Key Drivers of Residential Real Estate Investment Decisions in Port Harcourt Metropolis

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ABSTRACT

Residential real estate investments are unique and require huge capital outlay. The investment process requires proper and informed analysis and decision-making. The study aims at identifying the key drivers of residential real estate investment process. Utilizing the responses from 125 Estate Surveying and Valuation firms and 507 real estate investors operating within the Port Harcourt metropolis, the study employed a survey research design with the investors being identified by a simple random sampling technique and the Estate Surveying and Valuation firms being purposively selected to ascertain why investors decide to invest in residential real estate. The data was analyzed using descriptive statistics and relative importance indexes. Findings revealed the key investment drivers to include location and zoning, availability of capital, income and capital growth. The study recommends that government, banks, and primary mortgage institutions provide innovative ways for land owners and real estate investors to access funds to undertake residential real estate investments to enhance the supply of residential estates in the metropolis.

INTRODUCTION

Real estate has been a popular choice for investors due to its inherent ability to appreciate in value over time, provided certain conditions are met. Since it is a basic necessity for persons, families, corporations, and the government, real estate is highly significant. There are many types of real estates and they are sometimes classified according to their uses. Real property is classified by use, namely, Agricultural property, Residential property, Commercial property, Recreational property, and Special purpose property by (Ogunba, 2003). The need for real estate will rise in tandem with population growth, economic expansion, and improvements in living standards, which are measured by rising per capita income. Real estate investment involves huge capital which requires proper investment decisions in order to achieve set objectives. A developer or investor in real estate will as a matter of necessity make a thorough analysis whether the investment will be a viable project and if the investment will improve the investor's net worth. Additionally, it has been discovered by Onwuanyi and Oyetunji (2021) and Onwuanyi (2021) that real estate affects economies in a variety of ways, including established countries like the UK and emerging nations like Nigeria

Urban infrastructure is a crucial factor in the socioeconomic growth of an urban region and is crucial to the economic, social, and environmental facets of urban life (Ajibola *et al.*, 2013). When these infrastructures and services are properly provided and managed, they can act as a draw for additional profitable and productive land uses, accelerating growth and raising property rental values. Important factors in the physical analysis are the property's size, structure, and location (Bond *et al.*, 2013). Investment in real estate involves huge capital and is also a substantial source of wealth for the investor. In Nigeria,

people invest in real property for so many reasons, and the development of residential properties is seen as a necessity as people must have a place to live and rest after the day's job. This has made investment in residential properties to exceed that of the other classes of real properties.

According to Hossain and Nasrin (2012), there is no guarantee that all the variables affecting an investor's decision to make an investment will remain the same over time and that different demographic characteristics will cause this variability. Foreign investors are becoming more and more prevalent in local real estate markets in large cities and their surrounding urban areas, though to differing degrees across different nations. It has been observed that residential real estate is becoming more and more in demand as population increases. The decision to develop a property means a current sacrifice with intent that it will pay back in the future. The sacrifice can for example take shape in lost rental income during the construction period and the cost of development. It is usually thought that investment decisions are a consequence of various elements such as market features, behavioural factors and individual risk profiles, in addition to the general accounting information (Hilber, 2020). The benefits of property development investment can consist of an increased income stream, return on invested capital and a growth in property and capital value. By making an assessment of the present value of the anticipated income stream, the risk of doing a bad investment can be reduced (Manganelli, 2015).

It has been observed that despite the exceeding demand for residential real estates in Port Harcourt metropolis, there is limited knowledge of the key drivers that influence the investment decisions of residential properties in the Port Harcourt property market. This, therefore makes it

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difficult for investors to make informed decisions and also for policy makers to enable favourable conditions available to encourage sustainability. It is pertinent that these drivers are identified so as to address deficiencies in the property market and guide future investment decisions. Hence, the importance of carrying out the study to identify the key drivers that influence the decision to invest in residential real estate in Port Harcourt metropolis.

LITERATURE REVIEW

A review of some literature on factors influencing decision to invest in real estate is done to give more understanding to the study.

Factors That Influence Decision to Invest in Residential Real Estate
Land Factor

Land being a major factor in the development of real property is also a major factor that influences decision to invest in real property. Abiola (2018), in his study on variables affecting real estate investment and land ownership decisions in Ile-Ife discovered that land affordability, land accessibility, ease of land acquisition, and land security were the major deciding factors on whether to invest on not to invest. A study on the investigation of the factors influencing property investment in Ogun State, Nigeria's Peri-Urban property market was conducted by (Fateye *et al.*, 2020). They employed a structured questionnaire instrument to gather pertinent information for the study, which involved the utilization of primary data. Convenience sampling strategies were used in the study. According to their findings, among the market's trading activities, the purchase and sale of investment property by large corporations occurs in suburbs, where residential and commercial property kinds are the most frequently developed investment property types. Their findings revealed that land availability and affordability, economic benefit and market potential, closeness to urban centers, population increase, and advantageous geographic features were the main motivating factors.

Financial Factor

Investors in real estate take financial factor into account. The capacity to secure finance, household income, mortgage interest rates, and housing price are among the important financial factors listed by (Reed & Mills, 2007). Emoh and Ndife (2011) research on critical issues in real estate finance, revealed a number of barriers to real estate development investment in Nigeria, including a lack of funding, institutional issues like the impact of rent control and land use decrees, edicts, a shortage and high cost of building materials, issues with manpower, and management. Ajayi and Carlson (1992) who observed that the major incentive in property investment depends on the quality of the security of capital and capital growth. It has been observed in the study of Oletubo (2014) on analysis of residential property investment in Lagos that 80% of Estate surveyors and valuers in Lagos managed more of residential properties in their portfolios than other classes of real estates. This indicates that investors in real estate find residential property investment more secure considering income and capital growth. The return on investment now or in the future is a very key factor in deciding whether to invest on a particular type of property or not.

Diversification/Sectorial Risk

To lessen generally speaking gamble from various business sectors, numerous financial investors spread their cash in various kinds of assets. For example, rather than somebody having all of his cash in a solitary bank stock, it would be smart to put cash into totally various enterprises, such as, innovation, monetary administrations, oil, gold, land and so on. This keeps a financial investor from losing everything in the event that, for instance, the bank gets collapsed. By having cash in different business sectors similar to land, the financial investor doesn't risk losing an enormous portion of his complete investable resources or capital.
Finnih (2017) opined that real estate is a lucrative business with a lot of profits and has thrived when other businesses failed.

Locational Factor

The zoning laws set forth by the government determine how a region develops and expands. You must understand how these restrictions are impacting the business now and in the foreseeable if you are an owner of real estate. It is important that the zoning regulations of the intended investment location is very well understood to be able to take decisions that will enhance the success of the real estate investment. This is because a zoning ordinance dictates what you can and can't do with your assets. They are your guidebook and can actually make for a successful investment or an unsuccessful investment decision. It decides its utilization like business, or private building or farming.
Choguill (2008), characterized neighbourhood as a space wherein inhabitants live respectively for a typical interest. Sean and Hong (2014), in their study to decide the key factors that financial backers consider before a speculation choice to buy a private property is made in Malaysia, observed that locational, monetary, and primary variables really do influence property financial backers in simply deciding to invest in residential properties. Klimczak (2010) posits that one of the primary determinants of investment decisions may be the geographic location element, as it is a crucial and fundamental component that determines the attractiveness of real estate investments and influences investment value.

Structural Factors

This factor is a deciding factor especially when an already built property is desired to be purchased. When considering this factor, structural characteristics are

affected by both the property's quality and all external factors. Investors often favor smaller buildings, notably flats and apartments, as renters have always preferred these types of assets (Kohler, 2013). Another determining factor is the property's layout and structural components (Chochan *et al.*, 2022). This encompasses the property's entire physical characteristics as well as the caliber of construction. It considers the aesthetics (architectural view), built-up space, and accommodation schedule such as number of bedrooms and bathrooms (Tan, 2012). According to Tse and Love (2000) and Hurtubia *et al.* (2010), a key consideration when buying residential property is the size and quantity of rooms.

Investor Sentiments

Decision to invest in real property requires enough guarded information on the real property market and also the mood of investors regarding the property market. Investor sentiment though not science can be reviewed through the activities of the market and the direction of rental values and prices of the type of properties in the market. If the prices of a particular class of property rises in the market, it will lead to a positive investor sentiment. In the study of Gallimore and Gray (2002), the paper looked at the role of investor sentiments in decision making as most times the process requires the use of factual data which is not readily available as such investor sentiment is relied upon. The results of the study revealed that despite not being used in a formal explanation of how the real estate market operates, investor confidence plays a significant role in real estate decision-making.

Prestige

People seek out prominent and exclusive locations to mirror or reflect their growing wealth and income, as well as increased social status, through lifestyle upgrades. Salleh *et al.* (2015) opines that typically, real estate purchasing decisions are made for marriage, security, investments, and upgrading one's lifestyle.

These elements are crucial as they afford some people a false sense of superiority and prestige, which could be a powerful psychological influence when thinking about buying residential real estate in different areas.

Owner Occupation

The perspective of home buying could therefore be an important factor is decision making regarding a property's design and structural elements. People buying property for own use and hoping to raise a large family, for instance, would consider a large property or at least one with room for expansion. Kohler (2013) notes that investors are generally interested in smaller properties especially when considering properties such as apartments and flats as they seem to be the most popular among tenants.

Religious Bias

The study of Niveditasri and Sanmitha (2020) on impacts of religious faith on investment and financial decisions in some cities in India using questionnaires to collect data on the role religious faith plays in their individual financial and investment decisions observed that religious faith plays a major role in a person's financial decision together with other possible factors that could also influence financial and investment decisions. According to Heiman *et al.* (2019) religion continues to have a significant impact on the development of beliefs, values, and social norms in every society, even in light of the recent growth in divergence beliefs in some parts of the world.

Liquidity of Investment

An illiquid asset is in simple terms, an asset which is harder to sell than a liquid asset. This influences decision to invest in real estates. An investor would be more enthusiastic to invest in a property that he can easily sell off at a good price whenever he desires. Risk factor, return on investment, liquidity of investment, tax consequences, inflation and the term of an investnent are all factors that influence decision to invest (Cooray, 2003).

MATERIALS AND METHODS

The questionnaires for the real estate investors were distributed using simple random sampling technique while the Estate Surveyors and Valuers were purposively sampled. The study used two sets of close-ended questionnaires prepared for real estate investors and Estate Surveying and Valuation firms. For the Estate Surveying and Valuation firms, the questionnaire was labeled ESV1 and divided into three sections listed as follows;

    i. Introduction and purpose of the data collection;

    ii. Section ESV1A- Information on the firm and respondent Valuer;

    iii. Section ESV1 B- Information on the firms property portfolio, and on factors that influence decisions to invest in residential properties;

The questionnaire for the landlords was labeled LL2 and structured into three sections;

    i. Introduction and purpose of the data collection;

    ii. Section LL2A- Information on the socio demographic data of the respondents;

    iii. Section LL2B- Information on investment in residential real estate;

Out of the total number of 125 questionnaires administered to the Estate Surveying and Valuation firms, a total of 93 questionnaires were returned making an 74.4% return rate while 435 questionnaires out of the 507 administered to the Real Estate investors were returned giving a total of 85.8% return rate. This is believed to be sufficient enough to give accurate results as Mugenda and Mugenda (2003) posits that a return rate of 50% that is a response rate of 50% is adequate for the analysis of data and reporting, a rate of 60% is good and a response rate of 70% and over is excellent

The data collected were analyzed using descriptive statistics of simple percentages, frequencies and relative importance indexes.

The Relative Importance Index (RII) analysis technique was used to get the results, and the formula was used when necessary:

$$RII = (1_{n1} + 2_{n2} + 3_{n3} + 4_{n4} + 5_{n5})/5N$$

Where:

RII = Relative Important Index

N = Total number of respondents = 93 (Estate Surveyors and Valuers)

N = Total number of respondents = 435 (Real Estate Investors)

RESULTS AND DISCUSSION

The data collected were analysed and presented in the tables below;

Table 1: Responses of Valuers on factors influencing decisions to invest in Residential Properties

S/N	Factors	Very Unimportant	Unimportant	Undecided	Important	Very important	RII Values	Ranking
1	Capital Outlay	6	0	57	264	10	0.73	4th
2	Capital growth	0	0	6	268	120	0.85	1st
3	Income growth	6	0	15	156	215	0.84	2nd
4	Liquidity of investment	0	86	99	56	15	0.55	10th
5	Diversification /SR	0	44	105	132	15	0.64	7th
6	Structural facilities	0	34	90	184	0	0.66	5th
7	Owner occupation	3	40	144	76	15	0.60	9th
8	Land factor	5	28	93	140	40	0.65	6th
9	Location	3	14	54	216	55	0.74	3rd
10	Investor sentiments	25	76	30	52	35	0.47	11th
11	Religious bias	55	30	24	32	35	0.38	12th
12	Prestige	0	62	45	188	0	0.63	8th

Source: Field survey (2023)

Table 2: Ranking of Valuers responses on factors that influence decision to invest in Residential Property

S/N	Factors	RII Values	Ranking
1	Capital growth	0.85	1st
2	Income growth	0.84	2nd
3	Location	0.74	3rd
4	Capital Outlay	0.73	4th
5	Structural facilities	0.66	5th
6	Land factor	0.65	6th
7	Diversification /SR	0.64	7th
8	Prestige	0.63	8th
9	Owner occupation	0.60	9th
10	Liquidity of investment	0.55	10th
11	Investor sentiments	0.47	11th
12	Religious bias	0.38	12th

Source: Field survey (2023)

Tables 1and 2 are discussed concurrently. The study revealed from the responses of the Estate Surveying and Valuation firms as shown on Tables1and 2 that all twelve variables influenced decision to invest in residential real properties with capital growth, income growth and location ranking as the three major factors influencing decision to invest in residential real estate in Port Harcourt metropolis. This could be as a result of the fact that most people see investment generally as a means of improving on their income and to grow their capital. This mindset cannot be different in real estate investment which involves huge capital investment as any investor would want to recover capital expended on such investment. Location has always been a major determinant factor for purchase and rental properties as occupants would prefer to live in locations where it will be nearer to commute to

and from work and other important daily activities like schools for their children and also nearness to shopping centres. These findings are supported by the studies of (Reed & Mills, 2007; Klimczak, 2010; Emoh & Ndife, 2011; Sean & Hong, 2014).

Table 3: Responses of Real Estate Investors' on factors influencing decisions to invest in Residential Properties

S/N	Factors	Very unimportant	Unimportant	Undecided	Important	Very important	RII	Ranking
1	Capital Outlay	8	0	369	1,140	95	0.74	4th
2	Capital growth	0	0	15	1,276	555	0.85	1st
3	Income growth	0	6	327	768	655	0.81	2nd
4	Liquidity of investment	0	52	606	668	200	0.70	5th
5	Diversification /SR	0	184	627	480	65	0.62	10th
6	Structural facilities	0	90	531	816	45	0.68	7th
7	Owner occupation	4	92	759	476	65	0.64	9th
8	Prestige	7	104	582	652	95	0.66	8th
9	Location	10	16	339	884	415	0.77	3rd
10	Investor sentiments	131	330	264	164	50	0.38	11th
11	Religious bias	249	320	69	12	0	0.30	12th
12	Land factor	0	106	360	1048	0	0.69	6th

Source: Field survey (2023)

Table 4: Ranking of Real Estate Investors' on factors that influence decision to invest in Residential Property

S/N	Factors	RII Values	Ranking
1	Capital growth	0.85	1st
2	Income growth	0.81	2nd
3	Location	0.77	3rd
4	Capital Outlay	0.74	4th
5	Liquidity of investment	0.70	5th
6	Land factor	0.69	6th
7	Structural facilities	0.68	7th
8	Prestige	0.66	8th
9	Owner occupation	0.64	9th
10	Diversification /SR	0.62	10th
11	Investor sentiments	0.38	11th
12	Religious bias	0.30	12th

Source: Field survey (2023)

Table 3 and 4 reveals the investors responses on the key drivers of decision to invest in residential real estate. Their responses revealed that capital growth, income growth and location ranked as major factors that influences decision to invest in residential real estate. These findings could be because investors are motivated to invest largely due to financial returns amongst other things like prestige. The finding is supported by the study of Ajayi and Carlson (1992) who observed that the major incentive in property investment depends on the quality of the security of capital and capital growth. The study of Oletubo (2014) on real estate performance in Lagos also corroborates this finding as it revealed that income growth, capital growth and capital outlay are major influencers of investment in residential properties.

These findings revealed that both valuers and real estate investors are of same opinions on key factors that influence decision to invest in real property. These findings showed that the two groups of respondents had rational thinking in their decision making process which is supported by the decision theory as it posits that humans are rational in their decision making process.

CONCLUSION
The study revealed that capital growth, income growth and location were major factors that influenced decision

to invest in residential real estate. Government and Building societies should provide more attractive ways for Landlords and building investors to receive capital as this will enhance decision to invest which in turn will enhance supply of residential real estates. The supply will attract more persons to the area which will reduce void periods in the property thereby enhancing income and capital growth.

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