Challenges of Conducting Market Research During Project Appraisals of Real Estate Investment

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Abstract. Real estate investments are known for requiring huge capital outlay thereby making prospective investors interested in understanding the risk and possible return from their investment. The risk and return attributed to the investments can only be revealed through conducting project appraisals. Unfortunately, the project appraisals of real estate investment are tainted with numerous inaccuracies and discrepancies. These inaccuracies have been attributed to poor market research conducted by Estate Surveyors and valuers. Therefore, this study appraises the challenges of conducting market research during project appraisal of real estate investment. The study adopted convenience sampling for administering the questionnaire to Estate Surveyors and Valuers in Lagos metropolis. A total of 56 questionnaires were obtained from the professionals out of 70 that were distributed. The data were analysed with statistical package for social science (SPSS version 20), using, mean score and Kruskal Wallis test. The study discovered that the challenges faced by the Estate Surveyor in conducting market research are pressure from their clients to deliver the appraisal report and difficulty in sourcing information. The study recommends that a data bank should be created to facilitate the ease of information sourcing. The study contributes towards improving the quality of project appraisal in the country.

Keywords: Estate surveyor**,** Market research, Project appraisals**,** Property investor.

1   Introduction

Real estate investment requires enormous capital outlay thereby making prospective investors interested in the risk and return accrued to their investment [1]. The risk and return of an investment can only be ascertained through conducting project appraisal [2]. Hyari and Kandil [3] described Project Appraisals(PAs) as the process involved with the assessment of real estate investment before committing resources into the investment. Similarly, Fanning [4] provided a detailed opinion regarding PAs and

described it as the collective procedures that provide a detailed risk and return associated to an investment. This implies that PAs are usually conducted before the commencement of a project therefore making it significant for a potential investor.

Regardless of its significant Johansson and Kriström [5] believed PAs has been a source of confusion for real estate investors. The confusion originates from the following; poor definition of the stages involved in appraisal and lack of documentary evidence after carrying out the appraisal. On the other hand, examined Gambo, et al. [2] discovered that PAs is becoming less effective in our dynamic and unstable economic system within the country. The reduced effectiveness is experienced in a development project that was judge viable by surveyors in their appraisals have turned out to be unviable. Oloyede, et al. [6] asserted that the poor effectiveness of project appraisals has resulted in professionals been regarded as incompetent and the client neglecting their professional advice.

Adebimpe and Bashir [7] reported that poor effectiveness of appraisals report could be associated with negligent of the surveyor (professional) in conducting proper market research. Ogbuefi [8] described market research as a procedure that evaluates the market condition to determine the type of real estate investment that should be introduced into the market. Nnamdi, et al. [9] noted that market research is a pre-requisite for effective project appraisal. MacGregor, et al. [1] asserted that market research will ensure effective project appraisal because it will show supply and demand analysis of investment. Fanning (2005) further stressed the advantage of market research in ensuring accurate project appraisal, because market research has two primary functions. First market research provides the data input to identify the highest and best use of a property in terms of property use, market support and market participants. While the second function is it provides data input and identify the key factors that are measured by applying the three approaches to value.

Despite the advantage of market research in ensuring accurate PAs, Gambo, et al. [2] affirmed that estate surveyors rarely adapt market research in Nigeria. Also, when they conduct market research it is only done for 2 days which should be a continuous process as discovered by [10] Against this background, this study examines the challenges faced by Estate Surveyors in conducting market research for PAs with a view of determining the reasons Estate Surveyors do not apply market research for project appraisals.

2   Review on Market Research

Greer and Kolbe [10] asserted that market research is used to identify potential demand for a property while taking into consideration the future and means of satisfying them. Gambo, et al. [2] described market research as a procedure that evaluates the market condition to determine what product or type of real estate investment that should be introduced into the market. The investment should also be capable of competing effectively with existing development rather than merely duplicating what already exists in the market.

76   Fanning [4] stipulated that the reason for carrying out market research is to introduce
77   a development that will effectively contend or compliment the existing development
78   rather than merely duplicating them. This implies that market analysis aims to introduce
79   a product that will fill any gap that exists in the market in terms of quality or quantity.
80   MacGregor, et al. [1] asserted that four factors could be used to achieve this function
81   effectively. These factors are illustrated in figure 1.
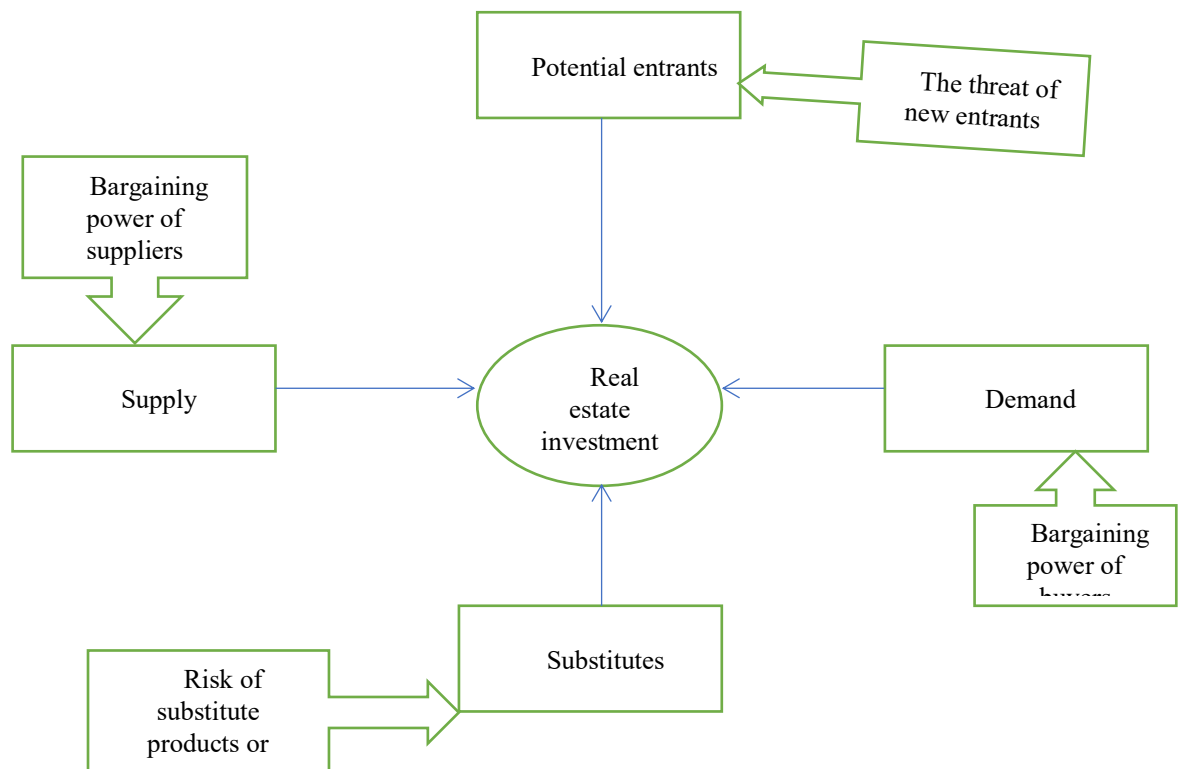
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83   **Figure 1** Factors that ensure market analysis achieved is the desired function
84   Source: [1]

85   **2.1   Stages of market analysis**

86   Fanning (2005) identifies the stages of market analysis which is highlighted below
87   **2.1.1 Data collection;** in this case the proposed development will be oriented towards
88   the study of the site and quality of the access routes to it, past or presents and future
89   population levels within the market area, the social characteristics of the population,
90   capital income level and size of existing and proposed competition to the budget under
91   study.
92   **2.1.2 Data analysis;** this is done to understand the current and likely future condition
93   in the market fully; it is broken down into the area and consumer research.

94 **2.1.3 Data analysis;** this is done to understand the current and likely future condition
95 in the market fully; it is broken down into the area and consumer research
96 2.1.4 Analysis of the effect of introducing the new budget into the market, thus
97 modifying the present competitive structure.
98 **2.1.5** Developments of conclusions and recommendations based on the preceding.

99 **2.2   2.3 Purpose for carrying out market research**

100 Market studies are conducted to cover the following property development and
101 investment scenario and situations that is highlighted below [11].
102 **2.2.1 In the first scenario a site in search of use:** the analyst must determine whether
103 there is appropriate support for a use and if so delineate the market that supports that
104 use. In this case, the analytic process begins by identifying the productive attributes of
105 the site. It is followed by identification of the productive property capacity the real
106 estate services it can supply and the market of potential users.
107 **2.2.2 The second scenario concerns:** a use in search of the site. In this scenario, it
108 begins with an investigation of the broader market to identify the types of services or
109 facilities the market is seeking. If the inquiry is focused on use, the analysis begins by
110 addressing demand e.g basic and general demographics. This type of assignment
111 begins with supply and demand analysis then proceeds to productivity analysis which
112 addresses the physical, legal and locational attributes of the site. The market analysis
113 and productivity analysis are then incorporated into the appraisal process.
114 **2.2.3 Real estate as an alternative investment:** the focus of the analysis is to identify
115 whether the levels of return and risk associated with the real estate are appropriate given
116 the requirements of the investors. The decision-making models used by the investors
117 are identified to establish the parameters of the problem. Measures of return and risk
118 are linked to standards of market performance and opportunity cost.

119 **2.3   Challenges of market research**

120 Gambo, et al. [2] identify some challenges of market research which are highlighted
121 below;
122 • Pressure from the client to deliver the appraisal on time
123 • Difficulty in sourcing for information.
124 • Not enough resources for an effective marketing plan implementation
125 • Budgetary constraints to hire the right marketing team members
126 • Keeping up with marketing trends and strategies
127 • Rapid technological change
128 • Heterogeneous and fragmenting markets
129 • Changes in the economy
130 • Inability to address the risk profile
131 • The problem of forecasting future cost and benefits
132 • Not sure of what direction to go or how to begin.

3   Methodology

The population of the study includes registered Estate Surveying and Valuation firms in Lagos Metropolis. It was reasoned out that research of this type conducted in Lagos will be a true reflection of Estate Surveying and Valuation practice in Nigeria. This is because Lagos serves as the commercial hub of the country thereby attracting numerous real estate investment. The real estate investment within the state further attracts Estate Surveyors and Valuers into the state. The valuers are often charged with the responsibility for conducting project appraisals within the state. However, before preparing a project appraisal market research is usually conducted [9]

Estate surveyors are often confronted with numerous challenges during the process of conducting market research. Thus, the aim of this article was centred on appraising the challenges of conducting market research by estate surveyors. The objectives were achieved through the adoption of quantitative research that supports the design of questionnaire. The questionnaire was divided into four sections. The first section examines the personal information of the respondents. The second and third appraised the duration for conducting market research and the sources of information during market research. The last section examined the challenges of doing market research using a five-point Likert scale from strongly agree to disagree. The questionnaire was further administered to the respondents

The respondents were selected through Convenience sampling technique. The sampling technique was used because it ensures easy access for data collection. Data for the study were obtained through field survey using a structured questionnaire. A total of 56 questionnaires were collected from the professionals out of 70 that were distributed. The obtained questionnaire was further scrutinised for errors, omissions, and consistencies and all were found to be consistent and thus analysed. Statistical Package for Social Sciences (SPSS) was used to analyse the data gathered. Descriptive statistics such as frequency and mean score were used for data presentation. Also, Kruskal Wallis test a non-parametric was used to test the hypothesis.

4   Results and Discussion

4.1   Market Research

This section appraises the duration for conducting market research and the response is presented in Table 1. The table shows that almost half (46.4) of the respondents conduct market research for two days, 26.9% carry out market research for one day and 35% conduct market research for 3-5 days. The table reveals that few (13.5%) carry out market research continuously. However,

Table 1. Duration for conducting market research

	Frequency	Per cent (%)
Duration for conducting market research		

One day	15	26.9
Two days	26	46.4
3-5 days	13	23.2
Continuous	2	3.5
Total	**56**	**100**

169   The findings from this study coincide with the work done by Gambo, et al. [2] that
170 discovered that estate surveyors rarely adapt market research in Nigeria. Also, when
171 they conduct market research, it is only done for two days. It can be deduced from these
172 study findings regarding market research that it is still a growing phenomenon within
173 the study area as it yet to be conducted continuously as indicated by [10].

174 **4.2   Purpose for conducting market research**

175   Table 2 shows that they are 3 main reasons for conducting market research which
176 are; To convince the financier about the project viability, To determine the Highest and
177 best use and to determine the marketability of the project, followed by to determine
178 project feasibility and convince the client of a good job.

179   **Table 2.** purpose of conducting market research

	%	Rank
To convince financier on the project viability	89.2	1
To determine the Highest and best use	88.3	2
To determine the marketability of the project	85.2	3
To determine project feasibility	81.1	4
To convince client of a good job	62.2	5

180 **4.3   Challenges of Conducting Market Research**

181 The respondents were asked to rate the challenges faced when conducting market
182 research and their outcome is presented in table 3. Their response was ranked with the
183 aid of a five-point Likert scale from 1 representing strongly disagree to 5 denoted by
184 strongly agree. The table shows that pressure from the client to deliver the appraisal on
185 time is the major challenge faced by surveyors in conducting market research. This
186 finding relates to the study conducted by [9] but the focus of their study was on the
187 residential and commercial performance of a property. They discovered that pressure
188 from the client to deliver on time affects property performance.
189   Table 3 shows other factors that affect market research in order of hierarchy are;
190 difficulty in sourcing information and not enough resources for an effective marketing
191 plan implementation while problems of forecasting and not sure of what direction to go
192 was ranked as less important.

193   **Table 3**. challenges of conducting market research

	Mean	Rank
Pressure from client to deliver the appraisal on time	4.00	1
Difficulty in sourcing information	3.57	2
Not enough resources for an effective marketing plan implementation	3.57	3
Budgetary constraints to hire the right marketing team members	3.27	4
Keeping up with marketing trends and strategies	3.22	5
Rapid technological change	3.00	6
Heterogeneous and fragmenting markets	2.92	7
Changes in the economy	2.78	8
Inability to address the risk profile	2.57	9
Problem of forecasting future cost and benefits	2.46	10
Not sure of what direction to go or even how to begin	2.35	11

4.4 Significant difference for challenges confronting professionals conducting market research

Kruskal Wallis test was used to test the hypothesis stating that there is no significant difference among the professional working experience and the challenges in doing market research. The aim of the hypothesis was to determine if the challenges confronting estate surveyors conducting market research is a function of their working experience. The Kruskal Wallis test is provided in table 4. The working experience of the respondents was used as a grouping factor or differentiating factor while the challenges for conducting market research was used as an independent variable.

Table 4. Kruskal Wallis test for difference among the professional working experience and challenges of conducting market research

	Challenges for conducting market research
Chi-square	49.671
Df	6
Asymp.Sig	0.000

Grouping factor: Working experience

The table shows that there is a significant difference among the professionals working experience and the challenges for conducting market research. This implies that the challenges confronting estate surveyors and valuers during market research is a function of their working experience.

5 Conclusion and Recommendation

Project appraisal is crucial at this time when there is an emphasis on investment performance in many parts of the world, and this is even more important in Nigeria where the economy is going into recession. Thus, it creates the need for careful consideration in the course of the investment decision-making process. An efficient

215 project appraisal requires thorough market research which takes into account the
216 underlying conditions of the market. This study examines the challenges of market
217 research for project appraisals in Lagos metropolis. The study finds out that most of the
218 respondents carry out market research for two days, 35% conduct market research for
219 3-5 days and few carry out market research continuously.

220 The majority of the information relied upon for market research by Estate Surveyors
221 is sourced from phone calls to their colleagues. They are three main purposes for
222 conducting market research which is; to convince the financier about the project
223 viability, to determine the highest and best use and to determine the marketability of
224 the project. Pressure from the client to deliver the appraisal on time is the major
225 challenge faced by surveyors in conducting market research, followed by difficulty in
226 sourcing information and not enough resources for an effective marketing plan
227 implementation.

228 Conclusively estate surveyors are willing to carry out market research but do not do
229 so because of the pressure on the client to deliver their appraisals on time and as a result
230 of this they conduct market research for just two days which should have been a
231 continuous process. It was also discovered that estate surveyors face challenges with
232 the market research process, especially when establishing the condition of the market.
233 The study recommends that the body in charge of regulating and controlling the affairs
234 of Estate Surveyors and Valuers (NIESV) in the country should create a data bank that
235 can easily be accessible. Also, the estate surveyor should take due diligence when
236 preparing appraisal reports. The study as well recommends that market research should
237 be introduced into the school curriculum as this will help develop the mind of the
238 Surveyors on the importance of market research.

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