UPDC Plc: A Business Model for Creating Sustainable Living Environments in Emerging Africa

Introduction

How has a private company been able to consistently create value and outperform competition in property development market for many years despite the inclement business environment? What are its crucial governance system and policies of property business? How has it been able to overcome every obstacle in its path and won through in a puny market and to address other emerging challenges in its attempt to create sustainable living environments in its chosen markets? How has it managed to achieve more than the vast majority of developers? In short, which combination of business strategies particularly promotes the effectiveness and efficiency of companies involved in sustainable real estate development? Inadequate financial and resource management approach are among the critical constraints to effective urban development in Sub-Saharan economies (Mabogunje, 2008). This has resulted in persisting poor living conditions of many people, a contributor to the region's abysmally low (3.1 percent) contribution to global economic output (IMF, 2015). Goal 11 of the new, post-2015, United Nations global development agenda is directed to making cities and human settlements inclusive, safe, resilient and sustainable. However, it is acknowledged that there are diverse approaches, models, visions, and tools available to each nation, in accordance with its domestic peculiarities and priorities, to

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achieve desirable and sustainable housing stock for its people for inclusive economic growth. In the Nigerian context, the tough business climate for property and human settlement developers is evidenced by, among several issues, the recurring of poor infrastructure, high cost of building materials coupled with the over dependence on imported materials for housing production, limited availability of skilled manpower in the sector with few competent hands able to handle different model of building, leading to further increase in the cost of building production, and land titling, cost of perfecting titles to land has over the years been the bane to housing development in the country. There is also the added problem of abysmally low access to mortgage / retail financing for aspiring homeowners that has done little or nothing to reduce the current housing deficit of 17.5 million housing units.

In this work, using informed opinions of academics and practitioners, we explore the activities of arguably Nigeria's foremost property developer, UACN Property Development Company Plc (UPDC) with a view to developing a new action-based business model of sustainable property development practice for management education and development. In today's business and competitive world, the case study should be seen in the context of the imperative for management profession to be constantly reexamined while educational institutions need to constantly revisit their curricula to align with emerging dynamics of industry experience (Boyd *et al*, 2014). Given the significant role of real estate in capital market development, UPDC has attracted research interest in recent years, and this case study forms part of a larger on-going project focused on deeper analysis of the emergent Nigerian Real Estate Capital Market (Bello, 2003; Bamiduro & Aro-Gordon, 2006; Oteh, 2011; Bello, 2012). The strategic management lessons that can be extracted from the present mapping of UPDC strategy and processes could provide management insights for other developers and entrepreneurs to achieve superior performance in their own businesses, particularly Sub-Saharan Africa (Senge, 20006; Tennet & Friend, 2011).

Further discussion about the case study covers in some detail the following aspects reflecting the identified elements in the UPDC Plc business model: (i) Nigerian business environment, (ii) company information and insights into corporate governance, (iii) sustainable development strategy, (iv) estate / portfolio management system (v) financial risk management, (vi) financial performance (vii) emerging challenges, and (viii) conclusion

Nigerian Business Environment: Opportunities and Challenges

Nigeria, a multi-ethnic society, is Africa's most populous country and one of the ten most populous countries in the world with an estimated population of 178 million in 2014. The country has a landmass of 923,768.64 square kilometers, 11th largest in the world. Nigeria has predominantly youthful population with 44 percent under 15 years, 43 percent between 15 and 49 years, which suggest tremendous opportunities for housing development. Sub-Saharan African economies have been affected by global financial conditions, security challenges, and falling oil and commodity prices as growth rate headed south to 4.8 per cent in 2014 from 5.2 per cent in 2013. However, while South Africa recorded a downward decline from 2.2 per cent in 2013 to 1.4 per cent in 2014, Nigeria's economy grew by 5.94 per cent in 2014, compared to 6.77 per cent in 2013 and opportunities continue to rise in the face of some recurring challenges (Fig.1). Generally, according to the Global Economic Prospects of the World Bank (2015), developing economies are projected to grow by 4.4 percent in 2015, with a likely rise to 5.2 percent in 2016, and 5.4 percent in 2017.

The Nigerian real estate sector is largely characterized by lack of adequate long term funds, high interest rates, regulatory bottlenecks and inadequate linkage of housing finance to the capital market. It is estimated that the country needs an average of 1million housing units each year to cater for the housing need of the country. Less than 5 per cent of the requirement was added to the housing stock in 2013 due to non-availability of affordable financing, unfavourable land policies, poor infrastructure, amongst others (UPDC REIT, 2014). There has been a relative rise in vacancy rates at the high-end segment of the market, with appreciable growth experienced in the low/medium-segments. Notably, the commercial and retail segments have been more active with new investments in prime office, and a number of shopping malls across major capital cities of the federating States. The on-going mortgage reforms have seen the recapitalization of some primary mortgage banks (PMBs) and the setting up of the Nigerian Mortgage Refinance Company (NMRC), a private sector-led secondary mortgage refinance company being promoted by the Federal Government with US$ 300 million seed capital provided by the World Bank.

Opportunities	**Threats**
✓ Large market size in Nigeria estimated at 17.5 million housing units ✓ Positive on-going reforms in the mortgage sub-sector ✓ Expected growth in the retail and industrial segments of the markets especially for the SMEs. ✓ Economy is diversifying and the country's middle class gradual re-emerging which should improve housing affordability. ✓ Improving efficiency of expenditure and service delivery. ✓ Price stability with single-digit inflation rate expected to be maintained. ✓ On-going transformation reforms in agriculture, energy, infrastructure development expected to stimulate growth. ✓ Current regional coalition appears to be making headway in subduing insurgency.	o Inadequate infrastructure, especially poor transportation system, epileptic power supply, and poor communication system o Cumbersome land/property registration and construction permit processes o Devaluation of the Naira o Lull in the investment markets, an extension of oil price volatility and slow global economic recovery o Looming prospects of higher borrowing costs o Weak consumer spending power o Low access to long-term finance. o Dearth of quality real estate assets for investment purposes

Figure 1 : The Nigerian Business Environment: Opportunities and Threats in Real Estate Context

It is expected that the revised guidelines for Primary Mortgage Banks (PMBs) and a fully operational National Mortgage Refinancing Corporation (NMRC) will provide a wider scope of activities and opportunities for estate developers and ultimately result in affordable mortgages and increased home ownership for middle and lower income earners. Increased demand for real estate, as an alternative means of hedging against value erosion is expected to result from possible depreciation of the Naira. With the huge housing deficit of 17.45 million units, emerging opportunities in the commercial and retail categories and partnership opportunities in the areas of housing technology and finance, the sector continues to hold exciting promise for the future. Growth in the real estate market, especially in the residential and commercial property sub-segment, is expected as the demand for real estate properties will increase due to rapid urbanization. The growth in the residential space would be driven by property developers leveraging on Nigeria's housing deficit, which is estimated at 17.5 million units and the increase in demand for affordable housing by the emerging middle class. In recent years the number of retail property developments have risen from near zero to almost 30 and this trend in expected to continue, as property developers and investors continue to explore the opportunities available in this segment.

Overall, the government has indicated that it will give priority to bring country's economy back to the path of robust growth in its 2016-2020 Successor Strategic Plan. To this end, the 2016-2020 Macroeconomic Framework for the Medium Term Successor Strategic Plan is designed to bring the economy back to the path of robust growth, while ensuring that growth was both inclusive and sustainable. The macroeconomic objectives for the 2016-2020 plan seeks to correct the present macroeconomic imbalances with more stable inflation and exchange rate, reduce poverty incidence and income inequality, foster strong, broad-based and sustainable growth accompanied by improved productivity and socially desirable outcomes, increase employment opportunities and reduce unemployment opportunities, as well as ensure external viability, among others, all in consistency with the aspirations of the UN Post- 2015 Development Agenda / Sustainable Development Goals, 2016-2030, which seek to complete the unfinished business of the Millennium Development Goals (MDGs), and respond to new challenges (United Nations Department of Economic and Social Affairs, 2015).

About the Company

UPDC is a composite real estate company with the mission of providing solutions in the area of property development and management. The company is basically involved in the acquisition, development, sales and management of high quality serviced commercial and residential properties, as well as retail spaces in the luxury, premium and classic segments of the real estate market. Property development, sales and management represent corporate core services accounting for 86.16% of total revenue in 2014 (FSDH, 2015). UPDC is the leader in the high-end segment of the Nigerian real estate market, with properties located in the choice areas of Lagos, Abuja and Port Harcourt with upcoming footprints in other capital cities like Ibadan, Calabar, and Asaba. It was also the first company in the real estate sector to be quoted on The Nigerian Stock Exchange (NSE). The company has consistently demonstrated good performance in its business over the years as reflected by its superior financial performance. The company carefully aligns its goals with operational strategies in terms of its choice of property location, joint ventures, property investment and estate management models. It has also retained seasoned professionals at its helms of affairs, both externally and internally, and has maintained a stable small 7-member board. With its total assets, which stood at ₦69.08 billion as at half-year 2015, UPDC Plc is a leader in the high-end segment of the Nigerian real estate market and it is involved in the property development, sales and management as well as hospitality services.

The company operated first as a Department, then as a Division of UAC of Nigeria Plc (UACN) until October 1997, when the business was incorporated as a public limited liability company and listed on the Nigerian Stock Exchange. In 1879, the parent's company, the United African Company was found following the merger of four Companies trading up the River Niger: Alexander Miller Brother & Company, Central African Trading Company Limited; West African Company Limited and James Pinnock. UACN has for over a century, remained a foremost private enterprise and leader in the economic advancement of Nigeria. UPDC's strategic business thrust is the development and management of luxury, premium and classic apartments in selected cities in Nigeria including Lagos, Abuja, and Port Harcourt. The company was listed on the Nigerian Stock Exchange (NSE) in November 1998 in the Real Estate Development sub-sector of the exchange, and has a current capitalization value of ₦12.75 billion. The company basically approaches property planning from the customers' perspective in order to create sustainably comfortable living/working environments. It is thus devoted to managing its short to long term environmental responsibilities both towards the communities in which we operate and towards future generations. The company's business model is premised on project development and delivery through direct investment and joint ventures with private and public sector stakeholders, such as the ₦2.2 billion UPDC Hotels Limited is a company incorporated to hold and manage the assets of FESTAC '77 Hotel bought from the Federal Government in 2002, Calabar Golf Estate JV with Cross River State Government, and Olive Court, Ibadan with Oyo State Government.

Corporate Governance

UPDC maintains UACN's (the parent organization's) shared values include the ideals of customer focus, respect for the individual, integrity, team spirit, innovation, openness and communication. Approval and enforcement of corporate code of Ethics and Business Practices for the Company and Code of conduct for Directors are retained by the board of directors. As shown below, the company's business operation is founded upon clear vision and a unique Gross Domestic Product (GDP)-linked mission.

Vision

"To be the No. 1 real estate company in our chosen markets, offering exceptional products and services to customers."

Mission

"To grow our top-line at twice the rate of Nigeria's GDP growth and achieve an average EBIT of 24%." In a sense, UPDC hopes outperform its parent company (UACN) that targets growth at a blended EBIT profitability of 15 percent. The Nigerian economy has enjoyed sustained growth for a decade with annual real GDP in the region of 7-8 percent; it was 6.3 percent in 2014. As at 2014 financial year, the company's turnover increased only marginally by 3.55% to ₦11.70 billion, compared with ₦11.30 billion recorded in 2013, but EBIT margin was up to 21.34% in 2014.

In consonance with the Code of Best Practices on Corporate Governance in Nigeria, 2003, UPDC is a real estate business of integrity and high ethical standards. Apart from just its people, brands and choice properties, UPDC's reputation for honest, transparent and dependable business conduct, built over the years, is an asset. The company's management is headed by Mr. Larry Ettah, experienced industrialist who serves as the Non-Executive Chairman of the 7-member Board of Directors and has been a board member for the past eight years. Generally, the board of UPDC has enjoyed a good measure of management stability; a typical UPDC director has spent an average of 6.8 years over the past ten years. The executive management of company is led by Mr. Hakeem Ogunniran, Lawyer, Chartered Secretary and Fellow of the Chartered Institute of Arbitrators and formerly a Law Lecturer. He was at the University of Lagos. He was appointed the Managing Director of UPDC in January, 2010. The roles and responsibilities of the Board include, among others, formulation of policies, strategy and overseeing the management and conduct of the business, formulation and management of risk management framework, as well as succession planning and the appointment, training, remuneration and replacement of board members and members of the senior management. The board also oversees the effectiveness and adequacy of internal control systems, performance appraisal and compensation of board members and senior executives, ensuring the integrity of financial controls and reports, and making sure that ethical standards are maintained in the organization. Ensuring compliance with the company's Memorandum and Articles of Association, applicable laws, regulations, standards and Code of Corporate Governance and defining the scope of corporate social responsibility through the approval of relevant policies also form part of the board responsibilities.

Becoming and serving as a Director of UPDC Plc is a serious business. The process of appointing directors of the company is fairly rigorous, and it includes a Governance and Remuneration Committee conducting requisite background checks, informal interviews/ interaction and a recommendation for the approval of the board of directors. A director appointed by the Board is presented to the next Annual General Meeting of the members of the Company for election. Every newly appointed Director receives a comprehensive letter of appointment detailing the terms of reference of the Board and its Committees, the Board structure, schedule of Board meetings, the director's entitlements and demand on his / her time resulting from the directorship. The letter of appointment is accompanied with the company's Memorandum and Articles of Association, previous Annual Report and Accounts, the Code of Corporate Governance For Public Companies in Nigeria, corporate Code of Business Ethics, and other major documents, policies, processes and procedures that help the director to gain understanding of the company, its history, culture, values, business principles, people, projects, processes and plan. A new director undergoes an induction process whereby he / she is introduced to the members of the Senior Management team, the Board of Directors and the business operations, strategic plan, business environment and directors' fiduciary duties and responsibilities. Operational visits are also arranged for the new director to meet the leadership teams and get acquainted with the business operations, issues and brands of associated companies of the company. The board of the company defines the scope of corporate social responsibility and this has usually taken the form of assisting communities, institutions and charitable organizations in one form or the other, particularly in terms enhancing infrastructure and facilities in schools across Nigeria. Opportunities are also given to students in higher institutions of learning to obtain practical experience in a wide range of business and technical skills in the company's various business units.

Sustainable Development Strategy

Sustainable development refers to economic development without polluting environment, one that is undertaken within acceptable levels of global resource depletion and environmental pollution. While economic growth and development obviously involve changes in the physical ecosystem, sustainable development must not, at a minimum, endanger the natural systems that support life on Earth: the atmosphere, the waters, the soils, and the living beings. Consequently, in carrying out sizable property development, land should not be degraded beyond reasonable recovery (UN, 2015). With respect to urban planning and development, one of the objectives of Nigeria's Vision 2020 is the achievement of equitable and spatial economic development across the federation. The new UN sustainable development goal aims at upgrading slums and ensuring everyone's access to adequate, safe, and affordable housing and basis services by 2030. Enhancing inclusive and sustainable, resource-efficient urbanization and integrated urban planning and management in all countries form part of the global imperatives for harmonious living environment. In the context of property development, this means ensuring the delivery of quality homes from materials sourced and produced in an environmentally friendly manner, while also ensuring its land acquisitions practices and procedures align sustainably with the human environment and natural resources, with less destruction of forests or fisheries. Perhaps this is well illustrated with UPDC's Cameron Green, an estate brand that developed in a manner that the building's orientation has limited exposure to the sun so as to unleash its potential eco-friendliness. When a building is designed with limited exposure to sunlight and sun rays, the need for cooling by mechanical means is reduced and that aligns with sound principle of sustainability. In similar vein, the Golf Estate, Summit Hills, Calabar, UPDC's Joint Venture (JV) with the Cross Rivers State Government, has been designed to have features that seek to align with the natural terrain so as to be in harmony with the surrounding vegetation. The Golf Estate has pitched roof and car parking integrated in the design to accommodate Calabar climate, low energy consumption typologies, and potentialities for zero energy estate. In essence, sustainable homes are built in such a way that they need less energy to run, and any damage to the surrounding environment is kept to the minimum. Also homes can be designed in such a way that they have very high energy efficiency. Thus, UPDC basically approaches property planning from the customers' perspective in order to create sustainably comfortable living/working environment.

Perhaps UPDC's sustainable development principle is best illustrated by its Cameron Green brand designed and delivered in a manner that its orientation has limited exposure to the sun to unleash its potential eco-friendliness. Cameron Green consists of four detached houses, each sitting on 1,000 square metres and serviced with a boys quarters. Each house comes with its own swimming pool. There are also two blocks of 28 flats made of 10 units of four-bedroom flats, 10 units of three-bedroom flats and eight units of one-bedroom flats. The prominent facilities in the estate to include a swimming pool, lawn tennis court, fitness centre, children playground, easy drive way, ample parking lots for residents and visitors, sewage treatment plant and borehole with water treatment plant, all spread on substantial (about 70%) part of the 1.1 hectares site area. In a house that has limited exposure to sunlight and sun rays, the use of cooling by mechanical means by residents tends to be greatly reduced and that aligns with principle of sustainability. The premises are laced with flowers and trees, including sustainable and recycled materials. For example, the roof is made of aluminium trusses instead of timber, which accords with goals of green conservation. Explaining the idea further at its commissioning last year, the UPDC boss, Mr Hakeem Ogunniran said:

"In doing this project, as much as possible, we did not distort the existing ecosystem. We had to leave all the trees and in addition, we are very proud to say that we have planted 128 trees on the site. In the next four to five years, you will see the beauty of this estate" (Vanguardngr.com, 2014).

This 'Going Green' campaign by UPDC served to reinforce the underlying development philosophy underscored by UPDC's former boss, Mr Abdul Bello:

"The impetus for the recent green movement came from the theory that human-generated release of carbon dioxide into the atmosphere was contributing to a warming of the planet. These concerns caused some governments, business and individuals to re-examine their own roles in the release of carbon dioxide and to attempt to reduce their output. Going green refers to a heightened awareness of using the earth's resources efficiently by conserving our natural resources, reducing contributions to landfills, and reducing pollution generally. Going green can be summarized as "reduce, reuse, and recycle" – which means reduce waste, reuse what you can, and recycle what you can't. Going green means, in essence, doing a better of job of conserving energy, conserving water resources, and recycling waste" (Skyyscapercity.com, 2009).

Another eco-friendly housing project of UPDC, the Calabar Golf Estate, a Joint Venture (JV) between the Cross Rivers State Government and the company, designed to align with the surrounding vegetation was earlier mentioned. The estate will be a natural extension of the Cross River State Government's high aspiration to create a truly unique destination in Nigeria. The estate is thus designed to be a new proposition for modern living in the country, benefitting of the natural security and beauty of the Cross River State's capital city of Calabar that once served as the national capital in the country's history. Additionally, the Pinnacle is a residential estate located in the high-brow Maitama area in Abuja with picturesque landscape filled with ample trees and lush vegetation in line with UPDC'S goal of sustainability.

UPDC Plc runs on a diversification strategy that is traditionally associated with risk-reduction provided the assets have low or negative correlation, but the company also has clearly defined niche market (Parasuraman, 2014; Sander & Sander, 2003). In the present context, UPDC's niche market reflects a 'small' group of real estate investors and homeowners who seem to fancy UPDC's flow of wide ranging residential and commercial properties across Nigeria. As displayed in Appendix 1, UPDC's product portfolios comprise landmark residential and commercial developments, mainly mixed investment properties, income-producing properties and properties under development (land or building, or part of a building, or both) that are held to earn rentals or for capital appreciation or both. Although thus far the portfolio is mainly concentrated in the southern part of the country, UPDC's strategic thrust is to extend her developments to other parts of Nigeria aside the main cities of Lagos, Abuja and Port Harcourt. In recent years, the company has added other State's capital cities such as Ibadan, Asaba, and Calabar into its developmental radar due to the current rapid growth and industrialization. The housing deficit in Asaba for instance is estimated to be 400,000 units, and about 2.5 per cent of the country's housing deficit. Asaba is in the country's South-South geopolitical region that presently commands the highest GDP per capita of US$ 3617 (African Economic Outlook, 2015). The relative security and public perception of safety in many of these up-coming megacities is a boost for urbanization and also a demand-driver for residential and commercial real estate in the capital towns. The company's main focus is on the luxury, high-end segment of the industry.

UPDC also has a subsidiary in the hospitality business, UPDC Hotel Limited Plc. The hotel provides services such as sale of rooms, conferencing and banquet facilities as well as food and beverages. Additionally, UPDC jointly owns with Top Services Limited the property development company, Manor Gardens Property Development Company Limited. In 2013, UPDC floated the UPDC Real Estate Investment Trust (REIT) at a capital value of ₦26.7bn. The REIT was listed on The Nigerian Stock Exchange (NSE) on July 1, 2013. The REIT is a property fund backed by five investment properties located in Lagos, Abuja and Aba. UPDC held 61.5 per cent of the REIT fund as at December 31, 2014.

On the whole, UPDC is expected to continue to build on its strong brand name / market presence and technical relationship with the parent company, its strategically located housing units, leadership position in the industry and other identified strengths (Fig. 2), to overcome current and emerging challenges.

Strengths	Weaknesses
✓ Good knowledge and expertise of domestic market ✓ Strong brand name / market presence and technical relationship with the parent company ✓ Strategically located housing units ✓ Leadership position in the industry ✓ Maintain a niche market ✓ Professional and technical competence ✓ Strong technical, research and development programme	o Rising interest cost o Devaluation of the Naira o Declining occupancy levels in the hotel business in recent times o Intensive competition from new entrants

Figure 2 : UPDC Development Strategy: Strengths and Weaknesses

Estate / Portfolio Management System

In acquiring a particular property to add to the company's portfolio, a comprehensive selection processes are usually undertaken to ensure that it meets the company's investment criteria which includes a) Type of property, b) Location of the property, c) Valuation of the property, d) Comprehensive due diligence to minimize the risk involved in uncertainty of title and e) Approval of the Investment Committee. Valuation lies at much of what is done in estate / portfolio management as investors would like to be assured that financial statements reflects assets' fair values (Damodaran, 2007). Thus, determination and recognition of property values in the financial statements are done painstakingly and generally follow standard practice. Investment properties are initially recognized at property cost including related transaction costs and where applicable borrowing costs associated with the acquisition of the property. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific property. For instance, during the half year of 2015, the management decided to impair the ₦2.08 billion equity value of the company's investment in UPDC Hotel Limited because of the declining performance of the hotel business in terms of revenue and occupancy levels (FSDH, 2015). Alternative valuation methods are deployed in circumstances where there are no reliable market evidences or were markets are less active. Valuations are performed as of the financial position date by qualified professional estate surveyors and valuers who have current experience in the location and category of the investment property being appraised. These valuations form the basis for the carrying amounts in the financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

The company's portfolios are properly monitored based on its corporate investment strategy and appropriate action taken to correct any deviation that the portfolio takes because of new market developments. As part of UPDC's strategy to enable investors earn stable income while preserving capital over the long term, ₦26 billion UPDC Real Estate Investment Trust (REIT) was established in June 6 2013, as a close-ended REIT that is listed on the Nigerian Stock Exchange (NSE), meaning that the company's REIT units can be bought and sold through a licensed stockbroker on the floor of the exchange. REITs have become increasingly recognized as attractive investment vehicles for sustainable housing development in Nigeria (Ajibola *et al*, 2009). The public offer of the UPDC REIT closed on March 27, 2013 and it was 88.94% subscribed. The REIT's idea is aimed at ensuring stable cash distributions from investments in a diversified portfolio of income–producing real estate properties and to improve and maximize unit value through sustained management of the REIT's assets, acquisitions and development of additional income-producing real estate properties. The principal activity of the UPDC Real Estate Investment Trust (REIT) is the pooled investment in a diversified portfolio of income-generating real estate in Nigeria with high growth potential in accordance with the Trustee Investments Act, the Investments and Securities Act (2007), the Securities and Exchange Commission's Rules and Regulations and the Trust Deed (the Applicable Regulations). UPDC REIT portfolio is diversified and positioned to benefit from the growth opportunities in both the residential and commercial sub-segment. The relatively high occupancy rate on all UPDC REIT's real estate assets with minimum rental yield of 7% is largely as a result of the quality of the real estate assets in the Fund exemplified by the caliber of tenants occupying the properties. The tenants are mostly a mix of corporate clients and high net worth individuals, and many of them have a very high tendency of renewing their leases. Some of the corporate tenants have remained tenants in the properties for almost 20 years. This assures REIT investors of the Fund's capacity to consistently earn and distribute income to its unit holders.

UPDC REIT's Fund Manager jointly with UPDC's estate managers has responsibility for sound administration of the company's real estate portfolio to satisfy the set investment and objectives for sustainable development. For example, they will normally assess at each reporting date of the REIT whether there is objective evidence that a rent receivable is at risk of loss or impaired. Rental income from investment properties is recognised on a straight-line basis over the lease term. When the business provides incentives to its tenants, the incentive cost is recognised over the lease term, on a straight-line basis, as a resultant reduction of rental income. Rental income earned but is yet to be paid by the tenant(s) is treated as "rent receivables" in the corporate accounting system and reported under "other assets" in the statement of financial position. Rent paid in advance and yet to be earned are recorded as "rent received in advance" under other liabilities in the statement of financial position. Each owing tenant are accessed for their ability to pay based on previous payment history. The property manager engages the tenant(s) a month before tenancy expiration, reminder letters are sent to the tenants and meetings held where applicable. When it is proven that a receivable is impaired, such losses are recognised in the statement of comprehensive income as a reduction of the rental income. If, in a subsequent period, the rent is received, it will be recognised as a reversal through the statement of comprehensive income as "other income".

In terms of portfolio construction process, UPDC REIT's investments are made by the Fund Manager with the consent and approval of the Investment Committee in any of the following asset classes and in accordance with the maximum limit allowed. The limit allowed for each investment class is as stated below:

<table>
<tr><th>Asset Class</th><th>Minimum Limit</th><th>Maximum Limit</th><th>Actual situation as of December 2014</th></tr>
<tr><td>Real Estate Properties</td><td>75.00%</td><td>100.00%</td><td rowspan="2">75.19%</td></tr>
<tr><td>Real Estate related assets</td><td>0.00%</td><td>25.00%</td></tr>
<tr><td>Liquid assets</td><td>0.00%</td><td>10.00%</td><td>24.81%</td></tr>
</table>

Source: UPDC REIT (2014)

REIT Management fees are charged as 0.375 per cent of the Net Asset Value of the Fund; the fees are accrued and paid quarterly in arrears. The maximum annual incentive fee is 10% of total returns in excess of 10% of the Net Asset Value of the Fund's net asset value per annum and is accounted for on an accrual basis or as soon as this condition is met.

Financial Risk Management Strategy

UPDC is primarily focused on creating long-term value for its shareholders. To this end, it has put in place clear strategies to mitigate any risks while taking advantage of emerging opportunities. The Fund Managers are provided with written guidelines for appropriate investments and these guidelines are regularly reviewed and are usually within the Collective Investment Scheme regulations issued by the Securities and Exchange Commission (SEC). Specifically, its financial instruments are categorized into income generating activities comprising (i)investing in rental income on investment properties, (ii) trading real estate equity securities on the stock exchange and (iii) trading in government securities. These financial instruments expose the company to a wide variety of investment risks including credit, liquidity risk and the effects of changes in debt and equity market prices and interest rates. Appropriate strategies are crafted to mitigate against these risks. The investment risk management framework adheres to regulatory requirements in relation to investment policies; assets mix, valuation, diversification, asset and liability matching, and risk management. It also includes setting market, credit, liquidity and other investment risk management strategies and policies, developing management procedures to ensure that investments are only transacted in line with these policies, and having an appropriate system of measurement, monitoring, reporting and control underpinning investment activities.

Joint Trustees		
• Board of Directors • Fund Manager • Custodian • Property Manager	• Investment Committee • The Fund Manager's Risk Management Department	• Internal Audit
Defence Line Level I	**Defence Line Level II**	**Defence Line Level III**

Figure 3 : UPDC's Financial Risk Management Framework

Thus, the company's financial risk management programme acknowledges the uncertainty of financial markets and tries to minimize potential adverse effects on its financial performance. As shown in Fig. 3, risk management is basically carried out by REIT's fund managers under direction of the investment committee comprising stakeholders' representatives who are guided by policies approved by senior management and regular review of the market trends and information available to evaluate the potential exposures. For instance, the company is considering capital restructuring of UPDC REIT to generate liquidity while planning to restructure its portfolio-mix to incorporate more resilient portfolios so as to guarantee flow of income streams in periods of depression.

In essence, as shown in Fig. 4, the business strategy that particularly promotes the effectiveness and efficiency of UPDC as a leading property development corporation in Nigeria revolves around robust corporate governance, sustainable development, estate / portfolio management, and financial risk management.

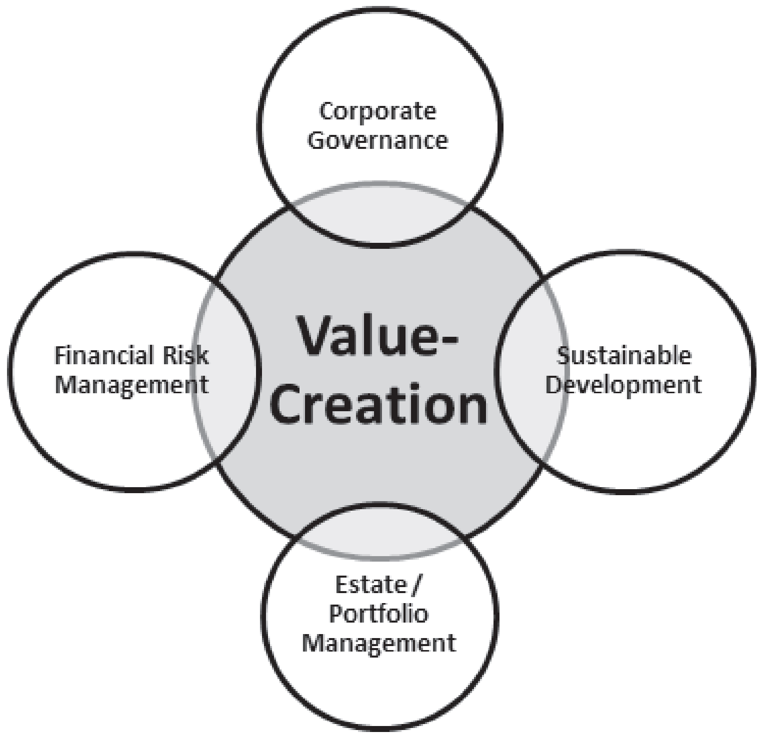

Figure 4 : UPDC: Practice-based business model

Source: Developed by the author (2015)

However, it remains to be demonstrated how the company's business model has helped it to create sustainable value for its shareholders in terms of overall financial performance.

Financial Performance

Appendix 2 shows the trends in financial performance of UPDC for the period 2000 to 2011, including its stock-market pricing, market portfolio data and business fundamentals of earnings yield and Net

Asset Value (NAV). Over 50% of UPDC's business is devoted to property acquisition and development for resale purposes. Financing has come basically from a balanced (50/50) debt-equity mix with most of the debt financing coming from bonds and loans obtained from local and international financial institutions. The company's income is mainly from sale of residential properties. As at 2014 financial year, the company's turnover increased by 3.55% to ₦11.70 billion, compared with ₦11.30 billion recorded in 2013. Despite the challenges of the business environment, particularly in recent times as regards high cost of funds and socio-political uncertainties, the company has continued to demonstrate a high level of financial management efficiency in managing the real estate business. As shown in Table 1, net profit after tax (PAT) margin that declined from 24.62 per cent in 2011 financial year to 18.11 per cent in 2012, has begun to rise again, increasing to 27.93 per cent in 2013, and 30.67 per cent in 2014, notwithstanding that the company has been faced with a great deal of pressure in terms of gross margins before interest and tax in recent years attributable to a number of negative externalities such as the declining occupancy levels in the hotel business of the company.

Table 1 :
UPDC Plc Profitability Margins 2011 – 2014

	2014	**2013**	**2012**	**2011**
Gross Profit Margin	15.64%	28.32%	41.53%	49.83%
EBIT Margin	21.34%	44.99%	31.48%	53.42%
PBT Margin	30.26%	32.81%	20.39%	35.36%
PAT Margin	30.67%	27.93%	18.11%	24.62%

Source: FSDH (2015)

In similar vein, over the last 19 months up to year-end 2014, the UPDC REIT has earned a total of ₦4.84 billion, resulting in an earnings yield of 18.20 per cent as at December 31, 2014. From Table 2 on the nominal and risk-adjusted (Sharpe Ratio) performance of UPDC between 2001 and 2011, we observe that UPDC outperformed the market portfolio at the nominal mean annual rate of return of 13.49 percent compared with the market average of 11.34 percent.

Table 2 :
Nominal Return and Risk-Adjusted Return Performance of UPDC Plc (2001 – 2011)

Sl. No.	Asset	Nominal Rate of Return (%)	Sharpe Ratio (Sr)
1	UPDC Plc	13.49 *(11.34)	2.15 *(-0.02)
2	Risk-free portfolio	11.34	0.00

Source: MS Excel software analysis (2015)

*(Market yield and *SR* for the same period are shown in parentheses)

Further analysis reveals that investment in UPDC equity stock provides higher-level risk-adjusted return with its SR of 2.15, outperforming the market portfolio's -0.02, indicating that the direct property development sub-sector remains relatively superior on risk-adjusted performance basis as observed in previous studies (Bello, 2003; Amidu & Aluko, 2006; FSDH, 2009; Bello, 2012). Similarly, except during the rally (2007) to the 2008 global financial crisis, the company's stock price had consistently traded below its intrinsic value as shown in Fig. 5, making it a 'value stock' for discerning investors. Given the bearish conditions in the capital markets of recent, UPDC's current market price of ₦7.42 as of September 22, 2015, still suggests a good 'buy' when its fair value of ₦13.10 is considered (FSDH, 2015).

The superior performance is in itself a reflection of the supply and demand dynamics reflected in the generally shortage of accommodation and high property prices particularly in biggish cities of Lagos, Port Harcourt, Kano, and Abuja (Okoya-Thomas, 2010;

Onukwuli, 2012). In this scenario, ensuring a good mix-portfolio of income-generating commercial and residential properties across target income-segments is a critical success factor for UPDC. The challenges of doing real estate development business in Nigerian are compounded by myriads of factors including overlapping taxes, complicated rules, excessive approvals, confusing bureaucracy and lengthy land and building permits, and poor infrastructure.

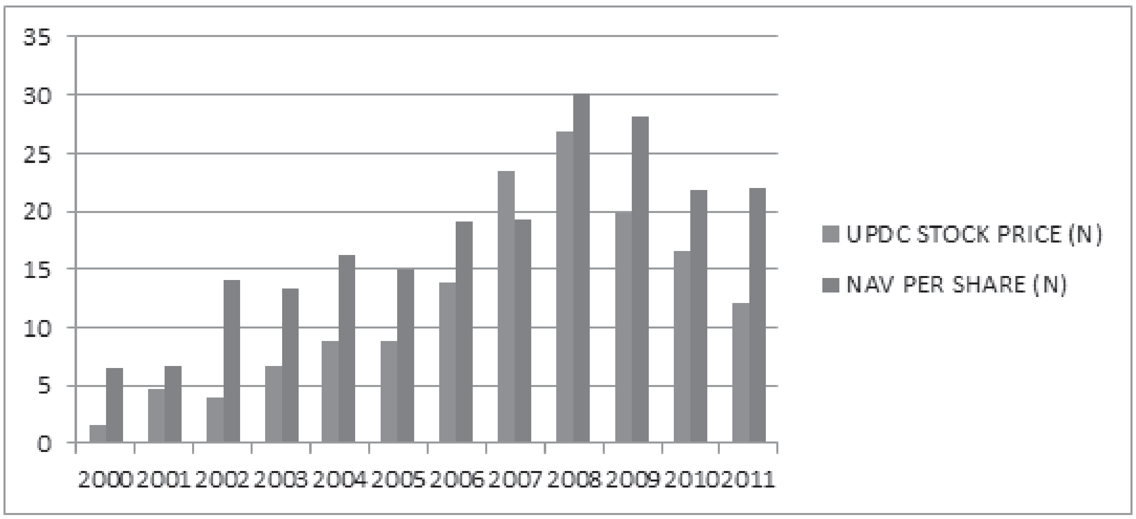

Figure 5: UPDC as Value Stock (2000 – 2011)

Source: Author’s research (2015)

In the years 2001 to 2011, the Nigerian economy grew at an average rate of 8.77 percent, while UPDC experienced average earnings yield of 13.49 per cent during the same period. In pursuit of its stated mission statement, namely to grow its top-line at twice the rate of Nigeria2 s GDP growth, the company has consistently outperformed the Nigerian economic growth rate between 2001 and 2011, except in 2004 when the country appeared to experience a stratospheric growth, as shown in Table 3. The average earnings/GDP factor was more than twice (2.39x) during the period.

Table 3 :
UPDC: Mission Accomplished? Earnings Yield/GDP Growth 2001 -2011

End-December	Earnings Yield (%)	GDP Growth %	Earnings/ GDP Factor
2001	37.5	4.41	8.50
2002	16.02	3.78	4.24
2003	22.75	10.35	2.20
2004	6.82	33.74	0.20
2005	8.65	3.44	2.51
2006	10.06	8.21	1.23
2007	7.03	6.83	1.03
2008	13.8	6.27	2.20
2009	8.25	6.93	1.19
2010	8.51	7.84	1.09
2011	8.96	4.65	1.93

Source: Author's research survey (2015)

Issues and Concerns Faced by UPDC

Some of the recurring issues include:

i. High cost of building materials coupled with the over dependence on imported materials for housing production. Most of the quality building materials we have in Nigeria are imported and the rise in the exchange of dollars, the materials are imported to the country at expensive rate.

ii. Limited availability of skilled manpower in the sector with few competent hands to handle different model of building, leading to further increase in the cost of building production.

iii. Land titling, cost of perfecting titles to land has over the years been the bane to housing development in the country. The Federal Government some eight years ago set up a presidential technical committee to work on that now they are at the stage of piloting in two states Gombe and Kano states.

iv. Mortgage / retail financing challenges bordering on how to make funding a lot more accessible. Hopefully, the recently established Nigeria Refinancing Company of Nigeria is expected to create and provide liquidity in the secondary market for real estate development.

v. The issue about construction methodology - a lot of people still construct in the traditional way, building individual homes, rather than mass housing system, which can bring desirable efficiency, standardization, credibility which speaks to the fundamental principles of sustainability.

vi. Delayed execution of many government road works and infrastructure upgrades particularly in Lagos State and other urban centres across the Federation.

Conclusion

An attempt was made in this case study to explore and map out the business strategies and processes that particularly promote the effectiveness and efficiency of UPDC Plc, one of emerging Africa's foremost property developer. The analysis was based largely on informed opinions of academics and investment practitioners, from which we were able to an integrated business model (Fig. 4) that can be used to create sustainable housing products in different business environments. Developing and delivering sustainable is complex in nature, thus reinforcing the advocacy for a diverse knowledge-base in modern estate management (Boyd *et al*, 2014). Also, according to Einstein's general theory of relativity that explains how our material world works, when we push something, it moves, but only as long as we keep pushing it (White & Gribbin, 1992). Thus, UPDC's capacity to withstand the seemingly harsh operating environment over the years is perhaps attributable to its long presence in the Nigerian property marketing, but beyond its longevity, its business model has played a major role: lucid mission, and clarity of niche market and methodology to deliver with consistent superior return on investment. The company has demonstrated good performance in its business model over the years as reflected by its superior financial performance. The take-away from this case study should be that successful management principles of clear-headed vision, devotion to robust corporate governance, core competence, coupled with robust, layered financial risk management system remain a truism. However, a number of other private estate developers and managers such as Lekki Gardens Estate Limited, ARM Properties, Admiralty Homes, and Aso Savings and Loans Limited, Shell Trustees Limited has emerged providing healthy competition for UPDC towards the task of providing decent accommodation and making our cities inclusive, safe, resilient and sustainable. Given the anticipated slow-down in the global and regional economies across the world, it remains to be seen how UPDC will be able to maintain its best-in-class performance. The review presented in this paper is general and based on incomplete information. Some critical issues still need to be considered by the UPDC management; for instance, further investigation is required to shed more light on such emerging issues as:

a. Should UPDC continue to focus on the middle-upper income 'luxury' market in the light of emerging and grossly 'untapped' opportunities in the retail/mass housing?

b. What should be the appropriate mix between sales portfolio and rental portfolio, on one hand, and between residential and business assets on another?

c. With pro-FDI policy environment expected to improve in the coming years, how positioned is the company for foreign competitors well-capitalized to explore emerging opportunities in the huge Nigerian market?

d. Should UPDC continue to be its own property manager if perhaps the shareholders could benefit more from outsourcing estate management?

e. Would the use of 'market values' and 'cost method' as against income-capitalization approach not expose the shareholders to increased volatility of values?

f. Are the current levels of risk management documentation sufficient? To what extent would estimates of portfolio beta reveal UPDC's actual balance between risk and return?

g. Would a stringent portfolio revision reveal the need to move in more aggressively into development of business premises such as agro-industrial parks in more Nigerian major cities and elsewhere in Africa?

h. How are development control offices and other regulators impacting UPDC model validation?

i. Should UPDC exit from the hotel business segment that has shown declining performance in recent times in terms of revenue and occupancy levels?

Thus, the resultant model from this case study can be tested validated, and applied to other companies and sectors.

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Appendix 1

A Panoramic View of UPDC's Current Portfolio and On-Going Projects

Sl. No	Brand	Type	Size / Scope	Location	Status
1	Emerald Court	Residential	44 housing units	Abuja	Completed
2	Grandville	Residential	11 housing units	Lagos: Ikeja Government Reserved Area	Completed
3	Vintage Gardens / NAAF Estate	Residential	90 housing units	Port Harcourt	Completed
4	Cameron Green	Residential	4 housing units	Lagos: Ikoyi	Completed
5	Festival Mall and Residences	Mixed	Site Area of 8.7 hectares comprising of: **Block A – 471 room hotel in three wings** 357 rooms operational as Golden Tulip Hotel. **Block B – The Residences** Three wings to be renovated into 1 & 2 Bedroom Apartments - 212 housing units plus 5,820 square metres office accommodation **Festival Shopping Mall and Entertainment Centre** One Main Anchor Tenant, Sub Anchor, Cinemas and a mix other retailers.	Lagos: FESTAC	On-going

6	Calabar Golf Estate	Residential	200 housing units	Calabar: Summit Hills	On-going
7	Metrocity	Residential	225 housing units	Abuja	On-going
8	Pinnock Beach Estate	Residential	83 housing units	Lagos: Lekki Peninsula	On-going
9	Olive Court: Phases 1 and II	Residential	50 housing units	Ibadan: Agodi	On-going
10	Victoria Mall Plaza (VMP)	Mixed	16,700 square metres-residential/commercial project in Phases 1 and 2	Lagos: Victoria Island	On-going
11	Pineville	Residential	20 housing units	Asaba: Government Reserved Area	On-going
12	Pinnacle	Residential	27 housing units	Abuja: Maitama	On-going
13	Alexander Miller	Residential		Lagos: Lekki Peninsula	On-going

Source: Author's Research Survey (2015)

Appendix II

Financial Performance of UPDC Plc (1998-2011)

End-December	UPDC Stock Price (N)	Earnings Yield (%)	NAV Per Share (N)	Market Return (%)	GDP Growth %
2000	1.52		6.53	8.16	5.32
2001	4.62	37.5	6.69	7.14	4.41
2002	4.00	16.02	14.03	7.99	3.78
2003	6.6	22.75	13.27	5.06	10.35
2004	8.9	6.82	16.27	3.45	33.74
2005	8.75	8.65	15.03	4.48	3.44
2006	13.8	10.06	19.07	5.58	8.21
2007	23.37	7.03	19.28	3.60	6.83
2008	26.84	13.8	30.20	6.29	6.27
2009	19.86	8.25	28.19	8.73	6.93
2010	16.51	8.51	21.74	7.02	7.84
2011	12.00	8.96	21.96	6.98	4.65

Source: Author’s Research Survey, 2015