Real Estate Development in Nigeria: Integrating Real Estate with Finance

The Real estate sector is one of the oldest and most profitable investment sectors in the world; It has practically existed since the inception of man. Based on a report published by Savills World Research in 2021, global real estate investment was valued at $326.5 trillion in 2020, making it the world's most significant store of wealth; its value exceeds that of all global equities and debt securities combined. Its value also far exceeds that of all gold ever mined; at 12.1 trillion, the global worth of gold is just about 4% of global real estate investment. Global real estate is also worth almost four times more than the GDPs of all countries put together.

Apart from its essentiality and profitability, the real estate sector is also very important because of its effect on the economy at large. Real estate is one of the primary drivers of economic activity in both developed and emerging economies. The transactions of constructing, buying and selling properties involves so many related activities. In 2007, the Presidential Committee on Job Creation in Nigeria reported that the real estate value chain encompasses a minimum of 50 separate job functions.

The sector drives the economy through the creation, deepening and sustenance of numerous jobs for professionals such as architects, builders, estate surveyors & valuers, civil, structural & construction engineers, quantity surveyors etc. and for unskilled workers including bricklayers, carpenters, block manufacturers, tillers etc. Real estate activities also enhances economic activities in supportive sectors like building materials manufacturing and distribution, infrastructural companies such road construction, borehole drilling, landscaping, property/facility managers and agriculture/agro-allied industries for wood, ceramic, tiles, etc.

A boom in real estate activities also induces increase in demand for consumer items such as furniture, electronic items, cookers, air conditioners, bed linen, rugs/carpets etc., leading to even more job creation and increased economic activities. The real estate sector is intricately connected to the larger economy so much that when real estate prices rise, the effects ripple across almost every sector of the economy. It's the same when prices fall. The effect also spreads to other countries and economies as well. The Great Recession – the global financial crisis of 2007-2008 which emanated from the bust of housing in the United State buttresses this.

The real estate sector is also very important because of its linkages with other sectors of the economy especially the financial services sector. This provides the nexus between real estate sector and the mortgage banking sub-sector. Real estate sector, particularly the residential real estate should have a proportionate effect on mortgage banking. Housing is capital intensive and mortgages provide an avenue for households to buy their houses. Logically, one could say that mortgage banking should thrive to the extent that residential real estate is thriving; growth in residential real estate sales should translate to proportionate growth in mortgage loan to GDP. However the same could be said of the Nigeria.

The growth of real estate sector across the world is generally driven by the residential real estate which is by far the largest component of real estate sector, accounting for 79% of all global real estate value. This is so because in all developed countries and some developing countries, residential real estate leverages on mortgage financing. According to the National Bureau of Statistics, Nigeria's real estate sector was worth about $7.3 billion in 2020, accounted for 6.39 percent of the country's GDP. However, the COVID -19 pandemic hit Nigeria towards the end of the first quarter of 2020. Statistics show that the real estate sector posted 3.85 per cent growth in the second quarter of 2021, representing its highest growth in six years. In the third quarter of 2021, the sector expanded by 10 per cent, despite the harsh economy and the rising cost of building materials.

In addition to the rebound from the effect of the pandemic, real estate sector experts forecast a significant growth in the real estate sector in 2022. The Housing Development Advocacy Network (HDAN) predicts that the general outlook for the sector is bright, especially given its performance in the previous year where it recorded growth of 2.3 per cent as against 1.9 per cent. It predicts a 2.9 per cent growth in 2022. In spite of the growth and positive outlook of real estate in Nigeria, the mortgage/GDP ratio is low in Nigeria relative to other countries. This is because the real estate market essential runs on cash or short tenured loans (1- 2 years). Most residential properties are purchased in cash among those with the wherewithal.

While purchasing a home out-rightly eliminates the need to pay interest on the loan and other associated costs such as origination fees, appraisal fee and closing costs, outright cash payment would tie up the owner's capital in the house. Of course, with a mortgage, you end up paying more overall, since it comes with interest payments that do add up over time. But, depending on the state of the market, the saving on mortgage interest by paying cash might not be financially prudent. You could be saving less than that money might have earned had you taken out a mortgage and invested the cash you didn't spend on your house.

The real estate sector and the housing finance sector in Nigeria needs proffer strong strategic solutions in order to optimize the gains of real estate in ways that will benefit housing finance stakeholders and consumers. The following avenues are suggested:

Integration of existing housing finance Initiatives with mortgage: The Government and the housing finance stakeholders should endeavor to route all funding for housing finance program through mortgages. There are several housing finance programs initiated by the Federal Government of Nigeria including My own Home program and the Family Home Funds (FHF) program**.** These are laudable and much needed intervention to address the burgeoning housing deficit, low homeownership rate and affordability issues. The funds from these initiatives should be accessed by beneficiaries through Primary Mortgage Banks. For instance, family homes funds has a commitment to put 500,000 families in homes by 2024. If the funds for these 500,000 beneficiaries are channeled through mortgages, it would contribute in some significant measures to increase the ratio of Mortgage Loans to GDP.

Public enlightenment and Advocacy: There is need for protracted and concerted public enlightenment campaigns towards consumers adoption of mortgage. A lack of credit utilization culture in Nigeria is a serious constraint that has hitherto limited the mainstream adoption of mortgages among qualified borrowers. Nigerians generally do not have a culture of acquiring debt, especially those who have the financial capacity and credibility to repay. Such category of people would rather pay for a commodity 100 percent or shy away from purchasing items they cannot pay for. Some people deliberately avoid taking up mortgage facilities; they would rather prepay their mortgage debt than risk losing their homes and the social stigma of repossession The implication of this is that even when mortgage loans are available, a lot of people may still shy away from taking them.

Enabling Macroeconomic and Fiscal policies to enhance Mortgage Affordability: there is need to also ensure that macroeconomic and fiscal policies that will reduce interest rate to single digits and curb rising inflation are put in pace to ensure that mortgage become and remain affordable for those willing to take it.

Entrenching Nigeria's real estate sector within the mortgage banking sub-sector of the Nigeria Financial services sector holds significance implication for all stakeholders and for the entire real estate, housing and housing finance subsectors of the Nigerian economy.