European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.6, No.37, 2014

Mutual Real Estate Funds: A Veritable Window of Investment in the Nigerian Stock Market

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Abstract
Investors are hard hit by the crash in the capital market in Nigeria and a few who still have investible funds are constantly at cross roads in selecting profitable investment outlets. A good number of investors are rushing out of investment in shares and stocks into real estate investment. But here again, investment is haphazardly done. Little coordination, cooperation or collaboration is adopted. Investors are not adequately patronizing the Real Estate Investment (REIT) Fund through which professional and expert advice in addition to benefits of large scale operation could be harnessed. The fundamental question here is can REIT funds offer any hope given that the global melt down has not effectively started to solidify? This paper critically examines the issues involved in investing in mutual funds in Nigeria and tries to determine the extent to which this investment window can effectively mobilize savings for investment in critical real sectors of the economy especially the real estate. Using secondary data collected from the CBN Statistics Bulletin and opinion survey of stock brokers, mortgage bankers and investors in Nigeria, the paper establishes that there is a strong positive correlation between the level of savings in the economy and investment in real estate and that in fact savings drive real estate investment in Nigeria. It further argues that most investors in Nigeria are not even aware of nor consider unit trusts as reliable and profitable real estate investment in spite of the huge potential of this financial intermediate's role as a veritable vehicle for capital mobilization in this critical segment of the Nigerian economy. There should be an increase effort on individual and corporate saving in order to boost investment opportunities and there should be need to encourage Mutual Funds through the unit trust scheme to enhance real estate investment.

1. Introduction

For a good part in one's lifetime, money will be earned and spent. It is rare for one's current money income to exactly balance one's consumption desires. Sometimes there is more money than is needed to spend, at other times one may want to purchase more than one can afford. These balances will lead people either to borrow to meet up or save and maximize benefits from one's savings. Once current income outstrips current expenditure then saving is engendered. But the reverse is the case if otherwise. Borrowing or even leaving wants unsatisfied may occur in extreme cases of shortage of current income over current wants. Though wants are largely insatiable, economic units strive to save if for no other reason, then for the 'rainy day'. Saving can be in various forms: safe in the house or office, bank account, commercial paper, real assets et cetera. Each has its strengths and weaknesses and the choice is also based on a number of varied reasons. Investment is however one of the greatest reasons for savings by rational economic units. Saving and investing is a trade-off of present consumption to ensure growth and increase the probability to enhance future consumption. In order that your money works better and especially match or out space any rate of inflation, one would have to decide to give up immediately, possession of these savings for a large amount of money that can be available for future consumption. According to Lewis (1992) investment is the use of money for making more money, that is, gain, income or increase in capital or both; and, Fisher and Jordan report that investment is "Any security or property into which funds can be placed with the expectation that they will be preserved or increased in value and/or generate positive return". This trade-off between current consumption and a probabilistic higher future consumption is the basic rationale for investment and economic units vary considerably in their behavior towards this. A Unit Trust Scheme is a non-incorporated collective investment scheme. Its purpose is to pool the savings of investors with the intention of investing and managing the savings for the investors benefit probably based on the premise that the risky nature of stock investment requires that knowledge, professional skill, access to information due care, all come in handy for a successful foray into such mucky waters. Armed with the foregoing and nature luck as in every other investment, fortunes can and have been made by many through stock investment. The Warren Buffets of this world can easily attest to this. A sister variant to Unit Trust is Mutual Funds, which according to Denham (2008) includes bonds, real estate, currency, commodities and other investments. With mutual funds, an investor's money is pooled with those of other investors so as to enable each investor enjoy the privilege of diversification. With small bits of several stocks, systematic risks are diversified and averaged away Markowitz (). Generally, Real Estate Investment Trust Funds serve the same purpose as Mutual Funds in stock investment. That is, enhancing portfolio diversification. The current persistent crash in the capital market makes the need for risk diversification a-must action for any discerning investor. Apparently the global melt down may not only have contributed greatly to this crises but the sluggish manner of the recovery of the world economy and the worsening economic situation in many parts of eastern and southern Europe help to exacerbate the situation. Granted that investments irrespective of the form are in themselves a store of value of surplus fund either to generate additional wealth, hedge against inflation and deterioration in value, or achieve liquidity, that is, easiness in converting financial instruments to cash, the unit trust is seen as a good investment alternative.

Presently, with the Global Financial crisis, lot more attention has been focused on financial and investment experts for possible solutions. People out of fear of losing everything; have decided to diversify their excess funds. In that, most people have reduced the amount of money they had invested in Unit Trust Schemes or Mutual Funds and have gone into Real Estate investments. In the past, the investment in real estate had been so low that accommodation issues became critical. Urban housing schemes have failed and people live under bridges. In the major cities rent is so high that greater majority of the citizens cannot afford even indecent accommodation. It is absolutely irrational that in Nigerian cities, two-three bedroom flats go for between N200, 000 and N500, 000 per annum where the minimum wage is N216, 000 per annum. This really portends danger at a gigantic scale. This paper examines the prospects and challenges of using investment trust to mobilize savings for the critical investment required in real estate development in Nigeria. It is organized in five parts: part one is the introduction, part two is the methodology and part three is an examination of the REIT fund in Nigeria. Part four analyses and discusses the data collected while part five concludes the paper.

2. Methodology

The paper adopted a survey research method that pooled a sample of critical participants in the Nigerian stock market*, to wit***,** stock brokers, bankers and investors through a random sampling method and administered a questionnaire on them. Through the statistical method of selecting a sample size for a finite population (for stock brokers) and another one for an infinite population (for bankers and investors), according to the Yaro Yameni formulae (Onwumere, 2005) a total of 50 stock brokers, 150 bankers and 180 investors was selected. It used measures of central tendency and the analysis of variance (ANOVA). Correlation Coefficient and Simple Regression analysis to analyze secondary data collected from the CBN Statistics Bulletin through the computer E-view platform.

3. Examination of the Real Estate Investment Trust Funds in Nigeria.

Real Estate Investment Trusts (REITs) is designed to provide similar structure for investment in real estate as mutual fund provides investment in shares. It is a corporation or Trust that uses pooled capital of many investors to purchase and manage mortgage loans (Mortgage REITs). Like shares, they can be privately or publicly held. Pubic REITs are traded on major exchanges just like stocks. REITs may be open ended or close ended. An open ended REITs means that the client/customer can make a request to redeem the value of the shares at any time regardless of the amount of money in the account. A close ended REITs, share can only be issued to the public once and can only be issued to the public once and can only issue additional shares, which dilutes the stock, if current shareholders approve it. According to Investopedia (2008), Individuals can invest in REITs either by purchasing their shares directly on an open exchange or by investing in a mutual fund that specializes in public real estate. An additional benefit to investing in REITs is the fact that many are accompanied by Dividend Reinvestment Plans (DRIPs). Among other things, REITs invest in shopping malls, office buildings, apartments, warehouses and hotels. Some REITs will invest specifically in one area of real estate shopping malls, for example or in one specific region, state or country. Investing in REITs is a liquid, dividend paying means of participating in the real estate market.

3.1. Classes of REITs

- Equity REITs: An equity REIT invest in and own properties which makes it responsible for the equity or value of the real estates. Their revenues come principally from their properties' rents.
- Mortgage REITs: Mortgage REITS deal in investment and ownership of property Mortgages. These REITs loan money for mortgages to owners of real estate, or purchase existing mortgages or mortgage-backed securities. Their revenues are generated primarily by the interest that they earn on the mortgage loans.
- Hybrid REITs: Hybrid REITs combine the investment strategies of equity REITs and mortgage REITS by investing in both properties and mortgages.

3.2. Benefits of REITs

- Alternative Investment**:** Real estate investment offers an alternative to common stock and bonds especially for investors interested in diversification.
- Liquidity: REITs are liquid assets that can be sold fairly quickly to raise cash or take advantage of other investment opportunities.
- Opportunities for small investors: Investors with only a small amount can diversify their holdings

between various geographic areas and property specializations.
- Return Correlation: REITs have a lower correlation to equities than many other assets classes, providing portfolio stability for those with active asset allocation strategy.
- Going Concern: REITs are in themselves going concern business and must be evaluated and analyzed as such.

3.3. Requirements for the REITs Fund

For an organization to qualify to float a REIT fund, the investment and securities Act requires that it must:
- Be a body incorporated under the Companies and Allied Matters Act.
- Have a capital and reserve as prescribed by the commission from time to time.
- Carries on business as a collective investment scheme solely in properties and
- Complies with the requirement prescribed by the commission,
- Though its rules and regulations made from time to time.
- The organization must also meet the following requirements:
- Be structured as corporation, trust or association.
- Be managed by a board of directors or trustees.
- Have transferable shares or transferable certificates of interest.
- Otherwise be taxable as a domestic corporation.
- Not be a financial institution or an insurance company.
- Have 95 percent of its income derived from dividends, interest and property income.
- Pay dividend of at least 90% of the REIT's taxable income.
- No more than 50% of the shares can the last half of each taxable year.
- At least 75% of total investment assets may be in real estate related assets, provided that not more than 10% shall be in liquid assets.
- Development activity shall not exceed 20% of the portfolios gross asset value and the company shall hold on to any development for a minimum of 2 years before disposing off.
- Derive at least 75% of gross income from rents or mortgage interest.
- No more than 20% of its assets may consist of stocks in taxable REIT subsidiaries.

Unlike other jurisdiction or benefits where the attractiveness of REITs is borne out of the tax exempt status it enjoys when it distributes at least 90% of its income as dividends to investors, there is (currently) no mention of such an allowance made under Nigerian law. In Nigerian, the following taxes apply to a REIT.
- Companies Income Tax will apply at the rate of 30% (subject to allowable adjustments) to the income/profits of the REIT.
- Withholding Tax will apply at the rate of 10% to the dividends payable to the corporate and individual investor/unit holders.
- Withholding Tax will also apply at the rate of 10% in some qualifying transactions on the rental income paid on the prosperities of the REITs.
- Capital Gain Tax will be payable at the rate of 10% on the arising capital gains any time the REIT disposes of its assets/properties.

3.4 List of Parties Required for the REIT
- The Fund Manager
- Issuing House
- Trustees to the Fund
- Stockbrokers to the Offer
- Solicitors to the fund
- Solicitors to the Trustees
- Reporting Accountants.
- Registrars to the offer
- Receiving Bank

3.5 REITS in Nigeria

The only registered REITs are the Skye Shelter Fund, which has the features of a mortgage REIT. In 2008, Union Savings and Loans Floated a N50 billion hybrid REITS. This was constituted under a Trust Deed; it was also a closed ended Unit Trust Scheme.

3.6 Challenges facing REITS in Nigeria

The biggest challenge facing the promoters of REITs in Nigeria is unfavorable tax regime. Unlike other jurisdiction where REITS enjoy a tax exempt status when it distributes at least 90% of its income as dividends to investors, there is currently no such allowance made under the Nigerian tax law. Thus in Nigeria, the following taxes apply to a REIT.

I) Companies Income Tax at the rate of 30% of the income/profit of the REIT.

II) Withholding tax at the rate of 10% to the dividend payable to Unit holders.

4. Analyses and Discussion of Data Collected

4.1.1. Extent to which Investors Invest in Real Estate through the REITs

Data collected with respect to the extent Nigerian investors in the Real Estate sector of the economy do so through the Real Estate Investment Trust Funds are shown on the table 4.1 below.

Table 4.1 Nigerian Investors invest through the REIT

Response	**Bankers**	**Stockbrokers**	**Investors**	**Total**
Strongly Agree	**6**	**3**	**15**	**24**
Agree	**12**	**7**	**20**	**39**
Do not Know	**4**	**0**	**10**	**14**
Disagree	**72**	**22**	**62**	**156**
Strongly Disagree	**56**	**18**	**73**	**147**
Total	**150**	**50**	**180**	**380**

Source: Field Survey 2012

Table 4.1 shows the responses of the three categories of respondents pooled. There is ample evidence that all three groups opine that Nigerian investors in the real estate segment of the economy do not invest through the Real Estate Investment Trust Fund.

4.1.2 Extent of Correlation between Nigeria’s Total Savings and the Building and Construction Segment of The Nigerian Gross Domestic Product.

Table 4.2 Nigerian Savings Statistics and Gross Domestic Product at current market prices

Year	GDP at Current Market Prices	Total Savings[1]	Building & Construction component of GDP at Market Prices (Investment)	Building & Construction as a Percentage of Total Savings %
	₦' m	₦' m	₦' m	%
1981	102686.8	6562.6	2773.0	42.25
1982	110039.8	7514.4	2488.0	33.11
1983	1119117.1	9443.9	2256.0	23.88
1984	125074.8	10988.1	1906.0	17.34
1985	144724.1	12521.8	1532.0	12.23
1986	143623.9	13934.1	1920.0	13.78
1987	203037.1	18678.3	2175.0	11.64
1988	275198.2	23249.0	2467.0	10.61
1989	403762.9	23249.0	3854.5	16.58
1990	4973351.3	29651.1	4350.8	14.67
1991	574282.1	37738.2	4900.3	12.98
1992	909754.2	55116.8	6109.7	11.08
1993	1132181.2	85027.9	8019.1	9.45
1994	1457129.7	108460.5	10324.6	9.52
1995	2991941.7	108490.3	13784.4	12.71
1996	4135813.6	134503.2	16042.2	11.93
1997	4300209.0	177648.7	18775.7	10.57
1998	4101028.3	200065.1	24877.8	12.43
1999	4799966.0	277667.5	27527.5	9.91
2000	6850228.8	385190.9	30603.9	7.95
2001	7055331.0	488045.4	40744.1	8.35
2002	7984385.3	592094.0	47985.4	8.10
2003	10136364.0	655739.7	58905.4	8.98
2004	11673602.2	797517.2	166078.47	20.82
2005	14078498.8	1318957.4	215342.74	16.33
2006	5165742.0	1739633.9	250332.27	14.38
2007	22586710.0	2693554.3	349695.96	12.98

Source: CBN Statistical Bulletin Vol. 18, Dec. 2007:71,138-142.

[1]*Ttotal Savings is made up of Savings and Time Deposit with Commercial Banks + National Provident Fund + Federal Savings Bank + Federal Mortgage Bank + Time Deposits with Mortgage Banks + Premium Bonds, Savings Certificates and Savings Stamps + Life Insurance Funds + Other Deposit Institutions.*

ANALYSIS AND DICUSSION OF RESULT

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
Building & Construction component of GDP at Market Prices (Investment)	48732.2904	88933.56509	27
total savings	370786.7889	6.29936E5	27

Correlations

		Building & Construction component of GDP at Market Prices (Investment)	total savings
Pearson Correlation	Building & Construction component of GDP at Market Prices (Investment)	1.000	.980
	total savings	.980	1.000
Sig. (1-tailed)	Building & Construction component of GDP at Market Prices (Investment)	.	.000
	total savings	.000	.
N	Building & Construction component of GDP at Market Prices (Investment)	27	27
	total savings	27	27

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.980[a]	.960	.958	18154.16255	1.227

a. Predictors: (Constant), total savings

b. Dependent Variable: Building & Construction component of GDP at Market Prices (Investment)

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.974E11	1	1.974E11	598.954	.000[a]
	Residual	8.239E9	25	3.296E8		
	Total	2.056E11	26			

a. Predictors: (Constant), total savings

b. Dependent Variable: Building & Construction component of GDP at Market Prices (Investment)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2555.488	4074.083		-.627	.536
	total savings	.138	.006	.980	24.474	.000

a. Dependent Variable: Building & Construction component of GDP at Market Prices (Investment)

In = -2555.488 + 0.138TS
(t = 24.474)
Where; In = Investment (Building and Construction component of GDP at market prices)
TS = Total savings

$R = 0.980$
$R^2 = 0.960$
$F = 598.954$ (sig. = 0.000)
DW = 1.227

Interpretation
The model shows that with a constant value of -2555.488, Total Savings has a positive effect (coefficient of TS = 0.138) on Investment and this effect is significant as t = 24.474.
This result is strengthened with a further analysis which gives the $r_{cal} = 0.98 > r_{critical} = 0.37$; $F_{cal} = 598.954 > F_{critical} = 2.91774$; $t_{cal} = 24.474 > t_{critical} = 1.7056$; $p = 0.000 < 0.05$. This indicates that the variation explained by the model is not due to chance.

Decision
It is concluded that Nigeria's Total Savings have a significant and positive impact on Investment. Hence, there is a very a strong, positive and significant correlation between Nigeria's Total Savings and the Building and Construction Segment of the Nigerian Gross Domestic Product

CONCLUSION
In Nigeria today the growth in portfolio diversification and real estate investment is enhanced by saving ability or the amount of fund saved either by individual, corporate bodies or the government. This study discovered that total savings have a significant and positive impact on Investment and also in Nigeria total savings and the building and construction segment of the Nigerian gross domestic product (GDP). It further argues that most investors in Nigeria are not even aware of nor consider unit trusts as reliable and profitable real estate investment in spite of the huge potential of this financial intermediate's role as a veritable vehicle for capital mobilization in this critical segment of the Nigerian economy.

RECOMMENDATIONS
Based on the result of this study the following suggestions were made;
1. There should be an increase effort on individual and corporate saving in order to boost investment opportunities.
2. There should be need to encourage Mutual Funds through the unit trust scheme to enhance real estate investment.
3. Finally there is need for government to facilitate and establish more enabling environment and policy to ease access to land by individuals to boost real estate investment.

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