Premium Arrangement in the Contemporary Real Estate Transaction in Bauchi

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Abstract: The premium arrangement in the real estate enables lessors to receive a lump sum of money and forfeit a part of rental income, while the lessee enjoys some profit rents. This transaction was not operational in the study area. This study investigated the position of the lessor on the awareness and practice of premium arrangement on the real estate transaction in Bauchi metropolis, using multiple regression and structural equation modelling with AMOS graphics. The analyses (both) multiple regression and structural equation modelling with AMOS revealed that the awareness and practice of premium arrangement in Bauchi metropolis have been a factor that can significantly influence the real estate transactions with corresponding benefits to both lessors and lessees in the study area. It was therefore recommended that the parties' privy in the premium transaction to acknowledge the benefits to the lessor appeared to out-weigh the benefits to the lessee, thus the parties should be enjoined to comply with the existing rules and covenants of their lease.

Keywords: Premium, Lessor, Lessee, Real Estate, Bauchi

INTRODUCTION

The premium arrangement in the realm of real estate transaction allows the lessor to receive a lump sum of money and consider a favourable rent reduction to the lessee, and gives the lessee a benefit of profit rent or some other benefits (Ifediora, 2009; Baum et al., 2011). The lump sum instantly received by the lessor offers some advantages to the lessor viz. the sum is tax free, the lump sum can be invested, the lump sum received now may not be reduced by inflation that may affect the value of the future income, the sum also offers increasing security of rent as the tenant in this arrangement is not likely to default (Ifediora, 2009; Baum *et al.,* 2011). However, premium payment by tenant results in the loss of capital, then paying lower rent, thereby gaining profit rent (Baum *et al.,* 2011). The execution of the premium arrangement between a lessor and a lessee has not been practiced or reported, therefore, this study was poised to find out whether the awareness and practice of premium arrangement by the parties' privy in the lease transaction can significantly influence the real estate transaction in Bauchi metropolis of Nigeria.

Literature Review

Evans & Evans (2007) defined premium as money paid in advance by tenant to landlord. The premium can be in a form of repair, improvement or extension work on the subject property that would enhance its value (Ifediora, 2009; Baum *et al.,* 2011). Baum *et al.,* 2011 also added that premium in a nutshell is a *part disposal* of freehold interest to the lessee which may lead to charging capital gain tax by the lessee, in (Smith, 2012) lessee had more disadvantages, when he/she has paid huge premium and incidentally breached a lease covenant, could forfeit the lease in favour of the lessor at the expense of the lessee, even if the breach has not caused significant damages to the lessor.

Materials and Method

Background data were collected from the relevant articles and published textbooks, and field data were collected using a questionnaire as an instrument for data collection, the questionnaire was designed according to three constructs viz. the lessor's position and the lessee's position on the awareness and practice of the premium arrangement as the exogenous (predictor) variables and the real estate transaction as the endogenous (dependent) variable. Multiple Regression and SEM-AMOS were employed to analyse the relationship between the aforementioned constructs.

Hypothesis

The study has stated the following proposition as the hypothesis: -

H_a: The awareness and practice of premium transactions can significantly influence the real estate transaction in Bauchi metropolis.

Reliability Analysis

This analysis, tested the internal consistency of the items of measurement using Cronbach's Alpha (Table 1); an approved range of 0.7 to 0.95 was reported in (Gliem & Gliem, 2003; Gencturk *et al.* 2010; Tavakol & Dennick, 2011). Where the number of items measuring a construct were few (less than 10), it was common to get a low alpha coefficient as low as .5, in which, case one could alternatively report the mean inter-item correlation for the items (Pallant, 2010), also in Tavakol & Dennick (2011) fewer items affected the alpha value and that alpha was highly sensitive to the items of questionnaire; in Morgan, Leech, Gloeckner & Barrett (2004) an alpha value of .69 could be accepted in the research with at least four items of measurement. Gliem & Gliem (2003) reported that there has been no actual limit to the alpha coefficient, but the closer the value to 1.0, the higher the internal consistency of the items of question. In view of these, alpha values < .60 were accepted in this study.

Table 1: Reliability Table

S/N	Factors (Main Constructs)	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items of Measurement
1.	Lessor	0.640	0.648	6
2.	Lessee	0.668	0.670	6
3.	IMPACT on RET	0.943	0.944	8
	Total Items			20

Multiple Regression Analysis

In the model summary in Table 2 below, the R coefficient with a value of 0.966 depicts the high correlation between the exogenous (predictors) variables, as certified in Table 5. While the R^2 of 0.932 (93%) meant that both predictors explained or predicted 93% of the variance in the dependent variable (RET). In other words, the awareness and practice of premium arrangement could predict 93% of the variance in the real estate

transaction in Bauchi metropolis, and only 7% was or might be predicted by other things. The influence was significant at 0.001.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.966a	.932	.931	.26847	.932	965.586	2	140	.000
a. Predictors: (Constant), Lessee, Lessor									

The ANOVA on Table 3 shows the cumulative effects of all the predictors on the endogenous variable (Impact of the premium arrangement on the Real Estate Transaction); and the cumulative effect was significant at 0.001 as in Table 2 above.

Table 3: ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	139.189	2	69.595	965.586	.000b
	Residual	10.090	140	.072		
	Total	149.280	142			
a. Dependent Variable: IMPACT						
b. Predictors: (Constant), Lessee, Lessor						

Table 4 which is the coefficients table, depicts the unique effect of each predictor on the (endogenous) dependent variable, the lessor's position on the awareness, and the practice of premium arrangement with Beta value of 1.030 was significant at P value < 0.05; while the lessee's position with Beta 0.070 was not significant with P value 0.233>0.05. However, the collinearity test depicted a reasonable level of multicollinearity problem as the Variance Inflation Factor (VIF) was above 3.0 and Tolerance remained at 0.1. This therefore suggested the need for dropping the redundant predictor variable in the model.

Table 4: Coefficients Table

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	.006	.298		.019	.985	-.584	.595					
Lessor	.865	.049	1.030	17.744	.000	.768	.961	.965	.832	.390	.143	6.974
Lessee	.067	.056	.070	1.199	.233	-.044	.178	-.883	.101	.026	.143	6.974
a. Dependent Variable: IMPACT												

This collinearity issue called for more correlation analysis between the two exogenous (predictors) variables. A significant but negative correlation existed between the predictors at 0.01 (Table 5). This therefore suggested the need to expunge one of the predictors since the correlation was more than 0.85, which meant one of the predictor variable was redundant, and was just a mirror of the others, thus should be removed (Awang, 2014).

Table 5: Correlation Analysis.

		Lessee	Lessor
Lessee	Pearson Correlation	1	-.926**
	Sig. (2-tailed)		.000
	N	143	143

	Pearson Correlation	-.926**	1
Lessor	Sig. (2-tailed)	.000	
	N	143	143
**. Correlation is significant at the 0.01 level (2-tailed).			

As a result, this study has adopted the lessor's position on the awareness and practice of premium arrangement as a predictor variable on the impact of premium arrangement on the real estate transaction in Bauchi metropolis. The analysis using one predictor (lessors' position on the awareness and practice of premium arrangement) on the dependent variable has been presented below.

The Model Summary Table on Table 6 shows R with a value of 0.965 indicating a strong correlation between the predictor variable and the dependent variable. And the R^2 0.932 remained unchanged even as one predictor was dropped, this confirmed the redundancy of the dropped predictor variable, and it meant that the adopted predictor variable explained or predicted 93% of the variance in the dependent variable (RET). In other words, the awareness and the practice could predict 93% of the variance in the real estate transaction, and only 7% was or might be predicted by other things.

Table 6: Model Summary of One Predictor Variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.965a	.932	.931	.26888	.932	1923.771	1	141	.000
a. Predictors: (Constant), Lessor									

In the ANOVA, in Table 7, the cumulative effect was significant (using only one predictor).

Table 7: ANOVA of One Predictor Variable

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	139.085	1	139.085	1923.771	.000b
	Residual	10.194	141	.072		
	Total	149.280	142			
a. Dependent Variable: IMPACT						
b. Predictors: (Constant), Lessor						

In Table 8, the coefficient showed a unique individual effect as significant at P value less than 0.001. The lessor's position on the awareness and practice of the premium arrangement with Beta value of 0.965 was significant at P value < 0.05; as seen on the Summary Table (Table 6) that 93% of the variation in RET might be accounted or predicted by the lessors' awareness and the practice of premium arrangement. The collinearity statistics reported that no collinearity problem was detected as the Variance Inflation Factor (VIF) was less than 3.0 and Tolerance was above 0.1.

Table 8: Coefficient of One Predictor Variable

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.359	.046		7.791	.000	.268	.450					
	Lessor	.811	.018	.965	43.861	.000	.774	.847	.965	.965	.965	1.000	1.000
a. Dependent Variable: IMPACT													

The Standardized Coefficients (Beta) of 0.965 corresponded with the positive correlation between both dependent and predictor variables as shown on table 9 below.

Table 9: Correlation between Dependent and Predictor Variables

		IMPACT	Lessor
IMPACT	Pearson Correlation	1	.965**
	Sig. (2-tailed)		.000
	N	143	143
Lessor	Pearson Correlation	.965**	1
	Sig. (2-tailed)	.000	
	N	143	143
**. Correlation is significant at the 0.01 level (2-tailed).			

Structural Equation Modelling (Sem) Analysis with Amos Graphics.

The fitness indexes on the structural measurement model (Figure 1) achieved the required level fitness of ≥ 0.90; and the ChiSq/df was required at <5.0 while RMSEA was recommended at <0.080 (Wan Afthanorhan, 2014; Awang, 2014); however, NFI > 0.80 could be accepted as a recommended value for a good fit, as in (Chau & Hu, 2001 & Hair *et al.*, 2010 cited in Akinyode, 2016). Though, some factor loadings were lower than the values expected.

Figure 1: Structural Measurement Model

The structural model on Figure 2 below indicated the causal effects of the predictor variable on the dependent variable, the model depicted the relationship between the latent unobserved variable with a single head arrow pointing towards the dependent variable; it has explained the causal effects or influences of the exogenous (predictor) variables on the endogenous (dependent) variables (Byrne, 2010, Awang, 2014); and provided a means for testing the hunch of the hypothesis formulated in line with the latent unobserved construct and the measurement items under them. Loadings in some factors were less than the values expected.

Figure 2: Structural Model

Results and Discussion

The lessor's position on the awareness and practice of the premium arrangement as a predictor variable on the impact of premium arrangement on the real estate transaction in Bauchi metropolis, with a Beta value of 0.965 explained the high relationship, and the result was significant at P value < 0.05; as seen on the Model Summary (Table 6); and that 93% of the variation in the dependent variable (RET) might be accounted or predicted by the lessors' awareness and practice of premium arrangement in the study area. The analysis of the structural equation modelling indicated the result as seen on the estimates in Table 10 below, it provided the answer to the hypothesis. The hypothesis whose P-value was reported with three asterisks meant that the hypothesis was accepted in that the value was less than 0.001; furthermore, the threshold for any value of <0.05 was accepted, thus, H_a was accepted.

Table 10: Estimates

Path	Estimates	S. E.	C. R.	P-Value	Remark
H_a: AP-RET	1.194	0.284	4.203	***	Accepted

The results of the hypothesis test (Table 11 below) revealed that in H_a, the awareness and practice of the premium arrangement could significantly influence the real estate transaction in Bauchi metropolis, which was supported based on the collected and analysed empirical data.

Table 11: Hypothesis Test Results

Path		Remark
H_a: AP-RET	Awareness and practice of premium arrangement can significantly influence real estate transaction in Bauchi metropolis.	Supported

Conclusion

The awareness and practice of the premium arrangement in Bauchi metropolis is a factor that can significantly influence the real estate transactions with a corresponding benefits to both lessors and lessees in the study area. The lump sum accruable to the lessor paved more avenues for the investment in the area of the real estate development; as well as the improvement in the physical and functional conditions of the real properties to command income. The improvement in condition and investment in real properties were found

to be significant in the analysis. The lessee on the other hand enjoyed the reduction in rent thereby generated and reinvested the profit rent. The general scenario was that lessors would be inclined towards more real estate development in Bauchi Metropolis of Nigeria.

Limitation of The Study

The focus of this study was centred on the positions of lessors and lessees (though lessee as predictor variable was expunged due to collinearity problem) about the impact of the awareness and practice of premium arrangement on the real estate transactions in Bauchi metropolis of Nigeria; thus other factors that can influence real estate transactions like surrender and renewal have not been considered in the scope of this research.

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