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Original Research Article

Globalization and Real Estate Development in Nigeria- An Empirical Perspective

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Abstract

The aim of this study is to examine the impact of globalization on real estate development in Nigeria. The motivation for this study lies in the compelling need to empirically investigate the spillovers of globalization on the development of real estate in Nigeria in which past studies have not sufficiently explored. Data were collected from the UNCTAD, WDI and Central Bank of Nigeria Statistical Bulletin from 1990 to 2016. Consequently, the long-run effect indicates that FDI and real estate development have a significant positive relationship in Nigeria. In addition, there is one way feedback relationship which runs from FDI to real estate development in the country. This implies that globalization has been beneficial to the development of real estate sub sector in Nigeria. Moreover, this paper makes the following recommendations for the policy makers, investors and future researchers in the country. The spillovers of globalization on real estate sectors development in Nigeria should not be undermined. Therefore, the policy makers in the country should embark on policy measures that will ensure a conducive climate for foreign investors to thrive in this sector of the economy. Also, the federal government of Nigeria should not hesitate to address all the institutional hurdles that could frustrate the maximum spillover benefits of globalization in real estate development in the nearest future in this country.

Keywords: Globalization, Real Estate Development in Nigeria, UNCTAD.

INTRODUCTION

In the past, real estate investment was locally oriented with high specialization in a geographic area and sector [1]. Meanwhile, as the world continues to become a global village due to the advancements in information, communication and digital technology former possible barriers to the free flow of trade, capital and labour among countries of the world are being overcome by the powerful force of globalization. Globalization can be conceptualized as a continuous integration among nations, which has accelerated sporadically in the last five decades fueled by the remarkable expansion in international trade and advent of information and communication technologies [2].

Despite the fact that globalization has brought about improvement in in growth and wealth in recent years, but this has not been the experience of the developing countries, especially African nations. However, investment in real estate is a promising business that needed to be explored in Nigeria because the share of the economy controlled by landlords in expanding growth cannot be undermined in any country [3]. Real estate development alongside with construction and technology sector in developing countries like Nigeria has been identified as a fulcrum upon which the global economy rests during the last global financial crisis [4].

In the recent times, the Nigerian real estate has been attracting the attention of foreign investors, this has made the real estate market increasingly competitive in the country. The contribution of real estate market to GDP in Nigeria in 2014 was 8.7% [5]. Generally, globalization and offshoring in particular have direct and indirect spillovers on the supply chain for real estate construction. Despite the fact that there have been various attempts to empirically validate this statement in the developed countries, yet studies remain scanty on this subject matter in developing countries like Nigeria. In view of the above, this study examines the impact of globalization on real estate development in Nigeria. The rest of the paper is organized as follows: section two consists of the review of relevant literature however, section three presents the methodology, discussion and summary of the estimated results and policy recommendation.

LITERATURE REVIEW

In this section of the paper, an attempt has been made to review related studies on real estate development and other relevant variables in developed economies and developing economies.

Bond, Karolyi and Sanders [6] examined the impact public real estate on 14 economies. The authors discovered that size and value of this sector are very crucial to the growth of the economies under consideration. Meanwhile, Ling and Naranjo [7] examined 600 real estate firms in 28 countries between 1984 and 1999 and concluded that the explanatory power in determining returns in these countries are both the global and the local market risk factors. Similarly, Liow and Webb [8] investigated 142 publicly traded real estate vehicles in the US, UK, Hong Kong and Singapore. It was discovered that the common drivers of real estate securities' returns are more pronounced within a country rather than what was obtained across the four markets of the US, UK, Hong Kong, and Singapore. Consequently, the authors further argued that the selected economies under the study are much more connected than their real estate markets.

However, Bardhan, Edelstein and Tsang [1] established that globalization and financial integration decreased the risk premium that usually associates with publicly traded real estate vehicles. In another perspective, Schindler [9] adopted the technique of cointegration advanced by Engle and Granger in estimating the benefits accrue to the diversification of the public real estate vehicles Europe, North America, and Asia-Pacific. The author submitted that there was an existence of a stable relationship in real estate markets. But, the relationship becomes weaker across the three continents than within them in the long run.

Furthermore, Jiboye [10] assessed the nexus between the contribution of real sector and economic growth in Nigeria. The paper opined that housing generated employment opportunities for people in building business, enhanced labour productivity and increased in household income which invariably propelled the gross domestic product of the country in the long run. In a related study, Ugonabo and Emoh [11] evaluated critical variables which serve as major challenges to the progress and delivery of housing in Anambra State of Nigeria. It was discovered from the study that the following are the major limiting factors to housing development in Nigeria; high cost of construction, limited access to finance, lack of secure access to land, bureaucratic procedures, high cost of land registration and titling, uncoordinated policies and implementation at federal and state levels, lack of critical infrastructure, affordability gap, ownership rights under the Land Use Act, inefficient development control, youths harassment of developers, and inelegant revocation and compensation process. In the same vein, Adediji [12] investigated the linkage between international housing finance, the world challenge and effective governance in Nigeria. The paper identified that the rising in population size and sporadical expansion in the majority of cities in Nigeria brought about the persistent shortage of affordable decent dwelling shelters in the country.

In conclusion, it is evident from the above literature review that empirical studies focusing on the nexus between globalization and real estate development in Nigeria is limited. Hence, the relevance of this study.

METHODOLOGY

This study makes use of secondary data from 1990 to 2016. Data on real estate were extracted from CBN Statistical Bulletin, while data on FDI and remittances were sourced from UNCTAD and WDI respectively.

Model Specification

The model for this study can be specified in the general form as follows:

RDE = F (FDI, Remt) ……………………………….. (I)

Model (I) can be linearized to form model as follows.

$LnRDEt = \beta_1 + \beta_2 LnFDIt + \beta_3 Remtt + \mu_i$ ……………….. (II)

It is expected that $\beta_2, \beta_3 > 0$

The Direction of Causality between Real Estate Development, FDI and Remittances in Nigeria

In addition, in analyzing the Granger causality between real estate development, FDI and remittances the paper employed pairwise granger causality analysis in estimating the VAR model in equation (3-5) which states thus;

$$RDE_t = \alpha_0 + \sum_{i=0}^{p} \alpha_1 RDE_{t-1} + \sum_{i=0}^{p} \alpha_2 FDI_{t-1} + \sum_{i=0}^{p} \alpha_3 Remt_{t-1} + \varepsilon_{1t} \text{---------} (3)$$

$$FDI_t = +\beta_0 + \sum_{i=0}^{p} \beta_1 FDI_{t-1} + \sum_{i=0}^{p} \beta_2 RDE_{t-1} + \sum_{i=0}^{p} \beta_3 Remt_{t-1} + \varepsilon_{2t} \text{---------} (4)$$

$$Remt_t = \gamma_0 + \sum_{i=0}^{p} \gamma_1 Remt_{t-1} + \sum_{i=0}^{p} \gamma_2 FDI_{t-1} + \sum_{i=0}^{p} \gamma_3 RDE_{t-1} + \varepsilon_{4t} \text{-----------} (5)$$

Where,

RDE is used to proxy real estate development which is measured by the contribution of real estate to the economy.

FDI measures the inflows of foreign direct investment into Nigeria.

Remt is used to proxy the inflows of remittances of the Nigerians in the diaspora.

Therefore, globalization is measured by FDI and remittances.
Ln used to denote natural logarithm and ui is error term. t =1990-2016.

RESULTS AND DISCUSSION

Table-1: Descriptive Statistics of Annual Data Series (1990-2016)

Descriptive Statistics	LRED	LFDI	LRemt
Mean	2.41E+12	3.58E+09	4.687021
Median	9.46E+11	2.19E+09	4.088316
Maximum	8.34E+12	8.92E+09	13.04258
Minimum	1.27E+10	1.00E+09	0.032513
Std. Deviation	2.75E+12	2.58E+09	3.497941
Skewness	0.974614	0.769560	1.012786
Kurtosis	2.630083	2.250799	3.196839
Jargue-Bera	4.428368	3.296469	4.659399
Probability	0.109243	0.192389	0.097325
Sum	6.52E+13	9.67E+10	126.5496
Sum. Sq. Deviation	1.97E+26	1.74E+20	318.1254
Observation	27	27	27

Source: Authors` Computation (2019)

Table-1 indicates the various descriptive statistics of the data employed in this study that provides vital information about the distribution of the sample series. However, the values of mean and median of the variables such FDI and remittances are almost the same. But, real estate development showed a deviation. The distribution of data in the study is near a symmetry because the values of mean, mode and median of data series tend to converge.

Table-2: Unit Root Test

Variables	ADF Test		
	Level	First Difference	Remarks
RED	-2.986225**	-2.986225**	I (1)
FDI	-2.981038**	-2.986225**	I (1)
Remt	-2.981038**	-2.986225**	I (1)

Source: Authors` Computation (2019) **5% level

The data in this study have been subjected to a unit root tests with the aid of the standard Augmented Dickey-Fuller (ADF) due to the problem of spurious regression which is often connected with time series data if such data are not stationary [13]. From the table shown above, it could be pinpointed that FDI, remittances and real estate development are stationary at a first differencing. This implies that these variables of interest are I(1).

Table-3: Johansen Cointegration Test (Trace Statistics) and (Maximum Eigenvalue)

Null Hypothesis	Eigenvalue	Trace Statistics	P-value	Maximum Eigenvalue	P-value
r=0	0.545110	34.96404	0.0116	19.69251	0.0785
r≤1	0.412217	15.27153	0.0540	13.28492	0.0710
r≤2	0.076389	1.986618	0.1587	1.986618	0.1587

Source; Authors` Computation (2019)

This paper employed a multivariate cointegration test put forward by Johansen and Juselius [14] to estimate the long relationship between globalization and real estate development because these variables have a unit root which could make them possess some level of deviations in the short run. However, The estimated results presented in the table above show that the trace statistics of both Eigenvalue and Maximum Eigenvalue proved the existence of at most two cointegrating vectors in the model at a lag interval of 1 to 1. Hence, the variables of interest have a long run equilibrium relationship with one another.

Table-4: The Impact of Globalization on Real Estate Development in Nigeria Dependent Variable: LRED

Variable	Coefficient	t-statistics	P-value
LFDI	8.795807	2.954773	0.0098
LRemt	-6.78E+09	0.022286	0.9825
C	7.22E+11	0.867532	0.3993
R-Squared	0.814439		
Adjusted R-Squared	0.715472		

Source; Authors` Computation (2019)

The relationship between real estate development and FDI has the expected sign. Meanwhile, reverse is the case of remittances. This implies that FDI has a positive impact on real estate development in Nigeria, which is significant at 5% level of significance. A unit change in FDI leads to about 5.8% increment in real estate development in Nigeria. Conversely, remittances have negative impact on real estate development in the country, though not significant at 5% level of significance. The implication of these findings is that the spillovers of globalization on real estate development in Nigeria has been coming the foreign investors. Furthermore, the explanatory variables of the model which comprises FDI and remittances jointly explained about 81% of the systematic variations in the dependent variable, real estate development, leaving 9% unexplained due to random chance. This shows that the model is relatively good for the analysis. When the loss in the degree of freedom was adjusted, the explanatory power reduces to 71%.

Table-5: Pairwise Granger Causality Test

Sample: 1990 2016			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
RED does not Granger Cause FDI	25	0.08647	0.9175
FDI does not Granger Cause RED		3.25098	0.0599
Remt does not Granger Cause FDI	25	2.50311	0.1071
FDI does not Granger Cause Remt		0.21213	0.8107
Remt does not Granger Cause RED	25	2.33919	0.1222
RED does not Granger Cause Remt		1.54239	0.2383

Source; Authors` Computation (2019)

The causal relationship between the variables of interest which are FDI, remittance are estimated within Pairwise Granger Causality Test. It could be submitted among others that there is one way feedback from FDI to real estate development. But there is no causal relationship between remittances and real estate development in the country. This implies that the strategic portion of globalization causing development of real estate in Nigeria is the inflows of foreign direct investment in this sector of the economy.

CONCLUSION AND RECOMMENDATIONS

In this paper, an attempt has been made to examine the impact of globalization on real estate development in Nigeria between the periods of 1990 and 2016. Consequently, the results of this study could be summarized as follows: the long-run effect indicates that FDI and real estate development have a significant positive relationship in Nigeria. In addition, there is one way feedback relationship which runs from FDI to real estate development in the country. This implies that globalization has been beneficial to the development of real estate sub sector in Nigeria. Moreover, the findings that emerged in this study have led the following recommendations for the policy makers, investors and future researchers in the country. The spillovers of globalization on real estate sectors development in Nigeria should not be undermined. Therefore, the policy makers in the country should embark on policy measures that will ensure a conducive climate for foreign investors to thrive in this sector of the economy. Also, the federal government of Nigeria should not hesitate to address all the institutional hurdles that could frustrate the maximum spillover benefits of globalization in real estate development in the nearest future in this country.

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