The International Journal Of Engineering And Science (IJES)
|| Volume || 3 || Issue || 8 || Pages || 35-39 || 2014 ||
ISSN (e): 2319 – 1813 ISSN (p): 2319 – 1805

Sources of Financing Shopping Centers in Lagos Metropolis

[1,] Rotimi. B. Abidoye
Department of Estate Management, Bells University of Technology, Ota, Ogun State, Nigeria.

ABSTRACT
The financing of any real estate project has never been an easy task for both individual and institutional developers/investors. In Nigeria financing the development of shopping centers is not an exception because it also requires huge capital to develop like other types of real estate developments. Various sources of shopping center development financing like Condominiumization of shopping centers, finance by trade credit, financing with equity fund, financing through REITs, financing through loan from commercial banks or pension fund administrators, finance by other financial institutions etc were evaluated. Questionnaires were administered on developers of shopping centers in Lagos Metropolis and the data collected was analyzed using SPSS version 17.0 and presented using descriptive statistical tools (percentile tables). Findings shows that most of the developers used equity fund to finance the development of their shopping centers and most of them are not aware of REITs which is a good source of financing retail properties as it is been practiced in most developed countries. The study recommends that government should create an enabling environment for foreign retail investors to come and invest in Nigeria, retail developers should come together to form an association that will be aimed at assisting members and also they should look into how funds from REITs can be harnessed for retail development.

Keywords: *Lagos Metropolis, retail development finance and shopping centers.*

Date of Submission: 04 Aug 2014 Date of Publication: 20 August 2014

I. INTRODUCTION

Shopping centers has been regarded as extremely attractive investment by many investors and this has in general been keenly sought when offered for letting or sale [Millington, 1996]. Rapid growth in Nigerian economy and population has increased the potentials for different kinds of investments amongst which is development shopping centers.

Real estate development finance generally requires huge capital and development of shopping centers is not an exception. Most of the common sources of financing are just not available, either because the bloom is off commercial lending [Wiedeman and Huntley, 1995].

The retail property market in most parts of the World has experienced a growing degree of concentration resulting in fewer and larger stores since the middle of the twentieth century [Biba, Des Rosiers, Theriault and Paul, 2006]. Its design has changed significantly, expanding from individual stores located on the streets to large shopping centers. Many of the changes have been linked to metropolitan growth patterns, changes in urban transportation systems, as well as evolving retail marketing techniques [Beyard and O'Mara, 1999].

Few works that exist in the area of shopping center in Nigeria majorly looked at the determinants of residential and office property values [Bello, 2012; Oladapo, 2000]. It is against this background that this paper tends to examine the various sources of financing shopping centers in order to add to knowledge in this area of research also the study will open the eyes of local retail development investors to international best practices of how shopping centers development are being financed.

II. SOURCES OF FINANCING SHOPPING CENTERS

There are various sources of financing real estate development, but the following are sources of financing shopping centers development according to Weideman et al., (1995).

- The Condominiumization of a Neighbourhood Shopping Center

This mode of financing has been used to solve the problem of inadequate finance for retail development. The shopping center is suited ideally to being condominiumized as it includes a number of small businesses with the following tenant mix: dress shop, jewelry store, pet supply store, offices, restaurant etc. The benefits of Retail Condominium ownership includes ; Security of loan, no lease payment , no rental increase, leasehold improvement, control over the center, real estate investment etc.

- Finance by Trade Credit

To adopt this mode of financing, land could be acquired through an option agreement from the existing landowner. A pre-letting programme will then start while all regulatory approvals for development will be sought. If the letting programme experience high response from prospective tenants, the tenants would be called upon to supply finance for the purchase of the land and then use the trade credit to finance the remaining project.

- Finance by Financial Institutions

The financial institutions which includes pension or superannuation funds administrators, insurance companies, life assurance companies, investment trusts and unit trusts invests in properties directly and indirectly through the ownership of shares in property investment companies and development companies.

- Finance by Banks

The banks which are short-term financiers are involved in medium-term loans which is usually up to 5 years beyond the completion of a development. They were encouraged by the dramatic growth in capital and rental values of properties.

Following the economic recession that started in 2007, banks now conduct due diligence on a property before advancing funds. Banks are now less likely to lend on purely speculative developments without the provision of a sound business case with comprehensive and industry-supported market data and projections.

- Financing through REITs (Real Estate Investment Trusts)

REITs is not a new form of investment finance vehicle by any means. REITs are a creation of the tax system but operate much like publicly traded companies on the stock market. Profit from rents or fees associated with the properties are passed on to shareholders as dividend.

- Finance by Foreign Investors

Due to the widespread effect of globalisation, foreign investors have become significant participants in the property development investment market. No longer is demand for property limited to a prospective purchaser's geographic location.

The advantages of foreign investors includes, increasing the number of prospective purchasers by enlarging the market place, increasing the potential borrowing capacity of the purchasers (as opposed to the lenders in the local market) and ensuring the development is perceived as truly international.

III. MATERIALS AND METHOD

The study area is Lagos metropolis. Lagos was chosen as a study area because there are so much commercial activities going on in the city of Lagos- the hub of Nigeria's commercial and industrial activities.

The secondary data used for this research includes, articles related to research objective that appeared in scholarly journals and conference proceedings.

To conduct an empirical investigation, a survey was conducted using questionnaires. The survey was conducted to collect the data from the respondents and the data were analyzed and interpreted using SPSS version 17.0. The data was presented using descriptive statistical tools, that is percentile tables. The respondents were randomly selected to remove the biasness in samples. The questionnaires were administered on the respondents which consist of developers of shopping centers in some selected parts of Lagos metropolis. The questionnaires were administered to them by hand and collected back too by hand. The researcher assisted the respondents in filling the questionnaires were there was need to do so.

IV. DATA ANALYSIS AND DISCUSSION

In total, 60 questionnaires were administered in the study areas and 54 were retrieved. Out of these 54 questionnaires, only 50 were valid for analysis. These 50 questionnaires represents 83% response rate.

The tables below show the results of the analysis drawn from the questionnaires.

Table 1: Age of Shopping Centers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5years	12	24.0	24.0	24.0
	Above 5years	38	76.0	76.0	100.0
	Total	50	100.0	100.0	

TABLE 1 above shows that majority of the shopping centers are above 5years, that is 76% of the shopping centers sampled, while 24% are below 5 years old.

Table 2: Average Size of Retail Space/Units

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5sqm	12	24.0	24.0	24.0
	5-10sqm	24	48.0	48.0	72.0
	10-15sqm	8	16.0	16.0	88.0
	Above 15sqm	6	12.0	12.0	100.00
	Total	50	100.0	100.0	

TABLE 2 above shows that most of the shopping centers have size area of between 5-10sqm, this represents 48% of the shopping centers sampled, 24% of the shopping centers are between 1-5sqm, 16% are between 10-15sqm while 12% are above 15sqm.

Table 3: Numbers of floors of Shopping Centres

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Floor	12	24.0	24.0	24.0
	2 Floors	14	28.0	28.0	52.0
	3 Floors	16	32.0	32.0	84.0
	4 Floors	8	16.0	16.0	100.0
	Above 4 Floors	0	0.0	0.0	100.00
	Total	50	100.0	100.0	

TABLE 3 above shows that 32% of the shopping centers are on 3 floors, 28% are on 2 floors, 24% are on 1 floor, 16% are on 4 floors while none is above 4 floors.

Table 4: Years of Experience of Shopping Center Development

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 5 years	8	16.0	16.0	16.0
	Above 5years	42	84.0	84.0	100.0
	Total	50	100.0	100.0	

TABLE 4 above shows that majority of the developers, that is 84% of the developers have more than 5 years retail development experience, while 16% have less than 5 years retail development experience.

Table 5: Branches of Developers Company outside Lagos

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	10	20.0	20.0	20.0
	No	40	80.0	80.0	100.0
	Total	50	100.0	100.0	

TABLE 5 above shows that most of the retail development companies that is 80% of the sampled developers do not have branches outside Lagos State, while 20% of the sampled retail development companies have branches outside Lagos State.

Table 6: Number of Shopping Center Developed from the inception of the company till date

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	4	8.0	8.0	8.0
	2.00	14	28.0	28.0	36.0
	3.00	12	24.0	24.0	60.0
	4.00	6	12.0	12.0	72.0
	5 & Above	14	28.0	28.0	100.0
	Total	50	100.0	100.0	

TABLE 6 above shows that 28% of the developers have developed just 2 shopping centers so far, another 28% have developed above 5 shopping centers, 24% have developed 3 shopping centers, 12% have developed 4 shopping centers while 8% have developed 1 shopping center.

Table 7: Sources of Development finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Equity fund	20	40.0	40.0	40.0
	Commercial Bank Loan	18	36.0	36.0	76.0
	Loan from Insurance Company	4	8.0	8.0	84.0
	Public funding	6	12.0	12.0	96.0
	REITs	0	0	0	96.0
	Trade Credit	2	4.0	4.0	100.0
	Total	50	100.0	100.0	

TABLE 7 above shows that 40% of the developers used equity fund to develop the shopping center, 36% used Commercial Banks loans, 12% used public funding, 8% used loan from an Insurance company, 4% used Trade credit while none used REITs.

Table 8: Why adopted the Source of finance used for development

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	The best option	14	28.0	28.0	28.0
	Availability of the option	28	56.0	56.0	84.0
	Awareness of the option	8	16.0	16.0	100.0
	Total	50	100.0	100.0	

TABLE 8 above shows the reason those developers adopted the source of finance they used in development of the shopping center. 56% adopted it because it was the available source of finance, 28% adopted it because it is the best option while 16% adopted it because that is the source of finance they are aware of.

Table 9: Most suitable Source of development finance for Shopping Center

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Equity fund	20	40.0	40.0	40.0
	REITs	0	0	0	40
	Commercial Bank loan	16	32.0	32.0	72.0
	Public funding	6	12.0	12.0	84.0
	Investment Banks & Securities firms	2	4.0	4.0	88.0
	Syndicate	2	4.0	4.0	92.0
	Trade Credit	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

TABLE 9 above shows the most suitable source of finance for shopping center according to the developers. 40% suggested equity funding, 32% suggested Commercial bank loans, 12% suggested public funds, 8% suggested Trade credit, 4% suggested loan from Investment banks & security firms, 4% suggested Syndicate funding while none suggested REITs.

V. CONCLUSION

This study empirically examined the sources of financing shopping center development using Lagos metropolis as a case study. It was discovered that most of the retail developers in Lagos Metropolis used equity fund to finance the development of their shopping centers whereas none of them used REITs to finance the development. They adopted equity fund because that is the available option open to them and they also considered it most suitable for retail development. It is also obvious that most of the developers are not aware of REITs as a source of real estate finance. Moreover, it is imperative that retail estate developers be aware of all various sources of financing shopping centers and their advantages and disadvantages.

Further research could be conducted to establish the workability of REITs as a source of retail development finance in our local environment- Nigeria.

VI. RECOMMENDATIONS

Retail Developers should consider REITs as a source of retail development finance, because it will afford them unlimited fund for development in the retail sector. To get the best result from this, the government should create a legal and functional framework to put in place a vibrant mortgage system in the country, because this is the only wings on which REITs can fly.

The government should encourage more foreign retail development investors that are ready to invest in an emerging market like Nigeria, because the Nigerian market is big and there is need for more retail developments to serve the population.

The indigenous retail developers should form an association similar to REDAN (Real Estate Developers Association of Nigeria) that are majorly concentrated on residential housing supply in the country. Through this association, members will relate with each other on the sources of real estate finance, also by having an association, they will be able to share information and assist each other where need be. Also, the power of number will give them the leverage to adopt bulk purchase of materials needed for construction and also the number too will serve as a good bargaining tool. The association also will afford the members the opportunity to rub minds together on the latest development in the retail industry in the World.

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