Challenges of International Real Estate Investment Under Covid Experience: Nigeria as a Case Study.

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ABSTRACT

This study examined the apparent effects and impacts of the COVID experience on international real estate investment, by making an assessment and understudy of administrative and media records. Crises and global effects of pandemics were described as an unpredicted event which has negatively affected project development in the real estate sector, sales operations of existing real estate, costs estimates, values and rates of return of existing real estate sector in general. The inception of new policy and precaution measures, especially travel bans and restrictions on domestic and foreign tourists impacts the tourism sector and causes its revenue to decrease, the narrowing of the volume of transactions in real estate such as retail facilities, office and residence transactions, increased vacancy rate in hotels, the additional measures taken due to the pandemic causes the significant increase in operating costs, decrease of rent collection creates losses due to declining in demand, net operating income and investment value also tends to decline. Change in business orientations, working and living conditions necessitates a review of planning, project development, marketing strategies, and use and management processes of settlements. This study has observed that real estate investment has been negatively affected as a result of the outbreak of this pandemic (COVID), and to revive the real estate markets require increase in sales of existing residences and businesses and tourism-oriented measures (such as a hygiene certificate), but it is clear that the measures taken for radical change in the long run are still inadequate. It should be emphasized that there is not yet enough work done to estimate how long the impact will continue and what its financial burden will be in the years to come, when the first case of the outbreak has been reported to have adversely affected real estate investment in Nigeria and other countries of the world.

Keywords: COVID experience, Real estate investment, Change in human requirements and demand, Real estate project development Facility, Property management

INTRODUCTION

Real estate can be a fluid industry that adapts and evolves quickly. However, there will always be a handful of problems in such a dynamic sector that investors have to navigate. The challenges that investors face in the real estate market can impact their business significantly. Economic crises, such as the one caused by the Covid-19 pandemic, have resulted in significant intermediate losses for some asset classes (Samson et al., 2020) and thus, demonstrate the importance of a well-diversified portfolio (Kemper et al., 2012; Tai, 2018)

With uncertainty in other sectors of the economy, dealing with these challenges is at the top of most investors' list of priorities. According to Richard Lackey (in Kemper et al.), the major challenge is the huge gap between the bid and ask. Generally speaking, commercial real estate buyers want a 30% discount where commercial real estate sellers are only prepared to offer a 5% discount. While property type and location sway discounts, a price decrease is generally more in support of the seller's position than the buyer's. Industrial and multi-family are doing the best while retail and hospitality are doing the worst. One challenge to investors in the current market is volatility. The corona virus pandemic apart from being a health issue has also had a demoralizing effect on economies worldwide. There are tremendous opportunities but the uncertainty of the global pandemic and geopolitics makes this a difficult period for investors. How this can be addressed depends on an investor's strategy. Long-term investors may want to avoid jumping into hot areas, sticking instead to stable investments that can weather the storm.

Population growth, food demand, plague outbreak and war risks were brought up in 1798 with T.R. Malthus's theory of "Population Principles" in economic theory (Malthus, 1798), although there have been outbreaks that have been effective in multiple countries in the intervening time, none of which have undoubtedly been as effective as COVID-19. The COVID-19 outbreak is on its way to becoming a permanent part of human life and activities as it has been announced by WHO in recent times (UNCTAD, 2020; Wang & Tang, 2020). The pandemic is not only a concept related to health sector; it also brings up changes that may affect all sectors and professions. In other words, it is tried to draw the limits of a new normal, forever, and within this framework, what should be done for human settlements, urban space, planning, housing and other real estate investments are still appeared to be on the discussion agenda. There is a health risk effect on almost every sector and activities and yet there is a serious pressure on economic activities. The COVID-19 outbreak seen as an unpredictable phenomenon, has a different characteristic than past crises which has been experienced in world time history (Ponis & Ntalla, 2016; Çeti & Ünlüönen, 2019), pandemic has disrupted the economic sectors and the economic system and especially in developing economies had faced a crisis environment and had to face serious risk of a greater loss in their economies (Nicola et al., 2020). Construction, real estate, tourism, and finance sectors had been categorized as leading and locomotive sectors in the Nigeria economy. Despite the financial instability observed in the construction and real estate sectors, which had serious supply surplus in the pre-pandemic period, the conditions of tourism and financial sectors were seen quite well (Tanr?vermi? 2016, 2019). In order to reduce both supply surplus and burden caused by the crisis, the government enacted important regulations aimed at issuing low-interest rates and long-term housing loans from public banks, performing land registry transactions via online, switching to flexible working order in public and private sectors, prohibiting layoffs and short time work allowances during the pandemic period, reducing land registry fees and preventing financial bankruptcies. The contraction in economy in the period of Covid has emerged prominently in the real estate sector, and monetary policy tools for reducing negative effects have been implemented in intact. At the second wave of the crisis, which was expected, there was an increase in the number of residential sales, but since beginning of process, the perception of real estate in general and housing in particular has varied (Tanr?vermi?, 2020). In this study, a brief evaluation of the challenges of international real estate investment under Covid experience with particular reference to Nigerian real estate markets during and after the COVID have been evaluated and suggestions that could shed light on its future outlined.

METHODOLOGY

As Schafraad et al. (2006) observed, digital media make it possible to collect data from online sources and newspapers and to perform automatic content analysis. Since the events discussed here were relatively recent at the time when the data were collected (from June 2022 to May 2023), a historical study based on archival research was not appropriate. Rather, Nigerian national newspapers with an online presence that featured dedicated property, real estate, and/or housing sections, real estate journals and other related materials were selected. In this study, data on macro-economic change and the real estate sector as secondary data were used to provide the base of analysis and generalization of the prevailing situation. Due to the prevailing situation, during and after the pandemic, which prohibited the smooth carrying out of physical surveys in many countries and also including Nigeria in particular, the evaluation and collection of data were mainly done through the reviews of the contents on the main stream news and media, advertisement, comments and through this possible effects of the pandemic impacts in the real estate market and sector have been revealed.

The outbreak is expected to cause a decrease in investment value due to an increase in vacancy rates in offices, business centers and plazas and a decrease in rental revenues. In the pre-COVID period, landlords were forced to accept periods of deferral or rent-free use to ensure adequate occupancy due to surplus office supply and to protect existing tenants (Tanr?vermi?, 2020). The new rental agreements require owners to offer more flexible rental models and allow shorter-term commitments to achieve adequate occupancy. The fact that existing tenants do not assume to the long-term lease liabilities and prefer short-term lease transactions due to their inability to predict the future risk factors and outcomes will be a significant effect and source of risk for the owners of the properties and investors. To overcome the current situation, it is necessary to expand the use of tools such as lease, sell and lease back and lease certificates. After the crisis, there will be a need for the transformation of offices in big cities to other uses (such as hospitals, administrative buildings) and radical changes regarding the use of office spaces. It is expected that there will be an increase in demand for smaller office buildings and home-office spaces, where the majority of its employees are in flexible order, the use of virtual office and space use is more preferred, instead of building large tower, headquarters and regional directorate buildings.

MAJOR IMPACTS OF COVID EXPERIENCE ON REAL ESTATE INVESTMENT.

Real estate is an incredibly social industry. After all, a large part of the job involves talking to people and building trust as you help them find their perfect home.

But all of that changed in early 2020 when the COVID-19 pandemic forced people to stay home, stagnating some industries while sending others virtual. Across the country, real estate professionals scrambled to understand ever-changing local, state, and federal regulations, and many began to adapt how they do business, focusing on the digital realm.

According to Oyalowo (2020), the impacts of COVID-19 on the Nigerian real estate market have included increases in void rates in the upper-income residential submarket, more defaults on loans, rents, and mortgages on commercial properties, and changes in the demand for traditional office space. It was also found that the coverage of issues related to both COVID-19 and general-interest issues remained fairly constant, except that reports about COVID-19 became more frequent during the lockdown period. The projections in the coverage regarding the immediate future of the real estate sector are varied. With the announcement of the index case in Lagos in February 2020, Nigeria entered the period of discovery of the problem and initial interest, during which media reports began to address the probable impact of the disease and measures that might mitigate it. The country then entered the period of realizing the cost of significant progress, during which the now-palpable impact of the lockdown on the real state sector attracted media attention as well as advocacy.

The impact of COVID-19 on the Nigerian real estate sector became apparent, first in the weeks following the announcement of the index case in Lagos before the government had announced any national action and later, during the lockdown. Leading up to the lockdown, the spread of COVID-19 has become an issue of national importance, and concerns were expressed about its possible impact and ways to mitigate the adverse effects within the real estate sector. In particular, delays of construction projects, increased costs of housing materials, increases in the prices of houses, reduced capacity to service loans, and loss of income by construction workers. Expert advice for mitigating the impact included corporate social responsibility actions, making available intervention funds for the sector, interventions to reduce transaction costs, moratoriums on loans, loan restructuring, expediting building approval, and introducing off-take guarantees to protect developers. Importantly, however, general-interest stories continued to predominate, therefore there were no clear evidence of COVID-19 coverage displacing feature stories on other topics.

During the lockdown period, more feature stories and interviews about the pandemic's impact on the real estate sector appeared as the situation became clearer to experts and the public. Not surprisingly, the words 'pandemic' and 'lockdown' were used more frequently in stories in the real estate section of the national newspapers at this time. Concerns about individuals living with disabilities, access to basic amenities such as water and sanitation in individual homes, and Nigerians' capacity to cope with and reactions to COVID-19 were prominent in this coverage. The implications of the pandemic for the sector, such as, again, reduced working spaces, increased rent defaults, shifts to cheaper apartments, and the attendant voids in upper-end homes, were also recognized in the stories, as was the potential for an increased interest in both co-working space associated with a reduced demand for large office spaces and in online shopping to outlive the lockdown. Further, these articles touched on the implications of optimizing the space currently available, on the advocacy activities of professional groups relating to the management of Nigerian real estate space during the pandemic, on the coping strategies of real estate firms, and on recommendations for maintaining operations after the lockdown. All of these stories reflected an increased awareness of the impact of the disease and concern about the feasibility of previously proposed solutions.

Muomah (2020) maintained that the novel nature of the pandemic makes it impossible to determine the true impact of COVID-19 on the real estate sector and, importantly, on tenancies and leases in particular. His assessment of the impact of COVID-19 on this part of the sector from a legal perspective showed that the impact on rental tenancies would be greater than on other types of tenancies, owing mainly to losses of income as a result of the lockdown. For sitting tenants with a yearly lease, the lockdown was not perceived as especially serious since they would maintain lawful occupation of their properties beyond the lockdown period. For occupants of non-essential premises, such as malls and offices, impacts were expected on the payment of monthly service charges, management fees, and bills for security, electricity, water, and the cleaning of common spaces. There was also expectation that tenants might seek recourse to a 'force majeure' clause absolving them of rent liabilities in the event of fire, flooding, labor actions, famine, and 'acts of God' generally. However, such recourse can be made only if the relevant clause has been included in the contract, which, in the case of COVID-19, must specify the outbreak of diseases, epidemics, and/or pandemics.

The onus is, therefore, on tenants to demonstrate that they have exhausted reasonable alternatives to non-payment because the lockdown was directly responsible for their loss of income. To be perfectly clear, this redress can only be accessed if the terms of the tenancy agreement included a force majeure relating to an epidemic or pandemic. In the absence of such a clause, Muomah (2020) noted, the property owner and the tenant might agree to review the mode of payment, for example switching to payment in installments as opposed to lump sum annual payment, in which case it becomes the responsibility of the property manager to enforce the agreements and hence set in process of eviction and forfeiture for defaulters.

Real estate policy

Countries around the world have implemented changes to real estate policy in order to lessen the burden on tenants and in some cases landlords:

- In the U.S., many decisions are made at the state and local level, and at least 34 states have temporarily prohibited evictions. At the same time, the federal government issued a 120-day moratorium on evictions from federally subsidized housing or from a property with a federally backed

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mortgage loan. Major mortgage lenders, including Citigroup and JPMorgan Chase, suspended mortgage payments. Some U.S. states have halted construction on all projects unless essential, such as medical facilities.

- In Europe, several countries, including the U.K., Germany and France, have suspended evictions. A number, like the U.K. and Italy, are providing temporary mortgage relief. In various locations across Europe, commercial and residential tenants have been offered mortgage and rent holidays. Some countries, such as France and Italy, have suspended construction. Banks in Europe are being strongly encouraged to give forbearance and not to foreclose on late payments, while governments have granted retailers tax relief.
- In parts of Asia, some landlords have offered temporary rental rebates and rent discounts. Meanwhile, some countries, like Singapore, are considering legislation that would protect commercial tenants who cannot pay rent for a period of six months (JLL Research & Strategy, 2020).
- Very little was done by the Nigerian government as it pertains to the protection of interests of tenants and the landlords as it concerns real estate affairs; major focus was on provision of essential health facilities for treatment and prevention of further spread of the pandemic.

POST COVID EXPECTATIONS

According to survey results, it is suggested that there will be a change in the planning and construction decisions of settlements and investment approaches after the pandemic. It is often argued that during and after the outbreak, Malthus's population theory (1798) took effect, that there would be changes in the measurement of production, profitability, and utility. It is expected that new approaches to the economy of solidarity and space in the urban area will be developed and new professions and business areas will emerge rapidly. The housing market will be stable, but the change in commercial real estate markets will accelerate. Many people will be ambivalent between allocating their equity to new fixed investments and opting for deposits, foreign exchange, gold, and other related securities investments, and will be able to turn to short-term investments. This will lead to a decline in investment and production, weakening growth and inability to increase employment. For real estate and property owners and users, there may be changes in credit usage, rental and contracts. Udobi, Otty and Nwosu (2021) noted that investors as well as all individuals are likely to put their scarce resources only to necessities due to the uncertainties of the global economic situation and this can affect the real estate sector activities indirectly in the long run. Marketing of real estate for sale or rental is going virtual in order to reduce personal contact and observe the required social and physical distancing rules. It has seen that adaptation of various types of technologies seems prominent in the structure of facility-real estate and asset management with Prop-tech, IoT, blockchain, teleconferencing, land registry and BIM, BIM-CAFM (Wang & Tang, 2020). Automated tools in real estate's studies will help in planning, tracking, and completing relocation activities smoothly. People and real estate business should be ready for future disruptions through innovative technology. In this context, the expectation of an increase in smart buildings and technologies that provide less contact in buildings and structures are expected to be common. There are diminishing stores in cities, increased storage areas in the city and rapidly growing e-commerce marketing. The declining space of public and private institutions' administrative spaces, decreasing of office demand, increasing in home office or flexible working phenomena may take the form of shrinking companies, utilizing technology, and decreasing employment. Digitalization is inevitable in business and home life. New regulations will compel all sectors and especially banks, insurance companies, private pension system and other institutions to be structured in the field of real estate and asset management.

In the light of analysis, it is imperative that civil and professional organizations, relevant public institutions and universities in Nigeria in general are required to work on the status and future of real estate and construction sectors after COVID experience. It is expected that there will be an increase in the importance of expertise, technology, and research-consultancy. Many professions may lose their importance in the future and new jobs or professional fields may emerge. Nigerians working in financial institutions and many other cooperate organizations are being layoff by the day since after the first outbreak of the pandemic, and many companies have equally resorted to the use of automated machines and will be drastically downsizing their manpower in the very near future. For this reason, it is imperative to change the structure of professional organizations and internationalization from the local-national scale. Currently, extensive field work is carried out by various Departments of Real Estate Management in Nigeria Universities and other professionals in real estate for real estate development, residential, commercial real estate market and facilities as well as real estate management areas, and by this way, it is aimed to predict future developments and necessary measures.

RECOMMENDATIONS AND CONCLUSION

As long as the COVID-19 pandemic continues to impact national and local economies, there will be a demand for systematic investigations of its implications for various economic sectors, including the real estate market. This discussion focuses on experts' views of the key issues and how it is communicated to the public and shaped by various media outlets and can inform the actions of policymakers. Once in the public space, it can inform policy actions and recommendations adopted by policymakers and influence stakeholder organizations and, possibly, development institutions. This process is particularly important in the context of Africa's emerging real estate markets.

The findings presented here show that the impact of the pandemic was felt both before and during the lockdown in Nigeria's commercial and, apparently to a somewhat lesser extent, residential real estate markets. The coverage of the mortgage sector, which news reports had described as underperforming even before the pandemic, predicted likely continued underperformance as a result of defaults associated with the loss of rental and personal incomes as well as a shift in the demand for large office spaces toward co-working arrangements that allow for periodic usage. News reports also raised the concern regarding the impact on real estate firms should they prove unable to retain occupants in their properties. The coverage, then, included recommendations for government actions as well as strategic repositioning by real estate firms.

The findings showed further that coverage of COVID-19 did not, in fact, displace the coverage of issues that had been impacting Nigeria's real estate sector before the advent of the pandemic. The newspapers continued to report both kinds of stories in a way that was reassuring, in that policy actions are still required to address such long-standing issues of real estate investment, and coverage of these issues during the pandemic and after can be expected to be a source of information for policymakers and other stakeholders. The coverage and editorializing can likewise be expected to remain important for efforts to galvanize support from experts and informed members of the public for solutions to problems related to real estate investment challenges, as well as coverage on social media handles of these newspapers. Interestingly, reports about housing conditions, low-income housing, and slum dwellers' capacity to cope with the lockdown while adhering to safety precautions at home were infrequent in the research coverage analyzed here. The focus remained instead on commercial real estate and on properties as investments rather than as places where people live. This tendency in the coverage has limited the kind of advocacy for adequate housing that could serve as the basis for policy changes and other mitigation actions that are government-led. To be sure, the present study was limited in terms of its scope, taking into account only the real estate sections of newspapers, while it is not unlikely that the impacts of COVID-19 on real estate investments were mentioned in other sources not utilized here. Moreover, the analysis did not extend to audiences' perceptions of the issues raised or the measurement of media effects. Despite these limitations, it is hoped that the present study will inform ongoing discussions about the Nigerian real estate investment sector in the period after the pandemic as well as encourage future research on the issues raised here.

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