

Abstract:
Indirect investment opportunities in real estate are recently available in Nigeria, such as Real Estate

February, 2008. Union Homes REIT, said to be "the first of its kind in Africa" in terms of size and focus, debuted in August, 2008, as hybrid REIT with

EXAMINATION OF EFFECTS OF WRONG PROPERTY VALUATION METHODS ON PERFORMANCE OF NIGERIAN REAL ESTATE INVESTMENT TRUSTS.

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Investment Trust (REIT), which raise funds through issuance of securities to various investors. The funds are used mostly to acquire income-yielding properties. The investors receive periodic distribution of these incomes and also participate in capital appreciation that may arise. To acquire these properties, valuation advice is sought from retained estate valuers, who mostly use traditional methods of valuation for the appraisal. This gives rise to variances in values obtained, thus causing delays and sometimes termination of transactions, that would have enhanced the level of profitability of the REITs. The researchers seek to examine the effects of the use of these traditional methods on performance of Nigerian REITs and provide an alternative means of appraising through contemporary methods. Relevant data collected through questionnaire were analysed through ANOVA tool and SPSS 20.0. Analysis showed that use of traditional valuation methods are the most probable cause of variances in values obtained by REITs valuers. These variances may delay or terminate transactions and adversely affect the efficient operations of REITs, and their profitability. Use of contemporary methods of assessment will close the gaps in values and improve therefore, the level of efficient operations and profitability of REITs in Nigeria.

Key words: real estate investment trust, traditional and contemporary valuation methods, performance.

Introduction

In recent times, indirect investment opportunities in real estate are available in Nigeria. One of these options is Real Estate Investment Trust (REIT). REITs raise funds from the capital market through the issuance of securities to various investors who acquire units in the trust. They in return receive periodic distribution of income and also participate in any capital appreciation that may arise.

REITs as a means of real estate investment, is not yet popular in Nigeria. Skye Shelter Fund is said to be Nigeria's first AA publicly quoted close-ended REIT. It issued 20 million units at par value of N 1.00 each in

970,873,787 units of N50 each at N51.50 per unit. Other REITs like Aso REIT and UACN REIT followed suit.

Union Homes REIT is an example of Nigerian REIT and can be used as a case study of Nigerian REIT. It uses external consultants like estate valuers and lawyers to carry out its real estate identification, valuation, search and documentation activities. These valuers inspect and value mostly through Investment Method, Comparison Method and Cost Approach, depending on the type of property. Most times, valuation figures obtained by various valuers vary in magnitude and can hardly be harmonised for use as a guide for transaction conclusion.

The REIT's manager and the Investment Committee, using the external valuers' recommendation as a guide, seek to conclude the purchase of the property offered for sale. This does not work most of the times. This gives rise to numerous inspections without conclusion of sales.

Statement of Problem

Success of a REIT will among other things, depend on methods employed by the external professional, for example, method of valuation used in arriving at capital value recommended to the manager. Successful real estate investment requires the implementation of strategies that permit favourable purchases, effective asset and property management and timely disposition of assets. A situation whereby different capital values are generated on a particular property, may cause confusion and delay or termination of the process of property acquisition and disposal. It may not be in doubt that smooth operations of REITs will depend on the valuation opinion given by the consultants (estate surveyors). When there is conflict of market values given on the same properties, then there may be serious problems that will affect operations of a REIT.

The reason for these conflicts may stem from confusion created mainly by use of outdated traditional methods of appraisal and other factors,