CAUSAL LINKAGES BETWEEN CONDUCT AND PERFORMANCE OF REAL ESTATE INVESTMENT TRUSTS IN NIGERIA

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Abstract - The aim of this study is to examine the linkages between conduct and performance of Real Estate Investment Trusts in Nigeria (N-REITs) from 2008 to 2016 with a view to providing information for investment decisions. The study population comprised all the N-REITs companies namely: Skye Shelter Fund REITs, Union Home REITs and UPDC REITs. A total enumeration survey of all the companies was carried out. Data on conduct indicators such as advertisement, maintenance of property among others as well as data on dividend and share prices of N-REITs were obtained from the annual reports/statement of accounts of the respective companies. These data were analyzed by means of descriptive statistical tools, holding period analysis and Granger Causality Test. Findings from the study revealed that most of the conventional basic conduct indicators as presented in literature such as innovation, marketing strategies and research and development among others were not adopted by N-REITs companies. The holding period returns had a mean value of 4.72% within the study period. The study further showed a significant positive bi-directional causal relationship between conduct and performance in the industry (with P-values as 0.0078 and 0.0045 respectively). It was recommended that the respective N-REITs companies adopt identified basic conventional conduct indicators as this will create awareness about Nigerian REITs and stimulate patronage by investors which can consequently impact on its performance.

Keywords - Conduct, Performance, Real Estate, REITs, Returns.

I. INTRODUCTION

The Nigerian Real Estate Investment Trusts (N-REITs) industry sprang up in 2007 with the Skye Shelter Fund being the pioneering company, followed by Union Home Hybrid REITs' company in 2008 and subsequently the UPDC REITs' company in 2013. During their respective IPO's (Initial Public Offerings), investors bought shares from these companies providing a market capitalization worth about N41, 183,684,050.00 ($114,399,122.00). This provided the required capital base for operations in the N-REITs industry (Dabara and Ogunba, 2019). Subsequently, the shares of the companies were transacted in the stock market (through the agency of the stock brokers). The N-REITs industry pools together the resources of the various investors (institutional and individual investors) through the sale of the said REIT shares and injects the realized funds into the direct real estate market through the acquisition and development of income producing properties in prime locations of particularly Abuja, Port Harcourt and Lagos accordingly.

REITs is still new in the African continent, this explains why only a few countries such as South Africa, Nigeria and Kenya have adopted its regime. This is not to say that REITs in itself is a new investment vehicle. It has been in existence since 1960 when it was first created in the US. Since then, over 35 countries have adopted the REITs regimes with a combined market capitalization of close to two trillion USD (Omokhomion, Egbu and Robinson, 2018). Investors and researchers have been investigating the performance of REITs all over the world. The general consensus in literature is that REITs is a good performing asset. However, earlier Nigerian studies such as Akpan and Ogunba (2015) indicated that N-REITs is not doing so well in terms of return performance. This has stimulated research on N-REITs in a bid to unravel the precursors of this phenomenon. These studies include among others: Olanrele, Said and Daud (2015) which evaluated the performance and acceptability of REIT in Nigeria; and Dabara, Omotehinshe, Chiwuzie, Asa and Soladoye (2018) which examined the structure of N-REITs. However, to the best of the authors' knowledge, none of the earlier studies have investigated the causal linkages between conduct and performance of N-REITs. Hence, this study will fill this identified gap using the Structure, Conduct and Performance (SCP) hypothesis as the theoretical base underpinning this research work. Bain (1951) postulated that there is a linear causal relationship between the structure, conduct and performance of industries. Bain posited that conduct represents the actions or behavior of firms in the market geared towards enhancing or improving performance. While performance was seen as the outcome or results obtained from the impact of conduct activities. Lee (2012), and Kaonga (2015) have a consensus on both the endogenous and exogenous factors used in the SCP model to represent conduct. The endogenous factor or indicator (advertisement) as well as

exogenous factors or indicators such as (innovation, collusion, marketing strategies, pricing and research/development) are all used as proxies for conduct in the SCP model. While performance variables were based on dividend and share prices for indirect real estate investments.

The debate on the conduct and performance of industries have generated vast literature. These include studies conducted by Ogunba (2004) in Nigeria. The author examined the conduct of valuation exercise in Nigeria using the Bain (1951) SCP model. Findings from the study revealed that the conduct of valuation exercise in the study area was characterized by non-uniformity of valuation inputs used by valuers as well as the observable practice of valuers resorting to unconventional manipulation of data. Zhu (2008) carried out a study that covers the major Asian real estate markets i.e Japan, Hong Kong and Singapore in comparison with the US REITs using conduct indicators such as marketing strategy, share pricing and innovations. Findings from the study revealed that Hong Kong' REITs had a negative correlation with US REITs, but had a positive correlations with Japan' and Singaporean REITs. Chen, Downs and Patterson (2012), investigated the conduct of REITs with regards to the correlation between REITs short interest as regards selling period and heterogeneous beliefs (divergent investors' opinion on REITs value) with respect to the valuation of REITs in the New York Stock Exchange, USA. Findings from the study suggested that the conduct of valuation exercise in the study area revealed the existence of overvaluation among REITs with less transparency and short interest or selling period consequent upon investors' heterogeneous beliefs. Mu'azu et al. (2013) analyzed the poultry industry in Malaysia using the SCP model. The conduct component of the model was proxied by: pricing behavior, product strategy, research and development, advertising and legal tactics. Methodology used for the study involved the use of statistical tools such as mean, percentages and regression analysis. Findings from the study suggested that the structure of the industry was greatly influenced by advertising variable of the conduct component. Naidoo (2014) carried out one of the pioneering studies on REITs in the South African Capital Market. Result from the study indicated that the introduction of REITs into the South African real estate market was a welcomed development. This was in connection with its perceived ability to provide enhanced portfolio returns, liquidity as well as diversification benefits when appropriate mode of conduct is adopted. This is in agreement with studies such as Akinsomi, Balcilar, Demirer and Gupta (2017). The major research gap identified from literature is the absence of studies that looked at the performance of REITs from the perspective of

internal factors such as its conduct activities (advertisement, maintenance of properties etc).

The aim of this study is to examine the linkages between conduct and performance of N-REITs from 2008 to 2016 with a view to providing information for investment decisions. Hence the study seeks to: identify conduct activities of N-REITs within the study period; assess the return performance of N-REITs and evaluate the causal relationship between conduct and performance of N-REITs within the study period. The remaining part of the paper is structured as follows: the next section presents methodology adopted for the study, presentation and discussion of result was next and finally the conclusion section.

II. METHODOLOGY

The study population relevant for this study consisted of all the N-REITs companies in Nigeria namely: Skye Shelter Fund REITs, Union Home REITs and UPDC REITs. A total enumeration survey of all the population was carried out.The data on conduct, which was based on analysis of the average annual amount expended on each individual conduct indicator of the N-REITs companies were obtained from the annual reports/accounts of the companies. In line with previous studies such as Kaonga (2015), this study used conduct variables such as advertisement, property maintenance, insurance of property and administrative expenditure. These data were subsequently used to calculate the percentages of amount expended on each of the conduct indicators using Equation 1. Similarly, data on dividend and share prices of the 3 N-REITs companies for the study period (2008 to 2016) were also obtained from the companies' periodicals. Both the dividend and share prices were used to calculate the holding period returns performance of the N-REITs industry.

In this study, Advertisement was defined as private or public notices which are designed to inform and motivate the buying behavior of the recipient by the advertisers to persuade the former to make decisions or take actions that the later desired. This can be by means of television, radio, telephone, text massages, bill boards etc.Property maintenance involves overall upkeep of landed properties which may include specific or general repairs and installation of fixtures. Property insurance was seen as a policy that provides financial reimbursement to the owner or renter of a structure and its contents, in the event of damage. While administrative expenses in this study includes all expenses incurred by the company which are vital to the company's success as well as impacting positively on the performance of the company. These includes: management fee, AGM (Annual General Meeting) expenses, sitting allowances, professional

fees (auditors, lawyers, valuers, etc), bank charges, subscriptions and donations, travelling expenses, etc.

In this methodology, first, in line with previous studies, Equation 1was used to measure the individual conduct indicators.It is expressed as:

$$Xn = \frac{TIE}{TBR} x \ 100 \quad (1)$$

Where:
Xn = Individual Conduct Indicator (e.g advertisement) in percentage
TIE = Total Individual Indicator's expenditure
TBR = Total REITs Company' Business Revenue for individual REITs company

Second, for performance measurement, Equation 2 below was used to calculate the holding period returns which is expressed as

$$HPR_t = \frac{NI_t + (CV_t - CV_{t-1})}{CV_{t-1}} \quad (2)$$

HPR_t = Holding Period return
CV_{t-1} = Share price of N-REITs at the beginning
CV_t = Share price of N-REITs at the end
NI_t = Income of N-REITs (Dividend) received during the holding period

Third, the Granger Causality tests was carried out to determine the causal relationships between conduct and performance of N-REITs within the study period.

Decision rule for Granger Causality tests
If P-Value > 0.05, do not reject the null hypothesis of no Granger causality (there is no causal relationship).
If P-Value < 0.05, reject the null hypothesis of no Granger causality (there is a causal relationship).

III. RESULTS AND DISCUSSIONS

This section presents results and discussions of the data analyzed. Table 1 presents the conduct indicators in the study area.

Year	ADV	MP	IP	ADM	TOTAL
2008	0	0	0	13.94	13.94
2009	9.74	0	0.74	15.14	25.62
2010	0.36	2.33	0.88	28.6	32.17
2011	0.02	0.1	0.81	25.39	26.32
2012	0	2.23	2.26	23.06	27.55
2013	0	4.83	1.45	20.85	27.13
2014	0.59	3.37	2.64	24.62	31.22
2015	0	0.8	0.54	13.41	14.75
2016	0.87	1.64	1.92	14.89	15.07
Mean	1.2	1.7	1.3	20.0	23.8

Table 1: Total Individual conduct indicators in the N-REITs industry
Source: Analyses of survey data, 2017

Note: ADV = Advertisement, MP = Maintenance of Properties, IP = Insuring of Properties, ADM = Administrative expenses

Table 1 presented the total amount in percentage expended on the conduct indicators in the N-REITs industry within the study period. This was obtained by dividing total individual indicators' expenditure (TIE) by the total business revenue (TBR) generated from the respective companies. These data were obtained from the companies' annual reports/statement of accounts. Table 1 showed that there was a consistent decrease in the amount expended on advertisement from 2009 to 2015 with a mean value of 1.2% which is quite low. For maintenance of properties, a mean value of 1.7% was expended within the study period (this might be justifiable because most of the underlying properties are still new and might not need much maintenance work). There was a gradual but consistent increase in

the amount expended on insurance of properties between 2009 and 2012, with a mean value of 1.3%. Administrative expenditure had the highest amount expended when compared to other variables. There was a consistent increase from 2008 to 2010, the figures decreased in 2011 and the decrease kept on to 2014. The highest amount expended on administrative expenditure was 28.6% in the year 2010 while the least was 13.41% in the year 2015, with a mean value of 20% within the study period. It is obvious from this study that the N-REITs industry did not adopt most of the conventional basic conduct indicators as presented in literature such as innovation, marketing strategies and research and development among others (see Lee, 2012; Mu'azuet, al. 2013; Kaonga, 2015). It is pertinent that the companies adopt these indicators to enhance or improve the performance of Nigerian REITs. Furthermore, it has been observed that many people in Nigeria do not know about REITs. This could be

connected to the fact that the N-REITs companies do not adopt basic conventional conduct indicators. Hence, it is very important for N-REITs companies to undertake intensive advertisement and use marketing strategies to create awareness about Nigerian REITs. The implication of this is that the more prospective investors become aware of the inherent potentials in investments in REITs the more they will want to investment in N-REITs which can translate to better performance in the industry.Table 2 presents the holding period returns performance of N-REITS.

Year	Skye Shelter Fund REITs	Union Homes REITs	UPDC REITs	Average
2008	22.07	-	-	22.07
2009	-6.14	8.02	-	0.94
2010	2.65	3.20	-	2.93
2011	3.06	2.79	-	2.93
2012	6.54	4.26	-	5.40
2013	5.25	0.00	-	2.63
2014	4.35	-2.92	-1.90	-0.24
2015	7.26	-6.16	7.48	2.86
2016	0.01	3.21	5.58	2.93
mean	5.0	1.55	3.72	4.72

Table 2: Annual holding period return of N-REITs companies from 2008 to 2016
Source: Analysis of survey data, 2017

From Table 2, the holding period return was observed to have ranged between an average of -0.24% and 22.07%. The highest returns was recorded in 2008, having a return value of 22.07% (this was the year that REITs was introduced in the Nigerian capital market). The lowest returns value obtained was -0.24, this was recorded in 2014 (this was the beginning of the recent economic recession experienced in Nigeria). Table 2 showed that all the return values in the N-REITs companies (with a few exceptions) were positive. The implication of this is that investors can obtain positive returns (with a mean return value of 4.72%) from the N-REITs industry should they decide to invest in the industry.This findings is congruent with findings of similar studies suchOluwasegun and Dabara (2013) and Dabara (2014). Figure 1 below presents the trend analysis of the holding period return of the N-REITs companies.
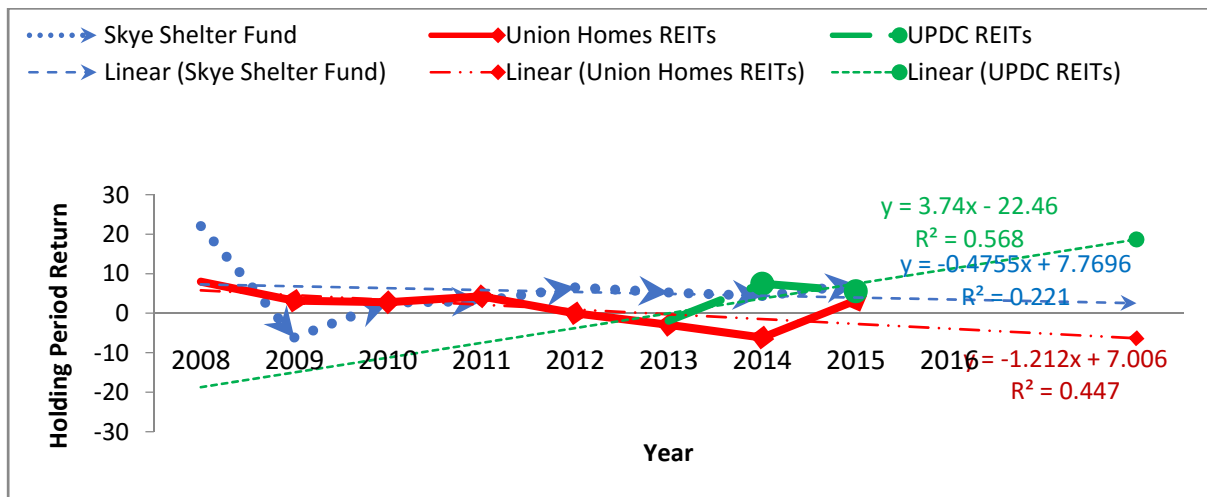

Figure 1: Trend analysis of holding period return on N-REITs companies

Figure 1 showed that for all the three N-REITs companies there was less volatility for their respective holding period returns as indicated by their respective trend lines, with the Union Homes REITs showing the least level of volatility when compared to the other two companies. Similarly, for the Skye Shelter Fund and Union Homes REITs, the smoothed trend lines indicated a consistent and steady decrease in its total returns from 2008 to 2016, while the UPDC REITs indicated a steady increase in its returns for the study period. A future forecast with respect to the holding period returns in the study area for additional three years, from 2017, indicated a continues steady increase for the UPDC REITs and decrease for the Union Homes REITs and Skye Shelter Fund' returns.

The level of reliability of the trend and accuracy of the forecast as determined by the R^2 value for the three N-REITs companies' respective returns were 22.1% for the Skye Shelter Fund, 44.74% for the Union Homes REITs and 56.88% for the UPDC REITs. The least square regression equation in the analysis used for the purpose of predictions revealed that the return for the UPDC REITs had a steady and consistent increase over the study period and this increase is likely to be maintained over the next three years as seen from the predictive trend lines. While the Union Homes REITs and the Skye Shelter Fund have a steady and consistent decrease over the study period and this decrease is likely to be maintained over the next three years as seen from the predictive trend lines.

Null Hypothesis:	F-Statistic	P-Value
N_REIT_PERF does not Granger Cause N_REIT_COND	0.65565	0.0078
N_REIT_COND does not Granger Cause N_REIT_PERF	0.01585	0.0045

Table 3: Granger causality tests for conduct and performance of N-REITs industry
Source: Analysis of survey data, 2017

Table 3 showed the results of Granger Causality tests between conduct and performance variables of the N-REITs industry. The results suggested a bi-directional causal linkages between conduct and performance. The implication of this is that there is a two way positive relationships existing between conduct and performance of N-REITs. Implying that conduct activities such as advertisement, maintenance of properties etc have a causal effect on returns performance of N-REITs and vice versa (with P-values as 0.0078 and 0.0045 respectively). This is congruent with what was found in literature as confirmed by studies such as Porter (1981) and Mu'azuet, al. (2013) which posited that the SCP concept has a reverse causal relationship referred to as 'feedback'. However, this refuted the hypothesis postulated by Bain (1951) which asserted that there is a linear one way causal relationship for the SCP model.

IV. CONCLUSION

The study examined the causal relationship between conduct and performance of N-REITs. Findings from the study showed some level of deficiency with respect to conduct factors in the industry. Most of the conventional basic conduct indicators as presented in literature such as innovation, marketing strategies and research and development among others were not adopted by N-REITs companies. It was recommended that the respective N-REITs companies adopt these basic conventional conduct indicators as this will bring the industry into the limelight. It has been observed that many people in Nigeria do not know about REITs. This could be connected to the fact that the N-REITs companies do not adopt conduct strategies in line with REITs global practices. Similarly, REITs is still new in Nigeria hence the need to undertake intensive advertisement, innovative tactics, research and development efforts in the field of REITs and use of dynamic marketing strategies to create awareness about Nigerian REITs and stimulate patronage by investors. This is more so as the study revealed a significant positive causal bi-directional linkages between conduct and performance in the industry (with P-values as 0.0078 and 0.0045 respectively). The implication of this is that the more prospective investors become aware of the inherent potentials in investments in REITs the more they will want to invest in N-REITs thereby creating an enabling atmosphere for the industry to thrive and consequently impact on its performance.

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