

*Original Research Article*

## Housing Finance in Urban Areas of Nigeria: An Empirical Example from Akure, Ondo State

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This paper explores housing finance in urban areas of Nigeria drawing from a study of the situation in Akure, the capital city of Ondo state, which is one of the 36 states that make up the country. It examines how households sourced their finance to build, including availability of mortgage finance as anticipated in the first and second national housing policies. The paper also identified the challenges associated with housing finance in the study area. A structured questionnaire was administered to selected residents of the city, using the systematic sampling technique. This involved the selection of every 10th building in the nine wards into which the city was stratified. In all, a total of 1266 questionnaires was administered to obtain information on the Socio-Economic characteristics and methods of financing housing, but 1098 sets were recovered. In-depth interviews were also conducted on key officials of agencies and organizations active in the housing market in the city. Besides, other relevant materials and data were obtained from published sources including government departments and agencies. The paper revealed that the majority of households in the city sourced housing finance from informal sources while the mortgage system contributed insignificantly to housing development in the city. The study is indicative of the deficient mortgage finance system in the country.

**Keywords:** Housing, Finance, Accessibility.

### INTRODUCTION

In Nigeria, inadequate housing finance and dearth of information on the working knowledge of housing finance operation has been recognised as a major issue in meeting the housing needs of people in urban areas of the country. Therefore, a lot of efforts have been dissipated in solving the problem, including the introduction of programmes and policies to improve citizens' access to housing finance. Agbola and Olatubara (2007), affirmed that the housing delivery process involves a series of processes by which housing resources, such as land, labour, finance and building materials are combined to produce new housing. They singled out finance as the most important of them all, as other resources mentioned can only be acquired with the availability of finance. Two types of housing finance are available.

These are public sector finance and the private sector finance. According to Olotuah (2009), despite the magnitude of the housing problems facing the nation, and the enormous resources at the disposal of the Federal Government, only about 4.2% of the factors of production of housing (that is, the financial component) come from the Federal Government. This invariably makes the supply of housing to always fall short of

demand. With respect to the private sector housing finance, two approaches are discernible. These are formal and informal housing finance. The formal housing finance exists whereby mortgage finance is made accessible to people through banks and other mortgage lending institutions. The informal housing finance is an approach through which an individual sources for funds for housing construction through informal sources, such as obtaining loans from relations, friends, money lenders, among other means. In most nations of the world, the housing sector is a blend of public initiatives and private sector enterprise's efforts.

According to Agbola and Olatubara (2007), the nature of the mix varies greatly from nation to nation, but the role of government is substantial even in those countries which generally allow the marketplace the greatest freedom in making economic decisions. The public and private components of housing sector are generally so closely interdependent that the housing sector may be said to have a dual decision-making system. Therefore, housing provision either come to the market through government efforts, called conventional housing provision or through the private sector,

also known as the non-conventional housing provision. In spite of the fact that this country adopts both approaches described above, the nation is still bedevilled with a mirage of housing problems, in terms of quantitative and qualitative; this still left so much to be desired. This has been traced to inadequate policy initiative and actions to finance housing from the public sector. In this paper, we seek to examine how household source finance to build their housing. In doing this, it examines the existing mortgage finance system in operation in Akure. We also identified and discussed the challenges associated with housing finance in the study area.

## CONCEPTUAL FRAMEWORK AND RELEVANT LITERATURE

Housing finance is a network of series of financial flows between savings capture and housing investment, using many agents who operate and execute different aspects of the process (Agbola, 1990). The issue of housing finance is a critical factor in housing delivery. According to Omirin and Nubi (2007), several factors make the environment of housing finance lending difficult. It includes the absence of clear property security rights, mandatory governor's consent, high interest rates and inadequate source of long-term funding. A review of literature revealed that a considerable amount of research works have been done by scholars on housing finance in Nigeria. (see, Vuyisani, 2006; Bala, *et.al.*, 2007, Omirin and Nubi, 2007; Oduwaye, *et. al.*, 2008 and Aribigbola, 2008).

For instance, Oduwaye, and others, while studying the challenges of housing finance option of the Primary Mortgage Institutions (PMIs), in Lagos State, found that these institutions prefer to finance short-term projects such as trade finance, Local Purchasing Order (LPOs), among others, as applicants for housing loans find it extremely difficult to meet housing loan conditions, especially the statutorily recognised title document, called "Certificate of Occupancy" which has to be issued by the State Governor, who is pre-occupied with other pressing state assignments; ranging from Socio-Economic, cultural, infrastructural, security and many environmental issues. Thus, many residents of the city are expected to rely on other sources of housing finance.

Bala, *et. al.* (2007), noted that the enabling environment provided by government, especially with the establishment of Primary Mortgage Institutions (PMIs) and the introduction of the National Housing Fund scheme to the Nigerian housing market was commendable. They, however, noted that the government's efforts have resulted in the concentration of the Primary Mortgage Institutions in the southern part of Nigeria, which they argued to have affirmed the severity of housing problems in that part of the country. Their research work revealed that on the average, only about half of the numbers of applications received by these institutions qualified to access the National Housing Fund loans.

Vuyisani (2006), while appraising the housing finance system in Nigeria noted that there is a wide gap between income and housing cost. This he said has precluded the low-income earners from the formal housing finance market. He concluded that although, the National Housing Policy in Nigeria was aimed at achieving sustainable settlement development for all, he however found out that the country's housing development policies are skewed in favour of those in the middle and upper income bracket and that the provisions made for the poor in these arrangements are either not sufficient or hijacked by the rich since most poor people cannot afford the cost of housing acquisition. This position was corroborated by

Aribigbola (2008), in his work on Housing Policy Formulation and Implementation in Akure in which he submitted that housing policy formulation and implementation in Nigeria must take cognisance of the socio-economic circumstances and condition of people. He posited that the present move or tendency of relying wholly on market forces of demand and supply and leaving housing to private initiatives will not solve the problems of housing shortages and quality in the country.

Finance is considered as the most important factor of housing production, Jinadu (2007). Adequate finance is therefore the first requirement for successful and effective housing delivery in any nation. This is because, at every stage of housing construction, money is needed; to lease land, procuring relevant documents, and to hire professional and artisans, as well as to purchase various building materials and infrastructure necessary for making housing a liveable environment. The importance of finance to housing delivery was succinctly expressed by Agbola (1998), who asserted that without a well organised and efficient housing finance mechanism, the goal of the housing development policy will be largely unattainable.

According to Omirin (1998), of all the factors of housing production, finance has remained the most challenging of all, because without appropriate finance, no meaningful housing development can take place. Housing investment accounts for the largest investment decision of many households (Christian, 1980; Omirin, 1992; and Nubi 2000). Also, scholars like Teufic and Ural (1978), Ogundele (1989), Agbola (1987), Okpala and Onibokun (1986), recognise finance as one of the biggest problems impeding the growth of housing market in developing counties, including Nigeria.

## THE STUDY AREA AND METHODS

Akure the setting for the study is the capital city of Ono State, one of the 36 states of Nigeria and it is located in the South Western part of Nigeria. Akure is a medium-sized urban centre and became the provincial headquarter of Ondo province in 1939. It also became the capital city of Ondo State and a Local Government headquarters in 1976. The city's morphology has changed over time to assume its present status with its attendant housing problems, as experienced in similar medium sized urban centres in Nigeria. Akure is located approximately 700 kilometres South West of Abuja, the Federal Capital of Nigeria and about 350 kilometres to Lagos the former capital of Nigeria.

The increased relative political influence of Akure as a state capital since 1976 has greatly promoted its rapid growth and increased Socio-Economic activities resulting in its spatial expansion from an area of about 16 square kilometres in 1980 to about 30 square kilometres in 2000 (Ministry of Works, Lands and Housing, 2000) The population of the city grew from 38, 852 in 1952 to 71,106 in 1963. The 1991 National Population Census in the country puts the population of Akure at 239,124. At present using a population growth rate of 3 per cent, the city is estimated to have over 400,000 people.

The scope of this article required a comprehensive data set containing variables descriptive of the economic, social and demographic characteristics of households and methods of financing housing. The basic data set was collected using a structured questionnaire administered to selected households in the city. Systematic sampling technique was used to select residential buildings at intervals of every twentieth building in the nine wards into which the city was stratified. A household

head was picked in each of the selected residential buildings for interview. In all, a total of 1266 questionnaires

was administered to households selected for the study. Simple descriptive statistical techniques such as frequency tables and percentages were employed to present the results of the study.

### **Housing Finance in Nigeria**

Prior to the introduction of formal housing finance structure or system in Nigeria, individuals, households or family build their own housing through personal efforts and incomes as well as supports from other members of the family and community. However, formal finance structure to assist individuals to construct housing began with the establishment of the Nigerian Building Society (NBS). It was the first and only specialised housing finance institution that has its root in the colonial period (Agbola, 2004). NBS established in 1956 with the aim of lending money solely for home ownership. NBS was reconstituted as the Federal Mortgage Bank of Nigeria (FMBN) in 1975.

In 1950s and early 1960s Housing Corporations were created in the country as a result of the increasing shortage of suitable accommodation for the urban residents. Prospective homeowners were encouraged to save with the corporations and when twenty percent of the estimated cost of the building had been saved the corporation should in principle provide the savers with additional funds and help in the acquisition of the housing units of their choice. In Akure, just like other state capitals, FMBN has a branch office to carry out its assignment of implementing government policies on mortgage financing in the state.

In 1976, Ondo State established the defunct Ondo State Housing Corporation. The corporation was merged with other agencies of government to become the present Ondo State Development and Property Corporation. The agency from inception was charged with the responsibility of developing estates in the state. It builds and sells housing units to people on a commercial basis, in line with its mandate. There are other government agencies and departments that provide loans and housing in the city. A number of semi-formal institutions and societies, including, cooperative societies, exist in the city to provide housing loans to their members.

### **Housing Finance in Akure**

One of the most important considerations in effective housing delivery has generally been finance. Funds are required at all stages of residential development. It is required for purchase of land, acquisition of building materials and the payment for the services of various artisans and professionals. The available sources and accessibility to them are major considerations in effective delivery of sustainable housing. In this section of the paper, efforts are made to examine the various sources of finance as well as accessibility to finance to build from these sources. On sources of funds to build in the study area, the respondents were asked to indicate their main sources of funding for the construction of their housing. Their responses are summarised and presented in table 1. From the table, the major source of raising funds to build in the area is savings from personal incomes. This accounted for about 69.4% of the residents.

### **Challenges of Housing Finance in Akure**

Having examined housing finance in Akure and found that majority depends on private sources such as private savings, it becomes necessary to discuss the problems associated with housing finance in the study area. From field investigations, one of the problems or challenges found with housing finance in Akure was the low levels of income of households in the city. From field investigations majority of households surveyed are poor or low income earners. Table 2 shows the level of income of households selected for the study. Analysis of Table 2 shows that a high proportion of the respondents (75%), earns below ₦15, 000 monthly.

In other words, the majority of respondents (75.6%) can be classified as low-income earners, while about 20% can be classified as middle-income earners. The remaining householders (6.4 percentage of the sampled population) are therefore under the high-income group. This result shows that the majority of householders or residents of the study area are low and medium income earners. The implication of this is that they may not be able or find it difficult to save enough money to build their own houses. Another challenge associated with housing finance in the study area is non-availability of mortgage finance institutions to provide loans for people to build their own housing. Yet the national housing policy in the country purports to meet the housing needs of the majority of Nigerians through mortgage financing.

Thus, the policy established a two-tier institutional structure, with Primary Mortgage Institutions (PMIs) as Primary lenders and FMBN as the apex institution. Under the policy, citizens are expected to access loan to build or buy houses through the PMIs. There are 287 PMIs licensed to operate the N.H.F. In conjunction with the FMBN. The table shows the number and location of PMIs licensed to access NHF by states. An examination of the table indicates that Out of a total of 46 PMIs accredited to access NHF loan facilities, none of the PMIs is located in Ondo State, where Akure is situated. The implication of the above is that formal mortgage finance is limited in the city.

### **POLICY IMPLICATION**

The success of any method of housing finance certainly depends on how well it is adapted to local condition. Given the state of the Nigerian economy coupled with its financial infrastructure and the general low level of income of many people, it appears that planning that recognizes mutual and co-operative groups, which are, traditional in Nigeria, is the only way of addressing housing finance problems in the study area. The feasibility and viability of this traditional mode cannot be questioned. Its sustainability over the decades qualifies it to be analysed and be given a chance to find expression in a global market. The principle of mutual or co-operative practice could be used to overcome the basic loan requirements in the formal housing finance market. Also, there is a need for community-based institutions that could help in collaborating with local government mobilized Housing Co-operative Societies.

- I. As noted by Balchin and Rhoden(1999), people in different Socio-Economic group have different housing consumption characteristics, and by extension, different housing finance accessibility and there is wide income/expenditure disparity between the higher and lower income groups.

**Table 1:** Sources of Funds for Building Houses in the Study Area

S/No	Source	Frequency	Percentage
1	Savings from personal income	762	69.4%
2	Borrowing from Relatives and Friends	90	8.2%
3	Inheritance of Building	18	1.6%
4	Cooperatives	114	10.4%
5	Borrowing from Money-Lenders	3	0.3%
6	Commercial Banks	48	4.4%
7	Mortgage Institutions	63	5.7%
	<b>Total</b>	<b>1098</b>	<b>100%</b>

**Table 2:** Income profile of households' heads in Akure

Income (Naira)	Frequency	Percent	Cumulative Percent
Below 6,000	325	29.6	29.6
6001 – 10000	247	22.5	52.1
10001 - 15000	258	23.5	75.6
15001 - 20000	122	11.1	86.7
20001 - 25000	61	5.6	92.3
25001 - 30000	34	3.1	95.4
30001 - 35000	10	.9	96.3
35001 - 40000	17	1.5	97.8
ABOVE 40000	24	2.2	100.0
<b>Total</b>	<b>1098</b>	<b>100</b>	

Source: Field Survey, 2012.

**Table 3:** PMI Accredited to Access NHF by States

S/No.	State	Number of PMIs	Percentage (%)
1	Lagos	28	60.87
2	Akwalbom	1	2.17
3	Anambra	2	4.35
4	Enugu	3	6.52
5	Abuja	2	4.35
6	Kwara	1	2.17
7	Oyo	1	2.17
8	Kano	1	2.17
9	Ogun	1	2.17
10	Plateau	1	2.17
11	Kebbi	1	2.17
12	Abia	1	2.17
13	Delta	1	2.17
14	Sokoto	1	2.17
15	Bauchi	1	2.17
<b>Total</b>		<b>46</b>	<b>100</b>

Source: Adapted from FMB News, 1998.

In housing finance consumption. Also, Ndubueze (2009), noted that in Nigeria, housing market is bedevilled with mirage of problems, which are difficult to be resolved with implementing market-drive economic reform. to be the best way of addressing the housing problems being experienced in Nigeria.

II. The current compulsory contributory housing fund scheme should be integrated into the personal income tax system, such that a defined proportion of taxes paid are collected to the housing fund pool, as it is practised in Singapore.

III. There is need for constant re-engineering of the capital and money markets in order to cope with the renewed challenges of provision of some mortgage financing. In this regard, the need for restructuring and strengthening of the Federal mortgage Bank of Nigeria should be urgently addressed if it is to remain a viable financial institution with the capacity to enhance efficient housing development in Nigeria.

IV. Co-operative savings and credit institutions are complementary organizations in the housing finance sub-sector. Savings and loan investment funds from these

organizations may be better to serve low-income families. In fact, the co-operative societies may find it necessary to encourage Savings and Loans Associations to finance, genuine low income housing, since it encourages small individual savings to be pooled into a collective mortgage fund. These complimentary roles should therefore be encouraged.

- V. Apart from the yearly budgetary allocation to the housing sub - sector, there is a need to put in place other measures to boost available investible funds in this sector. This may include the introduction of special purpose bonds designed to attract institutional investors, firms and individuals to participate.
- VI. Also, various windows of opportunities should be explored for the mobilization of funds from the capital market. Such windows should include the large-scale securitization of mortgage portfolios, a mechanism that has remained the primary engine of growth in the housing finance system of the United States, Germany, France, etc. For instance, the National Housing Fund in Korea thrives on, not only on the deposit, subscriptions, but also on the housing bonds issued by the Housing Bank, to finance housing development programmes.
- VII. Therefore, broadening the capital market to encourage sales and exchange of housing-related securities, i.e. housing bonds, mortgages, loan participation and certificates can generate additional leverage. There is a need to continue with sound economic and monetary policies to overcome the negative effect of inflation on housing and other construction finance, which require long-term credit in the country. This is because high and persistent inflation erodes the real value of money, and is a major obstacle to the extension of long-term credit.
- VIII. The authorities of the Federal Mortgage Bank of Nigeria, the managers of the National Housing Fund (NHF) have over the years alleged that their inability to substantially disburse the National Housing Fund to qualified Nigerians has been primarily due to non-availability of viable Primary Mortgage Institutions in the country. It is, therefore, expedient that various state governments are encouraged to float their primary mortgage institutions. Also, banks and insurance companies should be encouraged to take the advantage of this window of investment opportunity in the housing finance sector, in order to ensure equitable distribution of loanable funds under the scheme, across the country.

Finally, there is need for the amendment of relevant portions of the Land Use Act of 1978, which were identified to be militating against smooth operations of mortgage lending activities in Nigeria, such as the Governor's consent to mortgage, payment of irrelevant fees, such as search fees, fees for the stamping and registration of mortgage deeds etc. Usually collectable at the Lands Registries of various states in Nigeria.

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