



## Impacts of Depressed Economy on Rental Value of Residential Properties in Port Harcourt Metropolis

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### ABSTRACT

Nigeria has experienced a severe economic down turn between the second quarter of 2016 up to present. This period of economic depression has affected the nation's economy as well as the real estate sector. The study aimed at examining the effect of economic depression on residential property rental values in Port Harcourt Metropolis. The study adopted the survey research design and questionnaire was the main source of data collection which was administered on Estate Surveying and Valuation firms in Port Harcourt Metropolis which were selected using purposive sampling technique. The data collected was analyzed using descriptive statistics and the relative importance index. The findings from the study reveal that economic depression has affected residential rental values in Port Harcourt Metropolis by way of upward review of rent, delay in letting residential property, reduction in construction activities and inability of tenant to comply timely with repayment of rent. The study concluded by recommending that the government diversify the economy and that rental control policies be set up by the government in order to curb the effects of unnecessary rent inflation.

**KEYWORDS:** Depressed Economy, Rental values, Residential properties.

### Introduction

Economic depression is a recurrent issue because of the cyclical nature of the global economy. That is why most countries, especially the developed ones, often diversify the structural base of their economy to withstand any external shock (Farayibi, 2016). Economic depression although sometimes called recession is often characterized by rising prices of goods and services, inability of government to meet its financial obligations, exchange rate fluctuations, and poor performance of other macroeconomic variables which defines the state of the economy per time. Economic depression is a tragedy.

Sanusi, (2008) states that the Real Estate sector is envisioned as one of the major drivers of the economy with 5% increase in GDP growth, other sectors like health, education, transportation and the likes depend heavily on the Real Estate industry. However, the Real Estate industry can be fractioned into three crucial parts which are the Residential Sector, Commercial sector and Industrial sector which employs a lot of labor

Provision of mega facilities, structures and infrastructure projects have been the exclusive responsibility of the government, it is considered as a social and political responsibility of government to provide basic services to the citizens. Thus, the consistent failure of the governments in Africa to provide adequate services is partly because African governments lack

the money and resources to maintain and expand existing infrastructures. El-Rufai (2011) contended that infrastructure is essential to human and economic development and is the catalyst for magnetizing investment, for which Nigeria has requisite potentials. For example, the Real Estate sector experienced dynamic growth of about 12.09% in 2010, compared to 11.97% in 2009, thus reflecting more preponderant investments in both residential and non-residential buildings and other construction activities. In the same vein, the Real Estate related activities experienced a growth of 12.24% in 2010 as compare to 11.97% in 2009. This is because in 2010 some large projects were executed which positively impacted the performance of the sector. Some of these projects includes: dredging of River Niger, rehabilitation of national roads having a total of 1,975 km, railway lines, Public Private Partnership (PPP) projects, Presidential Initiative Projects integrating up to 853.82 km of roads and several housing unit types (Oluwakiyesi, 2011).

Nigeria as a nation went into recession in 2016 as a result of continuous fall in the Gross Domestic Product (GDP) of the country and in 2020 the Nigerian economy shrank by 1.8%, its deepest decline since 1983. During this period, the real estate market is one of the most hit sectors of the economy. It is important to examine the impact of the economic downturn on the real estate market in Nigeria, a topical issue that presents significant challenges to almost all economies (underdeveloped, developing and developed). In recent times, the drop in oil prices has left nations with undiversified oil based economy like Nigeria in economic crisis. This challenge, brought about by exchange rate fluctuations has led to the devaluation of the Naira, affecting the demand and supply sides of the economy. This economic downturn has hit the Nigerian real estate market in a unique way.

As economic depression continues to take its toll on the Nigerian economy, the country has witnessed a massive crash in the price of stocks and shares in the stock exchange market. Indeed, the real estate sector is not exempted from this economic situation. It is common knowledge that one of the most notable hallmarks of a recession is the scarcity of funds. This is further worsened by the fluctuation in the value of the Naira against the Dollar/Pounds. This fluctuation has made it difficult for some people to consider the possibility of investing in real estate at this time. Even those who are willing to invest are faced with the burden of finding investment opportunities in markets that offer the greatest long term growth and stability. It is thus safe to say that, with the current low investment in the real estate sector, which has seen housing prices dropping at near historical lows; this may be the perfect time to invest in real estate (Perchstone and Graevs, 2016).

## **Study Area**

Port Harcourt is one of Nigeria's quickest developing urban areas. The normal yearly development rate of Port Harcourt between of 1963 and 2010 has been estimated to be 5.2%. The development of Port Harcourt is attached to the social and financial history of the nation. The city is the oil capital of Nigeria, since it has the greater part of the country's multi-national oil

and gas, two refineries, petroleum-related administration organizations, and in addition a quick extending business sub-area (Johnbull and Ikiriko, 2021).

Peter Odili road is one of the prominent business district areas in Port Harcourt City Local Government Area is one of the area that make up the Port Harcourt Metropolis. The Local Government area covers 100km<sup>2</sup> and a population of 546,789 Persons.

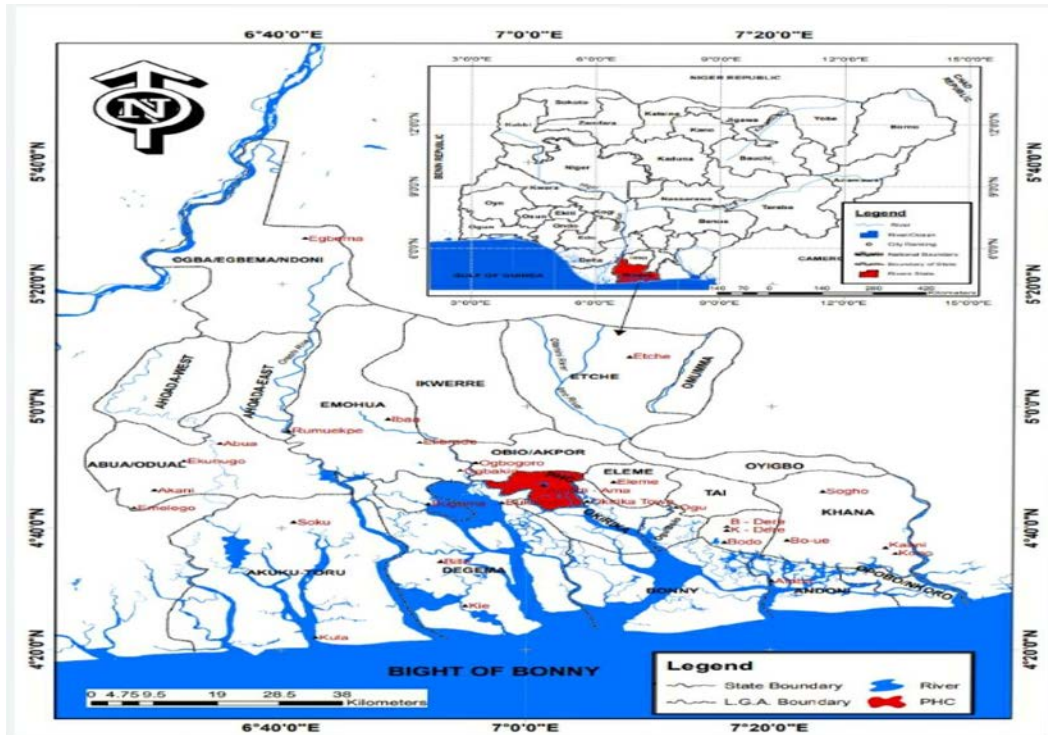


Fig. 1 Map of Port Harcourt showing the Study Area

Source: URP GIS LAB, RSU, Port Harcourt.

## Problem Statement

Several developments scattered around the country that have been left uncompleted, as well as new construction projects that are either abandoned and or left unoccupied. A number of properties that have been used as securities for mortgage facilities had been foreclosed as a result of the inability of the mortgagors to fulfill their obligations under their respective loan agreements (Donatus, 2011). Philip, (2000) opined that as a result of this, there are more properties on the market than there are buyers willing to buy. In other words, the real estate market has become what is termed as the 'buyer's market'.

Although the government of Nigeria has announced that Nigeria is out of economic depression, the Real estate market is yet to bloom. Since the devaluation of the Naira by the Central Bank of

Nigeria (CBN), the exchange rate of the local currency against the US Dollar has been unstable and discouraging. The implication of this to a tenant who rented an apartment at a certain rate two years ago is that, at the point of lease renewal, the rent would have doubled (Sagna, 2016). Nigerian economy, has witnessed a massive crash in the price of stocks and shares in the stock exchange market as a result of economic depression.

The real estate sector is not exempted from this economic situation. It is a common knowledge that one of the most notable hallmarks of a recession is the scarcity of funds. This is further worsened by the fluctuation in the value of the Naira against the Dollar/Pounds as it has made it difficult for some people to consider the possibility of investing in real estate businesses at this time. It is in this regards, that this paper examines the impacts of economic depression on rental value in Port Harcourt metropolis.

## **Literature Review**

### ***Depressed Economy***

A depression is a severe and prolonged downturn in economic activity. In economics, a depression is commonly defined as an extreme recession that lasts three or more years or which leads to a decline in real Gross Domestic Product (GDP) of at least 10%. In a given year. Depressions are relatively less frequent than milder recessions, and tend to be accompanied by high unemployment and low inflation.

### ***Causes of Economic Depression in Nigeria***

Haruna (2017) proposed 14 factors are responsible for the recession or Depression Nigeria is currently undergoing:

1. **Poor economic planning:** Poor economic planning and no concrete implementation of its economic planning is the major cause of Nigeria current recession. The government has proclaimed the usual generalities that every government indulges itself in about Diversifying the economy, Improving manufacturing/mining sector, Raising agricultural output, Encouraging foreign investment, among others, yet no concrete evidenced strategic plan for growth. No doubt, the government has taken some steps like the elimination of dollar purchase privileges for importers of 40 items such as-rice, cement, toothpicks, private planes, poultry, meat, margarine, wheelbarrows, textiles and soaps.
2. **High Inflation Rate:** Government banning the importation of certain essential agricultural products like rice without considering gestation period is error. Removal of fuel subsidy shouldn't be simultaneously with the banning of these agricultural products. Nigeria inflation rate currently stands at 17%, which is extremely high.
3. **High Interest Rate:** interest rate is between 26.77-27%. Is extremely high for investors. This high interest rate is discouraging investors. The poor investment culminates into high rate of unemployment in the country.

4. **High Taxation:** It is only in Nigeria that you see government charging high tax rate during economic recession. Small businesses are slaughtered with high interest rate. Both high interest and tax rate has lowered Nigeria aggregate demand.
5. **Policy conflict:** The economic policies appear conflicting. How? High-interest rate, high tax rate are tight monetary policy measures. But government told the public it is adopting expansionary policy-budget deficit.
6. **Overdependence of the nation on petroleum as a source of income,** Nigeria gets over 95% of its revenue from oil (Sanusi, 2001).
7. **Resource mismanagement (not just petroleum, but natural gas as well),** countries like Malaysia and Singapore in the 1970s had the same revenue with Nigeria but today make more than 11 times the revenue of Nigeria.
8. **High Rate of Importation:** This has been a great menace to the Nigerian economy as many commodities are imported and on the long run other economies benefit from Nigeria. For example, many electronic products are imported from China.
9. **The Debt Game:** Nigeria as a country is still heavily indebted to the World Bank and International Monetary Fund (IMF) and wealthy countries.
10. **The Changing Dynamics of over Population** has also affected the Nigerian economy because adequate plan have not been put in place for the nation's increasing population.
11. **Outright Corporate Greed** exhibited by various companies and service providers also has a major contribution to the economic situation in the country.
12. **The national relocation of employment and the changing of means of labor** also have a part. Many people are migrating to major cities like Lagos, Abuja, Port Harcourt causing these cities to be overpopulated and few people left to farm in the other states.
13. **Growing gap between the elite and the impoverished** also has its fair share on the nation's economic meltdown. Other factors are the erosion of human dignity, the erosion of dignity of life etc.
14. **Other factors:** these include ethno-religious crises, political instability, fraud, leadership crises, disease burden, budget priority and implementation etc.

### ***Effects of a Depressed Economy on Rental Value***

A down turn in the general business economy, for instance the global economic recession of 2007, will mean that fewer people can afford real estate products, which then decreases the demand, causing prices to decline. On the other hand, changes in supply and demand for residential and other type of properties are quite important to the well being of the general economy because, real estate market lags behind the general economy in the short cycle while

the general business economy often predicts trends that eventually affect the real estate market (Kyle, 2005)

This invariably affected rental performance negatively as annual rent of properties in Rivers state, Port Harcourt in such a manner that, equity fund could not always sustain.

## Methodology

This study utilized the purposive sampling technique. As a result of the fact that samples are selected based on the subjective judgement of the researcher, rather than random selection. 40 houses were obtained by manual counting at interval of 1km and 5km from which tenants and landlords were given questionnaires whereas 10 Estate Surveying firms within the Peter Odili road Axis of Port Harcourt were reached out to.

## Data Analysis and Discussion

### Variables that Impacts Rental Property Values in the Study Area:

In this section, the study considered the variables that influence the value of real property in a depressed economy as retrieved from literature and asked respondents to rank them as it influences property values in Port Harcourt metropolis. Hence, the following analysis and results were done for each category of factor that affects rental property value in a depressed economy.

The average rental values of real property in the study area is shown in Table 3 while Table 1, 2 and 4 shows the individual ranking of the variables using their RII values. These four tables (1, 2, 3& 4) are presented and analyzed.

The results were generated using the Relative Importance Index (RII) analysis by Tawil (2008) with the formula stated accordingly:

$$RII = (1n_1 + 2n_2 + 3n_3 + 4n_4 + 5n_5)/5N$$

Where:

RII = Relative Important Index

N = total number of respondents =50

The valuers were asked to rank the variables in the order of impacts on property values and their responses are represented in tables 1, 2 and 3 below;

### *Causes of Economic Depression*

Table 1: Ranking Individual Variables on Causes of Economic Depression

S/N	Variables	RII Values	Ranking
1	Corruption	0.88	1st
2	Bad Governance	0.83	2nd
3	Decrease in Manufacturing Rate	0.67	3rd

4	Over Dependence on One Sector of the Economy	0.59	4th
5	Loss of Consumer Confidence	0.42	5th

Source: Author's Field Work, 2022

Table 1 shows the response of respondents on the causes of economic depression and respondents with the opinion that Corruption is a major cause of economic depression in Nigeria, ranked as the highest with a 0.88 RII. This means that the influence of corruption plays a high role in determining the state of the economy. Bad governance is ranked second with an RII of 0.83, Decrease in the manufacturing rate is ranked 3rd with an RII of 0.67, Over dependence on one Sector is ranked 4th with 0.59 RII, and loss of consumer confidence is at 5th position with 0.42 RII. The following were identified from the study as causes of economic depression currently in Nigeria and discussed below;

*1. Corruption:* This involves the misuse of power, authority etc, including the embezzlement of funds which could have great effect on the economy at all levels as fund meant for public use might be misappropriated. Hence interest rates are increased leading to decrease in supply and demand of real estates which invariably affects the general economy as posited by (Kyle, 2005)

*2. Bad Governance:* This definitely entails the inability of a sitting or incumbent government to properly carry out its functions and obligations, this could inherently lead to a failure in the economy due to the lack of good policies, implementation strategies, inability to attract foreign direct investment and equity investment. This finding is supported by the study of (Adamu, 2008).

*3 Decrease in Manufacturing Rate:* This finding could be as a result of devaluation of the naira which has effect on building materials importation since most of these material are imported. When manufacturing rate reflects a decline, especially for an extended period of time, it can lead to a recession and worse, to an economic depression.

*4. Over Dependence on one Sector of the Economy:* This involves the dependence of a country on one sector, commodity or means for the generation of its income. In Nigeria today, there is the issue of overdependence on oil as the main stay of the economy as posited by (Sanusi, 2001), leaving other aspects and sector to suffer and remain untapped at the same time causing a lot of uncertainty in the economy anytime there is a spike or change in the oil price. As a result of this, a depressed economy occurring is inevitable.

*5. Loss of Consumer Confidence:* When consumers are no longer confident in the economy, they will alter their spending habits and eventually reduce the demand for huge capital investment which real property is inclusive. This in turn would have a negative effect on the economy.

**Characteristics of a Depressed Economy**

Table 2: Ranking of Individual Characteristics of Economic Depression

S/N	Characteristics	RR Values	Ranking
1	Rising Inflation	0.71	1st
2	Increased Unemployment Rate	0.57	2nd
3	Decline in Property Value	0.48	3 <sup>rd</sup>
4	Increase in Level Debt(Borrowing)	0.43	4 <sup>th</sup>

Source: Author's Field Work, 2022

Table 2 shows the response of respondents on the characteristics of a depressed economy with rising inflation leading as the top choice for the characteristics of a depressed economy having an RII of 0.71, seconded by Increase level of debt at an RII of 0.57, followed by increased level of unemployment with an RII of 0.48 and finally declining property sale was chosen as the least by respondent at an RII of 0.43.

These are some characteristics of a depressed economy identified by the researchers; that basically deals with activities, circumstances that can be observed from a depressed economy:

*1. Rising Inflation:* When there is a persistent increase in inflationary level which is more goods chasing fewer commodities, this can lead to a hoarding, increase in price of commodities and increased standard of living which in turn leaves the middle and lower class vulnerable, which is one of the characteristics of a depressed economy as only the rich can afford commodities and goods.

*2. Increased Unemployment rate:* As identified by the researcher, increased unemployment rate is a characteristic of a depressed economy as there would be continuous loss of jobs while companies and organizations are prone to bankruptcy and going into administration during this period.

*3. Decline in property sales:* This is one of the major characteristics of depression in the economy as there is hardly any resource made available for investment, of which purchase of property is one of such, since there are scarcely any available resources and consumers and investors are skeptical about spending, the rate of purchase of real estate would generally see a decline.

*4. Increased in level of Debt (Borrowing):* During a period of economic depression, the government would be on the lookout for bail out and seek to borrow from external sources in order to be able to finance the budget and make available resources for carrying on capital projects.

These characteristics have been looked at in order to aid deep understanding and knowledge on the implications of a depressed economy to residential property rental values.



### ***Rental Trend in Peter Odili Road***

This section analyzes the rental trend of residential properties within Peter Odili road over the last 5 years from 2018 – 2022, in order to determine the degree and level of changes in residential rental value in a depressed state of the economy.

Table 3: Average Rental Value of residential Properties from 2018 - 2022

<b>Location</b>	<b>Type of Residential Property</b>	<b>2018 (₦)</b>	<b>2019 (₦)</b>	<b>2020(₦)</b>	<b>2021(₦)</b>	<b>2022 (₦)</b>
Peter Odili road Port Harcourt	One Bedroom Flat	300,000	350,000	400,000	450,000	500,000
	Two Bedroom Flat	450,000	500,000	570,000	650,000	800,000
	Three Bedroom Flat/Four Bedroom Flat	900,000	970,000	1,000,000	1,300,000	1,500,000

**Source: Author's Field Work (2022)**

From the above table 3, which shows a trend in rental growth over a period of 5 years within the Peter Odili Road axis, there has been an increase in rental value caused by a depressed economy as there is an increase in the price of construction materials, increase in cost of building, a decline in the value of the Nigerian currency which results to increased property rents for residential properties in order to cover up cost and actualize the value of their investment.

### ***Effects of Economic depression on Real Estate (Property)***

As shown in Table 3, it is deduced that Inability of tenant to comply timely to rent repayment on residential property comes top with an RII of 0.96, seconded by upward review of rental value on residential property with an RII of 0.83, reduction in residential property construction comes in 3<sup>rd</sup> at an RII of 0.78, Delay in letting is 4<sup>th</sup> at an RII of 0.70. In line with the earlier discussion on causes of economic depression; the following would be the effect on rental value during the period.

Table 4: Ranking Individual Values on Effects of Economic Depression on Rental Value

S/N	Effects of Economic Depression	RR Values	Ranking
1	<i>Inability of Tenants to respond Timely to rent</i>	0.96	1st

	<i>repayment</i>		
2	<i>Upward review of rent</i>	0.83	2nd
3	Reduction in residential property construction	0.78	3rd
4	Delay in letting period	0.70	4th

Source: Author’s Field Work, 2022

1. *Inability of Tenants to respond Timely to rent repayment:* This is another ripple effect which the depressed economy would have on rental value as tenants would be unable to timely renew rents as there would be a limit in available resources for such, this in turn can lead to litigations and dispute between landlord and tenant and as a result of the high demand in residential property at that time, property owners would be willing to evacuate

2. *Upward review of rent:* Due to the fact that there is unavailability of resources, property owner would be skeptical and would move for an increase in rental, this is as a result of them trying to cover all expenses faced in the period of construction and achieve their return of and on investment fully within due interval.

3. *Reduction in residential property construction:* Due to the lack of effective demand for letting spaces in residential properties and an increased void period, investors and property owners would be unwilling to embark on new projects and hence would lead to a reduction in supply of residential units, automatically increasing the demand for the available and hence leading to an increase in rental value for residential properties.

4. *Delay in letting period:* Due to the unavailability of resources, properties would tend to face a decline in letting period, in order words properties would tend to stay void for longer as there would be the lack of financial backing to effectively demand for residential properties at this period

## Conclusion

The study examined the impact of economic depression on residential real estate investments in Port Harcourt metropolis. The findings from the study revealed that economic depression has affected (impacted) greatly on residential real estate investments in a number of ways, which has been identified amongst other things as; decline in sales of residential properties, low demand for the purchase of residential properties, low level of property construction, low demand for letting of residential properties in Port Harcourt metropolis. The findings of the study also indicate that there has been a rise in rental values of residential apartments and rentable spaces over the last 5 years from 2018 to 2022 which has led to the low demand in real estate investment with properties staying too long in the market without been sold or let.

## Recommendation

The study recommended that:

1. That the government diversify the economy in order to allow for growth in various sectors and move the economy forward, thereby improving the standard of living and allowing for affordability of rental housing.
2. That there be rental control policies which would be monitored and well implemented in order to stop unnecessary inflation of rental value by property owners, this could ensure the stability of rental value even in a down-trend economy.
3. More housing projects should be established by the government in order to make housing easily available for everyone.

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