

CONSOLIDATING RETIREMENT PLAN THROUGH RESIDENTIAL PROPERTY INVESTMENT – A REVIEW

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Abstract

Retirement is a time of significant transition in one's lifetime. It is supposed to be a period of bliss, and tranquillity, and this can only be achieved with adequate preparation and planning. However, most times it is not so as many retired persons face serious economic, social and psychological challenges. It is even worse when the retiree is not adequately prepared to face this inevitable phase of life. The study identifies investment in residential property as an ideal way of preparing for retirement. The study examines the different types of residential property available to an intending investor and the modalities for property acquisition and development. The study concludes that residential property investment is viable and can provide the additional funds that the retiree will require to augment his pension to run his life and provide for dependants. The study recommends that government should subsidize the acquisition and development of residential property by retirees through wide ranging measures such as free land allocation, payment of bonuses and low interest financial grants. These will boost housing supply and lessen the severity of housing problems.

Keywords: Retirement plan, Residential property, Investment.

INTRODUCTION

A retirement plan is a financial arrangement designed to replace employment income upon retirement. It is a goal oriented activity designed to provide the greatest possible financial

security for both the retiree and his beneficiaries. To keep up with costs of living and additional expenses that may come up during retirement, there is the need for the retiree to begin early to save. Apart from savings, there will be the need for a continuous income stream from other sources. The additional income stream must be regular and substantial and the result of a long-term investment over time. There are several investment options open to an individual who is preparing for retirement. This paper identifies Residential property investment as capable of providing the additional financial resources to help keep a retiree in good shape.

Evidence abounds to show that residential property has been a good investment option globally. Like many countries, housing is an important investment for many households in Nigeria. Alile (2005) asserted that Nigerians prefer to invest in fund and houses and that a substantial proportion of all investment in Nigeria is in housing. Also, Ajanlekoko (2001) opined that housing ownership is one of the first priorities for most households and represents the largest single investment. Lee (2008) is of the view that residential property out performed other major investment media like stocks and bonds on risk adjusted return basis.

The purpose of this paper is to highlight the need for prospective retirees to embrace housing investment to help overcome the challenges of retirement life. It considers housing investment as an investment vehicle that can yield monetary returns to help the retiree to cope with the rigours of retirement life. It examines the modalities for finance, acquisition and development of Residential property and proposed action plan for ease of investment.

REVIEW OF LITERATURE ON BASIC CONCEPTS

Retirement

Retirement implies the state of being retired from one's business or occupation. Many choose to retire when they are eligible for private or public pension benefits, although some are forced to retire when physical conditions no longer allow them to work, (by illness or accident), or because of legislation concerning their position. Germany was the first country to introduce retirement age legislation in 1889. The standard retirement age varies from country to country but it is generally between 50 to 70 years according to latest statistics. The Federal Republic of Nigeria official gazette (2009) stipulates that, the compulsory retirement age for all grades in the service shall be 60 years or 35 years of pensionable services whichever is earlier.

Retirement coincides with deterioration of one's health that correlates with increasing age and this likely plays a major role in increased rates of depression in retirees. Most times retirees take care of themselves, aged presents, grandchildren and other relatives.

The concept of residential property

Residential property or housing belongs to the class of real property known as income producing or investment real estate. These are a class of real property capable of producing income or profit to the landlord or owner of the property. It is a property which is a business enterprise, developed for lease or rental (in whole or part) to others for profit (cf. AIREA, 1983). Housing is essential, but a significant proportion of the world's population do not have access to adequate and affordable housing (cf. Warnock and Warnock, 2008) it is also appealing that most retirees do not have access to decent housing to live in not to talk of investing in housing.

Mordi (2002) stated that the poor and the middle-income group are those that bear the burden of housing problem most. About 7% of the Nigerian population are very poor and are either homeless or live in shanties and batches and some 40% spend about 35% of their income on rent. He stated further that, with saving ratio of 10% workers require 10 years to save one year income or 25 years to save 2½ years' salary which can be used to start a building and not to complete it. He concludes that at this rate, most workers will never be able to build their own houses while in active service.

Housing affordability

Ajelokoko(2001) defines Affordable Housing as a dwelling where the total housing costs are affordable to those living in that housing unit. In the United States of America and Canada, a commonly accepted guideline for housing affordability is a housing cost that does not exceed 30% of a household's gross income, when the monthly carrying cost of the home exceed 30-35% of household income then the housing is considered unaffordable for that household. The maximum carrying cost limit will depend on the location, economic, social and cultural environment.

Affordability is the ability to pay for adequate housing. Affordability looks at whether the form, technology and cost of housing are compatible with the income flow of the prospective consumer of housing. Household income is usually allocated to several competing uses such as food, clothing, education, healthcare, transportation and all other needs necessary to maintain a good and healthy life of the household within a given socio-economic and cultural environment. When the provision for housing affects the ability of the household to meet other

essential needs, the household is said to be suffering from household stress (cf. Onyike, 2007). He further stated that many households in Nigeria particularly the urban dwellers are experiencing household stress.

The achievement of an affordable and cost effective housing depends very much on the use of and management of the four components, namely land, building materials, labour/technology and finance requires in the development of a house (cf. Olurin, 2003).

Housing finance

The range of funding options for housing will vary from personal savings to loans. Basically, there are two kinds of finance, namely debt and equity finance. Debt finance refers to money and capital borrowed to fund a project while equity finance refers to money or capital put up from the investors internal sources such as savings and own assets on a risk-shaping and reward-shaping basis (cf. Onyike, 2007).

Jones and Datta (1999) classified the sources of housing finance in the developing countries into formal and informal sources, while Nwanekezie (1996) classified same into traditional and conventional sources. The traditional sources according to Nwanekezie (1996) are basically informal, lack standardization in their operations and are not guided by any statutory regulations and are not guided by any statutory regulations. Most informal systems operate by regular cash contributions into a common pot which can either be called upon in the event of an emergency or be allocated as a lump sum according to a pre-arranged cycle with the last disbursement ending the group.

In Nigeria, the usual traditional sources of housing finance include personal savings, Esusu, extended family associations, town unions, revolving loans, credit and thrift associations, social clubs and local money lenders. Many public servants in Nigeria are familiar with the above sources and may likely resort to them, in the face of the difficult conditions presently associated with the conventional sources of funding. The conventional or formal sources of housing finance include the commercial and merchant Banks for short and medium term funds respectively, and the insurance companies, pension funds, Mortgage banks, real estate investment trust (REIT), housing corporations, and the construction and urban development banks for long term funds (cf. Nwanekezie, 1996).

Residential Real Estate Investment

Characteristics of real estate investments

- (i) Every property is homogenous and unique in its location and physical features.
- (ii) Property is fixed in location and land is fixed in supply.
- (iii) Property provides a good opportunity for investment and can yield profitable income over a long period.
- (iv) Property ownership is abstract in nature and complex as possession does not necessarily mean ownership and ownership problems will mar the huge investment.
- (v) Property investment requires a huge capital outlay.
- (vi) Government intervenes in various ways in land use and owner must play by the rules.
- (vii) Property investment has high Capital and income appreciation ability.

- (viii) Property investment offers a good hedge against inflation.

Types of residential property

The major types of residential property include tenement or rooming houses where occupants share toilet, bathroom and kitchen and others such as bungalows, detached and semidetached houses/duplex which are usually on two floors and en-suite with toilet/bathroom and kitchen. They are also known as self-contained apartment. Other self-contained apartments include flats, maisonettes and mansions. They are usually provided with service quarters.

Real estate development process

The real estate development process relates to converting undeveloped land to developed land. The development of a parcel of land is a dynamic process transcending more than the actual construction work. It begins from the conception of a building project and ends when the building is put into use or disposed through sale. Umeh (1983), defines the process as that which extends from the gestation period through the construction works and buildings to the final product. Property development entails the effective employment of a series of factors of production comprising; land, capital, labour building materials, entrepreneurial talent and infrastructure. The process may be organized in different ways depending on who the developer is. This may be the land owner, a professional developer or a public authority such as the municipality or even a corporate organization.

For a specific development project ranging from a simple structure to a complex one, the process may conclude some or all a whole range of activities and procedures such as:

- (i) Concept design when the developer conceives and takes the decision to build.
- (ii) Land acquisition and land appraisal including feasibility and viability studies. The land must be backed by relevant title document like certificate of occupancy and survey plan.
- (iii) Detailed design evaluation involving production of working drawings i.e. building plan, bill of quantities, specification schedules and contract.
- (iv) Submission and approval of the plan from planning and building authorities.
- (v) Contracting out the project and construction. At this stage the contractors and consultant begins work and actual construction involving: - (a) setting out (b) foundation (c) walling to lintel level (d) walling to decking or roofing level (e) roofing (f) plumbing and electrical work and digging of soak away (g) finishing and decorating i.e. ceiling, flooring, plastering, painting, installation of doors, windows, fittings, fixtures, etc.; and
- (vi) Finally, commissioning, marketing, management and disposal whichever is the case.

As a matter of fact, the implementation of the procedures partially or fully depends on who is building and the role of development control agencies.

Professionals in Property Acquisition and Development

The following professionals are involved in the property acquisition and development process: -

- i. **Estate Surveyor and Valuer** who assists in procuring the site and carries out site analysis,

- appraisal, project management, valuation, management and disposal of the site as may be required. He can also assist the developer to source finance.
- ii. The **Architect** designs the building and may also be retained as the contractor to build. He can also prepare Bill of Quantities and specifications.
 - iii. The **Land Surveyor** who carries out the survey and layout of the site. He establishes the perimeter and topography of the soil and carries out soil tests.
 - iv. The **Lawyer** who carries out titles investigations of the site. He certifies that the title documents are complete and genuine. He also prepares all other legal documents like contract agreement, lease agreement, deed of assignment etc.
 - v. The **Town Planner** who gives instruction with regard to the location, the traffic, environmental issues and planning permission crucial in determining the suitability of the site for the proposed development.
 - vi. The **Quantity Surveyor** who prepares the bill of Quantities to determine the costs of construction, specifications on work to be done and work schedules to ensure accurate completion time for the project.
 - vii. The **Building Engineer**, usually a professional Builder, Architect or Civil engineer employed by property developers to construct the building.

Property Development Tips.

(i) Taking the decision: Residential property acquisition and development decision is an issue that requires thorough

consideration. The investor will consider the type of residential property to invest in, funds available and within his reach. This will prevent the common phenomenon of abandoned projects. The investor will need to decide if he will acquire an already built house or buy land and build, how to procure the land and what cost. Property agents or estate surveyors and valuers will be handy to help the investor acquire land or property at a fee.

(ii) Land acquisition issues: The investor will need to determine where he can get affordable land or property to buy, what type of property, what size of land is enough. Land is usually sold in plots of 50feet x 50feet (15m x 15m), 50feet x 100feet (15mx 30m), 100feet x 150feet (30m x 45m) or more. However, plots of 50feet x 100feet are popular and can accommodate 2 to 3 units of bungalows or storey building with service quarters. Another issue is a thorough examination of the land before purchase. Avoid lands in swampy areas, rocky land and erosion prone areas or lands with dug hollow pits. Such lands will raise the cost of construction. A land surveyor will be required to survey the site.

(iii) Design and construction of the building: The investor will consult an Architect to design the type of house he wants to build or it can even be to redesign a purchased property. A quantity surveyor will be consulted to produce an estimate of costs while a contractor who must be a qualified builder will carry out the construction. The cost of hiring these professionals may seem enormous but it saves a lot of problems which cheap labour and use of quacks will lead to. There will be the need to get the approval of building planning authorities before starting the construction. When the property is completed and occupied there will be need for continuous maintenance. Some people will build and sell on a continuous basis. The investment option

available to any retiree depends on the resources available to him.

(iv) Raising the required funds: Acquisition and development of Residential property is a huge investment consuming time and funds. The first possible source of fund is through savings and soft loans. Most retirees are supported financially by friends and relatives especially their children. The retiree needs to start early to save and procure finances at least 10-15 years to the time of retirement. The money must be judiciously utilized.

Recommendations and Conclusion

Retirement should be a period of rest and relaxation. He is expected to have saved some money and achieved some feat including having a roof over his head and training most of his children. His health requires continuous attention and other responsibilities. There should be a stream of income on a regular basis sourcing from earlier investments. He can engage in some part-time non-laborious job to keep fit and make up. It is recommended that he engages in residential property investment according to his capacity. The stream of regular income can readily come from this source. Residential property investment should be considered for the following reasons; first the rapid rate of urbanization in the country has created a great demand for housing which has remained unsatisfied (cf. Oyewole, 2010). The recent estimate indicates that the country may witness a higher rate of urbanization in the next few years, with urban population accounting for over 70 percent of the total population by year 2020 (cf. UNCHS, 2001). With increasing urbanization, the demand in the housing sector of the economy will increase.

Secondly, the inability of governments, public agencies and local private sectors to meet housing need of the citizens,

particularly in cities is another major reason for considering investment in residential property.

Government can encourage retirees to acquire land through subsidized allocations tax free/low interest mortgages and making sure that such property is registered without much protocol and problems. Government can also reduce imports tariff on building materials. This will lead to drastic fall in prices making them affordable. The retiree by investing in residential property development is also helping to solve the problem of housing which has been intractable. This will help to improve overall economic development.

In conclusion, at a time of severe economic turbulence coupled with unsatisfactory manner public retirees Nigeria are treated, consolidating retirements through residential property investment is a credible option available to retirees. It is a veritable source of income for retirees who plan to augment their retirement benefits.

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