

CHAPTER ONE INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Until relatively recently, the discipline of development appraisal has remained the provenance of surveyors and developers. It largely been ignored by other participants in the development process, particularly planners, architects and construction specialists. This is now changing. Close attention is now paid to the feasibility and viability (and profitability) of development proposals as government and other stakeholders seek to extract developer and/or landowner contributions to affordable housing, public services and infrastructure. Consequently the theory, application and outputs from development appraisal are under intense scrutiny from a wide range of users. Since Circular 05/05 proposed the submission of financial information to provide a basis for negotiations between developers and local planning authorities about viable levels of affordable housing, tests of the financial viability of development projects have become an integral part of the planning process, both at the forward planning and development control stages. At the large-scale, macro-level Strategic Housing Land Availability Assessments require proposed plans to be achievable. However, the timeframe for development can be decades rather than years and, as a result, generating detailed and reliable cost and revenue projections can be impractical. At the other end of the scale, viability appraisals are carried out to inform negotiations about affordable housing levels for a scheme about which there may be a high level of information on permitted development and expected costs over a relatively short timeframe.

In terms of critical evaluation from the real estate academic community, development appraisal has remained something of a backwater. In contrast, often linked to market traumas, over the last four decades methods of appraising standing investment properties have been the subject of widespread academic and professional debate. Whilst the RICS monitors variance and accuracy of investment valuations, there is no comparative institutional evaluation of the performance of development appraisals. Nevertheless, conventional development viability models have been subject to some criticism, particularly their simplified composition, failure to mirror reality and theoretical weaknesses.

1.2 PROBLEM STATEMENT

The general low usage of formal feasibility and viability appraisal techniques by contractors and developers globally often culminates into project failures, incessant claims for variations, huge financial losses and sometimes brings discomfort for people who came to enjoy themselves at these recreational centres. (Allan et al, 2007). This situation is more prevalent in redevelopment projects due to the inevitable problems of unexpected additional work, excessive requirements and scope management issues, project funding not aligned with project plans, delay, structural failure, cost overrun, etc (Naaranoja and Uden, 2007). These problems or uncertainties, among others, increase the project risk and make their management crucial if success is desired.

Some construction projects in Owerri Urban have been abandoned due to poor or no feasibility and viability appraisal on them, while some recreational developments Owerri Golf Club, Silver Bird Cinema etc have stood the test of time, due to proper planning and forecasting. This huge expenditure and apparent failure in the primary objectives of the project led to complaints, probe panels and subsequent abandonment of the project.

Research has shown that financial, political and physical risks are the most significant to Nigerian Contractors (Dada, 2010). However, of the different levels of risk (country, market or project), there is shortage of research as to how Contractors approach project planning at organisational level.

1.3 RESEARCH OBJECTIVES

1. To explore feasibility and viability appraisal techniques used by Contractors of capital projects in Owerri Urban.
2. To assess awareness and usage of formal feasibility and viability appraisal techniques by Contractors in Owerri Urban.
3. To evaluate the impact of feasibility and viability appraisals on the development of capital projects in Owerri Urban.

1.4 RESEARCH QUESTIONS

1. What feasibility and viability appraisal techniques are used by capital project contractors in Owerri Urban?
2. How do you gather information about newer feasibility and viability appraisal techniques

and strategies to be applied in your on-going projects?

3. What are the impacts of feasibility and viability appraisal on the development of capital projects?

1.5 RESEARCH HYPOTHESIS

Ho: There is no significant relationship between feasibility study and the performance of contractors.

Hi: There is a significant relationship between feasibility study and the performance of contractors.

Ho: Feasibility study does not enhance quality deliverable in capital projects.

Hi: Feasibility study enhances quality deliverable in capital projects.

1.6 SIGNIFICANCE OF THE STUDY

This study gives a clear insight into the various ways in which Capital Project developers and owners in Owerri can maximise efficiency and profits through effective and efficient application of feasibility and viability appraisal methods and techniques. The study also gives a clear insight into the various impacts of feasibility and viability appraisal methods on the development of recreation properties in Owerri. The findings and recommendations of the researcher will help in building a strong and better appraisal technique and strategies for Capital Project developers in Owerri state. The impact of feasibility and viability on Capital Project development in Owerri Urban are outlined in order for drastic measures to be taken to tackle any challenge property owners and developers may face when developing recreational centres in Owerri state.

1.6 SCOPE OF STUDY

This research focuses mainly on the impact of feasibility and viability appraisal on the development of capital projects in Owerri urban. Results and recommendations may not be used to generalise other Cities in Nigeria, as the researcher could not cover a wide scope due to financial and time constraints.

Based on the findings of this study other possible researchable areas may include studies on the various effects of other aspects of recreational development such as property laws in Nigeria and property management and control.

1.7 LIMITATION OF THE STUDY

The only limitation faced by the researcher in the course of carrying out this study was the delay in getting data from the various respondents. Most respondents were reluctant in filling questionnaires administered to them due to their busy schedules and nature of their work. The researcher found it difficult to collect responses from the various respondents, and this almost hampered the success of this study.

1.8 DEFINITION OF TERMS

Definitions of terms serve as the dictionary of this research. The terms are defined to enable the reader understand the research more clearly.

Appraisal: The term appraisal is synonymous with valuation. It is an estimate or an opinion fixing the price for something. An appraisal may be made offhand and delivered orally or presented in an authoritative and comprehensively written form to the client who requires the appraisal to make a decision or to execute a policy. In this work, the terms appraisal, evaluation and analysis have been used interchangeably.

Feasibility: Erikson (2002) defined feasibility as an evaluation and analysis of the potential of the proposed project which is based on extensive investigation and research to give full comfort to the decisions makers.

Viability: According to Simmons (2007), Viable or viability is the ability of a thing (a living organism, an artificial system, an idea, etc.) to maintain itself or recover its potentialities.

Capital Project: this refers to long term investment requiring relatively large sums to acquire, develop, improve, and to maintain.

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