

Analyses of Land and Housing Price Inflation in Nigeria, A Study of Federal Capital Territory Abuja from 1999 to 2009

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Abstract

The aim of this study is to critically consider inflation in the prices of land and housing in the Abuja property market from 1999 to 2009, and it is limited to residential property in the phase one of the Abuja property market. This research work was carried out to determine if actually there has been a persistence increase in the prices of residential accommodation in the study area, and also to determine the factors responsible for such increase. Data for the study were collected through observations, personal interviews, and library studies. The data so collected were analyzed using measures of central tendency, graphs and simple percentage table. The result of the study shows that there is inflation in the Abuja property market within the period under investigation. It also shows that the prices of land and housing are increasing at an average inflation rate of 50.1% for lease property and 39.3% for sale property. The work thus recommended the following: that the Government should provide mortgage insurance to first time home buyers who do not have credit history and to low-to middle income families in order to achieve our aim of providing affordable housing; the Federal government should de-centralize government offices from the city centre to other parts of the state to help reduce the demand of land and housing in the study area, in effect reducing the continuous-increase in the prices of land and housing, as people will have to shift to take abode in residential properties close to their offices; the government should go into mass housing development and also cooperate with private developers in a bid to make different types of residential housing units available, thereby increasing the supply of the housing unit to meet demand for them. This will help reduce the continuous increase in the housing prices.

Keywords: Land, Housing and Price Inflation.

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

It has become increasingly glaring that most urban population according to Nubi (2000), live in dehumanizing housing environment, while those that have access to average housing do so at abnormal cost. Housing has remained independent phenomenon that affects every facets of mankind. It constitute a significance index for man's wealth (Renaud 2004; Emoh and Nwachukwu, 2011). Boykin (1979) cited by Adjekophori (2014), explained that the real estate touches the economics lives of all individuals and families. It is the cornerstone of community life, the center of family activities and reference point for societal esteem, as well as the most important financial asset most household will ever acquire (Nevota, 2010).

The effect of inflation on the value of properties: Whenever there is an increase in the prices of commodities in a country, there is a direct and indirect effect on property value. When the cost of building new homes increases, the cost of renting older ones will definitely increase. This will also affect the number of new homes that are erected, thus causing a reduction in supply and more competition to rent or buy both older and newer homes. And because of the several dynamics of the real estate, it often increases beyond the rate of inflation. This is one more reason to invest in real estate; it often absorbs inflation effectively and takes its value beyond its reach (Abiodun, 2013).

61% of Nigerians lived on less than a dollar a day in 2010, up from 52% in 2004, according to the Nigerian National Bureau of Statistics (NBS). Nigeria's fast-expanding urban population is ill-housed. In major centres such as Lagos, Abuja, Ibadan and Kano housing demand is growing at about 20% per year. Yet Nigeria's housing and construction sector only accounts for only 3.1% of GDP, according to Finance Minister Ngozi Okonjo-Iweala.

Demand outstrips supply even in Nigeria's high-income housing market. The country has limited lots under formal title and even quality housing can often not be mortgaged, so that the formal housing market serves only the minority, according to Centre for Affordable Housing Finance in Africa (CAHF).

Housing construction is about 100,000 units per year for a country of over 170 million – the largest population in Africa. According to the World Bank, the country has a housing deficit of about 17 million units and needs about 700,000 additional units each year for the next 20 years.

1.2 STUDY AREA

Abuja occupies an area of about eight thousand square kilometers (8000 sq km) which is about two and half times

the size of the Former Federal Capital Territory (Lagos), Abuja is bounded on the north by Kaduna State, on the west by Niger state, on the East and South East by Plateau State, on the South West by Kogi State. It falls within latitude 8° 25'N and 9°20'N of the equator and longitude 6045¹ and 7030 (Okeke, 2011).

2.0 METHODOLOGY

The research instrument used was the interview and observation approach. Interview was carried out on respondents. The interview was oral and structured, this labeled vital information needed for the study to be readily available. Most of the respondents were visited in their offices, some contacted on phone and while others were met in informal settings during the office break.

This study gives a subjective and statistical view on inflation of prices of houses in the Abuja property market. It produces answers to the reasons of escalating prices of houses, and also gives an overview of the persistence increase in the rental and capital value of property in Abuja phase 1. Therefore, for the purpose of this work, the population of this study includes all Estate Surveyors, Real Estate Developers, Landlords, Tenants and Quantity Surveyors within Abuja phase 1. Judgmental sampling technique was used which assumed that a sample size of 40 stakeholders in the real estate sector of the Abuja property market will be appropriate.

Table 1: Table showing the distribution of respondents

| RESPONDENTS | NO SELECTED FOR THE STUDY |
|-----------------------------|---------------------------|
| Estate Surveyor And Valuers | 15 |
| Real Estate Developers | 5 |
| Landlord | 7 |
| Tenant | 8 |
| Quantity Surveyors | 5 |
| Total | 40 |

Source: Authors Field Work, 2012

2.1 DATA PRESENTATION AND ANALYSIS

Using indices for weighing the various year taking 1999 as the base year. The formular is thus:

$$\text{Base year} = 1999 \quad 100\%$$

$$\text{Index} = \frac{X_i}{X_2} \quad 100\%$$

$$\text{Percentage (\% increase)} = 100\% - \text{Index}$$

Where, X_i = Price at the beginning (base year)

X_2 = current price. **Research Question One**

Is there any land and housing price inflation in the Abuja property market between 1999 to 2009.

Table 2: Rental Values for 5-Bedroom Duplex Maitama and Asokoro Wuse And Garki Districts.

| Year | Mean Annual Value (N) | Index | Percentage Increase | Mean Annual Value (N) | Index | Percentage increase |
|------|-----------------------|-------|---------------------|-----------------------|-------|---------------------|
| 1999 | 2,300,000 | - | - | 1,400,000 | - | - |
| 2000 | 2,5000.00 | 92 | 8 26 | 1,800.000 | 77 56 | 23 |
| 2001 | 3,100,000 | 74 | | 2,500.000 | | 44 |
| 2002 | 3,500.000 | 66 | 34 | 3,000.000 | 47 | 53 |
| 2003 | 4,000.000 | 58 | 42 | 3,300,000 | 42 | 58 |
| 2004 | 4,300.000 | 53 | 47 | 3,500,000 | 40 | 60 |
| 2005 | 4,800.000 | 48 | 52 | 4,000.000 | 35 | 65 |
| 2006 | 5,500.000 | 42 | 58 | 4,400.000 | 32 | 68 |
| 200T | 5,800.000 | 40 | 60 | 4,800.000 | 29 | 71 ; |
| 2008 | 6,300.000 | 37 | 63 | 5,200,000 | 27 | 73 |
| 2009 | 6,800.000 | 34 | 66 | 5,200,000 | 25 | 75 |

Source: Estate Surveyors and Valuers, Property Magazine and bulletin

The table 2 shows that in Maitama and Asokoro district, by 2000 the percentage increase in price for 5-bedrooms duplex was 8%, by 2006, the price increased to 58%. In 2009 the percentage increased is 66%. While in Wuse and Garki in 2001 the percentage increase is 44%, by 2006 the price increased to 68% and to 75% by 2009.

Table 3: Rental Value for 4.Bedroom Duplex in Maitama and Asokoro Wuse and Garki Districts.

| Year | Mean Annual Value (N) | Index | Percentage Increase | Mean Annual Value (Nj) | Index | Percentage increase |
|------|-----------------------|-------|---------------------|------------------------|-------|---------------------|
| 1999 | 1,410,000 | - | - | 820,000 | - | - |
| 2000 | 1,720,000 | 82 | 18 | 910,000 | 90 | 10 |
| 2001 | 1,970,000 | 72 | 28 | 1,210,000 | 68 | 32 |
| 2002 | 2,070,000 | 68 | 32 | 1,460,000 | 56 | 44 |
| 2003 | 2,370,000 | 59 | 41 | 1,670,000 | 49 | 51 |
| 2004 | 2,870,000 | 49 | 51 | 1,870,000 | 44 | 54 |
| 2005 | 3,100,000 | 45 | 55 | 2,170,000 | 38 | 62 |
| 2006 | 3,500,000 | 40 | 60 | 2,420,000 | 34 | 66 |
| 2007 | 3,750,000 | 38 | 62 | 2,920,000 | 28 | 72 |
| 2008 | 4,000,000 | 35 | 65 | 3,250,000 | 25 | 75 |
| 2009 | 4,350,000 | 12 | 68 | 3,500,000 | 19 | 77 |

Source: Estate Surveyors and Valuers, Property Magazine and bulletin

The table 3 shows that between 1999 and 2009, there is an increase of 68% in the prices of 4-bedrooms duplex in Maitama and Asokoro and 77% increase in Wuse and Garki.

Table 4: Rental Value for 3 Bedroom Bungalow In Maitama, Wuse and Garki Districts

| Year | Mean Annual Value (N) | Index | Percentage Increase | Mean Annual Value (N) | Index | Percentage increase |
|------|-----------------------|-------|---------------------|-----------------------|-------|---------------------|
| 1999 | 670,000 | - | - | 550,000 | - | "" |
| 2000 | 1000,000 | 67 | 33 | 700,000 | 79 | 21 |
| 2001 | 1,300,000 | 52 | 48 | 950,000 | 61 | 39 |
| 2002 | 1,500,000 | 45 | 55 | 1,050,000 | 52 | 48 |
| 2003 | 1,750,000 | 38 | 62 | 1,150,000 | 48 | 52 |
| 2004 | 2,000,000 | 34 | 66 | 1,300,000 | 42 | 58 |
| 2005 | 2,250,000 | 30 | 70 | 1,450,000 | 38 | 62 |
| 2006 | 2,550,000 | 26 | 74 | 1,550,000 | 35 | 65 |
| 2007 | 2,750,000 | 24 | 76 | 1,850,000 | 30 | 70 |
| 2008 | 2,900,000 | 23 | 77 | 1,950,000 | 28 | 72 |
| 2009 | 3,000,000 | 22 | 78 | 2,300,000 | 24 | 76 |

Source: Estate Surveyors and Valuers, Property Magazine and bulletin

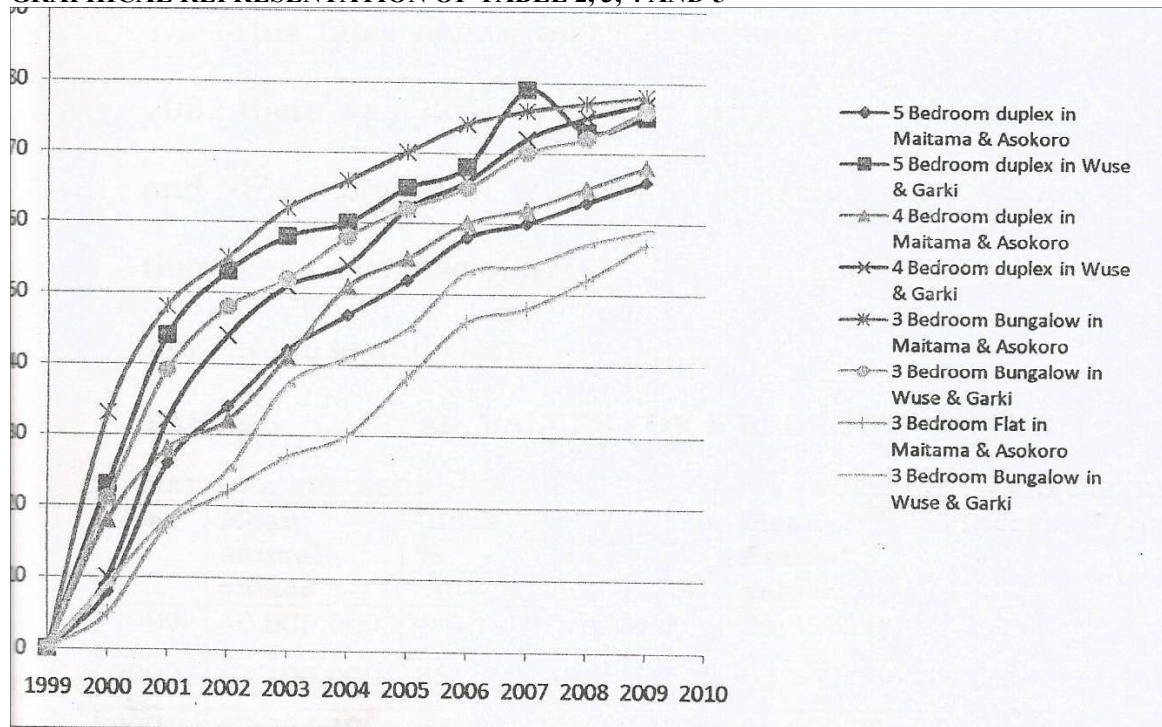
Table 4. Shows that by 2003, there is an increase of 62% in price of 3-bedrooms bungalow on Maitama and Asokoro and 52% increase in Wuse and Garki. In the year 2009, there is 78% increase in Maitama and Asokoro 76% in Wuse and Asokoro.

Table 5: Rental Value for 3.Bedrooms Flat in Maitama and Asokoro Wuse and Garki Districts.

| Year | Mean Annual Value (N) | Index | Percentage Increase | Mean Annual Value (N) | Index | Percentage increase |
|------|-----------------------|-------|---------------------|-----------------------|-------|---------------------|
| 1999 | 620,000 | - | - | 410,000 | . | - |
| 2000 | 650,000 | 95 | 5 | 450,000 | 91 | 9 |
| 2001 | 750,000 | 83 | 17 | 500,000 | 82 | 18 |
| 2002 | 300,000 | 78 | 22 | 550,000 | 75 | 25 |
| 2003 | 850,000 | 73 | 27 | 650,000 | 63 | 37 |
| 2004 | 890,000 | 70 | 30 | 700,000 | 59 | 41 |
| 2005 | 1,000,000 | 62 | 38 | 750,000 | 55 | 45 |
| 2006 | 1.150,000 | 54 | 46 | 870,000 | 47 | 53 |
| 2007 | 1.200,000 | 52 | 48 | 900,000 | 46 | 54 |
| 2008 | 1.300,000 | 48 | 52 | 950,000 | 43 | 57 |
| 2009 | 1,450,000 | 43 | 57 | 1,000,000 | 41 | 59 |

Source; Estate Surveyors and Valuers, Property Magazine and bulletin

GRAPHICAL REPRESENTATION OF TABLE 2, 3, 4 AND 5



The graph above slopes upward from left to right showing that there is a continuous increase in the rental value of residential accommodation between 1999 to 2009 in the Abuja property market.

The table 6 shows that in Maitama and Asokoro by 2002 there was 22% increase in prices of 3 bedroom flat, and 25% increase in Wuse and Garki district. By 2009, there is an increase of 57% in Maitama and Asokoro, and 59% in Wuse and Garki.

TABLE 6: Capital Values for 5 Bedroom Duplex Maitama and Asokoro

| Year | Mean annual values | Index % | Percentage Increase | Mean Annual values | Index % | Percentage |
|------|--------------------|---------|---------------------|--------------------|---------|------------|
| 1999 | 40,600,000 | - | | 26,750,000 | | - |
| 2000 | 47,100,000 | 86 | 14 | 32,500,000 | 82 | 18 |
| 2001 | 52,100,000 | 78 | 22 | 36,000,000 | 74 | 26 |
| 2002 | 55,100,000 | 74 | 26 | 38,500,000 | 69 | 31 |
| 2003 | 57,000,000 | 71 | 29 | 40,000,000 | 67 | 33 |
| 2004 | 60,000,000 | 67 | 33 | 43,000,000 | 62 | 38 |
| 2005 | 65,000,000 | 62 | 38 | 48,000,000 | 56 | 44 |
| 2006 | 70,000,000 | 58 | 42 | 50,250,000 | 53 | 47 |
| 2007 | 75,000,000 | 56 | 44 | 55,000,000 | 49 | 51 |
| 2008 | 78,000,000 | 52 | 48 | 57,000,000 | 47 | 53 |
| 2009 | 80,000,000 | 51 | 49 | 60,000,000 | 45 | 55 |

Source: Estate Surveyors and Valuers, Property Magazine and bulletin

This table shows that the capital value of 5-bedroom duplex both in Maitama and Asokoro as well as Wuse and Garki districts rising persistently. Prices in Maitama and Asokoro by 2009, had risen from 14% in 2000 to 49% . In Wuse and Garki in the year 2009 if had increased from 18% in 2000 to 55%.

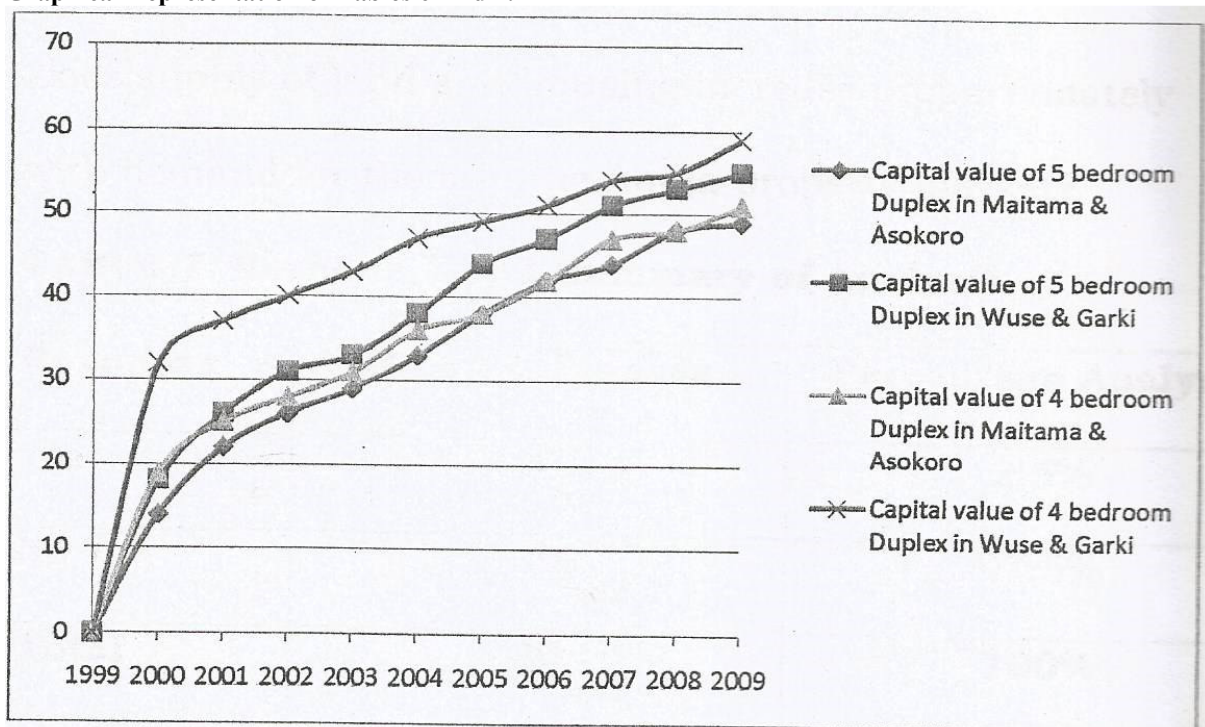
Table 7: Capital Values for 4 Bedroom Duplex in Maitama and Asokoro Wuse and Garki Districts.

| Year | Mean annual values | Index % | Percentage Increase | Mean Annual values | Index % | Percentage Increase |
|------|--------------------|---------|---------------------|--------------------|---------|---------------------|
| 1999 | 31,000,000 | - | - | 24,600,000 | - | - |
| 2000 | 38,170,000 | 81 | 19 | 36,000,000 | 68 | 32 |
| 2001 | 41,170,000 | 75 | 25 | 39,000,000 | 63 | 37 |
| 2002 | 43,250,000 | 72 | 28 | 41,250,000 | 60 | 40 |
| 2003 | 45,000,000 | 69 | 31 | 43,250,000 | 57 | 43 |
| 2004 | 48,250,000 | 64 | 36 | 46,000,000 | 53 | 47 |
| 2005 | 50,000,000 | 62 | 38 | 48,000,000 | 51 | 49 |
| 2006 | 53,150,000 | 58 | 42 | 50,250,000 | 49 | 51 |
| 2007 | 58,000,000 | 53 | 47 | 53,150,000 | 46 | 54 |
| 2008 | 60,000,000 | 52 | 48 | 55,000,000 | 45 | 55 |
| 2009 | 63,000,000 | 49 | 51 | 59,400,000 | 41 | 59 |

Source: Estate Surveyors and Valuers, Property Magazine and bulletin

Table 7 shows that by 2005, price increased of from 19% in 2000 to 38% and to 51% by the year 2009 in Maltama and Asokoro districts. In Wuse and Garki, price increased to 49% in 2005 and to 59% in 2009. This shows that price are increasing and a continuous price increase is an attribute of inflation.

Graphical Representation of Tables 6 And 7.



The graph above slopes upward from left to right showing that there is a continuous increase in the capital value of residential accommodation between 1999 to 2009 in the Abuja property market

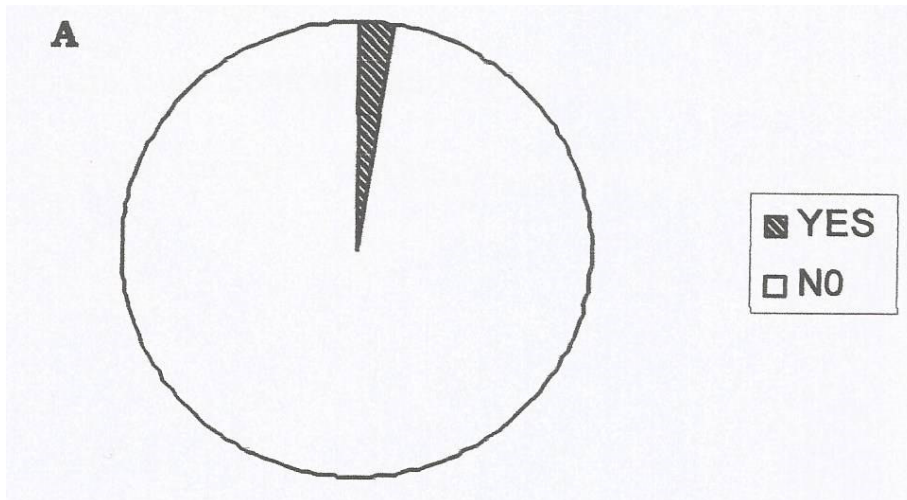
Research Question:

Does the supply of land and housing increase with the increasing demand as population increases?

Table 8: Responses and Summary of Analyses

| Reponses | No of Responses | Percentage Analysis |
|----------|-----------------|---------------------|
| Yes | 1 | 2.5% |
| No | 39 | 97.5% |
| Total | 40 | 100% |

Source: Field Survey 2012



Ratio of Yes to No 1:39

Calculation for "Yes"

$$\frac{1}{40} \times 360 = 9^\circ$$

Calculation for "No"

$$\frac{39}{40} \times 360 = 351^\circ$$

From table 97.5% of the respondents are of the opinion that supply of land and housing does not increase proportionately with that demand, against 2.5% of the total respondents that agreed otherwise.

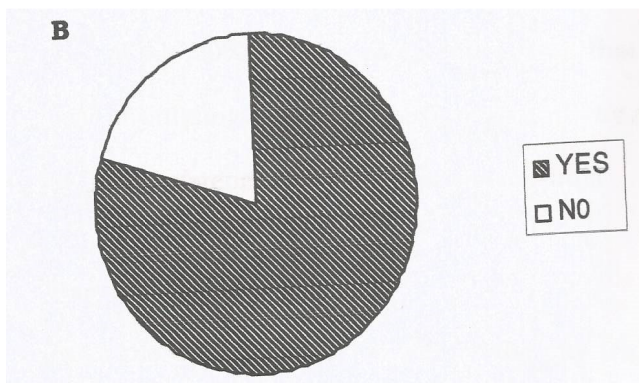
Research Question:

Does the high cost of building materials contribute to the persistence increase of the prices of houses in Abuja?

TABLE 8 Responses and Summary of Analysis

| Reponses | No of Responses | Percentage Analysis |
|----------|-----------------|---------------------|
| Yes | 32 | 80% |
| No | 8 | 20% |
| Total | 40 | 100% |

Source: Field Survey 2011



Ratio of YES to No 32:8

Calculation for Yes

$$\frac{32}{40} \times 360 = 288^\circ$$

Calculation for No

$$\frac{8}{40} \times 360 = 72^\circ$$

From table 80% are of the opinion that high cost of building materials is a contributing factor to the continuous increase in the both the rental capital value of residential proportion. While 20% of the respondents agreed that the high cost of building materials does not in any way contribute to the persistence increase in prices in Abuja.

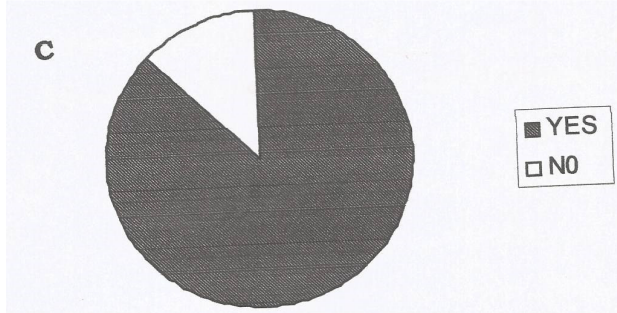
Research Question:

Does the daily influx of people for the city contribute to the inflation of land and housing prices in Abuja.

TABLE 9: Responses and Summary of Analysis

| Reponses | No of Responses | Percentage Analysis |
|----------|-----------------|---------------------|
| Yes | 35 | 87.5% |
| No | 5 | 12.5% |
| Total | 40 | 100% |

Source: Field Survey 2011



Ratio of Yes No 35:5

Calculation for Yes

$$\frac{35}{40} \times 360 = 315^\circ$$

Calculation for No

$$\frac{5}{40} \times 360 = 45^\circ$$

From table 9, 87.4% of the total respondents believes that the daily influx of people to the new capital city is the major factor of the inflation in prices of land and housing, that following the law of demand, that the higher the demand the higher the price.

While 12.5% of the respondents agreed otherwise.

Summary and Findings

The following findings are based on the analysis above:

1. It is obvious that prices have been appreciating from 1999 up to the year 2009. These rising prices are increasing at an unimaginable rate. Since rising prices is a characteristic of inflation. We can say that there is inflation in the Abuja property market.
2. Land and housing prices are increasing in the Abuja property market at an average inflation rate of 50.1% for lease property and 39.3% for sale properties.
3. The issue of land and housing supply increasing proportionately with their demand does not arise, because demand always outpaces supply. The supply of land and housing even when increased does not make significant impact in the property market.
4. Also the high interest rate charged on investors on building loan, coupled with high cost of building material, also contributed tremendously in the inflation of land and housing prices.
5. Finally, the daily migration of people to Abuja, increases the demand for residential properties against its supply thereby giving rise to inflation in the market.

Thus, the goal of providing affordable housing can be achieved, but the necessary ingredients have to be put in place. Investors can work in difficult environments in the short-term if there is convincing evidence that reforms that will improve the investment climate will be implemented as quickly as possible. The 11 housing reform legislations must be passed without further delay. We must keep working towards improving the investment climate, and this can be achieved by just studying what other countries have done and implementing international best practices. In doing this we must not miss the goal of ensuring macroeconomic stability, such as keeping inflation and interest rates down.

It is important that Government provides mortgage insurance to first time home buyers who do not have credit history and to low-to middle income families in order to achieve our aim of providing affordable housing. Like I earlier said it is an anomaly for government to take on the responsibility of building houses because experience has shown that it is unsustainable in the long-run. The Nigerian Federal Housing Authority (FHA) could be restructured to become the government sponsored entity that will be responsible for providing mortgage insurance while the Federal Mortgage Bank of Nigeria (FMBN) can pool the insured mortgages and sell them in the capital market to provide liquidity.

Lastly reconsideration of the restriction on the importation of building materials should continue, and we

must conduct more research on how we can use local building materials. I also urge the government to think seriously about providing primary infrastructure because it should not be a developer's responsibility if we are serious about providing affordable housing. The present method of funding infrastructure projects through the annual budgets only results in having uncompleted projects when revenues fall short of expectation as has been the experience in nation's history. The capital market can be a good source of providing long-term funds through the issuance of bonds and other financial instruments to finance infrastructure projects.

Recommendations

1. The Federal government should de-centralize government offices from the city centre to other parts of the state. This will help reduce the demand of land and housing in the study area, in effect reducing the continuous-increase in the prices of land and housing, as people will have to shift to take abode in residential properties close to their offices.
2. The government should go into mass housing development and also cooperate with private developers in a bid to make different types of residential housing units available, thereby increasing the supply of the housing unit to meet demand for them. This will help reduce the continuous increase in the housing prices.
3. Lastly reconsideration of the restriction on the importation on local building material should continue and we must conduct more research on how we can use local building materials. Also the government consider seriously about providing primary infrastructure because it should not be a developer's responsibility if we are serious about providing affordable housing.

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