Property Portfolio Performance of WEMABOD Estates Ltd

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Abstract**:** The contribution of an effective corporate property asset management to an organisation's core business activity cannot be overlooked. It is therefore necessary to identify and characterise those aspects of management that contribute to an enhanced level of performance. This study therefore assesses the property performance within the property portfolio of WEMABOD Estates, Lagos, Nigeria. In achieving this, questionnaires were distributed among members of staff in the Estate Department and the Legal unit. Interviews were also randomly conducted among tenants and the technical staff of the organisation on the maintenance policy of the organisation. Data were also obtained from the company's record. Data generated were analysed using regression analysis and ANOVA. Data presentation was through the use of bar charts, frequency distribution tables and line graphs. The results showed that the organisational structure of a real estate organisation plays a critical role in its investment performance. The study recommends that WEMABOD estate requires a high degree of consistency in the organisation to continue to ensure a reasonable standard of management.

Keywords**:** property portfolio, property management, property investment and real estate practice.

1.0 Introduction

Real estate, as an asset, represents a significant proportion of the total assets of an organisation or an individual. According to Njunbwen and Udo (2012), it is the second most expensive factor of production after labour, representing an average of 20 to 30% of the total assets in the USA and 30 to 35% in the UK. A rational businessman would expect appreciation in value over time after the purchase of real estate, stocks and perhaps income flow from dividends, if it is paid by the company.

Most organisations in Nigeria (both public and private), mix real estate with other forms of investment in their asset portfolio as a means of diversifying their investments with a view to generating additional income. Njunbwen and Udo (2012) also averred that corporate real estate portfolio (CRE) can be viewed from three perspectives (a) financial assets of corporations (b) real estate market assets and (c) operational assets (factor of production). Organisations deal with each of these perspectives separately and rarely seek to manage all of them together for the greater good of the organisation.

Corporate real estate management has been defined as the management of a corporation's real estate portfolio by aligning the portfolio and services to the needs of the core business in order to obtain maximum added value for the business and hence contribute optimally to the overall performance of the corporation (Corgel and Reross, 1999). The role played by property assets and its management in any corporate organisation is quite significant in the successful operation of the organisation to achieve its objectives. Many corporate organisations develop, acquire or lease properties for various functions. Government agencies and parastatals, international organisations whose corporate head offices are located in various parts of the country would either own or lease properties for their activities. The assets acquired or developed must be managed for its proper functioning for the users to derive the satisfaction from such assets. Examples of some of the corporate organisations in Nigeria with real estate assets are Central Bank of Nigeria, First Bank of Nigeria, Nigeria Ports Authority (NPA), Shell Development Corporation, WEMABOD Estates, UACN, Nigeria National Petroleum Corporation (NNPC) and Insurance companies.

WEMABOD Estate alongside with other corporate organisation like UACN properties can be referred to as institutional investors which pool large sums of money and invest those sums in securities, real property and other investments assets. They also include operating companies which decide to invest their profits. Typical investors include banks, insurance companies, hedge funds, investment advisors and mutual funds. There were management changes in WEMABOD estates in the years 2004 and 2010 respectively. This study attempts to assess property performance based on the profit generated on the various properties in WEMABOD Estate between years 2004 and 2014. This study provides an insight into the effectiveness of the utilisation of capital as well as compares the performance of various properties within the portfolio of the organisation. The findings of the study are expected to guide real estate organisation on the need for a consistency in their operation for a positive increase in their investment performance.

2.0 Literature Review

The inclusion of real estate in an investment portfolio is a way of reducing risk in one's portfolio and establishing a steady return on investment. Despite the slowdown in the economy of Nigeria, real estate investments remain strong with a secured return. Black and Litterman (1992) found out that the actual investments in the US totalled about $70 trillion in early 2000, with real estate and real estate backed assets including stocks and bonds making up approximately $30 trillion of this investable capital. Every investment comes with a risk and the higher the risk involved, the higher the rate of return however, a proper asset management plan will help in minimizing risk in investment.

Property management requires a good grasp of the real estate market and sound financial management. Anyone new to this field should take some time and effort to learn how business works. In the process of doing this, the property manager should be able to establish internal procedures to facilitate effective property planning and management. The portfolio managers use the historical averages for different asset class returns to determine the right mix of asset classes for the fund, whether the right mix is to a very high percentage bonds (income-seeking investor retirees) or to invest primarily in a small-capital equities (capital appreciation/ aggressive growth funds).

Return on investment is also related to the risk involved. An investor should expect a maximum return after he has covered a substantial amount of risk. This return can easily be measured only if it is to determine the period of time. Lee and Stevenson (2005) referred to consistency in investment as a desirable trait in investment and it takes on a particular significance when real estate is considered as the asset class. Real estate is generally perceived to be a long term investment due to its illiquidity. Thus real estate consistently provides both return enhancement and risk reduction.

In the assessment of portfolio diversification, the portfolio risk involved is made up of diversified or specific risk and non-diversifiable or systematic risk. The former being specific factors relating to the portfolio assets such factors as location, lease structure, state of repairs, etc. Olaleye (2000) explained that systematic risk is reduced through investment diversification. Risk here means the possibility of loss or variation in the expected return; diversification enables the investor to be shielded from a possible high variation in return. He further stated that risk can be substantially reduced through increased portfolio size and diversification and also that an insight into diversification risk can only be gained through portfolio performance measurement and it is on this basis that management makes decisions relating to the types of properties and size to hold.

Regular appraisal of portfolio performance will enable management assess how well each of the assets has done against initial expectation.

It is only rational that investors have knowledge of returns among the diversified investments. The market behaviour and the quality of each investment in the portfolio serve as a major objective of performance measurement activity. Lee and Roulack (2005) explained that investment advisers can identify those properties offering or capable of offering higher returns than others in the portfolio or returns achievable for same risk by investing in the capital market.

To continue to earn a good return on property investment, it is important to note that adequate professional training can be used to obtain a good result in asset and property management. Felgar (2011) found that managing properties require hiring of trained and competent people. Such people must have a good and strong background of other disciplines such as accounting, marketing, psychology, asset management and legal. Similarly, people in this business need to study and remain current on a variety of business disciplines. Professional property management companies have a system of policies, procedures and mechanism in place, to take in new properties in an orderly manner and manage them effectively from the start. A property manager can be likened to the fact that he is the owner's partner. He tries to maximise return on investment through efficient management performance. This is the reason why there should be a regular training for managers of real estate. Real estate forms part of portfolio investment and it contributes to the overall performance of the organisation, it is necessary for the property management company to act in the best interest of the property owners.

3.0 The Study Area

WEMABOD Estate was established in September, 1962 with a share capital of 10,000 pounds. It was then a wholly subsidiary of the defunct National Bank of Nigeria limited and called Nabani Estate. In October the same year, the bank sold its shareholdings for 1,231,000 pounds to the Western Nigerian Marketing Board at Ibadan and the name of the company was changed to WEMABOD Estates Limited. Since then, WEMABOD Estate has grown considerably well. The properties portfolio was expanded when other developments including the impressive Cocoa House, Ibadan were bought from the National Investment Company (NIPC) by the Western Nigeria Marketing Board and later transferred to WEMABOD.

Presently WEMABOD Estate Limited is one of the Nigeria's leading real estate firms offering services in property development and management. It has its corporate headquarters at the 5th floor Western House, 8/10 Broad Street, Lagos. WEMABOD Estates was selected for this study because of its strategic vision which is "to be and remain at the commanding height of real estate business" with a view to generating income and to provide effective and efficient real estate services.

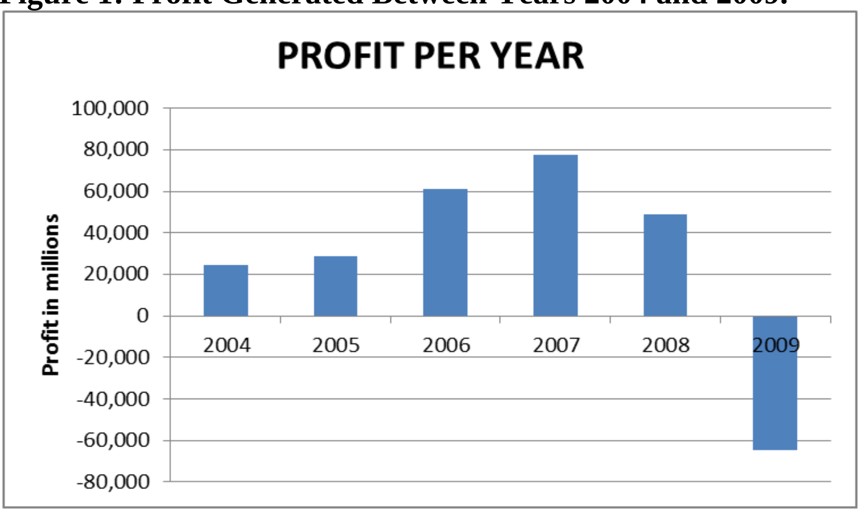
4.0 Materials and Methods

Questionnaires were administered to all (13) members of staff in the Estate Department with a response rate of 69.2%. 66.6% success rate was achieved from the staff of the Legal unit. In addition, interviews were also conducted among the technical staff and seventeen (17) tenants on issues relating to the maintenance policy of the organisation, the service charge, responses to their needs and their opinion on the state of the estate as a whole.

Data were analysed using statistical programme for social sciences (SPSS) version 16. Also the study employed both descriptive and inferential statistical analyses to get frequency distribution. Data were presented using the bar chat, line graph, regression analysis, ANOVA and tables.

5.0 Result and Discussion

Figure 1: Profit Generated Between Years 2004 and 2009.



The bar chart depicts the profit accrued from various properties belonging to Wemabod Estates between the years 2004 and 2009. In 2004, profit made from various properties at WEMABOD estates was 24,315 million naira. It increased by 19%, 111% and 26% in the years 2005, 2006 and 2007 respectively. However, in 2008, it fell by 37% and experienced a huge loss of 64,850 million naira, a 233% decrease at the end of the period. During the period under review, there was a 367% decrease in profit.

Table 1: ***Assessment of the Property Performances based on the profit generated from the properties between the years 2010 to 2014.***

YEAR	PROFIT (₦)
2010	126,481
2011	198,851
2012	302,294
2013	167,033
2014	294,674

Source: Field survey, 2014

Table 1 show the profit accrued from various properties belonging to WEMABOD Estates between the years 2010 and 2014. In 2010, profit accrued from properties managed by WEMABOD estates was 126,481 million naira. It rose steadily from 2010 through 2011 and 2012 and dropped by 45% from the previous year, and in 2014. In all, the company recorded a 76% profit.

The line graph illustrates the performance showing the profit accrued from various properties belonging to WEMABOD Estates between the years 2004 and 2014, a period of eleven years. Although, there were fluctuations in profit but generally there was an increase in profit generated from the properties most especially from the year 2010 to 2014.

In 2004, WEMABOD Estates started out with a profit of 24,315 million naira, which increased steadily until 2008, when it began to drop, the huge dip in the graph in 2009. Thus there was a huge loss in profit during this period. By 2010, profit increased and got to its peaked in 2012 followed by a fall in profit in 2013 and an alternative increase again in 2014. Huge profits were made in 2012 and 2014 during this period.

Fig 2: Profit accrued over the years (2004 – 2014)

For further analyses a regression analysis was done to compare the relationship between the two factors which are the profit accrued and the years they were made.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.768[a]	.590	.545	78098.46414

a. Predictors: (Constant), YEAR

Table 2 illustrates the relationship between profit as the dependent variable and year as the variable. The R value, 0.768, indicates a high degree of correlation between profit and year. R2 indicates that 59.0% of the total variation in profit accrued from the various properties managed by WEMABOD Estates, can be explained by (or is dependent on) the year in which the profit was made. (Fig.3, 4 and 5)
The line of best fit is a line that best represent a pattern in a sample. R is the correlation measuring how the two variables, profit and year, can move in relation to each other. R2, covariance is the proportion of the variability in profit that is explained by the independent variable the year in the model. 59% of the variation in profit is due to the year. Standard error of the estimate measures the variability of the actual profit values from the predicted profit values. The F value is to determine if the regression analysis is significant. The p level is the probability that the result occurred randomly.

Table 3 **ANOVA**[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	79034810553.636	1	79034810553.636	12.958	.006[b]
	Residual	54894330907.091	9	6099370100.788		
	Total	133929141460.727	10			

a. Dependent Variable: PROFIT

b. Predictors: (Constant), YEAR

Table 3 indicates that the regression model predicts the dependent variable significantly well. Because the p value 0.006 < 0.05, thus the p value indicates that the regression model statistically significantly predicts the outcome variable, which is the profit.

Decision rule: Reject H_0, if p-value is less than α-value else Reject H_1.

From Table 3, it is observed that p-value, 0.006, is less than the α-value, 0.05. Therefore, we reject H_0. Thus, the profit accrued from properties managed by WEMABOD Estates was strongly dependent on the year the profit was made.

Table 4: **Coefficients**[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-53735891.182	14959828.867		-3.592	.006
	YEAR	26804.818	7446.396	.768	3.600	.006

a. Dependent Variable: PROFIT

Table 4 provides the necessary information to predict price from income, as well as determine whether the year contributes statistically significantly to the model (by looking at the .Sig column). We can also use the values from in the B column to present the regression equation as

Regression equation i.e. y =α +βx
α is the interceptor

β is the slope

Is there a relationship between X and Y .we can see it by observing β the slope of the regression line. If β is positive then there is a positive relationship between X n Y. the more x the higher y is. If the relationship is negative more x the less y. The slope is negative β in a negative relationship.
Y = -5374 + 2680x

i.e. profit = -5374 + 2680 (year) Line value that explains the change in the y variable

Table 5: Property Portfolio Analysis.

Table 5 shows the number of properties in their various location managed by Wemabod Estate.

Table 5: **PROPERTY LOCATION**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	APAPA	11	28.9	28.9	28.9
	LAGOS ISLAND	12	31.6	.31.6	60.5
	SURULERE	4	10.5	10.5	71.1
	IKOYI	1	2.6	2.6	73.7
	EBUTEMETA	1	2.6	2.6	76.3
	IBADAN	4	10.5	10.5	86.8
	MUSHIN	1	2.6	2.6	89.5
	IKEJA	4	10.5	10.5	100.0
	Total	38	100.0	100.0	

Source: Field survey, 2014.

From Table 5, it is observed that over 50% of the properties managed by Wemabod Estate are located in Lagos Island (31.6%) and Apapa (28.9%) while Ikoyi, Ebute-meta and Mushin have the least number of properties with just 2.6% each. Surulere, Ibadan and Ikeja are 10.5%. It was necessary to have knowledge of the number of properties the organisation has in various locations so that the property performance can be compared at different locations.

Table 6: Property Locations and their Financial Status

		FINANCIAL STATUS			Total	Performance Remarks
		Profit	Loss	Exact		
PROPERTY LOCATION	APAPA	4	2	5	11	Profit realised
	LAGOS ISLAND	2	5	5	12	Loss incurred
						No profit realised
						No profit or loss
	SURULERE	0	1	3	4	No profit or loss
	IKOYI	0	0	1	1	Profit realised
	EBUTEMETA	0	0	1	1	Loss incurred
	IBADAN	2	1	1	4	Loss incurred
	MUSHIN	0	1	0	1	
	IKEJA	1	3	0	4	
Total		9	13	16	38	

Source: Field survey, 2014

Table 6 compares the financial status of the properties at various locations based on the profit generated from them and the losses incurred. This will bring an insight to the performance behaviour of these properties. Overall, it can be seen that more profit was made in Apapa (44.4%) than in the other locations. Also more losses were incurred in Lagos Island (30.8%) than in any other location. No losses were incurred in the Ikoyi and Ebute-meta locations. Interestingly, Lagos Island has the highest lose. From schedule of profit and loss above, it is obvious that properties invested in Apapa are performing better than the ones in other locations.

6.0 Summary of Findings, Recommendation and Conclusion

The study shows that Wemabod properties are located in strategic areas like Apapa, Lagos Island, Surulere, Ikoyi, Ibadan etc. Lagos Island has the highest number of property, this is followed by Apapa, surulere, Ibadan and Ikeja. Also, the study reveals that the organisation makes more profit from properties in Apapa than other areas, despite the fact that Lagos Island has more properties.

The study concludes that corporate asset management requires a high degree of consistency in the organisational structure to ensure a reasonable standard of management. Most times, real estate transactions are approachable predominately from a deal- making rather than a strategic posture. This has to be carefully considered before taken decisions. It is pertinent that corporate assets managers must equip themselves with the required skills, training and knowledge to meet the challenges of the profession. However, there is need for staff auditing to be seriously looked into this will bring out the best staff that can move the organisation forward.

The study recommends that the organisational structure of a real estate organisation should play a critical role in its investment performance and that each real estate establishment should focus its management style on merit without regards to primordial consideration or any form of corruption.

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