



DETERMINANTS OF COMMERCIAL REAL ESTATE RENTAL VARIATION IN ILORIN, NIGERIA

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ABSTRACT

The goal of any real estate investor is to maximize return. However, property investment is characterized by a huge initial capital outlay and is influenced by some key factors. Thus, it is pertinent that the nature and characteristics of the rental value are understood to enhance property market penetration. This study assessed the influence of these key factors on commercial property rental variation in the commercial areas of Ilorin, Kwara State. Primary data for the study were collected from commercial property occupiers and estate surveyors and valuers operating within these areas. The study utilized descriptive analytical

Introduction

In common parlance, the term "real estate" denotes ownership of or an interest in property owned by a person (Ugwu 2018). In general, the terms real estate and real property indicate the same thing. Real estate and other assets are what determine the wealthiest people's worth around the globe. When utilized for purposes other than owner-occupier, notably for commercial use, it has evolved into a repository of wealth for generating returns (rents). Rent is a regular payment for real estate interest. It is a turnover for the potential use of real estate as an investment in various scenarios (Ugwu 2018). A significant difficulty for real estate investors in Nigeria has been recognized as selecting the best alternative form of investment (Oyewole 2013). Investment opportunities abound among the several real estate-related options open to prospective investors, with an important choice among them being an investment in commercial real estate. According to Boon and Higgins (2007), commercial real estate developments are an important component of the urban environment. The report portrays commercial real estate as a defining characteristic and a driving force behind urban growth. Which over time has evolved into a sign of a functional city in terms of both its economics and aesthetics. Participants in the real estate market use "rental value" as a benchmark to evaluate the economic feasibility of their investment commitment (Boon & Higgins, 2007). Real estate investments in commercial properties depend on the developers' return in the form of "rent" to prosper. Early theories of rent, like those put forth by Barlowe as reported by Barkley (1986), saw variations in rent as the result of some factors, especially spatial location, and accessibility brought on by distance and transportation costs in relation to other significant



techniques and multiple regression to analyze the variation in rental performance on the rental value and general investment performance of commercial properties in Ilorin. Results of data analysis revealed an increasing trend of rental values over the years under study, influenced by a combination of economic and non-economic determinants. With the economic challenges currently faced due to the COVID-19 pandemic, the economic implications of the pandemic on the rental performance of commercial properties in the city require a carefully designed strategy to minimize the vacancy rate.

Keywords: Commercial Real Estate, Rents, Rental Variation, Ilorin.

locations in a city, depending on the needs of people (Boon & Higgins, 2007; Udoekanem *et al.*, 2014). The demand for a property represents the profitability or utility that can be derived from using it, even though the primary goal of commercial properties is derived financial gains. The higher the rent the user is ready to pay for a certain property, the more advantage they stand to earn from it. Benefits derived from the property have been linked to the complexities of the real estate market, particularly the interplay between supply and demand for houses. Rent is viewed in this context as a factor of supply, demand, and other external factors, whose composition fluctuates in the context of the coverage of the real estate market (whether the property market is local, regional, or international). Due to the diversity of real estate, rents passing on properties are certain to be affected. These elements may be either intrinsic or extrinsic to the specific real estate market. These factors include proximity and complementarity (Iroham 2014), size, structural traits (Iroham 2014; Tay *et al.* 1999), accessibility, and location (Iroham 2014; Michael *et al.* 1998). Over the years, researchers in the field have carried out several studies to assess the effectiveness of real estate investments. A few others have evaluated the relative success of real estate investment alternatives, particularly residential and commercial real estate investments. Prominent among these were Baker (2001), Tonelli *et al.* (2004), Bello (2003), and Udobi *et al.* (2018).

Oyewole (2013), Iroham (2014), and Udobi *et al.* (2018) all found that investing in commercial real estate outperforms investing in residential property. However, Ugwu (2018) found that the rental value of both residential and commercial real estate in Nigeria varies. This has to do with the degree of risk often connected to investments in commercial real estate. Therefore, conducting an accurate assessment of variances in expected return from such investment possibilities has become necessary. The determination of the causes of these rental changes is also crucial. Therefore, the purpose of this study is to assess the patterns of commercial real estate investments as well as the factors that affect the variation in commercial real estate rental rates in Ilorin, Nigeria.

Methodology

The survey research design was chosen for this investigation. To choose samples from the total population for data analysis, a survey design was adopted. This makes it possible to determine the traits of the population based on the sample. In order to get the necessary data from the pertinent population, a well-structured questionnaire was used as the study technique in this case. Through the directories of the Nigerian Institution of Estate Surveyors and Valuers, the



Kwara State Bureau of Land, and the Kwara Inland Revenue Service, the total number of estate surveying and valuation firms in Ilorin was determined. For the examination of economic factors, official information from the Central Bank of Nigeria and the National Bureau of Statistics were also utilized.

Study population

Within the three main axes/zones of commercial activity in Ilorin, the study population consists of tenants of retail commercial shopping complexes and managing partners of estate surveying and valuation firms. As a result of the findings from Oyewole (2013), the commercial area in Ilorin has been divided into these categories. Commercial Axis A (which includes Oja Tuntun (New Market)/Oja Oba (Emirs Market), Gambari Axis, and Ipata/Ojagboro Axis), Commercial Axis B (Murtala Muhammad Road/ Yoruba road, Unity/ Taiwo road, and Offa Garage), and Commercial Axis C (Fate Road and Umar Audi/ University Road (Tanke)) are the axes/zones that are taken into consideration

Data Analysis

Different data analysis tools and techniques were employed in this study to proffer answers to specific objectives. Descriptive and inferential statistics utilized for the analysis of data are shown in

Table 1.

Table 1: Method of data analysis and data requirements for the study.

S/N	Objectives	Data Requirement	Source	Method of Data Analysis
1	Examine the trend of investment in commercial properties in Ilorin.	Annual rental data from shopping complexes housing offices and shops or warehouses in Ilorin between 2004 – 2020	Field Survey	Time Series Analysis and Simple descriptive statistics using tables and charts
2	Assess the extent of variation in rental values of commercial real estate in Ilorin	Annual rental values of commercial properties 2004 – 2020	Field Survey	Descriptive and inferential analysis using Analysis of variance.
3	To assess the rental performance of commercial real estate in Ilorin for the period of the study	Average rental data from Commercial Properties in Ilorin between 2004-2020	Field Survey Data	Average rental growth rate, rental index, and standard deviation

Results and Discussions

Inferences drawn from the data obtained are also discussed in this section along with the analysis of the field data. Data on commercial properties in various Ilorin locales were collected via distributed questionnaires and were categorized into zone A, zone B, and zone C. Registered estate surveyors, registered estate valuers, and the residents of these properties were contacted for information. However, secondary information on the macroeconomic



factors influencing the market for commercial real estate in Ilorin was obtained from the National Bureau of Statistics Bulletins and the Central Bank of Nigeria.

Questionnaire Administration

The registered estate surveying and valuation firms were given a total of 26 questionnaires (Table 2), 21 of which were retrieved and correctly completed. On the other hand, 120 out of a total of 150 questionnaires (Table 3) that were given to property occupiers were recovered (80%). Table 3 details how the questionnaire was distributed to the tenants of the commercial complexes.

Table 2: Questionnaire Administration Summary (Estate Surveying and Valuation Firms)

Questionnaires administered	
The total number of firms identified	26
Total Questionnaires administered	26
Total number of questionnaires retrieved	21
Percentage of questionnaires retrieved	80.8

Source: Author Field Survey, 2021

Table 3: Questionnaire Administration Summary (Property Occupiers)

Location of Properties	No. of Questionnaires Distributed	No. of Questionnaires Retrieved	Respondents' percentage
Zone A	40	32	80.0
Zone B	50	40	80.0
Zone C	60	48	80.0
Total	150	120	80.0

Source: Authors Field Survey, 2021

Findings and Discussion of Results

Rental Performance of Commercial Real Estate Investment in Ilorin

Investment opportunities in commercial real estate may become less appealing over time. However, in today's advanced society, more data-driven analysis of the market is necessary to gain insight into the local real estate market dynamics. The average rental trend for commercial real estate investment is shown in **Error! Reference source not found.** for each of the three zones. It demonstrates a consistent annual rent increase with varying magnitudes throughout the study. This suggests a positive trend in the rental market for commercial real estate in Ilorin. More specifically, accounts for changes brought on by changes in economic and controlling factors by reflecting variations in the annual rental value of properties. So, from the perspective of an investor, the study field offers opportunities for investments.

Table 4: Rental growth rate and performance in Ilorin

Years	Zone A	Zone B	Zone C
2005	0.00	0.00	0.00
2006	0.20	1.02	0.07
2007	0.50	2.06	0.07
2008	2.17	2.25	1.85
2009	0.42	2.15	0.71



2010	0.27	3.41	0.06
2011	1.04	1.81	1.92
2012	0.67	0.47	0.41
2013	0.57	2.89	0.14
2014	0.48	1.79	0.76
2015	1.29	0.68	0.62
2016	0.14	1.49	0.23
2017	0.70	3.05	1.11
2018	0.45	1.20	0.65
2019	0.33	0.80	0.15
2020	0.31	1.02	0.67
Average Growth Rate	0.58	1.79	0.63
Standard Deviation	0.53	0.97	0.60
Coefficient of Variation	0.91	0.54	0.95

According to Table 4, Zone B has the fastest growth rate, with an average annual growth rate of 179%, while Zones A and C experience slower growth rates of 58% and 63%, respectively. As a result, investors can recover their initial investment cash earlier by renting out homes in Zone B, where rent increases more quickly. A shrewd investor will almost certainly invest in a place that guarantees a rental growth rate of over 100% annually, but this may carry a risk because the growth rate appears bullish. The standard deviation, which depicts the likelihood of obtaining this average, is also shown in Table 4. The departure from the mean is measured by the standard deviation. It serves as a gauge for the dependability of investment possibilities. Furthermore, Zones C and A are suitable for risk-averse investors, whereas zone B, which offers larger returns, is suitable for risk-seeking investors. The Coefficient of Variation represents rent inconsistency, therefore the lower its number, the more accurate the estimate and the safer and better the investment choice.

Analysis of Variance in Rent Passing on Commercial Real Estate in Ilorin

Here, the properties' current yearly rent passing was considered. Data for this was obtained directly from the property occupiers. One-way analysis of variance (ANOVA) was used to assess the respondents' responses regarding how much rent they each paid in each of the three study zones. The outcome is presented in Table 5. The analysis's F-value is 16.7, and the F-critical is 3.09, according to the table. Following the decision rule for the analysis of variance, we reject the null hypothesis and support the alternative hypothesis when the f-critical is less than the f-calculated. This demonstrates that the rental value of business complexes in Ilorin has a statistically significant fluctuation. The P-value for the analysis is 0.00000529. This is an extremely low number that is less than 0.0. This indicates that there is a statistically significant, albeit minor, probability of variance of 5 in 10,000,000.

Table 5: Analysis of Variance in Rent Passing on Commercial Real Estate in Ilorin

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	9.77E+12	2	4.88E+12	16.70809	5.29E-07	3.085465
Within Groups	2.98E+13	102	2.92E+11			
Total	3.96E+13	104				



Source: Authors field Survey and Analysis, 2021

Conclusions

Based on the findings from the study it can be deduced that:

1. The trend of the rental value is rising and will keep rising over the next two years.
2. Inflation, exchange rates, real estate loan interest rates, GDP, location and accessibility, stock availability, neighborhood quality, security and safety, and other variables all affect how much commercial real estate is worth.
3. The market for commercial real estate in Ilorin has the potential to increase by up to 100% annually, according to the report. The time series analysis of a value prediction made using the average rent in the zones suggests this possibility.

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