



Evaluation of Influencing Factors on Commercial Property Rent in Benin-City, Nigeria

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ABSTRACT

The study aimed at examining factors influencing commercial property rent in Benin City. To achieve the aim, research questions and objectives were raised, and relevant literature was reviewed. The survey research design was used in the study. Data was collected with the use of a questionnaire administered to 52 registered estate firms out of which 44 were retrieved and found useful representing 85%. The data obtained from the field were presented and analyzed with the use of simple descriptive statistics which involved a frequency table, weighted mean score (WMS), trend analysis, and relative importance index (RII). The study reveals that office and shopping complexes are the most common commercial properties in the study area. It also reveals that there has been a gradual increase in commercial property rent. The results, in addition, show that increasing migration of people into the city, increasing demand for commercial properties, urbanization rate, and increasing commercial activities in the study area are the major factors influencing commercial property rent variability with RII of 0.89, 0.89, 0.85, and 0.85 respectively. In the light of the findings, the study recommends among others that government should improve on the available infrastructure since the influx of people and urbanization is already creating pressure on the existing ones, and more office space and shopping malls should be developed by investors.

Key words: Commercial property, Urbanization rates, Rent, Migration, Infrastructure, Benin City

1. INTRODUCTION

A cursory observation reveals that commercial real estate investment is a major source of cash flow for commercial real estate owners. According to Chin [1], commercial properties hold a significant share of the volume of properties. Though difficult to develop, it is a profitable investment in the long run. The capital-intensive nature of its development calls for a commensurate return which can be used to measure its performance in the real estate market [2]. In the opinion of Boon & Higgins [3], rental value is a major yardstick or parameter for measuring real property performance. While it is a principal cost to tenants, it serves as an important source of cash flow for landlords. Major property market players and participants such as investors, developers, estate agents, and professionals use rent as a pointer to appraise the viability of their real estate production and investment [4].

The rent which is a reward for the use of land and landed properties and which serves as a parameter for measuring real estate performance is influenced by some factors. Hence, key players especially professionals in the real estate industry in Nigeria need better knowledge of commercial property rental dynamics and the key factors that influence commercial property rents in the country. The commercial property market is an important sector of the property market. Investors in the commercial property market expected a return on their investment in the form of rent [3,5]. Therefore, factors that possibly influence the rental value of commercial real estate investment are of paramount interest to investors. A clear understanding of these factors will give better insight into how the commercial real estate market operates since the property market is localized in nature [6]. Understanding the factors will also shape the behavioural pattern of commercial real estate investors. Benin City which is the study area is urbanized but the commercial property market in the study area varies from one location to another. Thus, commercial real estate investors and other key operators will be

interested in the possible factors that could influence the rental values of their commercial property investment in the different locations especially the Central Business Districts (CBDs) in Benin City. Hence, the study intends to unveil the possible factors that could influence commercial property rent in the study area.

2. RESEARCH METHODOLOGY

2.1 Study Area

Benin City serves as the principal administrative and socio-economic center for Edo State, Nigeria. Benin City is humid, and tropical, and is an urban settlement that comprises three major local government areas namely: Oredo, Egor, and Ikpoba Okha. Benin City is a narrowed, key-shaped, north-to-south strip of land in West Africa. The area is about 1125m² and situated on fairly flat land, about 8.5km above sea level. It is located between latitude 60 440'N and 60 210'N and longitude 50 350'E and 50 440'E. Benin-City is the center of Nigeria's rubber industry, and oil production is also a significant industry. The city is also linked by roads to Sapele, Siluko, Okene, and Ubiaja and is served by air and the Niger River Delta ports of Koko and Sapele.

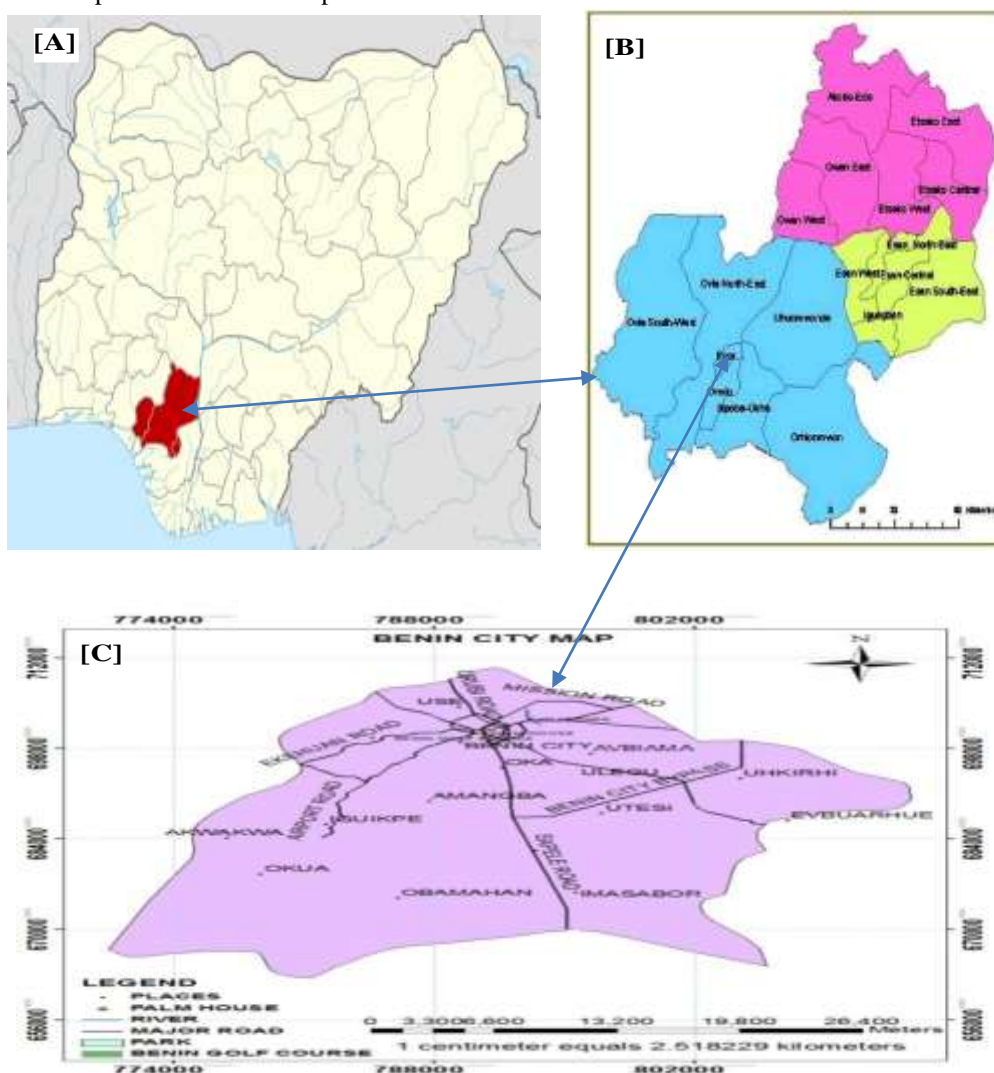


Fig. 1 Map of Nigeria Showing the Edo State (a), Map of Edo State all the LGS (b), and Map of Benin-City (c)

Benin-City has over the past years experienced an upsurge in population and expansion around the peripherals. This increase in population could be attributed to the mass influx of people from the North-East region because of the crisis in the area and the internal factors that cause an increase in population. The position of the city and the peace the state has been enjoying are magnets attracting investors and others looking for a peaceful environment to settle. This exodus of people from the crisis region to the Edo State capital and the internal factors responsible for the population increase has put pressure both on the public infrastructure and private real estate investment especially commercial real estate investment. The pressure manifest in form of heavy traffic and an upsurge in both residential and commercial property rents. Real estate investors and developers are taking advantage of this prevailing circumstance to put up new

commercial buildings and review the rent of the already existing building. This justifies the reason for researching this topic in Benin City the Edo State capital. The study area is shown in Fig.1a-c.

2.2 Research Design

In this study, the survey research design was used to describe the variables that are necessary for the study and to ensure that the research fulfills its aim and objectives. The choice of the method is premised on its ability to provide wide coverage for the respondents as well as allow their input which was useful in making necessary recommendations.

2.3 Population of the Study

The population of the study consisted of all the key stakeholders in real estate practice, especially in the management and leasing of commercial properties in the study area. This comprised all the registered estate firms that were involved in the management and letting of commercial real estate space for office or business purposes in the study area. For the purpose of the study, the population adopted was 52 being the number of registered estate firms as listed in the Directory of the Nigerian Institution of Estate Surveyors and Valuers, Edo State Chapter, 2020 as described by Chau *et al.* [7] and CNB [8].

2.4 Sampling Frame and Sample Size

The sampling frame was obtained from the list of all registered estate firms that are involved in the leasing and management of commercial properties in the study area. In the current Edo State NIESV's Directory (2020), there are 52 registered estate firms that are either managing or involved in letting out commercial real estate in the study area. The study took the 52 firms as the sample size as all the firms were covered in the survey. This was adopted in order to have wide coverage, adequate information on the lettings, and more especially because the transportation cost was not considered a problem.

2.5 Instrument of Data Collection

Data for the study was collected using the primary instrument of the questionnaire. The collection of data was based on a survey in which structured interview and questionnaire administration was employed. These data collection instruments have been found more reliable and permit an explanation of questions in areas where some respondents are never fully knowledgeable. The secondary instruments for this study were obtained from textbooks, journals, the internet, and other publications.

2.6 Method of Data Analysis

The study employed appropriate descriptive statistical methods for data analysis. These include Frequency Distribution, Relative Importance Index (RII), Mean Ranking, and Trend analysis. To achieve objective one, the study used frequency distribution and mean ranking techniques. For objective two, the study employed trend analysis. For objectives three and four, the study used mean ranking and relative importance index respectively. Table 1 presents some methods of analysis.

Table -1 Method of analysis adopted

Objectives	Method of Analysis
Identify the classes of commercial property investment in Benin City.	Frequency Distribution and mean ranking
Analysis the level of trend of rental values of commercial office space in the Study Area.	Trend Analysis
Examine the factors that have influenced the variability of rental values in the Study Area.	Mean Ranking
Evaluate the extent to which the factors influence the variability of rental values in the Study Area.	Relative Importance Index

The Weighted Mean Score (WMS) was determined using equation 1:

$$WMS = \frac{5n+4n+2n+1n}{N} \quad (1)$$

The Relative Importance Index was determined using equation 2:

$$RII = \frac{W(W1+W2+W3.....WN)}{A*N} \tag{2}$$

Where;

W= Weights given to each factor by respondents ranging from 1-5

1 is less important and 5 is very important

A= Highest Weight

N= Total Number of Respondents [9-10].

Therefore, data was processed by coding using the statistical package for Social Science (SPSS) software and Ms.-Excel for graphical presentation.

3. RESULTS

3.1 Respondent rates

As earlier stated in chapter three under the research methodology, a total of 52 questionnaires were distributed to registered estate firms. However, out of the 52 questionnaires administered to registered estate firms a total number of 46 questionnaires (88% response rate) were returned and 44 out of 46 returned were found useful representing 85%. (Table 2).

Table -2 Questionnaire Distribution and Response Rate

Study Area	Questionnaire Administered	Questionnaire Retrieved and Used	Response Rate (%)
Benin-City	52	44	85%
Total	52	44	85%

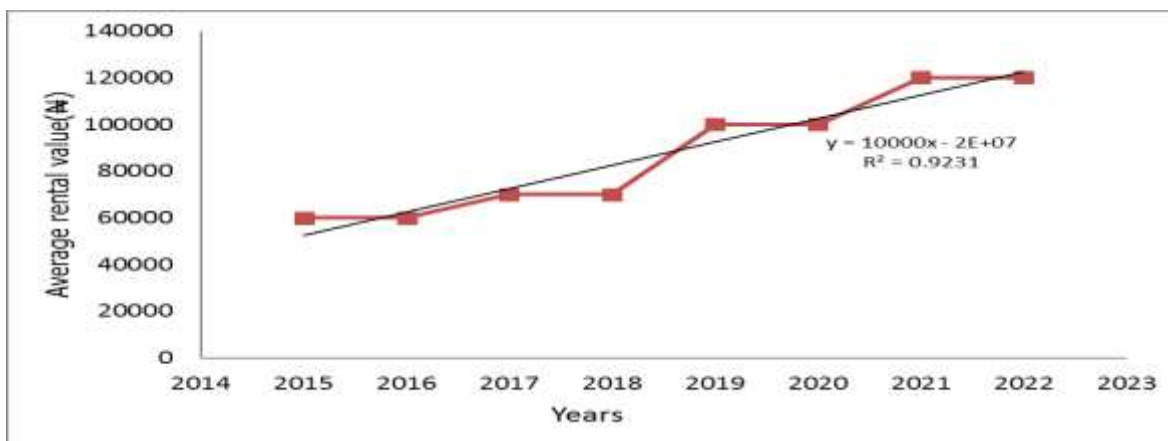
Source: Author’s Survey, 2022.

3.2 Commercial Property Investment

Table 3 revealed the classes of commercial properties in the study area. From the table, office space was ranked 1st with a mean value of 4.70. Next was the shopping complex with a mean value of 4.43. Restaurant and retail stores were ranked 3rd and 4th respectively. All the classes of commercial properties fall within a mean value of 4 and above. This reflected the high level of their presence in the study area. This analysis tends to show that office space and shopping complex represent the dominant commercial properties in the study area. Figure 1 shows the rental trend of retail stores from 2015 to 2022. It reveals that rental trends for retail stores have an annual rent increase of ₦10,000 as shown in the regression equation in Fig.3. The rental growth became very high from 2019 to 2022. Fig. 3 shows the rental trend of shopping complexes, office space, and restaurant from 2015 to 2022. The result shows similarity with several studies [11-13].

Table -3 Classes of Commercial Properties in the Study Area

Class of Commercial Properties	5 SA	4 A	3 N	2 D	1 SD	Total	Mean	Rank
Retail Stores	18	23	-	3	-	44	4.27	4 th
Shopping Complex	22	21	1	-	-	44	4.43	2 nd
Office Space	31	13	-	-	-	44	4.70	1 st
Restaurant	24	16	2	2	-	44	4.41	3 rd



Source: Author’s Survey, 2022

Fig. 2 Trend in rental value of retail store

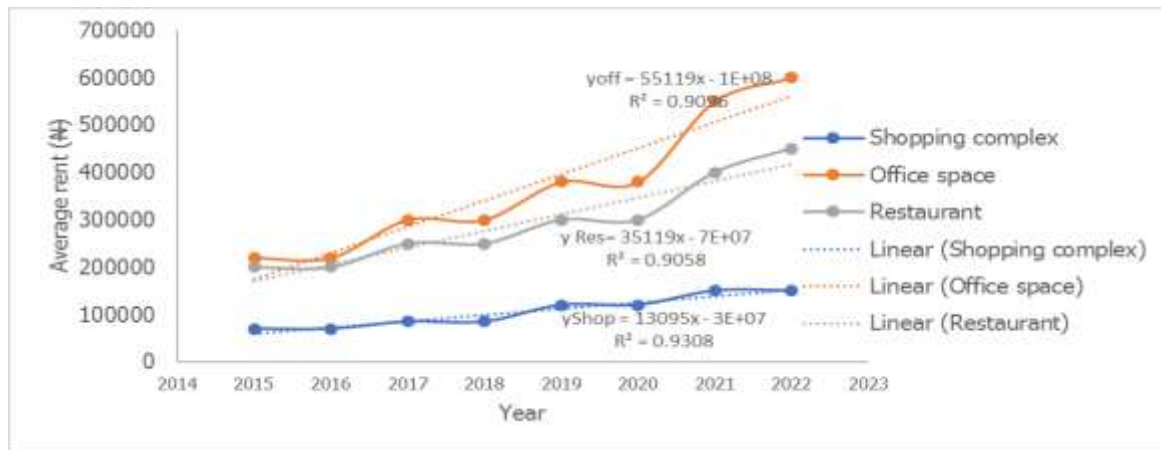


Fig. 3 Trend in rental value of shopping complex, Office space, and Restaurant

3.3 Factors influencing Rental Values of Commercial Properties

Findings from Table 4, revealed the factors influencing commercial property rent variability. The Table revealed that the increasing migration of people; increasing demand for commercial properties, urbanization rate, and increasing commercial activities in Benin City were the major factors influencing commercial property rent variability in the study area with a mean value of 4.41, 4.41, 4.30 and 4.20 respectively. The least among the ranked factors influencing commercial property rent variability was a regular supply of power to the commercial centres of Benin-city, closeness to the international airport, and booming of the property market with mean values of 3.52, 3.77, and 3.80 respectively. The finding agrees with the work of Leung *et al.* [14] and Marco [13].

Table -4 Factors Influencing Changes in Rental Values of Commercial Properties in the Study Area

Factors	SA 5	A 4	N 3	D 2	SD 1	Total	Mean	Rank
Increasing migration of people into the city	21	21	1	1	-	44	4.41	1 st
Improved road condition of commercial centers	19	17	-	5	3	44	4.0	9 th
Improved urban facilities in Benin-City	16	21	1	4	2	44	4.02	8 th
Urbanization rate	20	21	-	2	1	44	4.30	3 rd
Increasing commercial activities in Benin-City	18	22	-	3	1	44	4.20	4 th
Increasing demand in commercial properties in Benin-City	22	20	-	2	-	44	4.41	2 nd
Improved intra-city transportation system in Benin-City	17	18	3	2	4	44	3.95	12 th
Booming of the property market	15	16	5	5	3	44	3.80	14 th
Quality of building design	19	19	-	3	5	44	4.14	6 th
Closeness to international airport	14	16	6	6	2	44	3.77	15 th
Regular supply of power to the commercial centres of Benin-city	14	15	-	10	5	44	3.52	16 th
Inadequate commercial property stock	19	18	4	2	1	44	4.18	5 th
Increase in land value	18	17	-	4	5	44	3.89	13 th
Increasing taxation on commercial properties in the city	19	20	-	2	3	44	4.09	7 th
The outbreak of Covid-19 pandemic	16	20	2	3	3	44	3.98	11 th
Increasing maintenance and management cost of the properties	19	17	-	5	3	44	4.0	10 th

Source: Author's Survey, 2022

Findings from Table 5, revealed the extent to which the above factors influenced commercial property rent variability. The Table shows that increasing migration of people, urbanization rate, increasing demand for commercial properties, improved urban facilities, and increasing commercial activities in Benin City were the major factors that had a very high influence on commercial property rent variability in the study area with RII of 0.89, 0.89, 0.88, 0.85 and 0.85 respectively. The least among the ranking factors that had less influence on commercial property rent variability was a regular supply of power to the commercial centres of Benin city, closeness to an international airport, and an increase in land value with RII of 0.70, 0.73, and 0.76 respectively.

Table -5 Extent to which Factors Influence Variability of Commercial Property Rent in the Study Area

Factors	VH 5	H 4	N 3	LH 2	NH 1	Total	RII	Rank
Increasing migration of people into the city	21	22	1	-	-	44	0.89	1 st
Improved road condition of commercial centers	20	18	2	1	3	44	0.83	9 th
Improved urban facilities in Benin-City	19	21	-	4	-	44	0.85	4 th
Urbanization rate	22	21	-	1	-	44	0.89	2 nd
Increasing commercial activities in Benin-City	19	22	-	2	1	44	0.85	5 th
Increasing demand in commercial properties in Benin-City	21	21	-	2	-	44	0.88	3 rd
Improved intra-city transportation system in Benin-City	18	16	3	3	4	44	0.79	11 th
Booming of the property market	17	17	1	4	5	44	0.77	13 th
Quality of building design	19	20	-	3	2	44	0.83	10 th
Closeness to international airport	15	16	-	9	4	44	0.73	15 th
Regular supply of power to the commercial centres of Benin-city	14	15	-	10	5	44	0.70	16 th
Inadequate commercial property stock	20	19	-	3	2	44	0.84	7 th
Increase in land value	16	18	-	6	4	44	0.76	14 th
Increasing taxation on commercial properties in the city	20	20	-	2	2	44	0.85	6 th
The outbreak of Covid-19 pandemic	16	19	2	4	3	44	0.79	12 th
Increasing maintenance and management cost of the properties	20	19	-	4	1	44	0.84	8 th

Source: Author's Survey, 2022

4. DISCUSSION

The result shows that office space and shopping complexes are the dominant commercial real estate investment in the study area. While least ranked commercial property classes are retail stores and restaurants. Hence, all the classes of commercial properties are experiencing gradual growth or increase in rental values. This is shown by the trend analysis for each class of commercial property. Though, the growth in rent is more pronounced from 2019-to 2022. The major factors that influenced the rent variability of commercial properties are the increasing migration of people, urbanization rate, increasing demand for commercial properties, and increase in commercial activities in the study area. It is also revealed the least factors that influenced commercial property rent variability included a regular supply of power, closeness to the international airport, and land value in the study area [15-16]. Therefore, increasing migration of people, urbanization rate, increasing demand for commercial properties, and increase in commercial activities have a very high influence on commercial property rent variability in the study area. The factors that have less influence on commercial property rent variability are a regular supply of power, closeness to an international airport, and land value in the study area.

5. CONCLUSION

The study has demonstrated that the commercial property market in the study area is gradually growing to compete with its counterpart in other parts of the country. The increase in the influx of people and urbanization of the city is motivating

the growth of the commercial property market which will in turn increase commercial operations in the study area. Commercial property owners will also benefit from this urban expansion and increase in population growth because investors will want to take advantage of it by a way of investing in the area, hence rental values of commercial real estate will escalate. With this increase in urban growth and population, more commercial properties are expected to be developed as the city is already experiencing.

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