



A N EVALUATION OF THE EFFECT OF VOID ON RESIDENTIAL REAL ESTATE INVESTMENT RETURNS IN ABUJA, NIGERIA.

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ABSTRACT

Real estate investment is ventured into with expectation of having profitable returns on the huge capital outlay through income of rent or outright sale. However, rent expectation is usually jeopardised by void which occurs in the economic lifetime of the property. This study evaluates the effect of void on residential real estate investment returns. Population of the study are the practicing Estate Surveying and Valuation Firms and Real Estate Agents that operates within the study area. Data were collected using questionnaire and observation method, opinion on factors responsible for void and the effect were

Introduction

A void period occurs when property is vacant, unoccupied or without legitimate tenant and receiving no rental income. Void will happen to most landlords during the lifetime of their investment. Void periods are inevitable, excessive or lengthy void periods can significantly impact the viability of residential real estate investment. Where void is prevalent at the rental housing market, the realisation of the investment objective seems to be unachievable (Oladokun 2011). Many property experts agree that landlords should never take for granted that their property will always be occupied.

Increase in the population of Abuja City in the past years has resulted to acute shortage of accommodation for the populace. Consequently, rent for residential properties are excessively on the high side. Investors has realised the existing huge gap in accommodation provision within Abuja city which brings about massive residential real estate investment for different types of accommodation. Despite shortage accommodation being experience in the study area, many properties are unoccupied and void thereby causing the landlord to loss rent and discouraging prospective investors in the property market.

The involvement of private developers, corporate organisations and individuals in residential real estate investment within the study area are obviously driven by high return expectation. Residential real estate investors are often challenge with void as re-letting of some vacant residential properties takes longer period in the recent times and in many cases newly completed residential properties also experience void. The menace of void residential properties within Abuja City has been on the media in which Federal Capital Development Authority (FCDA) is reported



gathered. Data on void within the period of 10 years (2011 – 2021) on each property sampled were collected and analysed. High rent was discovered to be the most significance factor responsible for void in the study area while landlord loss of rent is the principal negative effect of void followed by loss of revenue by the government and reduction of property value. The rate at which void affect the investment returns of the residential real estates in the study area are as follows: 1bedroom flat 8%, 2bedroom flat 24%, 3bedroom flat 30%, 4bedroom flat 34%, bungalow 33%, duplex 39% and others (mansion/town house) 55%. The study recommended certain measures to be taken in order to address the menace of void, such measures include downward review of rent, imposition of tax by the government on void properties and professional advice in residential real estate investment decisions particularly determination of rent and sales price.

Keywords: Real estate, void, investment returns, rent, sale price.

to be in the process of taking over unoccupied buildings whereas the circumstance could not have been in the interest of the investors returns. Experts has advised government to apply policy that will compel developers to rent their unoccupied properties in order to reduce the suffering of working class without accommodation.

According to Remoy (2010); Void has to do with the number of years that property is vacant but the fact is that whether a property is vacant for a day or two years or more, it affects the revenue of investors, developers, property managers. “Factors that contribute to unoccupied estates, or houses in the city centre, include court cases, high rental, and non-payment of collateral from banks. Others are, forfeited buildings and lack of infrastructure”.

This research is focused on evaluating the effect of void on the residential real estate investment returns in Abuja.

LITERATURE REVIEW

According to Greer and Kolbe (2003) the cash flow might come from rental income, form using the property as loan collateral, from cash savings through off setting otherwise income tax-deductible losses from the real property interest or from net profits upon resale of the property interest. Generally, investment decisions are based on the expectation of receiving a positive return in the investment.

Okafor (2008) considered investment as an economic activity designed to increase, improve or maintain the productive quality of the existing stock of capital. Ajayi (2012) view investment as the act of laying out money now in return for a future reward. Richmond (2008) refers to investment as the forgoing of a capital sum in return for a regular income over a period of time. According to Eneyer (2010), investment is the forgoing of capital sum now in exchange for benefits in future. Ifediora (2012) is of the view that investment is acquired for the sake of producing benefis in the form of direct monetary return.

James (2019), an investment is an asset or item acquired with the goal of generating income or appreciation. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a



monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

Investment requires putting money to work to start or expanding a project or to purchase an asset or interest, where those funds are put to work, with the goal to receive income and increased value over time. Investment can be referred to as any mechanism used to generate future income. In the financial terms, this includes the purchase of bonds, stocks or real estate. More so, a constructed building or other facility used to produce goods can be seen as an investment. The production of goods required to produce other goods may also be seen as investing.

According to Corporate Finance Institute, Investment is the process of allocating capital to a financial instrument (e.g., stocks, bonds) backed by an expectation to receive certain benefits in the future. In the financial world, the benefit of investment is referred to as a return. The return can be either positive (gain) or negative (loss)

Hence, investment will always involve outlay of asset today in expectation of receiving greater returns in the future. Residential real estate investment requires huge capital outlay with projection of having profitable returns within certain period of time. Most investors in the research area usually rely on the annual rent proceed from properties developed or bought for repayment plan of mortgage or loan used to finance such development with expectation of making profit, however, void occurrence often make the projected rent unachievable. All the literatures reviewed agrees that investment attracts returns of which profitable return is the aim of many investors.

Akalemeaku and Egbenta (2013), defined residential properties as real properties of any kind that shelter individuals and provide accommodations. They went further to state that residential properties include private buildings.

Similarly, Spodek and Magargal (2013) are of the opinion that residential properties are income producing properties. They added that residential properties can be generally considered to be a public accommodation that provides services or accommodation to the public.

Residential properties are places of dwelling refers to as homes, it usually developed as either owner occupier or for investment to be inhabited by tenant on a lease or rental agreement. In Abuja FCT, residential properties are predominant and it is zoned for living or dwelling purposes.

Residential properties in Abuja are of different types and concepts developed to meet the accommodation needs of different categories of the population mostly determined by income and economic status. In the study area, duplexes, block of flats and bungalows are predominant residential properties.

According to Chartered Institute of Housing, 'void' can be defined as a property which does not have legitimate tenant. Void is defined as an empty area of space where nothing exists. Synonyms of the word void property are: vacant, empty, unoccupied, available, free, and untenanted (Longman Dictionary of Contemporary English).

Akalemeaku and Egbenta (2013) described void as empty, abandoned, bare, barren, deserted, vacant, free, untenanted, uninhabited and blank. The Authors further defined void property as a property which is unoccupied because it does not have a tenant in occupation.

Literatures above affirms that void occurs when a property has no legitimate tenant. This could be the period between when the sitting tenant vacate and when another occupying the property. Void also occurs between the time when a property construction is completed and when the tenant occupies the property. Property occupied by squatters are also classified as



void as it has no return on investment and usually requires extra efforts to secure possession of such properties. However, not all properties that are not occupied for a period of time could be regarded as void, for instance, property purposely build for second home, guest house, holiday home is expected not to be frequently occupied and as such could not be regarded as void properties. For the purpose of this study, void residential properties are those that are vacant for a period of time in which tenants or buyers are desirous by owners for rent or purchase. Void residential properties also include those ones that are vacant and abandoned. Oladokun (2011), Realisation of investment objectives are rendered unachievable by void. Whereas, residential real estate investments are mostly ventured into in expectation of higher returns at a future date either by sale or rental income. Most residential real estate developments in the study area are finance through mortgage and credit facility by individuals and corporate organization. Repayment plan are usually based on expectation of returns on investment which could be sales proceed or rental income throughout the economic life of the property.

There is little work done on the effect of void on residential real estate investment returns which this study prefers to evaluate in the study area.

THE STUDY AREA

The study area is Phase 1, 2 and 3 of the Abuja Federal Capital City composed of selected Districts: Asokoro, Guzape and Maitama (Phase 1); Katampe, Mbushi and Wuye (Phase 2); Nbora, Galadimawa and Lokogoma (Phase 3). Federal Capital City (FCC) is located at the core of the Federal Capital Territory within AMAC which is one of the six Area Councils of the FCT. The Federal Capital City (FCC) is located in Abuja Municipal Area Council (AMAC) was planned to be developed in four phases (1-IV), and situated in the northern part of the FCT. The FCC covers 275.30 square kilometres while the entire FCT occupies an area of about 7,315 square kilometres.

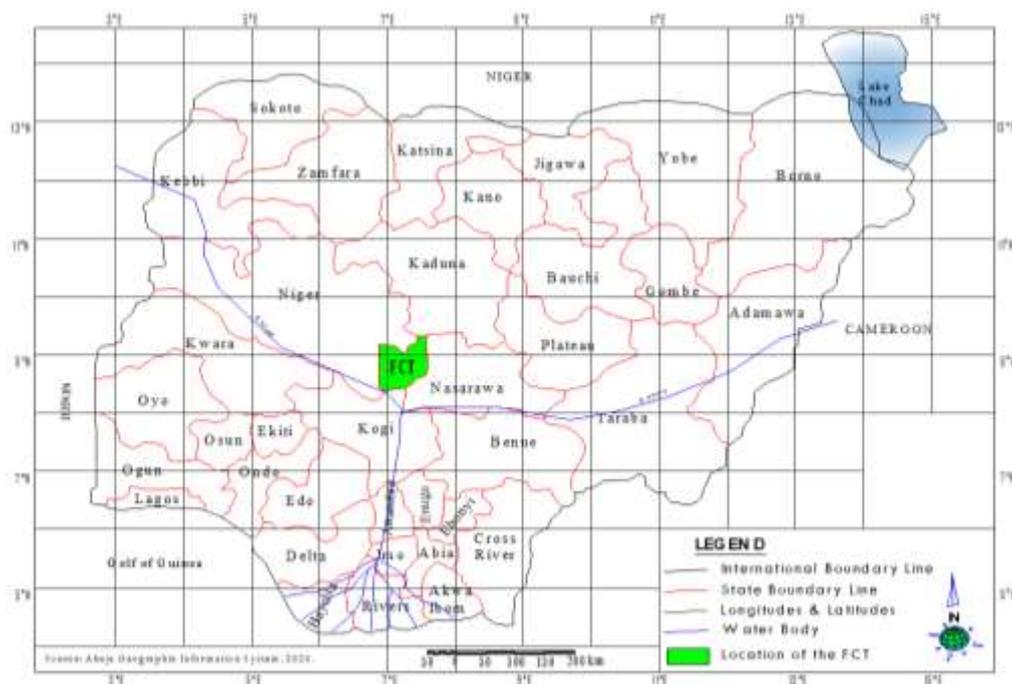


Figure 1.1: Nigeria Map showing the Federal Capital Territory (FCT)

Source: Abuja Geographic Information System (AGIS 2020)



METHOD AND MATERIALS

A questionnaire survey was designed and administered to the Estate Surveying and Valuation Firms and Real Estate Agents who manages properties within the study area in order to collect necessary data related to void period and the effect on investment returns of the properties. The questionnaire was designed in an inquiry form purposely to obtain primary data such as annual rent, market value, void period and to also seek the opinion of the respondents on causes and general effects of void on residential real estate investment returns. The selection was based on research design which sought to get relevant information peculiar to the study area.

The design takes advantage of specific scenarios to reveal the effect of void on residential real estate investment returns. The population of the study are the practicing Estate Surveying and Valuation Firms Registered with ESVARBON and NIESV and Association of Estate Agents of Nigeria registered with AEAN Abuja Branch, Nigeria.

The sampling technique for this research, snowball sampling was used. Snowball sampling or chain-referral sampling is a non-probability technique in which the samples have traits that are rare to find. This is a sampling technique, in which existing subjects provide referrals to recruit samples required for a research study.

The sample frame for this research are the registered estate surveying and valuation firms that operates within Abuja metropolis which is 171 firms according to the recent NIESV directory 2021 and Real Estate Agents with 388 members according to AEAN Abuja Chapter. Therefore, making it the total of 559 population size.

The sample size chosen for the study was calculated using Smith and Strattek (2010) formula for sampling size determination as follows;

$$n = \frac{Z^2 \times \delta^2 \times (N/N-1)}{ME^2 + (Z^2 \times \delta^2)}$$

N-1

Where:

n = sample size

δ = Standard Deviation at 0.5

Z = 1.96 (the standard deviation value at 95% confidence level)

ME = Margin of error at $\pm 5\%$

N = number of the population as the time of research is 559

Number of Registered Estate Surveyor and valuers' firms in Abuja = 171

Number of Members of the Association of Estate Agents of Nigeria in Abuja = 388

Total number of Population = 559

$$n = \frac{1.96^2 \times 0.5^2 \times (559/559-1)}{0.05^2 + (1.96^2 \times 0.5^2)}$$

559-1

$$n = \frac{0.96210}{0.00422}$$

$$= 227$$

Based on the calculation above, 227 will be adopted as sample size for the study area.



While structured questionnaires will be formulated and administered using purposive sampling method. The total questionnaires that will be administered to the selected population are apportioned in the table below using:

$$\% \text{ Proportion of population} = \frac{(\text{population of each association})}{\text{Total population}}$$

$$\% \text{ Proportion of Population for Estate Surveyors and Valuers} = \frac{171}{559} = 0.31$$

$$\% \text{ Proportion of Population for Real Estate Agents} = \frac{388}{559} = 0.69$$

$$\text{Proportion of Population} = \frac{(\% \text{ proportion of population})}{100} \times \text{Sample size} \times 100$$

$$\text{Proportion of population for Estate surveyors and Valuers} = \frac{0.31 \times 227 \times 100}{100} = 70$$

$$\text{Proportion of population for Real Estate Agents} = \frac{0.69 \times 227 \times 100}{100} = 157$$

Table 3.1: Breakdown structure of questionnaires administered to the targeted population of the study.

S/N	Respondents	Population	% Proportion of Population	Proportion of Population
1	Estate Surveyors and Valuers	171	0.31	70
2	Real Estate Agents	388	0.69	157
3	TOTAL POPULATION	559	1	227

Source: NIESV, AEAN Directory (2021).

The research instrument for data collection for this study was a structured questionnaire that contained items designed to secure information on the void residential properties of the Federal Capital City of AMAC, Abuja. The questionnaire is divided into two sections Section A and Section B. Section 'A' concentrates on the demographic information of the respondent while Section 'B' contains information that is related to the variables of the study.

DATA ANALYSIS AND RESULTS

Types of Void Residential Properties in the Study Area

Void residential properties were categorised based on the accommodation types in order to analyse the frequency of different types of residential properties that are void.

Table 4.1: Types of Void Residential Properties in the Study Area

S/No.	Property	Frequency	Percentage (%)
1	1 Bedroom Flat	17	7%
2	2 Bedroom Flat	48	21%



3	3 Bedroom Flat	68	30%
4	4 Bedroom Flat	13	6%
5	Bungalow	27	12%
6	Duplex	41	18%
7	Others	13	6%
	Total	227	100%

Source: Field Survey 2021

Table 4.1 shows types of void residential properties in the study area. The analysis shows that 7% of the void properties are 1bedroom flats while 21% are 2bedroom flats and 30% of the void properties are 3bedroom flats, 6% of the void properties are 4bedroom flats, 12% of the void properties are bungalows, 18% of the void properties are duplexes, and 6% of the void properties belongs others category which are mansion and town houses. The analysis shows that more void properties (30%) belong to 3bedroom flats category. On the aggregate, flats represent 70% of the entire void residential properties in the study area.

Void Residential Properties within the various Districts of the Study Area

Types of void residential properties within the various Districts in the study area were presented which indicate the prevailing types of properties that are void at the various Districts of the FCC, Abuja.

TYPE OF PROPERTIES	DISTRICTS										TOTAL
	ASO KOR O	GU ZAP E	MAI TAM A	KAT AMP E	MA BUS HI	W UY E	NB OR A	GALAD IMAW A	LOKO GOM A		
1 BEDROOM FLAT	0	0	0	0	3	2	5	1	6	17	
2 BEDROOM FLAT	0	0	3	11	13	6	5	8	2	48	
3 BEDROOM FLAT	4	8	8	11	7	15	8	2	5	68	
4 BEDROOM FLAT	6	4	3	0	0	0	0	0	0	13	
BUNGALOW	0	0	0	0	0	2	5	10	10	27	
DUPLEX	10	14	9	3	0	5	0	0	0	41	
OTHERS (MANSION / TOWNHOUSE)	5	4	4	0	0	0	0	0	0	13	
TOTAL	25	30	27	25	23	30	23	21	23	227	

Table 4.2: Void Residential Properties within the various Districts in the Study Area

Source: Field survey 2021

Table 4.2 shows that void flats are predominant within Katampe, Mabushi, Wuye, Nbora and Galadimawa. Void Bungalows are mainly within Nbora, Galadimawa and Lokogoma while void



duplexes, mansions and townhouses are prevalent within Asokoro, Guzape and Maitama Districts.

Causes of Void in Residential Properties in the Study Area

Based on previous research, it is established that property void is caused by a number of factors which varies from one location to another. The respondents were given the opportunity to rank 10 different factors that could be responsible for the void of which the data were analysed and presented in table 4.3.

Table 4.3 Causes of Void in Residential Properties in the Study Area

S/N	Factors	1	2	3	4	5	6	7	FP	SD	Rank
1	Economic downturn	13	27	42	13	27	67	81	5.00	4.8740	2
2	High rent	15	20	25	30	25	35	120	5.28	5.1424	1
3	Non use of professionals in property development	70	28	126	3	3	0	40	3.00	3.0960	9
4	Corruption	75	5	10	10	150	15	5	3.81	3.7761	6
5	Poor finishing	60	20	100	62	13	10	5	2.99	2.8245	10
6	Location	4	15	90	28	41	10	82	4.65	4.5010	3
7	Security	2	15	140	20	18	62	13	4.02	3.7889	4
8	Excess supply rate	13	60	62	100	20	10	5	3.39	3.1044	7
9	Construction defect	30	120	4	29	50	12	52	3.91	3.9233	5
10	Accessibility	1	177	0	28	36	12	16	3.08	3.0074	8
11	Court case	15	10	10	61	10	12	8	2.85	2.7246	11
12	Parking space	4	13	41	84	20	13	27	2.71	1.8245	12
13	Poor infrastructure and amenities	3	1	2	15	13	32	25	1.69	1.6244	13

Source: Field Survey 2021

Data from table 4.3 above indicates that all the factors are significant. However, a thorough examination revealed that some factors ranked more than others. High rent was ranked the first with indices of 5.28 followed by economic downturn with indices of 5.00. This means that high rent affects the rate of void residential properties in Abuja City more than any other factor above. Economic downturn is one factor that slowdown economic activity over a sustained period of time, and the respondents ranked it second with indices of 5.00. Location and Security are third and fourth respectively with indices of 4.65 and 4.02 respectively, while Construction defect and Corruption are fifth and sixth with indices 3.91 and 3.81 respectively,



Excess supply rate ranked seventh with indices of 3.39 and Accessibility ranked eight with indices of 3.08 respectively. Non uses of professionals in property development and poor finishing are ranked ninth and tenth respectively with indices of 3.00 and 2.99. Court case, parking space and poor infrastructural and amenities are eleventh, twelfth and thirteenth respectively with indices of 2.85, 2.71 and 1.67. The above analysis shows that all factors are critical as they can result to void residential property since none of the respondents completely disagreed with any of the factors.

Analysis of General Effects / Disadvantages of Void Property

The general effects and disadvantages of void properties within the study area were analysed based on the respondents ranking of the various consequences of void.

Table 4.4: General Effects / Disadvantages of Void Property in the Study Area

S/N	Effects Of Void	1	2	3	4	5	6	7	FP	SD	Ra
o.									S		nk
1	Rental loss to landlords	0	10	16	25	7	52	160	6.06	5.7207	1
2	Illegal occupation by squatters	0	0	8	1	112	134	15	5.54	5.0735	4
3	Exposure to fire and other perils	16	6	10	56	150	24	8	4.56	4.2164	9
4	Hideout for criminals	5	3	128	4	0	0	130	4.89	4.8236	8
5	Quick depreciation	6	16	24	1	50	150	8	5.13	4.8120	7
6	Vandalism	6	0	25	10	160	9	60	5.17	4.8151	6
7	Loss of revenue to the government	3	9	17	22	7	106	106	5.83	5.4961	2
8	Reduce poverty value	2	6	16	24	54	50	118	5.76	5.4201	3
9	Reduce aesthetic of the neighbourhood	6	9	23	18	29	156	29	5.37	5.0369	5
10	Increase risk to public health	1	4	134	15	4	56	56	4.51	4.3478	10

Source: Field Survey 2021

An examination of table 4.4 revealed that all the items are highly significant as general effects of void on residential properties. Rental loss to landlords was ranked first with indices of 6.06. Also significantly ranked in the second position with indices of 5.83 is that void residential property can lead to the loss of revenue to the government. Reduce poverty value, this was ranked third with indices of 5.76, while illegal occupation by squatters was ranked fourth with indices of 5.54. Reduce aesthetic and vandalism are fifth and sixth respectively with indices of 5.37 and 5.17 respectively, while quick depreciation ranked seventh with indices of 5.13, hideout for criminals was ranked eight with indices of 4.89 and exposure to fire and other perils ranked ninth with indices of 4.56. The above results support the fact that the effects of void on residential real estate investment returns (rent loss to landlords) is most significant.

CONCLUSION

The study has uncovered that void residential properties in the Federal Capital City of Abuja Municipal, FCT are principally caused by high rent which are not affordable by the would-be



tenants and buyers. Similarly, economic downturn over time was responsible for the void in residential properties. Large residential accommodations experienced longer void period more than the smaller accommodations.

Landlords of void residential properties suffers rent loss ranging from 8 – 55% in the study areas as well as the Abuja Municipal Area Council and other agencies of government responsible for residential property revenue collection. Reduction of property value and illegal occupancy are other major general effects of void on residential real estate investment. Void is therefore a major risk in residential real estate investment within the federal capital city of Abuja as it is capable of significantly affecting pecuniary returns and render the economic objective unachievable.

RECOMMENDATION

The study having discovered that void is a major threat to the viability of residential real estate investment in the federal capital city of Abuja, makes the following recommendations:

1. There should be downward review of rents and prices of residential properties in the FCT particularly within the FCC, such review should be based on rental and sale/purchase valuation.
2. Developers and Investors in residential real estate investment should never take risk of void for granted and therefore should endeavour to seek relevant professional advice before real estate decision are taken in order to minimise risk of void.
3. Due to the huge economic and other consequences of void in the FCT, government at various levels should take drastic measures such as imposition of taxes on void properties which will automatically compel landlords to reduce high rents/prices and in turns minimise the void rate.
4. The Nigerian Institution of Estate Surveyors and Valuers (NIESV) and her members being the major professional player in the property market should advise the public on the implication of void on residential real estate investment which is caused majorly by high rent in the FCT.
5. Void period should not be considered as part of economic life of a property when carrying out real estate investment analysis / appraisal.
6. Properties that experience long term void in the market should be regarded as economically obsolete and required drastic intervention to be revived.
7. Effect of void on investment returns of different types of residential properties determined by this study is recommended as professional guide for real estate investment appraisal, valuation and bases for general investment returns comparison.

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