BEHAVIOURAL FACTORS INFLUENCING COMMERCIAL PROPERTY INVESTMENT DECISIONS IN LAGOS METROPOLIS, NIGERIA.

BY

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B.Sc. (Hons) Estate Management (OAU)

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CERTIFICATION

This is to certify that this thesis, written by Mr. MURITALA AfeezOlaniyi was supervised by me and submitted to the Department of Estate Management, ObafemiAwolowo University, Ile-Ife, Nigeria.

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DEDICATION

This Thesis is dedicated to my late Mother, Madam WasilatAgbekeMuritala, who so much love academics but never lived to witness my academic progress, may her gentle soul rests in perfect peace.

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ABSTRACT

This study identified and examined the profile of real estate investors in the study area, identified the processes involved in commercial property investment decision making, examined and classified the behavioural factors influencing commercial property investment decisions in the study area and determined the impact of investors' profile and behavioural factors on commercial property investment decisions in the study area. This was with a view to ascertaining the influence of behavioural factors on commercial property investment decisions in Lagos Metropolis.

Primary data were used in the study. The data were collected through the administration of questionnaire. The sample consisted of 197 investors who were selected through the portfolio of the 440 registered Estate Surveying and Valuation firms in the study area.The questionnaire sought information on the profile of the investors, processes involved in commercial property investment decision making, behavioural factors influencing investors during commercial property investment decision making and impact of behavioural factors on commercial property investment decisions. Both descriptive and inferential statistics were used to analyze the data collected. These included frequency distribution tables, weighted arithmetic mean, relative involvement indices, Chi-square and binary logistic regression.

The study revealed that out of the nine sequential stages involved in real estate investment decision making process, a typical investor follows only three of them. Among others, identification of goals, objectives and constraints (mean 3.45);analysis of the overall investment environment (mean 3.34) and final negotiations and closing (mean 3.10) were often considered

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necessary by Lagos individual investors. Moreover, the study established that the major behavioural factors that influence commercial property investment decisions in the study area are anchoring and representative heuristics (mean 3.37), market factor (mean 4.37) and herding effect (mean 4.43). The result of the cross tabulation showed thatamong the variable of investors' profile, there was no significant impact (X^2 = 5.03, P > 0.05) of age distribution on commercial property investment decisions. However, there were significant relationship between commercial property investment and each of educational qualification (X^2 = 5.99, P < 0.05), years of experience in real estate investment (X^2 = 8.07, P < 0.05) and seminar participation on real estate investment (X^2 = 17.63, P < 0.05). Each of the three variables significantly influences commercial property investment decisions. Also in the case of the behavioural factors, the study showed that there exists no significant impact of prospect factors (X^2 = 13.69, P > 0.05; Odds: 0.16, P > 0.05) on commercial property investment decisions. However, heuristics(X^2 = 140.45, P < 0.05; Odds: 0.66, P < 0.05), market factors (X^2 = 116.81, P < 0.05; Odds: 0.782, P < 0.05) and herding effect (X^2 = 127.69, P < 0.05; Odds: 0.51, P < 0.05) significantly influence commercial property investment decisions in the study area.

The study concluded that anchoring and representative heuristics, market factors and herding effect had influence on investors' decisions on commercial property investment.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Nigeria is gifted with an abundance and diversity of land and human resources. This backdrop creates the perfect setting for property market industry. And, today, investment remains the central activity in the real property market. Greer and Farrell (1984) in Ajayi (1998) concisely defined investment as the sacrifice of something now for the prospect of later benefits. Investment can also be described as the giving up of capital or the commitment of resources in anticipation of future returns (Gallimore, Hanz and Gray, 2000; Gallimore and Gray, 2002; Hutchison, Adair and Leheny, 2005).The concept of investment was further expanded by Hargitay and Yu (1993) when the authors defined investment as an economic activity involving the utilization of capital resources for maximum possible reward. The return or put differently the reward of investment, which may bereceived in the form of an income flow or by the receipt of a single capital sum or a combination of both (Hargitay and Yu, 1993; Ajayi, 1998) may or may not be guaranteed. Hence, investment represents certain sacrifices for uncertain benefits.

Investors prefer real estate investment because of certain characteristics, which distinguish it from other forms of investment media. Wendth and Paul (1979) identified these as the uniqueness of each parcel of real estate, the immobility of real property and the very long or permanent life of improvement to the land. The other features that make real estate investment more attractive than other types of investment are its liquidity (Jaswani, 2008) and a hedge against inflationary erosion of purchasing power (Teweless and Bradley, 1998).

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According to Oyinloye and Kufoniyi (2013), Lagos Commercial land use experienced a drastic growth of about 25.79% between 2000 and 2010; this is not unconnected with the preference for real estate investment as earlier stated. Real estate industry has become an increasingly important component of the Lagos State economy; it is the state's fastest growing sector.

With the huge amount of funds being committed to real estate investment, there is the greater need for rational decision making procedures so as to avoid financial loss. The decision making process is a cognitive and complicated process which results in the selection of action among several alternatives. Markowitz portfolio theory (1959) laid the theoretical foundations for asset selection and management. In this process, the emphasis is on weighing the outcomes and alternatives before arriving at a final decision. However, the decision maker is influenced by parameters outside the realm of financial theory and mathematical models (French and French, 1997; French, 2001). The actual behaviours of decision makers can deviate from this normative model. This is in line with the submission of Ajayi (1998) that traditional property investment was seen as a means to obtain security and regular income, thus decisions were made on the basis of intuition and past experience.

Contrary to the general notions of traditional finance and economic theories which assume that individuals act rationally and those economic decision makers are rational and utility maximizing, behavioural investors do not appear to follow a normative, systematic process. It is in the area of decision making and cognitive psychology that the answer to the reason why investors' decisions on real estate investment are sometimes taken without following a normative systematic process may be found. As such, behavioural finance theory has emerged based on the limitations of the traditional finance theories (Statman, 1995). Barberis and Thaler (2003) noted that behavioural finance theory explains investor irrationality and the decision

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making process by drawing evidence from the cognitive psychology and biases associated by the way people make decision and preferences of investments. Such an approach is necessary because the traditional approach cannot cope with the complexities of the present day investment scene.

Much has been learnt about the factors to be considered before making investment decisions. Contemporary academics have largely adopted the normative theory of investment decision making. However, researches from the field of cognitive psychology such as those done by (Kahneman and Tversky, 1979; Shefrin and Statman, 1994 and Shiller, 1998) on decision making, (Barkham and Ward, 1999; Shleifer, 2000 and Gallimore and Gray, 2002 among others) on investors and real estate investment decisions, (Gallimore, 1994; Adegoke and Aluko, 2007; Adegoke, 2008 and Iroham, Ogunba and Oloyede, 2013 among others) on valuers and valuation accuracy, have further shown evidence of irrationality and inconsistency in the way human beings make decisions when faced with uncertainty. Scholars, professionals and the property industry stake holders have now recognized the existence of behavioural factors in property investment decisions and also accept behavioural research as a valid and relevant aspect of property market analysis. It is against this background that this study examined the behavioural factors that influence commercial property investment decisions with special focus on office properties in Lagos Metropolis.

1.2 Statement of Research Problem

Investors throughout the world follow financial theories and mathematical models to arrive at reasonable investment decisions. However, they take wrong decisions which eventually result to huge losses and regrets at times, their decisions are in no doubt guided by behavioural factors.

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Barkham and Ward (1999) and Gallimore and Gray (2002) are perhaps the pioneer studies that focused on the investor behaviour in property investment decision making. On the other hand, while all consumers follow the general decision making models in gathering information, evaluating alternatives, and choosing a property, the individual behaviour within

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