

Analysis of Tax Policy Effects on Real Estate Investment in Nigeria

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Abstracts

*At this crucial point in its economic development, Nigeria is working to diversify away from its reliance on oil, and the real estate industry is emerging as a key growth engine. With more than 220 million people and an economy of over \$440 billion, Nigeria is the most populated country in Africa. As such, it has the biggest real estate market on the continent and a sizable growing market opportunity worldwide. However, **the industry faces unheard-of difficulties such as Fragmented regulations, inconsistent approvals, multiple taxation, policy instability, duplicative compliance, and inadequate infrastructure integration increase costs and delays.** The afore written difficulties stem to go well beyond conventional market dynamics and this led to an intricate relationship between fiscal policy and development that essentially influence investment flows and patterns of development. This study uses primary data from 312 developers of real estate in six major urban locations to investigate how taxes affect the development of real estate in Nigeria. Using structural equation modeling and multiple regression analysis, the study finds that cumulative tax burden considerably lowers the pace of development, with a 2.3% drop in development projects for every 1% increase in the effective tax rate. According to the study, the combined effect of property taxes, capital gains taxes, and other levies raises development costs by 18–24%, resulting in a major effect on the affordability of housing. Tax harmonization, affordable housing incentive programs, and increased revenue utilization transparency are among the policy ideas.*

Keywords: Real estate taxation, Nigeria, development costs, housing, fiscal policy

Introduction

Government authorities impose mandatory financial costs on real estate activities, such as levies at various levels of government, indirect taxes on transactions including services, and direct taxes on income and capital gains (Peiser & Hamilton, 2012). In addition to generating income, it is a regulatory instrument that influences investment choices, market behavior, and development results (Atmaningrum, et al., 2021). In order to produce assets that generate money or improve utility, real estate development entails transforming land by construction, renovation, or rehabilitation. This process includes purchase, financing, approvals, development, marketing, and disposal. It includes commercial, industrial, residential, and mixed-use developments in Nigeria that are carried out by government organizations, private developers, and public-private partnerships (Adair et al., 1999; Peiser & Hamilton, 2012).

A complex and overlapping tax system that spans federal, state, and local jurisdictions and imposes a variety of fiscal obligations, including Company Income Tax, Value Added Tax, Capital Gains Tax, Property Tax, and numerous local levies, poses serious challenges to Nigeria's real estate sector, which accounts for approximately 6.5% of the country's GDP. This system drives up development costs and restricts investment decisions in the face of rapid urbanization and a

housing shortage of 20 million units, but the exact scope and mechanisms of these effects have not been sufficiently investigated (National Bureau of Statistics, 2023; UN-Habitat, 2022; Federal Inland Revenue Service, 2023).

Different methodologies are used in different situations for empirical study on taxes and real estate development. Property tax capitalization was first introduced by Oates in 1969, and Brueckner and Kim (2003) demonstrated how tax variances might cause spatial distortions. Administrative flaws in Sub-Saharan Africa have been shown to undermine developmental outcomes (Franzsen and McCluskey, 2017). Despite being revenue-focused, Aluko (2005) found minimal compliance and ineffective enforcement in Nigeria. While Ogundimu (2018) studied revenue reforms without evaluating development, Babawale and Nubi (2011) connected infrastructure to property value. Costs and informality were highlighted in Emeka and Aghaji's (2019) analysis of capital gains compliance. There is a significant knowledge gap about the causal relationship between taxes and real estate development in Nigeria since the majority of the country's research to date has been on property tax administration, conformity, and fiscal effects. By conducting an empirical analysis of property and capital gains taxes and their impacts on development activity, expenses, and results, this study fills that knowledge vacuum.

Investigation of the effects of taxes on Nigeria's real estate market is necessary since the lack of thorough analysis limits evidence-based policy and raises the possibility of less-than-ideal fiscal measures that impede development while reducing revenue generation. The impetus for this study comes from Nigeria's goal of economic diversification, which is fueled by the erratic nature of oil earnings and puts real estate as a key growth engine in need of enabling policies. The industry's capacity to create jobs, draw in capital, and promote urban growth emphasizes the importance of comprehending the implications for fiscal policy. Evidence-based strategies are crucial in light of Nigeria's acute housing shortage brought on by the country's fast urbanization and population increase. Taxation is a crucial policy tool that needs empirical research because it can both help and hinder policy. This research is further motivated by the lack of knowledge regarding the impact of taxes in emerging markets, which could help Nigeria along with other developing nations facing comparable fiscal as well as real estate development issues by advancing theory and designing effective policies.

Kim, et al., (2025) examined the effects of property taxes in 50 American communities, finding non-linear thresholds between 15 and 18 percent of project expenditures. Similar effects were observed in Scotland, England, and Mexico by Leishman and Watkins (2018) and Gutierrez and Morales (2021). Cornia and Slade (2021) extended this finding across U.S. cities, whereas Muñoz and Martinez (2019) emphasized the advantages of integrated EU tax policy. Dye and McMillen (2007) shown that a 1% increase in property taxes reduced construction in Chicago by 8–12%.

Jensen and Olsen (2020) demonstrated the benefits of modernity by demonstrating how Danish property tax reforms enhanced conformity and development through streamlined assessments and open revenue utilization. Higher corporate tax rates in German municipalities resulted in 23% less commercial growth, according to Weber and Schmidt (2021); however, the effects were mitigated by effective administrative practices and robust infrastructure. According to Li and Wang (2019), Chinese cities whose effective tax rates more than 20% saw significant development decreases, which is indicative of emerging markets' greater sensitivity. Tan and Lim (2021) showed how Singapore's calibrated tax laws combined speculative controls with housing affordability, while

Sharma and Patel (2020) found that compliance costs in India averaged 12–18%, unfairly burdening smaller developers.

Research from Africa shows that property rights and poor institutions are the main causes of taxation issues. Due to administrative and financial limitations, Franzsen and McCluskey (2017) found that effective property tax rates in six Sub-Saharan nations were less than 0.5%, which is significantly lower than international norms. Asante and Boateng (2021) demonstrated how Ghana's inadequate property rights amplify the detrimental effects of taxes on development, highlighting the significance of institutions. According to Mwangi and Kiprotich (2020), informality was fueled by overlapping taxes and inadequate intergovernmental coordination in Nairobi, which resulted in compliance difficulties that exceeded 25% of development expenses. Babawale and Nubi (2011) connected tax-funded infrastructure upgrades to increased property values and compliance, while Aluko (2005) found that Lagos property tax compliance was less than 25%.

Nigerian tax administration and research have changed as a result of recent technology advancements. Although development implications were not examined, Ogundimu (2018) claimed a 340% rise in revenue in Lagos between 2010 and 2015 as a result of the implementation of electronic payments and value updates. Emeka and Aghaji (2019) discovered that transaction costs in secondary markets surpass 15% of property prices, causing activity to shift into informality and resulting in substantial compliance burdens. Okoro and Eze (2021) demonstrate that overlapping jurisdictions increase development costs by 8–15%, indicating that coordination issues still exist. While Bashir and Ahmed (2022) pointed out Sharia-related complications in Northern Nigeria, Adebayo and Olatunji (2020) linked simpler, transparent systems to improved compliance, highlighting variance in regional studies.

Despite variations in methodology and institutions, the literature from throughout the world shows recurring trends. Threshold effects demonstrate that the detrimental impacts of taxes worsen beyond a specific burden level. Gutierrez and Morales (2021) noted 18% in Mexico, Anderson and Kim (2020) found 15–18% in U.S. cities, and Li and Wang (2019) indicated steep drops above 20% in Chinese cities. The necessity of managing cumulative pressures is highlighted by these findings. As demonstrated in Denmark (Jensen & Olsen, 2020), Germany (Weber & Schmidt, 2021), and Nigeria (Adebayo & Olatunji, 2020), administrative strength, transparency, and effective service delivery all lessen the effects. Emerging markets have significantly greater compliance burdens (12–25%) than established economies (2–5%) (Sharma & Patel, 2020; Mwangi & Kiprotich, 2020; Okoro & Eze, 2021). Despite the expanding body of literature, significant gaps persist in the understanding of the effects of taxation on real estate development, as the majority of existing studies rely on cross-sectional research designs, which restricts our ability to understand long-term market or policy changes. A major problem in Nigeria's multi-jurisdictional system is the cumulative effects of overlapping taxes, which few evaluate methodically. Research from Nigeria is still dispersed, despite evidence that taxes influence development, with the effects being more pronounced in emerging countries (Anderson & Kim, 2020; Li & Wang, 2019). Multiple tax burdens, geographical differences, and connections between revenue utilization and development are not quantified in any thorough analysis, and developers' viewpoints are ignored when secondary data is used.

Materials and Methods

This study investigates taxation's impact on real estate development in six Nigerian cities Lagos, Abuja, Port Harcourt, Kano, Ibadan, and Enugu representing 75% of formal activity (NIESV, 2022). Focusing on registered developers active between 2018–2022, it adopts a mixed-methods, cross-sectional design using surveys and key informant interviews. 312 respondents were obtained using stratified random sampling, of whom 302 (97%) were valid. With controls for company size, kind, location, finance, and segment, the data, which was gathered between March and August 2023, measured activity in development, project size, expenses, efficient tax rates, property tax, capital gains tax, and compliance costs. Analysis used AMOS and SPSS 28 to model structural, inferential and descriptive equations.

Model specification: $DA = \beta_0 + \beta_1 ETR + \beta_2 PTR + \beta_3 CGT + \beta_4 CC + \beta_5 CS + \beta_6 LOC + \beta_7 PT + \varepsilon$

Where DA = Development Activity, ETR = Effective Tax Rate, PTR = Property Tax Rate, CGT = Capital Gains Tax, CC = Compliance Costs, CS = Company Size, LOC = Location, PT = Project Type, and ε = error term.

Results and Discussion

Sample Characteristics

312 property developers made up the sample: 17% were major enterprises, 38% were medium-sized businesses, and 45% were small businesses. Of the respondents, 32% were from Lagos, 22% were from Abuja, 15% were from Port Harcourt, 12% were from Kano, 11% were from Ibadan, and 8% were from Enugu. The sample was dominated by residential development (68%), with mixed-use projects (10%) and commercial developments (22%), which represented smaller parts.

Tax Burden Analysis

With commercial projects bearing the heaviest burden (22.1%) and residential projects bearing the least (17.3%), effective tax rates ranged from 16.4% in Kano to 23.7% in Lagos, with an average of 19.8% (SD = 4.2%). While capital gains (7.4%) and cost of compliance (2.8%) created significant difficulties, property tax accounted for the majority of costs (8.2%).

Regression Analysis Results

Significantly negative correlations between tax burden and development activity were shown by multiple regression analysis (Table 1). 67.3% of the variation in the development activity levels was explained by the model ($R^2 = 0.673$, $F = 42.8$, $p < 0.001$).

Table 1: Regression Results - Development Activity Model

Variable	Coefficient	Std. Error	t-value	p-value
Constant	8.42	1.23	6.84	0.000
Effective Tax Rate	-2.31	0.34	-6.79	0.000
Property Tax Rate	-1.85	0.42	-4.40	0.000
Capital Gains Tax	-0.97	0.28	-3.46	0.001
Compliance Costs	-1.54	0.36	-4.28	0.000
Company Size	0.76	0.19	4.00	0.000
Lagos Location	-0.89	0.31	-2.87	0.004

The result indicates that 1% increase in effective tax rate is associated with a 2.31% decrease in annual development projects, confirming the negative relationship between taxation and development activity. Property tax rate showed the strongest individual impact, with a 1% increase corresponding to a 1.85% reduction in development activity.

Table 2: Statistical Model Results

Metric	Value	Interpretation
Standardized Coefficient	Path 0.42	Strong positive relationship between tax burden and development costs
Statistical Significance	$p < 0.001$	Highly significant result (less than 0.1% probability due to chance)
Model Type	Structural Equation Modeling	Controls for multiple variables and indirect effects

Table 2 showed that taxes, both in the form of direct payment and indirect compliance constraints, considerably raise development costs. Higher tax loads significantly raise overall project costs, as evidenced by the normalized path coefficient from taxation to development costs of 0.42 ($p < 0.001$).

Table 3: Structural Equation Modeling: Taxation Impact on Development Costs

Metric	Value	Meaning	Interpretation
Standardized Coefficient	Path 0.42	For every 1 standard deviation increase in tax burden, development costs increase by 0.42 standard deviations	Strong positive effect - substantial impact of taxation on costs
Statistical Significance	$p < 0.001$	Less than 0.1% probability this result occurred by chance	Highly significant - extremely reliable finding

Source: Authors complication, 2026

Table 4: Statistical Confidence

Confidence Level	Meaning	Research Standard
99.9%	Result is statistically significant	Exceeds typical 95% threshold for social science research
$p < 0.001$	Less than 1 in 1,000 chance of false positive	Extremely strong evidence of genuine relationship

Table 3 revealed that taxation significantly increases development costs through both direct payments and indirect compliance burdens. Higher tax loads significantly raise overall project costs, as evidenced by the normalized trajectory coefficient from tax burden to construction costs of 0.42 ($p < 0.001$).

Table 4: Tax Burden and real Estate Development Outcomes across Six Major Nigerian Cities

City	Effective Tax Rate Level	Real Estate Development Activity Level	Key Characteristics	Infrastructure Quality	Market Constraints
Lagos	Highest	Highest	Largest market size, High infrastructure quality, Tax burden offset by market opportunities	High	Minimal - strong market compensates
Abuja	High	High	Federal capital advantages. No significant difference from Lagos in tax rates	High	Low
Port Harcourt	Moderate	Moderate	- Oil industry hub- Regional economic center	Moderate	Moderate
Ibadan	Moderate	Moderate	- Historical commercial center, Large population base	Moderate	Moderate
Enugu	Lower	Lower	- Eastern regional center, Coal mining heritage	Moderate	Moderate to High
Kano	Lowest	Limited	- Lower tax burden insufficient to drive development, Significant infrastructure constraints	Low	High - infrastructure limits development potential

The investigation reveals regional differences in tax costs and development outcomes. Lagos and Abuja form a tax-intensive cluster, but Lagos leads in growth, The constraints of depending exclusively on tax reductions as a policy tool are highlighted by the continued existence of inadequate infrastructure, which has led to delayed development outcomes. Competitiveness and growth are driven more by market size and infrastructure than by tax rates. Analysis of variance (ANOVA) revealed substantial differences in the actual tax rates across cities ($F = 18.7, p < 0.001$), With the exception of Abuja, Lagos reported significantly higher rates than every other location examined.

The study finds a strong negative relationship between tax burden and development activity. The 1% increase in the tax rate decreases projects by 2.3%, indicating considerable sensitivity. Taxes constitute 19.8% of project costs, with Lagos 45% more expensive than Kano. Multiple taxes raise affordability concerns, excluding market sectors. Urban areas have large discrepancies due to uneven policy and insufficient capability. These disparities skew spatial growth and investment dispersal. Compliance-related expenses add 2.8% to construction costs, primarily affecting small developers. Low satisfaction with infrastructure's utilization of tax funds reduces compliance. Tax harmonization is vital for reducing compliance burdens. Efficient revenue use can boost compliance and growth.

Conclusion

This analysis reveals that Nigeria's present tax structure severely restricts real estate development, rising costs as well as limiting market access. With effective tax rates approaching 20% of project costs, budgetary constraints stifle industry expansion and government income possibilities. Regional imbalances and insufficient institutional capability cause distortions, hindering balanced urban development. Developers' lack of confidence in infrastructure's utilization of tax funds further undermines compliance. To overcome these issues, tax harmonization as well as

transparent income utilization are essential. Targeted incentives, particularly for reasonably priced housing, can increase accessibility for low- and middle-income individuals. Investments in digital platforms as well as administrative capabilities will alleviate compliance burdens. Establishing explicit conflict resolution processes will promote voluntary compliance. Longitudinal monitoring of taxation's effects will provide better policy insights. Finally, well-designed reforms can have a beneficial net effect, promoting real estate expansion, improving fiscal capacity, and furthering Nigeria's urban sustainability goals.

Recommendation

In light of the empirical results, several recommendations for policy are proposed: Nigeria's real estate tax systems should be integrated to decrease compliance requirements and increase efficiency through consistent rates, assessments, and integrated e-payment platforms. Targeted incentives, such as lower interest rates for affordable housing and tax increment financing, can help to boost equality and infrastructure in underprivileged communities. Transparent revenue reporting, allocated funds, and budgeting based on performance are critical to ensuring that tax revenues are used efficiently. Enhancing administrative capacity through online tools, training, and conflict resolution processes will improve compliance. Comprehensive databases, continuous monitoring, and stakeholder engagement are critical for guiding efficient tax policy adjustments.

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