Journal of Economics and Sustainable Development www.iiste.org
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online)
Vol.7, No.14, 2016

Investigating the Problem of Real Estate Financing in Nigeria: A Study of United Bank of Africa, Awka

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Abstract
This study investigated the problem of real estate financing in Nigeria, using the United Bank of Africa, Awka as a case study. The study adopted the questionnaire survey and interview methods in obtaining data from the bank. The findings of the results of the analysis carried out showed that Commercial Banks are not an ideal or suitable medium for financing real estate development because whereas Commercial Banks deposits are short term in nature, real estate is for long term which is usually vulnerable to vagaries in the economy like: changes in economic variables, interest rates, exchange rates and the rate of inflation; Commercial Banks are constrained in lending for real estate development because of several problems they encounter, like: high risks associated with real estate lending, the long-term tenor of real estate loan in relation to commercial banks short term short term deposits, the inability of potential real estate investors to meet commercial banks lending requirement, non repayment of loans by borrowers and fraudulent / dishonesty in information provided by potential borrowers. In the light of the foregoing, the following recommendations were put forth: 1. Government should establish a specialized bank to be known as 'Real Estate Development Bank' (REDB) like the Bank of Industry (BOI) whose function will be the sourcing of funds and on-lending such funds to real estate investors who must be registered with the National Association of Real Estate Developers, 2. Government should encourage the establishment of micro credit financial institutions for mobilizing of funds and lending to small-time real estate developers, and 3. Government should provide Commercial Banks guarantee for loans obtained by real estate developers who are duly registered and approved by the National Association of Real Estate Developers and the Nigerian Institution of Estate Surveyors and Valuers'. This way Commercial Banks will be encouraged to lend to the real estate sector.

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

According to Omuojine (2001) the major reasons militating against real estate development and by extension housing the poor in Nigeria are low income capacity, access to credit, land tenure system, high cost of building, low employment capacity of the economy and lack of a National Housing Policy. Badiru (2003) however opined that whereas availability of adequate finance in the private and public sectors of any economy is the hallmark of a meaningful, efficient and productive property development, more often than not it happens that funds for prompt property development are not readily available. He asserts further that factors like limited size of individual incomes especially in the third world countries, banks' paltry rates of interest on savings, inflation and government fiscal policies which are sometimes unfavourable for easy access to loanable funds from the financial institutions hinders access to finance for real estate development. Bichi (1998) was however of the view that "unaffordable levels of interest rates on housing loans and shortage of long term finance as the main constraints to housing delivery and the promotion of home-ownership." He asserted further that "much of the housing finance problems experienced are an unequivocal expression of cumulative distortions from policy weaknesses in the past.

Whilst a plethora of problems have been identified as constraining development of real estate in Nigeria, there seem to be an unequivocal and unanimous acceptance of inability to access credit/inadequate finance as the problem that portends a more profound impact on the development of real estate in Nigeria.

In Nigeria, not until early '90s did studies begin pointing to finance as a more serious constraint than land to housing delivery Koleoso (2000).

It is instructive to observe that the National Housing Policy of 1990 identified finance as one of the pillars of housing delivery. Omirin (1997) however assert that "prior to that time researchers had always concluded that once the problem of land is put to rest, houses should be delivered".

The acknowledgement of finance as a critical variable that affects real estate development as enunciated in the National Housing Policy of 1990 led to the promulgation of the National Housing Fund (NHF) Decree. Fortune (2002) however asserts that the National Housing Policy of 1991 is a socialist approach to solving the housing problem in a capitalist economy and cannot work".

Another factor that has become a paradox in the country's quest for real estate development is the Land Use Act. Whereas the Land Use Act and the National Housing Policy were intended to make land easily available and accessible to all and sundry, unfortunately the Land Use Act has become a major clog in the wheel of real estate development in Nigeria. The Land Use Act enunciated to streamline the land tenure systems in the country vests the ownership and radical title to all land in the Federation on the Governors of the respective States for purposes of easy management. However, the contentious issues of Governor's consent for any subsequent transaction in land and the intractable government bureaucracy have made the procurement of land problematic, unnecessary, expensive and unquestionably out of the reach of the poor". Omuojine (2001).

1.2 AIM:

This study therefore considers the problem of real estate financing in Nigeria with a view of proffering solution to them.

2.0 LITERATURE REVIEW

2. 1 PROBLEMS OF REAL ESTATE FINANCING IN NIGERIA

Commercial banks as well as real estate investors face several problems in the financing of real estate in Nigeria. These problems makes real estate lending risky, as it is vulnerable to loss of capital sum and expected interest income and thus not attractive to Commercial banks thereby constraining the development of real estate.

Problems encountered by Banks:

According to Mapaderu (1998) some of the problems of real estate from the banks perspective include :

- Fraudulent information by mortgagor
- Default on the part of mortgagor
- The Land Use Act
- Unanticipated request by mortgagor
- Economic instability
- Undue lengthy legal process

Fraudulent Information by Mortgagor:

One of the commonest problems Commercial banks encounters with beneficiaries of loans is the provision of false information by the mortgagor. Most often beneficiaries of loans pledge the same security to two or more Commercial bank; consequently resulting in litigation amongst the banks.

Default on the Part of the Mortgagor:

Most time beneficiaries of loans either intentionally or other reasons default in repaying loans granted for real estate development or other uses. This has become phenomenon in bank credit lending and has greatly constrained Commercial banks desire to lend for real estate or other purposes. A loan default occurs when the mortgagor is unwilling to honour his installment loan repayment and thus makes the loan highly vulnerable as bad and doubtful debts which by law has to be provided for in the banks financial accounts thereby reducing the banks profits. When default occurs from lower than anticipated rents, then the problem is a minor one. However, if the default is as a result of diversion of rent, which were pledged for repayment, and servicing of the loan, then the mortgagee or the bank has a genuine reason to be apprehensive and be shown resentment toward future credit lending for the finance of real estate.

The Land Use Act:

The freedom to pledge land, or to assign interest in land or purchase land no longer belong to the individual by the Land Use Act. Certificate of Occupancy (C of O) are very much under the control and surveillance of the State and Local Governments which allocates such rights of occupancy. Usually, banks find it a safer security for lending for real estate. However, in recent times, the procedures of obtaining the Certificate of Occupancy has been unduly lengthy and tortuous. The emphasizes on Certificate of Occupancy by banks for lending for real estate or other purposes has also resulted in the incidence of forged Certificate of Occupancy. Also, the procedure of conducting search as to the authenticity of C of O at the Land Registry is also cumbersome. These ail act as a disincentives to banks for the finance of real estate.

According to Omuojine (2001) the Land Use Act intended to streamline the land tenure systems in the country vests the ownership and radical title to all land in the Federation on the Governors of the respective states for purposes of easy management. However, the contentious issues of Governor's consent for any subsequent transaction in land and the intractable government bureaucracy have made the procurement of land problematic, unnecessarily expensive and unquestionably out of the reach of the poor.

Unanticipated Request by Mortgagor:

It is common today for the mortgagor to make an unanticipated request for an extension or renewal of terms of mortgage prior to or at maturity. This constitutes a serious problem to banks and may discourage them from lending for real estate development.

Economic Instability:

The prevailing instability in the economic is also a major problem faced by banks in lending for real estate development. Most loans are obtained with the expectation of future returns on investment. However, with the instability in the economic, most financial projections do not come to fruition with the consequent that borrowers are unable to meet their loan repayment obligations to banks. In such situations, the bank stands the risk of losing capital including expected interest on such loan. This eventually erodes the banks profits. Consequent upon such occurrences, banks find it difficult to grant loans for real estate development, which is usually futuristic with long gestation periods and highly susceptible to vagaries in the economic. According to Bichi (2001) much of the housing finance problems experienced today are an unequivocal expression of cumulative distortions from policy weaknesses in the past. He asserted further that with the introduction of the Structural Adjustment Program (SAP) in 1986, it was mandatory for banks to lend for housing a prescribed minimum percentage of their loanable funds. All such loans were at prescribed concessionary rate of interest. Thus, lending institutions like state housing corporations, and commercial banks felt compelled to reduce their exposure to mortgage lending due to the relative non-profitability of the prescribed interest rate level." It is instructive to say that even though interest rates were increased in later years, systemic distortions had been induced. Consequently, the combined effect of SAP measures was that the growth of the housing finance system was subdued for several years, as the flow of savings into the system suffered and financial institutional development became stunted. The result of this is that credit lending for housing development became progressively dependent on government patronage for long term loans.

Problems Encountered by Beneficiaries:

Potential investors in real estate also encounter several problems in securing loans from the banks. Some of the problems arise from the rather stringent conditions usually stipulated by the bank. Other problems include:

1. Level of applicant's income
2. Ignorance
3. High interest rate charge on loans
4. High cost of construction

Level of Applicant's Income:

One of the important considerations is considering an applicant for loan by the bank is the applicant's income level. According to a study conducted by the World Bank, the average Nigerian earns less that US$350 per month and this is one of the lowest among countries of the world. Consequently, with the low level of income, the average Nigerian finds it difficult to secure loan from the bank for real estate development.

Ignorance:

Most applicants come with building designs that are too grandiose to be viable if developed. This is because from the Estate Surveyor's point of view, the basis of recommending any particular applicant for consideration for loan is hinged on revenue earning capacity of the development. Most often building designs presented for loan contain unnecessary things like uneconomic use of floor spaces. This escalates the costs of construction. The amount the bank will therefore be willing to grant will not be able to cover the total cost of the project thus making the project unfeasible.

High Interest Rates:

Nigeria is one of the countries in the world with very high interest rate. Until recently - in November 2002 when the Central Bank issued a circular to Commercial banks pegging interest rates - maximum lending not exceeding 25% lending rates where as high as 45%. High interest rate has been a major constraint to the development of vital sectors of the economy like - manufacturing, agriculture, solid mineral, oil and gas and housing development.

With the prevalence of high interest rate, investors in real estate development are discouraged from borrowing from the banks. Even when they are able to secure loans at such high interest rate, the costs of development becomes very high and in some cases such project are not completed and become abandoned.

High Costs of Construction:

Due to the high costs of construction, - building materials, labour costs, professional fees, potential investors in real estate development find it difficult to obtain sufficient finance as loans from the bank to cover the total cost of the project. This has greatly impeded the development of the real sector in Nigeria.

3.0 METHODOLOGY

The study adopted the survey research design since it involved drawing sample from the population, which in this study is the United Bank for Africa (UBA) Plc. The research design was also longitudinal as it examined the behavioural pattern of United Bank for Africa (UBA) in terms of lending towards real estate development over the years.

An interview recording schedule was designed and administered to obtain relevant information from the following management personnel of the bank who are involved in credit lending. They are:

1. DGM - Risk/Portfolio management
2. Senior Manager- Real Estate sector
3. Senior Manager- Credit/Marketing
4. Manager - Property department

4.0 DATA PRESENTATION AND ANALYSIS

4.1 PROBLEMS ENCOUNTERED BY COMMERCIAL BANKS IN REAL ESTATE LENDING

TABLE 1: DATA ON PROBLEMS ENCOUNTERED BY COMMERCIAL BANKS IN REAL ESTATE LENDING

Problem	Frequency	Total	% of Total
Unduly lengthy process of perfecting title documents			
Inability of potential real estate investors to meet the bank's lending	1	1	25
Fraudulent/ dishonesty in information provided by potential borrowers			
Non-repayment of loans by borrowers			
High risk associated with real estate lending			
Problems of loan tenor in relation to bank's deposits			
All of the above	3	3	75
Total	4	4	100

Source: Field Survey, 2011

From table 1 above, 1 or 25 per cent of the respondent – the Senior Manager- Credit/ Marketing was of the view that the inability of potential real estate investors to meet the bank's lending requirements is the major problem the bank encountered in lending to real estate sector. However, 3 or 75 per cent of the respondents were of the view that a combination of factors ranging from the unduly lengthy process of perfecting title documents used as security for credit, fraudulent/dishonesty in information provided by potential borrowers, high risk associated with real estate lending, non repayment of loans by borrowers and the general inability of most real estate investors to meet the banks lending requirement are factors that create problems for banks in lending to the real estate sector.

4.2 ASSESSMENT OF BANKS REQUIREMENTS/PROCEDURE FOR GRANTING LOANS

TABLE 2: RESPONSE ASSESSMENT OF BANKS REQUIREMENTS / PROCEDURE FOR GRANTING LOANS

Assessment	Frequency	Total	% of Total
Too strict	-	-	-
Strict	-	-	-
Moderate	2	2	50
Not strict	2	2	50
Total	4	4	100

Source: Field Survey, 2011

From the above table 2, 2 or 50 per cent of the respondents were of the opinion that the bank's lending requirements/procedure for granting loans were moderate in terms of the borrowers ability to comply with the requirements. Similarly, 2 or 50 percent believe that the bank's requirements/procedure for loans are not strict.

4.3 ASSESSMENT OF COMMERCIAL BANKS ROLE IN FINANCING REAL ESTATE DEVELOPMENT

TABLE 3: RESPONSE ON COMMERCIAL BANKS ROLE IN FINANCING REAL ESTATE DEVELOPMENT

Assessment	Frequency	Total	% of Total
Very supportive	-	-	-
Supportive	1	1	25
Indifferent	1	1	25
Not Supportive	2	2	50
Total	4	4	100

Source: Field Survey 2011

From table 3, 1 or 25 per cent of the respondents was of the view that Commercial banks are not supportive in terms of providing finance required for the development of real estate. While 1 or 25 per cent was indifferent, 2 or 50 percent of the respondent were of the opinion that Commercial banks are not supportive in the provision of needed finance for real estate development. Interestingly, none of the respondent was of the view that Commercial banks have been very supportive in the quest for the development of the real estate sector. They argue that banks are not an ideal medium for financing real estate development given the nature of Commercial banks loan and strong profit motive of banks especially because of the perceived high risk associated with real estate lending.

4.4 ASSESSMENT OF BANKS AS MEDIUM OF FINANCING REAL ESTATE DEVELOPMENT

TABLE 4: RESPONSE ON BANKS AS MEDIUM OF FINANCING REAL ESTATE DEVELOPMENT

Assessment	Frequency	Total	% of Total
Yes	-	-	-
No	4	4	100
Total	4	4	100

Source: Field Survey 2011

From table 4 above, 4 or 100 per cent of the respondents were unanimously of the view that Commercial Banks are not an ideal medium of financing real estate development. They argued that since Commercial Banks borrow on short terms i.e they deposits are short dated it makes it difficult to lend on long term which real estate lending usually requires. Beside, they also stated that by virtue of the fact that real estate lending in usually spans over a long period, - long term nature, this makes its repayment vulnerable/susceptible to economic vagaries and thus portends a lot of risks for the banks. These they claim are some of the factors that make the banks not an ideal medium for financing the development of real estate sector.

5.0 SUMMARY OF FINDINGS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

The focus of this study is to critically appraisal the role of Commercial Banks in real estate financing in Nigeria. It also intends to identify problems encountered that have constrained Commercial Banks in performing their roles of providing credits for real estate development.

The major findings of the results of the analysis carried out are summarized below:

1. Commercial Banks have not played their roles of providing needed finance for real estate development because of the perceived high risks associated with real estate lending. Because of the high risks of real estate lending, Commercial Banks shy away from lending for real estate development.
2. Commercial Banks are not an ideal or suitable medium for financing real estate development. This is so because whereas Commercial Banks deposits are short term in nature, real estate is for long term which is usually vulnerable to vagaries in the economy like changes in economic variables -interest rates, exchange rates and the rate of inflation.
3. Commercial Banks are constrained in lending for real estate development because of several problems they encounter. Some of these problems are:-

- High risks associated with real estate lending.
- The long-term tenor of real estate loan in relation to Commercial Banks short term short term deposits.
- The inability of potential real estate investors to meet Commercial Banks lending requirement.
- Unduly lengthy process of conducting search/perfecting title documents used as collateral security at the Land Registry in the State Town planning ministry.
- non repayment of loans by borrowers
- fraudulent/dishonesty in information provided by potential borrowers

5.2 RECOMMENDATIONS

In the light of the above, the following recommendations are put forth:

1. Government should establish a specialized bank to be known as 'Real Estate Development Bank' (REDB) like the Bank of Industry (BOI) whose function will be he sourcing of funds and on-lending such funds to real estate investors who must be registered with the National Association of Real Estate Developers.
2. Government should encourage the establishment of micro credit financial institutions for mobilizing of funds and lending to small-time real estate developers.
3. Government should promulgate a law that will compel Commercial Banks and corporate organization to set aside a certain percentage say 2 (two) per cent of their Profit before Tax (PBT) and paid into a Fund to be known as 'Real Estate Development Fund like the Education Tax Fund and Small Scale Industries Reserve Fund. The fund should be managed and administered by an organization that will comprise of various stake holders in the real estate sector - representatives of the Federal Mortgage Bank, the *organized* private sector including Banks, the Nigerian Institution of Estate Surveyors and Valuers' (NIESV) and the Central Bank of Nigeria.
4. Government should provide Commercial Banks guarantee for loans obtained by real estate developers who are duly registered and approved by the National Association of Real Estate Developers and the Nigerian Institution of Estate Surveyors and Valuers'. This way Commercial Banks will be encouraged to lend to the real estate sector.

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