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CHALLENGES OF EQUITY ACCOUNTING AND CAPITAL INVESTMENT IN REAL ESTATE: THE WAY FORWARD

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ABSTRACT: Real estate remains an important component of economic development because it provides housing, commercial facilities, industrial premises, infrastructure and opportunities for wealth creation. However, investment in real estate increasingly involves complex ownership structures, joint ventures, associates, property development companies, institutional investors and other forms of shared capital participation. These arrangements create important accounting and investment challenges. Equity accounting, particularly the equity method prescribed by International Accounting Standard (IAS) 28 for investments in associates and joint ventures, requires investors to recognise their share of an investee's subsequent profit or loss and other relevant changes in net assets. At the same time, real-estate investors face challenges arising from high capital requirements, inflation, interest-rate volatility, inadequate access to long-term finance, uncertain property valuation, land-title problems, taxation, regulatory delays, weak governance, inadequate disclosure and liquidity constraints. This paper examines the major challenges associated with equity accounting and capital investment in real estate and proposes practical measures for improving the reliability, transparency and sustainability of real-estate investment decisions. The paper adopts a conceptual review approach based on relevant accounting standards, academic literature and institutional publications. The analysis indicates that difficulties in determining significant influence, measuring property values, reconciling investee financial information, recognising the investor's share of profits or losses, accounting for impairment and dealing with transactions between investors and investees can reduce the usefulness of equity-accounted information. In the investment environment, high financing costs, land administration problems, inadequate infrastructure, construction-cost increases and macroeconomic instability can reduce investment returns and increase risk. The paper recommends stronger property valuation systems, improved land administration, better corporate governance, digital accounting systems, transparent financial reporting, professional capacity development, diversified financing mechanisms and stronger regulatory coordination. The paper concludes that integrating sound equity-accounting practices with disciplined capital-investment analysis can improve investor confidence, accountability and the long-term contribution of real estate to economic development.

KEYWORDS: Equity accounting, Equity method, Capital investment, Real estate, Property investment, IAS 28, Valuation, corporate governance, Financial reporting, Investment risk.

INTRODUCTION

Real estate constitutes one of the most significant areas of long-term capital investment in modern economies. Residential buildings, commercial properties, industrial facilities, hotels, shopping centres, warehouses and land development projects require substantial amounts of capital and usually generate returns over extended periods. Real estate can provide rental income, capital appreciation, employment opportunities and collateral for financial transactions. It can also contribute to urban development and economic growth.

The increasing complexity of real-estate ownership has created a closer relationship between property investment and financial reporting. Real-estate

projects are frequently undertaken through companies, associates, joint ventures, special-purpose entities and other investment arrangements. Consequently, investors and other users of financial statements require reliable information about the financial performance and financial position of the entities in which they have invested.
Equity accounting is particularly relevant where an investor exercises significant influence over an associate or shares joint control over a joint venture. Under IAS 28, an investor generally recognises its investment initially at cost and subsequently adjusts the carrying amount for its share of the investee's profit or loss and other changes in the investee's net assets. Distributions received reduce the carrying amount of the investment.
Although the equity method provides useful information about an investor's economic interest in an investee, its application is not without difficulties. The International Accounting Standards Board (IASB) has identified application questions surrounding the equity method and published an Exposure Draft in 2024 proposing amendments to IAS 28 and related disclosure requirements. The objective is partly to reduce diversity in practice and improve comparability and usefulness of information.
Real-estate investment presents another group of challenges. The sector is capital-intensive and exposed to fluctuations in interest rates, inflation, construction costs, property prices and rental income. Investors must also consider land ownership, title documentation, planning regulations, taxation, environmental requirements and infrastructure.
In developing economies such as Nigeria, these challenges can be particularly significant. Previous World Bank analysis identified costly and lengthy land and mortgage registration procedures, incomplete land records, informal occupation and difficulties surrounding land transactions as barriers to effective land and mortgage markets. The Central Bank of Nigeria has also identified inadequate access to low-cost funding, weaknesses in the legal framework, inadequate housing supply and undercapitalisation of mortgage banks among challenges affecting housing-sector development.
The combination of accounting complexity and investment risk makes it necessary to examine equity accounting and capital investment in real estate as interconnected issues. Accurate accounting information can support investment decisions, while sound investment structures can improve the quality of financial reporting.

2.0 CONCEPTUAL CLARIFICATION

2.1 Concept of Equity Accounting

Equity accounting, commonly referred to as the equity method, is an accounting approach used to recognise an investor's interest in another entity when the investor has significant influence or joint control, subject to the applicable requirements and exceptions. IAS 28 defines an associate as an entity over which an investor has significant influence but not control or joint control. A presumption of significant influence generally arises where an investor holds 20% or more of the voting power, although the actual circumstances must be considered.
Under the equity method, the investment is initially recognised at cost. Subsequently, the carrying amount is adjusted for the investor's share of the investee's profit or loss and other comprehensive income, as applicable. Dividends or distributions received from the investee generally reduce the carrying amount of the investment. The purpose of equity accounting is to provide financial-statement users with information reflecting the investor's economic interest in the investee rather than simply reporting the original acquisition cost.

2.2 Concept of Capital Investment

Capital investment refers to the commitment of financial resources to assets, projects or businesses with the expectation of generating future economic benefits. In real estate, capital investment may involve the purchase of land, construction of buildings, property redevelopment, acquisition of rental properties or participation in property-development companies.
Capital investment differs from ordinary operating expenditure because it is normally directed toward acquiring or improving resources expected to provide benefits beyond the immediate accounting period.

2.3 Concept of Real Estate

Real estate refers broadly to land and the permanent structures or improvements attached to it. It includes residential, commercial, industrial, agricultural and mixed-use properties.
Real estate possesses several distinctive characteristics. It is relatively immobile, heterogeneous, capital-intensive and often illiquid. Property values are also strongly influenced by location, infrastructure, economic conditions,

demand, planning regulations and the quality of the property.

2.4 Relationship between Equity Accounting and Real-Estate Investment

The relationship becomes particularly important when real-estate projects are undertaken through associates or joint ventures. For example, an investor may contribute capital to a property-development company and acquire a significant influence without obtaining control. The investor then needs to account for the investment using the applicable equity method requirements.

Consequently, the quality of the investor's financial reporting depends partly on the quality, timeliness and reliability of information supplied by the investee. If the investee has weak accounting systems, unreliable property valuations or inadequate financial controls, the investor may experience difficulties in preparing accurate financial statements.

3.0 THEORETICAL FRAMEWORK

3.1 Agency Theory

Agency theory explains relationships in which one party delegates responsibilities to another. In real-estate investment, shareholders or investors may provide capital while managers, developers or property managers control day-to-day operations. Information asymmetry can occur when managers possess more information about project performance than investors. This can create opportunities for inefficient decisions, resource misuse or inaccurate reporting.

Effective governance, independent auditing and transparent disclosure can reduce agency problems.

3.2 Stakeholder Theory

Stakeholder theory suggests that organisations should consider the interests of parties affected by their activities. In real estate, stakeholders include investors, tenants, employees, lenders, government authorities, communities, contractors and suppliers. A real-estate project that generates financial returns but creates serious social or environmental problems may not be sustainable in the long term. Consequently, investment decisions should consider financial, social, environmental and governance factors.

3.3 Modern Portfolio Theory

Modern Portfolio Theory provides a framework for understanding diversification and risk. Investors can reduce exposure to individual investment risks by combining different assets.
In real estate, diversification may involve investing in different locations, property types, tenant groups and investment structures. Equity participation in different property ventures may therefore be used as part of a broader portfolio strategy.

4.0 CHALLENGES OF EQUITY ACCOUNTING IN REAL ESTATE

4.1 Determining Significant Influence

One major challenge is determining whether an investor has significant influence over an investee. Although a 20% voting interest generally creates a presumption of significant influence, ownership percentage alone does not always provide a complete answer. Contractual arrangements, board representation, participation in policy-making and other factors may need to be evaluated.
This becomes complicated in real-estate companies where ownership structures may involve several shareholders, family interests, institutional investors and joint-development agreements.

4.2 Complexity of Joint-Venture Structures

Real-estate projects are frequently organised as joint ventures because development projects require substantial capital and specialised expertise. Different parties may contribute land, money, construction expertise, professional services or financing. Determining the rights and obligations of each participant can therefore be complicated. Where accounting treatment does not appropriately reflect the underlying economic arrangement, users may misunderstand the investment.

4.3 Property Valuation Difficulties

Property valuation is one of the most significant challenges facing real-estate accounting. Properties are often valued using market comparisons, income approaches or cost approaches. However, comparable transactions may be limited, particularly for specialised properties.
Rapid market changes can also make valuations outdated. A property valued at one date may experience a significant change in market conditions shortly afterward.
Valuation uncertainty can therefore affect investment

decisions and the reported financial position of real-estate entities.

4.4 Differences in Accounting Policies

An investor and an investee may apply accounting policies differently. Before equity accounting information can be appropriately incorporated, differences may need to be identified and adjusted where required.
This is particularly important when the entities operate in different jurisdictions or use different accounting systems.

4.5 Timing Differences in Financial Information

The investor may require financial information from an associate or joint venture before the investee has completed its financial reporting process. Delays in obtaining financial statements can create problems for timely reporting. The challenge becomes more serious when real-estate projects involve multiple entities, contractors and property managers.

4.6 Recognition of the Investor's Share of Profit or Loss

The investor must appropriately determine its share of the investee's financial performance.
In property development, profit may be affected by construction costs, valuation adjustments, financing expenses, taxes, impairment and revenue-recognition issues.
Incorrect allocation can consequently result in misleading reported earnings.

4.7 Impairment of Investments

Real-estate investments may lose value because of falling property prices, poor occupancy rates, project delays, legal disputes or rising financing costs.
IAS 28 contains requirements concerning impairment of equity-method investments, making impairment assessment an important aspect of reporting.
The challenge is determining whether an impairment indicator exists and estimating the recoverable amount using reliable assumptions.

4.8 Transactions between Investor and Investee

Transactions between an investor and an associate or joint venture can create accounting complications.

For example, an investor may sell land to an associate, provide construction services or purchase property from a joint venture. Determining the appropriate recognition of gains and losses requires careful consideration of the applicable accounting requirements.
The IASB's current equity-method project specifically includes questions concerning transactions with associates and joint ventures.

4.9 Changes in Ownership Interests

An investor's ownership interest may increase or decrease during the life of a real-estate project. Such changes can affect the accounting treatment, carrying amount and recognition of gains or losses. Complex ownership structures can make these calculations difficult.

4.10 Inadequate Disclosure

Poor disclosure reduces the usefulness of equity-accounted information.
Users need sufficient information to understand the nature of investments, significant judgments, risks, financial performance and the relationship between the investor and investee.
The IASB has proposed additional disclosure requirements alongside its proposed amendments to IAS 28.

5.0 CHALLENGES OF CAPITAL INVESTMENT IN REAL ESTATE

5.1 High Initial Capital Requirement

Real-estate investment requires substantial initial capital. Land acquisition, professional fees, construction materials, labour, permits and infrastructure can create significant financial commitments.
Small investors may therefore find it difficult to enter the market without partnerships, mortgage finance or collective investment structures.

5.2 High Cost of Finance

Interest rates have a direct impact on real-estate investment.
When financing costs increase, developers may experience higher project costs and lower expected returns. Mortgage affordability may also decline, reducing demand for properties.
The CBN has highlighted access to low-cost funding as one of the issues affecting housing-sector development.

5.3 Inflation and Construction-Cost Risk

Inflation can increase the cost of cement, steel, labour, transportation, machinery and other construction inputs.

A project originally budgeted using one set of prices may become significantly more expensive before completion.

Developers must therefore incorporate contingency allowances and regularly review project budgets.

5.4 Land-Title and Registration Problems

Unclear land ownership creates significant investment risk.

A property may be subject to competing claims, incomplete documentation or administrative restrictions. Lengthy registration processes can also delay development.

Historical World Bank analysis of Nigeria identified lengthy and costly land-registration procedures and incomplete land records as major obstacles to efficient land and mortgage markets.

5.5 Regulatory Uncertainty

Real-estate projects are affected by planning, building, environmental, taxation and land-use regulations.

Frequent changes or delays in regulatory approvals can increase project costs and extend completion periods.

5.6 Property-Market Volatility

Property values are not always stable. Economic recession, unemployment, interest-rate changes, population movement and changes in consumer preferences can affect property demand and prices.

Investors who assume continuous appreciation may therefore underestimate risk.

5.7 Liquidity Risk

Real estate is generally less liquid than many financial assets.

Selling a property may require substantial time, negotiation and transaction costs. This can make it difficult for investors to convert their property holdings into cash during periods of financial pressure.

5.8 Inadequate Infrastructure

Poor roads, electricity supply, drainage, water systems and other infrastructure can reduce the attractiveness and value of properties. Infrastructure deficits can also increase construction and operating costs.

5.9 Fraud and Weak Corporate Governance

Real-estate transactions involve large amounts of money, making the sector vulnerable to fraud. Possible problems include multiple sales of the same property, falsified documentation, diversion of project funds and undisclosed related-party transactions.

Strong governance and independent verification are therefore essential.

5.10 Environmental and Climate Risks

Flooding, erosion, extreme weather and other environmental risks can damage property and reduce investment returns.

Investors should increasingly include environmental risk assessment in feasibility studies and valuation processes.

6.0 EFFECTS OF THESE CHALLENGES ON INVESTMENT PERFORMANCE

The challenges identified above can produce several consequences.

First, they can increase the cost of investment. When land acquisition, finance and construction become more expensive, the expected return on investment may decline. Second, accounting uncertainty can reduce investor confidence. If investors cannot determine whether reported property values and profits are reliable, they may demand higher returns to compensate for perceived risk. Third, poor financial reporting can make comparison between investment opportunities difficult. Fourth, delays in land registration and project approval can increase the period before investors begin receiving returns. Fifth, weak governance may increase the probability of financial losses. Finally, the combination of accounting and investment challenges can discourage long-term institutional investment in real estate.

7.0 THE WAY FORWARD

7.1 Strengthening Equity-Accounting Expertise

Companies should invest in continuous professional development for accountants, auditors and financial managers involved in equity-method accounting. Training should cover IAS 28, IFRS 12, valuation, impairment, joint ventures and related-party transactions.

7.2 Improving Property Valuation

Independent professional valuers should be engaged for significant real-estate investments. Valuation reports should clearly state assumptions, methods, comparable properties and significant uncertainties.

Technology can also support valuation through improved databases, geographic information systems and property-market analytics.

7.3 Digitalisation of Land Administration

Governments should strengthen digital land-registration systems. Digitised records can improve access to information, reduce duplication and support faster verification of ownership.

7.4 Improving Access to Long-Term Finance

Financial institutions should develop mortgage and property-financing products that are appropriate for long-term real-estate investments. Real-estate investment trusts, pension funds and other institutional mechanisms can also provide alternative sources of capital.

7.5 Strengthening Corporate Governance

Real-estate companies should establish strong internal controls, independent boards, audit committees and transparent procurement systems. Related-party transactions should receive appropriate scrutiny and disclosure.

7.6 Enhancing Financial Reporting

Investors should receive timely and understandable financial information. Accounting systems should capture property-related transactions accurately and facilitate reconciliation between investors and investees. The IASB's ongoing work on the equity method demonstrates that application challenges remain an important international financial-reporting issue.

7.7 Risk-Based Investment Analysis

Before committing capital, investors should conduct comprehensive feasibility studies. These should include: market-demand analysis; location analysis; construction-cost analysis; financing analysis; legal due diligence; tax analysis; environmental assessment; sensitivity analysis; and projected cash-flow analysis.

7.8 Diversification

Investors should avoid excessive concentration in one property, geographical area or tenant group. Diversification can reduce exposure to individual project failures.

7.9 Strengthening Professional Collaboration

Accountants, auditors, valuers, lawyers, architects, engineers, surveyors, financial institutions and property managers should work together during major investment projects. Multidisciplinary collaboration can identify risks before they become costly problems.

7.10 Improving Regulatory Coordination

Government agencies responsible for land, planning, taxation, housing, finance and environmental matters should coordinate their activities. A more predictable regulatory environment would reduce uncertainty and encourage long-term investment.

CONCLUSION

Equity accounting and capital investment are closely connected in modern real-estate investment because many property projects are undertaken through associates, joint ventures and other shared-ownership structures. Equity accounting provides a mechanism for investors to reflect their economic interest in qualifying investees, but its application can be challenging because of ownership structures, valuation issues, impairment assessments, transactions between related parties, differences in accounting policies and the availability of timely financial information.

Capital investment in real estate is similarly exposed to high initial costs, expensive financing, inflation, land-title uncertainty, regulatory delays, market volatility, liquidity constraints, infrastructure deficiencies, governance weaknesses and environmental risks.

The challenges should not, however, be viewed as reasons to abandon real-estate investment. Rather, they demonstrate the need for better accounting systems, professional competence, reliable valuation, transparent governance, digital land administration and appropriate financing structures. The way forward requires cooperation among investors, accountants, auditors, valuers, financial institutions, regulators and government authorities. Better financial reporting should be accompanied by stronger investment due diligence. In particular, real-estate investors should combine financial analysis with legal, market, environmental and governance assessments before committing capital. Ultimately, the sustainability of real-estate investment depends not only on the availability of capital but also on the quality of information used to allocate that capital. Transparent equity accounting, reliable property valuation, effective governance and sound investment analysis can therefore contribute to improved investor confidence, reduced investment risk and sustainable real-estate development.

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