal. In this market, firms are wage takers, as workers would not automatically accept lower wages. Firms are wage takers so the Labour bend for the supply turns out to be impeccably flexible (Tejvan, 2017).

Microeconomics is important because human being agents make choices, and choices have personal and social consequences. Incentives do matter, and they do affect individual choices. But it does not follow that individual decision making is characterized by the rules of so-called balanced choice and balanced expectations or by the reductive incentives they represent. Nor does it follow that aggregates can be analyzed in terms of spokesperson agents. The historical, empirical and analytical confirmation against this set of hypotheses is overwhelming. Aggregates are shown to be "energetically indifferent" to their micro foundations because shaping structures such as budget constraints and social Influences which generally play decisive roles in producing aggregate patterns. Once it is understood that very different types of micro foundations can give rise to the same market-level or economy-wide patterns, we can divider microeconomics into two types of propositions. Empirically grounded propositions which can be derivative from a wide variety of micro foundations: downward sloping demand curves, differential income elasticties for necessary goods, income-driven consumption functions, etc. and propositions which depend on the specific characterization of individual behavior: where the understood foundation is rational choice, this latter set includes the usual theorems on the efficiency, harmony and general optimality of market processes. The advantage of scheduled in this manner is that it greatly expands the room for the probable characterizations of individual economic behavior while retaining key microeconomic patterns which play an important role in economic examination. None of this implies that micro processes are unimportant. On the contrary, they play a central role in influential individual paths and evaluating the social implications of macro outcomes. In addition, they can become important at the aggregate level if and when people choose to act in concert, as in the case of a general work stoppage or a consumer refuse (Rashmi, 2015).

Agency can be brought back into market analysis. We therefore need to understand how individual agents actually behave, how they actually respond to changes in the macro environment, and to what extent the environment is in turn affected. Behavioral and experimental economics, psychology and sociology, can all have their say. Two conclusions can be consequent at this point. First, that a correspondence with the aggregate empirical facts does not opportunity any particular vision of micro processes: many roads lead to Rome and second, when one examines how individuals actually behave, the homo economics model of behavior is an amazingly bad one in recent years, the project of providing microeconomic fundamentals for macroeconomics has taken on new urgency (Rashmi, 2015)

2.4 Difference between Microeconomics and Macroeconomics Factors

Microeconomics is generally the study of individuals and business decisions; macroeconomics looks at higher up country and government decisions. Macroeconomics and microeconomics, and their wide selection of underlying concepts, have been the subject of a great deal of writings. The field of study is vast; here is a brief summary of what each covers.

Microeconomics is the study of decisions that people and businesses make regarding the portion of resources and prices of goods and services. This means also taking into account taxes and regulations created by governments. Microeconomics focuse on supply and Demand and other forces that determine the price levels seen in the economy. For example, microeconomics would look at how a specific company could maximize its production and capacity so it could lower prices and better compete in its industry. Microeconomics' rules current from a set of compatible laws and theorems, quite than beginning with empirical study (Rashmi, 2015).

Macroeconomic on the other hand, is the field of economics that studies the behavior of the economy as a whole and not just on specific companies, but whole industries and economies. This looks at economy-wide phenomena, such as Gross National Product (GDP) and how it is affected by changes in unemployment, national income, rate of growth, and price levels. For example, macroeconomics would look at how an increase/decrease in net exports would influence a nation's capital account or how GDP would be affected by un employment rate John Maynard Keynes is often credited with founding macroeconomics. He started the use of monetary aggregates to study broad phenomena; some economists refuse his theory and many of those who use it disagree about how to interpret it. While these two studies of economics become visible to be different, they are actually interdependent and complement one another since there are many overlapping issues between the two fields . For example, increased inflation (macro effect) would cause the price of raw materials to increase for companies and in turn affect the end product's price emotional to the public. The bottom line is that microeconomics takes a bottoms-up approach to analyzing the economy while macroeconomics takes a top-down approach (Rashmi, 2015).

Microeconomics tries to understand human choices and source allocation, and macroeconomics tries to answer such questions as "What should the rate of inflation be?" or "What stimulates economic growth? "Regardless, both micro- and macroeconomics provide fundamental tools for any finance professional and should be studied together in order to fully understand how companies operate and earn revenues and thus, how a complete economy is managed and continual.

2.4.1 Similarities between Macroeconomics and Microeconomics Factors

Although it is expedient to split up economics into two branches microeconomics and macroeconomics, it is to some extent an artificial divide.

i. Micro principles used in macroeconomics. If you study impact of deflation (the loss in value of a commodity), you are likely to use same economic principles, such as the elasticity of demand (increase or decrease in demand) to changes in price.

ii. Micro effects macroeconomics and vice versa. If we see a rise in oil prices, this will have a significant crash on cost-push inflation (increase in prices of goods due to increase in in prices of raw materials). If technology reduces costs, this enables faster economic growth.

iii. If car prices rise, this is a micro economic effect for automobile market. But, the market for automobiles is so powerful that it could also be considered a macro- economic variable, and will influence monetary policy.

2.5 Concept of Commercial Property

The term commercial property (also called commercial real estate, investment or income property) refers to buildings or land intended to generate a profit, either from capital gain or rental income (Kirsten, 2010). Commercial property includes office buildings, industrial property, medical centers, hotels, malls, retail stores, farm land, multifamily housing buildings, warehouses, and garages. In many states, residential property containing more than a certain number of units qualifies as commercial property for borrowing and tax purposes.

A common feature of commercial properties is that they are occupied for the purpose of carrying out an industrial trade or profession on the expectation of profit and it is the profit which can be reasonably obtained or expected to be made on the premises in the long run. Ifediora (1993) argues that the drawing line between the different types of commercial properties cannot be too rigid in the case of a premise originally constructed as a wholesale distributing depot which after some time, may be let at a higher rent for the purpose of a shop. Although, the conversion from one use to another in expectation for higher return should only be considered if the local planning authority will ever grant permission for such a development (Lloyd, 2006).

There are different types of commercial properties, which include retail shops, offices and shopping complexes/plazas.

Retail Shops: - Shops development in any commercial urban city includes all forms of retail outlets except mail order warehouses (Lloyd, 2006). According to Merriam-Webster Online Dictionary, a retail shop is a place of business usually owned and operated by a retailer but sometimes owned and operated by a manufacturer or by someone other than a retailer in which merchandise is sold primarily to ultimate consumers. (Merriam-Webster, 2018).

Prachi, 2017 in her article “Types of Retail Outlets” gave an expression that retail shops are where the retailers sell goods directly to the end-user for his own consumption in small quantities. However, in any commercial area, a market centre may be concerned with any of the following types of activities in the building;

- Shops as part of main residential buildings/developments
- A shopping neighborhood centre or sub-centre
- Out of town shopping centers
- Discount houses

Offices: Generally, offices are of two kinds. Those attached to factories and those which are independently sited. For instance, while there are modern buildings in large towns which are specifically built for offices, dwelling houses are sometimes converted into offices where there is limited demand for office accommodation. Buildings specifically meant for office use usually contains considerable floor spaces and provides within one building, many other market centres and outlets which may include shops, restaurants.

Office buildings are generally classified into one of three categories; Class A, Class B, or Class C. Standards vary by market, and each category is defined in relation to its counterparts. Building classification allows a user to differentiate buildings and rationalize market data – that said, classification is an art, not a science.

Shopping Complexes/Plazas: - A shopping complex is a modern form of shopping precinct or shopping centre in which one or more buildings form a complex of shops representing merchandisers with interconnecting walkways that enable customers to walk from unit to unit. From the late 20th century, entertainment venues such as movie theatres and restaurants began to be added. As a single built structure, early shopping centres were often architecturally significant constructions, enabling wealthier patrons to buy goods in spaces protected from the weather. (Michael, 2011; Agorino and Theresa, 2015).

Warehouse: A warehouse is a building for storing goods. Warehouses are used by manufacturers, importers, exporters, wholesalers, transport businesses, customs, etc. They are usually large plain buildings in industrial parks on the outskirts of cities, towns, or villages. They usually have loading docks to load and unload goods from trucks. Sometimes warehouses are designed for the loading and unloading of goods directly from railways, airports, or seaports. They often have cranes and forklifts for moving goods, which are usually placed on ISO standard pallets loaded into pallet racks. Stored goods can include any raw materials, packing materials, spare parts, components, or finished goods associated with agriculture, manufacturing, and production.

2.5.1 Advantages of Commercial Property

As an alternative, commercial property investment exhibits some fundamental differences. To begin with, commercial property investments are generally structured to be positively geared – you make an income return on your investment funds.

i. **Higher income yields** – commercial properties generally show a greater level of income for a given property value, when compared to residential property.

ii. **Capital growth potential is based on income growth potential and other measurable factors** – commercial properties are often valued on the basis of the potential (and actual) rental return being achieved. Other relevant factors include economic activity, interest rates, and the commercial success of the area surrounding the property.

iii. **Stability and consistency of income – longer leases.** Whilst residential properties are typically held on short leases (often 12 months), commercial properties typically attract longer lease terms between three and 10 years, providing consistent and predictable income streams over time.

iv. **Income growth** – the longer leases of commercial properties usually allow for the rent to increase in every year of the lease, thus increasing the return on investment as the lease progresses.

v. **Maintenance** – unlike residential investors, commercial investors have the potential to earn enhanced profit, with the lessee responsible for paying the cost of maintenance, rates and repairs on the property when the ongoing expenses are written into the commercial lease agreement.

vi. **Reliable tenants** – we have all heard stories of "horror tenants" in houses and apartments. Tenants of commercial properties, on the other hand, are earning their income from the property. Therefore, it is in their interests to keep the property in good order and to maintain good relations with the landlord.

vii. **Diversification** – commercial property investment can provide diversification across different asset classes and geographic locations, allowing the investor to add further elements of diversification into their portfolio. By diversifying their portfolio and investing in a variety of commercial assets, from retail to industrial, investors are also protecting their income and managing risk in the event of an economic downturn.

viii. **Ability to collectively invest** – the ability to own commercial property within investment structures, such as property managed investment trusts, allows investors to hold part of a larger asset and to benefit from professional management of both the asset and the investment vehicle, which will also be subject to annual audit.

2.6 Effect of Macro-Economic Factors on Commercial Property Development

Like any other sector of investment, commercial property is affected by diverse factors including; fluctuations in exchange rate, interest rate, inflation rate, money supply, national output etc. O'Sullivan & Sheffrin (2003) indicate that an exchange rate between two currencies is the rate at which one currency will be exchanged for another.

Many investors fail because they jump into buying commercial real estate without taking time to evaluate the health of a country's economy. Economic indicators, such as gross domestic product (GDP), employment rate, and stock index, can adversely affect real estate investment profitability.

While the macro factors are nearly beyond control, knowing what drives the market and what to watch out for can't be emphasized enough. A knowledgeable investor will make better financial decisions to protect their projects. Let's dive into the macroeconomic factors that commercial property investors should keep top-of-mind.

1. **GDP Per Capita Consumption Growth Rate: -** One of the aspects worth attention is the real GDP consumption growth rate. If the economy is expanding, the growth rate will be positive. A boom translates to an increase in businesses, jobs, and personal income. As such, people interested in buying properties won't mind taking mortgages because they're confident they can afford it. Also, lending institutions will be more willing to offer them loans at competitive rates. When the economy contracts, many people tend to adopt a frugal lifestyle. The income of businesses will drop. Consequently, this will compel business owners to

hold off investing in new purchases. Producers, too, will cut down on domestic production and distributions. This chain of changes can contribute to job cuts, salary reduction, and delays in hiring new employees until businesses are confident enough that there will be positive progress in the economy. Unfortunately, an increase in unemployment will depress a country's economy. People will have less money to spend on significant projects like commercial properties.

2. **Term Structure of Interest Rates:** Term structure of interest rates is critical in identifying a country's current state of the economy. The phrase refers to the yield curve that shows the relationship between interest rates of similar quality bonds, factoring in different terms and maturities. A yield curve helps paint a picture of market participants, reflecting the expectations regarding the future interest changes and monetary policy conditions. The term structure of interest rates can take a normal, inverted, or flat curve shape with economic value predictions at varying periods. It can be three months, two years, five years, ten years, or even thirty years. In a normal yield curve, long-term yields exceed short-term yields. An upward slope depicts an expanding economy. When it comes to an inverted mode, the curve slopes downward, meaning the short-term yields exceed long-term yields. Such a curve signifies an economy in or about to enter a recession. With a fat curve shape, there's little to no difference between yields and maturities. It is difficult for commercial real estate investors to project the direction of the economy.

3. **Real Treasury Bill Rate: -** Treasury bills are short-term, government-backed bonds sold to investors in denominations of ₦415,000 and up to ₦2 billion to help pay the federal debt. The maturity of these widely regarded low-risk securities is usually 12 months or less. Since these bonds are considered an ultra-secure form of investment, you can use them to predict the economy. The demand for T-Bills tends to rise when there is an economic crisis. An increase in demand for the bonds will lead to lower interest rates. If the demand drops, the Department of the Treasury will increase the rates to attract investors. When the treasury yields rise, the interest rates on other similar securities also rise to maintain a healthy competition. Generally, longer maturity dates will attract higher interest rates.
4. **Unpredicted Inflation: -** Inflation can be predicted, but not always. Sudden inflation is the last thing an investor would want, especially if they'll make losses from an investment they've been nurturing for years. Inflation has the power to negatively influence the market prices, profits, investment, and employment opportunities. Sometimes unexpected inflation can be good news. There's no better feeling than experiencing growth overnight when you least expect it. However, this type of inflation can affect you in one way or another. For example, the lending costs tend to increase rapidly. An increase in premiums and other monthly contributions can make many people interested in commercial properties hold back a bit, waiting for the economy to improve.

2.7 Summary of Literature Review

Both local and foreign authors have studied on the determinants of real estate investments. The findings from the empirical literatures are inconclusive. Internationally, Renigier-Bilozor & Wisniewski (2012) identified that the economic and financial situation of European countries affects commercial property markets. Commercial property markets are connected, despite the fact that they are situated in different parts of Europe. further, The economic and financial crisis of countries has variable influence on prices of real estate. Golob, Bastic & Psunder (2012) using Slovenia as a case study, identified that economic growth, interest rates, construction quality, speed of real estate sales and accessibility of funding sources were significant factors in the real estate market. Klimczak (2010) identifies that familiarity with sources of value as well as factors of which determine the value and impact upon the attractiveness of a capital market segment in question, allows capital owners to make effective and rational investment decision.

Locally, Muthee (2012) identified that there is a relationship between the variables (commercial property prices and real estate investment) revealing that a quarterly change in housing prices yields a quarterly change in GDP. Further, Nzalu (2012) identified that GDP is the most significant contributor to the growth in commercial properties. In addition GDP growth, interest rate variation and growth in inflation were found to be statistically significant determinant of commercial property growth. In attempting to Makena investigate the determinants of commercial property prices in Lagos. Makena (2012) found that the level of money in supply information can give economists and financial analysts a better understanding of the commercial property market and its influence on real estate prices. To the financial analysts, it is important to realize the need to sensitize their clients to do more investment in real estate in municipality areas like Lagos, Porthacourt, Benin City and Asaba because there is need for more commercial properties. Karoki (2013) identified that there is a significant negative relationship between commercial property prices and interest rates, and positive relationships with GDP, and level of money supply. Interest rates have the most significant effect on house prices followed by GDP and level of money supply. Thus the rise in property prices is well explained by macroeconomic variables.

Evidently, different authors have established that GDP, money supply and interest rates are among the factors that determine the level of and value of the real estate investments as per the different researchers. However, the diverse researchers have not concluded on the direction of causation or the strength of the relationship that exists between the selected macro-economic variables and real estate investments. Furthermore, the findings by different authors have been inconclusive.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology used to conduct the study. The chapter explains the methods used to collect secondary data necessary for the study. It discusses the research design used, the target population and data collection methods. Data analysis has also been discussed in detail with the researcher explaining the models and statistical tools that will be used to analyse the data.

3.2 Researcher Design

According to Gall *et al*. (2006) research design is a detailed outline on how the research was undertaken. It specifies the methods and procedures used to collect and analyse the data. The study sought to investigate the macro-economic factors affecting real estate investment. Descriptive research design details the method that quantitatively synthesizes the empirical evidence of a specific field of research to describe the relationship between variables.

Flick (2009) notes that Descriptive research design is widely accepted in the field of finance and economics since it is proving to be very useful in policy evaluations. According to Groves (2004) descriptive technique gives accurate information of persons, events or situations. Descriptive research design was used to describe the relationship between the selected macro-economic factors and commercial property investment.

3.3 Population of the Study

Olubokola (2008) described the population of a study as the targeted audience of individual items which is to be observed in a given problem. For the purpose of this study, the targeted population will be the Registered Estate Surveyors and Valuers, Estate Surveyors and Valuers working in development authority, Estate Surveyors and Valuers in Private firms and Estate Surveyors and Valuers lecturing in University of Benin, Edo State. This will form the population of the study.

3.4 Sample Frame and Sample Size

The sample frame adopted for this study are made up of (29) Registered Estate Surveyors and Valuers, (8) Estate Surveyors and Valuers working in development authority, (11) Estate Surveyors and Valuers in Private firms and (10) Estate Surveyors and Valuers lecturing in University of Benin, Edo State. The sample size was calculated using The Taro Yamane (1976) statistical formula for determining sample size. The formula is stated below:

$$n = \frac{N}{1+N\,(e)^2}$$

Where: N = Population of the study/sample frame

e = Level of significance

n = sample size

3.5 Sampling Technique

Sampling techniques are statistical methods of drawing a sample from a study population (Onawu & Ighodalo, 2013). The simple random sampling technique was adopted to select the respondent as it will give all the respondents equal chance of being selected in the sample.

3.6 Instrumentation/Data Collection Procedure

This is the method used to collect raw data for analysis. This study employed the close-ended questionnaire. In this study, the self-administered method was employed to administer questionnaire and effort will be made to ensure retrieval of the questionnaire immediately. The study also employs personal observation and interview.

3.7 Method of data analysis

The study employs simple descriptive statistics in the analysis of data. The table below shows the statistical method to be used for each objectives.

Objectives	Analytical tools
To identify the macro-economic factors influencing commercial property investment in Benin City	Percentage method
To determine the effect of macro-economic factors commercial property development in the study area	Weighted mean score
To identify whether the effect of macro-economic factors on commercial property investment positive or negative to the economy.	Weighted mean score
To examine if macro-economic factor affect the GDP growth rate on the investment of commercial properties in the study area.	Weighted mean score

Weighted Mean Score

The weighted mean score is a type of mean that is calculated by multiplying the weight associated with a particular event or outcome and then summing all the products together.

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

Where: N = Total number of Respondents

N_5 = Number of respondent who answered very satisfied

N_4 = Number of respondent who answered satisfied

N_3 = Number of respondent who answered neutral

N_2 = Number of respondent who answered less satisfied

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Analysis

This chapter present the data collected with the questionnaire and the presentation of response and interpretation of data obtained. This enabled the researcher to arrive at a reasonable interpretation and discussion in order to make the necessary conclusion and recommendations.

The researcher administered one thirty (30) questionnaires to the respondents in the study area; one hundred and twenty-one (21) were duly completed and returned representing 70% retrieval.

Table 4.1 Respondents socio economic characteristic

Gender	Frequency	Percent (%)
Male	13	61.9
Female	8	38.1
Total	**21**	**100**
Age		
Below 20 years	-	-
20 - 40 years	14	66.7
41 years and above	7	33.3
Total	**21**	**100**
Academic Qualification		
SSCE	0	0
OND/HND	2	9.5
B.Sc/B.Tech	8	38.1
Ph.D	7	33.3
Others	4	19.0
Total	**21**	**100**
Professional Qualification		
Fellow	6	28.6
Associate above 10 years	5	23.8
Associate below 10 years	7	33.3
Probationer member	3	14.3
Total	**21**	**100**
Post qualification (work experience)	**Frequency**	**Percent (%)**
Below 5 years	5	23.8
5 - 10 years	8	38.1
11 - 15 years	2	9.5
16 - 20 years	3	14.3
above 20	3	14.3
Total	**21**	**100**

Source: Field Survey, 2022

Table 4.1 above examined the personal information of the respondents. 13 respondents (representing 61.9%) are male while 8 (representing 38.1%) are females. It is thus clear that males constituted the greatest number in the sample of respondents who participated. 14 respondents (representing 66.7%) are between the age brackets of 20 - 40 years and above and 7 respondents (representing

33.3%) are between the age brackets of 41 years and above while none of the respondents are between the age brackets of below 20 years. From the analysis above it is clear that all the respondents who participated in this study are mature and full of age which therefore means that information from them can be reliable. 2 respondents (representing 9.5%) have OND/HND; 8 respondents (representing 38.1%) have B.Sc/B.Tech, 7 respondents (representing 33.3%) have Ph.D while 4 respondents (representing 19%) have other degree, which include doctorate degree. It is thus clear that all the respondents who participated are all had tertiary education. On professional qualification, 6 respondents (representing 28.6%) are Fellow Surveyors, 5 respondents (representing 23.8%) are Associate above 10 years, 7 respondents (representing 33.3%) are Associate below 10 years while 3 respondents (representing 14.3%) are Probationer member. This shows that the entire respondents are practicing professional in the profession of estate surveying and valuation. On Post Qualification work experience, 5 respondents (representing 23.8%) had below 5 years experience, 8 respondents (representing 38.1%) had 5 – 10 years work experience, 2 respondents (representing 9.5%) are had 11- 15 years work experience while 3 respondents (representing 14.3%) had 16 – 20 years work experience and another 3 respondents representing (14.3%) have above 20 years of experience.

Research Objective 1: To identify the macro-economic and micro-economic factors influencing commercial property investment in Benin City.

Table 4.6.1: Showing the macro-economic factors influencing commercial property investment in Benin City

Macro-Economic factors	SA	A	N	D	SD	WMS	Rank
The exchange rate and the balance of payments	4	4	5	4	4	3.8	3rd
Unpredicted inflation	7	2	11	0	1	4.6	1st
Real Treasury Bill Rate	4	5	3	4	5	3.7	4th
Structure of interest rates	3	4	2	2	10	3.0	5th
GDP Per capital consumption growth rate	6	4	6	4	1	4.4	2nd

Source: Field Survey, 2022

The table above shows the macro-economic factors influencing commercial property investment in Benin City. It was discovered that unpredicted inflation and GDP per capital consumption growth rate are the major macro-economic factors influencing commercial property investment with a weighted mean score of 4.6 and 4.4 ranking 1st and 2nd respectively. The least ranked factors are the structure of interest rates, real Treasury bill rate and exchange rate and the balance of payments with a weighted mean score of 3.0, 3.7 and 3.8 respectively.

Table 4.6.2: Showing the effect of micro-economic factors influencing commercial property investment in Benin City

Micro-Economic Factors	SA	A	N	D	SD	WMS	Rank
Attracts more customers	5	4	4	2	6	3.7	5th
Availability of employees	8	2	5	5	1	4.5	1st
Increases distribution channels and suppliers	7	3	5	3	3	4.2	3rd
Level of competition	4	5	6	1	5	3.9	4th
Availability of investors	3	6	3	3	6	3.6	6th
Attracts the media and the General public	2	9	5	4	1	4.3	2nd

Source: Field Survey, 2022

The table above shows the micro-economic factors influencing commercial property investment in Benin City. It was discovered that the major effect of micro-economic factors is availability of employees, attracts the media and the general public and increases distribution channels and suppliers with a weighted mean score of 4.5, 4.3 and 4.2 respectively, while the least micro-economic factors influencing commercial property investment are availability of investors, attracts more customers and level of competition with a weighted mean score of 3.6, 3.7 and 3.9 respectively.

Research Objective 2: To determine the effect of macro-economic factors on commercial property development in the study area

Table 4.7: Showing the effect of macro-economic factors on commercial property development in the study area

Effect of Macro-Economic factors on commercial property development	SA	A	N	D	SD	Mean	Rank
Brings about unpredicted inflation	11	3	2	2	3	4.7	1st
Term structure of interest rates which signifies if an economy is in or about to enter a recession	2	1	1	15	2	3.2	6th
Diversifies risk	3	9	6	2	1	4.5	2nd
It increase the GDP Per capital consumption growth rate	1	5	4	2	9	3.0	7th
Risks reduction	2	5	8	4	2	4.0	4th
Real treasury bill rate	5	2	7	6	1	4.1	3rd
It resolved liquidity problem	1	2	3	6	9	2.6	9th
Reduces agency cost	2	4	6	8	1	3.9	5th
Reduces the liquidity risk in the financial system	1	2	5	6	7	2.9	8th

Source: Field Survey, 2022

The table above shows the effect of macro-economic factors on commercial property development in Benin City. It was discovered that the major effects are it brings about unpredicted inflation, diversifies risk, real treasury bill rate and also risks reduction with a weighted mean score of 4.7, 4.5, 4.1 and 4.0 while the least effects are it resolved liquidity problem, reduces the liquidity risk in the financial system, it brings about unpredicted inflation, term structure of interest rates which signifies if an economy is in or about to enter a recession and reduces agency cost with a weighted mean score of 2.6, 2.9, 3.0, 3.2 and 3.9.

Research Objective 3: To identify whether the effect of macro-economic factors on commercial property investment positive or negative to the economy

Table 4.7: Showing the effect of macro-economic factors on commercial property investment either negative or positive

Identification of the effect of macro-economic factors	Frequency	Percent (%)
Positive	9	42.9
Negative	6	28.6
Neutral	6	28.6
Total	**21**	**100**

Source: Field Survey, 2022

The table above shows that 9 respondents representing 42.9% indicated that the effect of macro-economic factors on commercial property investment is positive, while 6 respondents representing 28.6% indicated negative and another 6 respondents representing 28.6% indicated neutral. This implies that macro-economic factors have positive effects on commercial property investment.

Research Objective 4: To examine if macro-economic factor affects the GDP growth rate on the investment of commercial properties in the study area

Table 4.8: Showing if macro-economic factors affects GDP growth rate on the investment of commercial properties in the study area.

Response	Frequency	Percent (%)
Yes	9	42.9
No	7	33.3
No idea	5	23.8
Total	**21**	**100**

Source: Field Survey, 2022

The table above shows the responses from different respondents on if macro-economic factor affects the GDP growth rate on the investment of commercial properties in the study area, it was discovered that 9 respondents representing 42.9% indicated yes while 7 respondents representing 33.3% indicated no and 5 respondents representing 23.8% indicated no idea. It implies that macro-economic factors affects the GDP growth rate on the investment of commercial properties in the study area.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

Below is the summary of the findings in accordance with the specific objectives:

1. To identify the macro-economic and micro-economic factors influencing commercial property investment in Benin City.

    The study established that unpredicted inflation is the major macro-economic factors influencing commercial property investment and the major effect of micro-economic factors is availability of employees in Benin City.

2. To determine the effect of macro-economic factors commercial property development in the study area. It was discovered that the major effects are macro-economic factor brings about unpredicted inflation

3. To identify whether the effect of macro-economic factors on commercial property investment positive or negative to the economy

    The study established that inflation rate had a positive effect on the investment of commercial property. This implied that an increase in the rate of inflation decrease the number of emerging commercial properties, therefore not enabling the investment of commercial property

4. To examine if macro-economic factor affects the GDP growth rate on the investment of commercial properties in the study area.

    The study established that GDP had an effect on the investment commercial property in Benin City. This implied that an increase in the growth of

GDP also increase the number of commercial properties thus affecting the growth in investment of commercial property.

5.2 Conclusion

This study concludes that there is a strong positive relationship between the macro-economic variables and commercial property investment growth. Also, the study concludes that growth in; exchange rate, diaspora remittances, money in circulation, inflation rate, and real GDP growth do not individually influence the growth in real estate investment in the country, but the combination effect of the change of the macro-economic variables do influence real estate growth.

The study concurred with the findings of Muthee (2012) who established a relationship between the variables (GDP growth, inflation, and unemployment) and a quarterly change in housing prices yields. Also, Makena (2012) found that the level of money in supply do affect the commercial property market and it influences real estate prices. However, the study disagreed with the views of Karoki (2013) who identified that there is a significant negative relationship between commercial property prices and interest rates, real GDP, and the level of money supply.

5.3 Recommendation

The study recommends that Estate Surveyors and other regulators should plan in advance and influence the macro-economic variables in the right direction. For instance, the economy should have sufficient money supply to ensure that there is enough money to conduct trade in the economy.

Further, exchange rate and inflation should be managed to ensure that commercial property prices are stable, because if investors incur more costs they would pass over the costs to property buyers by increasing property prices.

The government should also aim to grow the country's real GDP as this would enhance the growth of commercial property investments in the economy as established by the study.

The study recommends that the investment community should plan for the adverse effects of the changes before, during, and immediate years following an election. The study further recommends that the government should ensure that contestants do not engage in bad politicking as this may deteriorate the effect of macro-economic variables and therefore investments in commercial property and possibly other sectors. Furthermore, the electoral body should tighten controls of politics and quality of election results.

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Appendix I

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Dear Respondent

ANALYSIS OF THE MACRO-ECONOMIC FACTORS INFLUENCING COMMERCIAL PROPERTY INVESTMENT IN BENIN CITY

I am required to present a project on above mentioned topic as a requirement for the award of Higher National Diploma in Estate Management and Valuation.

In order to acquire all necessary information for the project, I have drawn this questionnaire for your response. I will appreciate it, if the questionnaire could be attended to at your earliest conveniences. This research work is purely for academic exercise meant for examination assessment. Therefore, be rest assured that information given in this questionnaire will be confidently/confidentially handled.

Thanks for your co-operation and understanding

Yours Faithfully,

Gabriel Blessing

QUESTIONNAIRE

This Questionnaire is divided into two sections (section A and section B). Please read through the whole question carefully and tick the option you consider most appropriate to the question. Any question you do not have an answer to should be omitted.

SECTION A

1. Gender: (a) Male ( ) (b) Female ( )
2. Age bracket: (a) below 20 years ( ) (b) 20 – 40 years ( ) (c) 41 and above ( )
3. Academic Qualification: (a) primary leaving certificate ( ) (b) SSCE/WAEC ( ) (c) OND/HND ( ) (d) B.SC/B.Tech ( ) (e) M.SC/M.Tech ( ) (f) Ph.D ( ) (g) Others please specify____________________
4. Professional qualification: (a) Fellow ( ) (b) Associate above 10 years ( ) (a) Associate below 10 years ( ) (b) Probationer member ( )
5. Post Qualification – work experience (a) below 5 years ( ) (b) 5 – 10 years () (c) 11- 15 years ( ) (d) 16 – 20 years ( ) (c) above 20 years ( )

SECTION B

1. Identify the macro-economic factors influencing commercial property investment in Benin City. Please, kindly rate your level of agreement with the factors listed below

S/N	**Macro-Economic Factors**	**SA**	**A**	**N**	**D**	**SD**
1	The exchange rate and the balance of payments					
2	Unpredicted Inflation					
3	Real Treasury Bill Rate					
4	Structure of Interest Rates					
5	GDP Per Capita Consumption Growth Rate					

2. Identify the micro-economic factors influencing commercial property investment in Benin City Please, kindly rate your level of agreement with the factors listed below

S/N	**Micro-Economic Factors**	**SA**	**A**	**N**	**D**	**SD**
1	Customers					
2	Availability of Employees					
3	Distribution Channels and Suppliers					
4	Level of Competition					
5	Availability of Investors					
6.	Media and the General Public					

3. Listed below are some of the effect of macro-economic factors on commercial property development. Please, kindly rate your level of agreement with the factors listed below

S/N	Effect of Macro-Economic Factors on Commercial Property Development	SA	A	N	D	SD
1	It increases the GDP Per Capita consumption growth rate					
2	Term structure of interest rates which signifies if an economy is in or about to enter a recession.					
3	Real treasury bill rate					
4	Brings about unpredicted Inflation					
5	Risks reduction.					
6	Diversifies risk					
7	It resolved liquidity problem					
8	Reduces agency cost					
9	Reduces the liquidity risk in the financial system					

4. How do you identify the effect of macro-economic factors on commercial property investment?
   (a). Positive ( )
   (b). Negative ( )
   (c). Neutral ( )

5. Does macro-economic factor affect the GDP growth rate on the investment of commercial properties in Benin City?
   (a) Yes ( )
   (b) No ( )
   (c) No Idea ( )