

**Non-Peer Reviewed*

An Assessment of Challenges and Prospect of Real Estate Development in Nigeria

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Abstract

The focus of this study is to analyze the problems that are related with genuine property development finance in Nigeria. The study endeavors to investigate the different wellsprings of finance that are accessible for genuine property development with the end goal of deciding the problems that hamper successful progression of asset. To accomplish this, some estate reviewing and valuation firms in Abuja that participate in genuine property development, a few financial foundations that store property development and a few designers were inspected using polls to recognize a portion of the problems that defy land development with regards to fundings. Straightforward enlightening factual strategies were utilized for the examination and show of the information. The study shows plainly those problems going from exorbitant loan costs to that of the various necessities from candidates for loan, which by and large they see as challenging to meet, bothered the supporting of genuine properties in Nigeria. Furthermore, the inflationary rate in the nation additionally adds to the problems of supporting genuine property development in Nigeria. It suggested among others that the Nigerian government ought to attempt to take care of its monetary problems, for example, expansion to limit the problems that plague the funding of land development.

Keywords: Real Property, Finance Development, Problems, Inflation

Introduction

Appropriate funding means quite a bit to effective property venture and development. Different types of finance based on fluctuating conditions from assorted financial planning organizations are accessible to the property market. The chief field where different types of speculation finance are utilized is that of development where each loan must be exceptionally custom-made for a singular plan and the specific stages inside the plan.

Since property development specifically includes immense capital consumption, finance is in this way a fundamental information, the idea of which is to give cash-flow to empower the venture work financially. The expense and accessibility of finance for land development can impact the suitability of such task.

Despite the significance of development finance in property development, there is deficiency of data on how much subsidizing that happens, by whom, or the technique utilized. However this isn't startling given the overall qualities of development financing: there is no focal office or foundation to co-ordinate the matter of property subsidizing.

In the order of man's requirements, lodging has been positioned second and thus; lodging arrangement has turned into a foremost foundation of the strategies of different legislatures both at government and state levels since freedom in Nigeria. The outcomes of the fast pace of

urbanization are most apparent in the quick decay of metropolitan lodging bringing about metropolitan lodging neediness particularly as there is no proportionate expansion in the quantity of lodging stocks.

The house possesses an exceptionally extraordinary situation in the existence of every single person and stands apart as one of the fundamental necessities of people after food as there is the natural craving of each and every man to claim a fair house. It is the most single non-business speculation or buyer of pay. For most working Nigerians, the procuring limit is by and large low and makes it for all intents and purposes incomprehensible for the typical Nigerian to save towards possessing a house. Likewise, the waning financial fortunes in Nigeria which diminishes the limit of people to possess a house.

The financial expansion times of the 1970s additionally added to the lodging problems in Nigeria. During this period, there was surplus capital, the financial environment then, at that point, was great for the development of land and the possibility of gain was over blown as were the pace of development. The oil blast got a period of metropolitan development, which was past all assumption and subsequently prompted a gigantic flood in property development. Financial houses promptly obliged engineers' loans, as they saw least dangers.

Be that as it may, with the accident in oil costs in the mid 1980s, the economy was tossed into emergencies and downturn accordingly set in which severely impacted the land area. Since land development requires immense capital cost, there is generally the requirement for land engineer to hotspot for store. This capital is normally higher than the value capital of such a designer and the main way out of this dilemma is to hotspot for found through different means separated from his own reserve funds.

Which different wellsprings of finance separated from value capital are accessible to the land engineer? What problems are being experienced in helping finances through these different sources? These and different problems are what the study attempts to settle.

Concept of Real Estate/Property

Property indicates land or steady as it is at times called and different articles known as belongings or movables (Megarry, 1982). Legitimately, these are known as real property and individual property separately. Property is the selective right to ownership, happiness and demeanor of anything which can be the topic of possession; and it likewise incorporates the restrictive right to what's to come advantages of a financial decent, be it material or non, not entirely set in stone by regulation. The above freedoms comprise a heap of privileges (Denman, 1968). Real property alludes to the interests, benefits and innate squarely in the responsibility for actual land (real estate).

However, with the end goal of this study real property implies land and structures, which are sorted into various kinds as indicated by the different purposes to which they are being put and for which they are planned. These incorporate private, business, modern, farming, sporting properties and so on

Concept of Development

Development is the most common way of doing works including an adjustment of the actual use or in the power of a current utilization of land or structures (Balchin et al., 1988).

The term 'development' as characterized in segment 2(1) of the Nigerian Town and Nation Arranging mandate 1948, states that "development corresponding to any land incorporates any structure or reconstructing activity and any utilization of land or any structure consequently for a specific reason which is not quite the same as the reason for which the land or building was formerly being utilized".

In his own view, Lichfield (1956) brought up that among the Modelers, Organizers, Specialists and Assessors, the word development by and large signifies "the most common way of doing development including an adjustment of the power of the utilization of land or with a re-foundation going from the unassuming expansion of a room or a carport to a confidential house or the aggressive re-development of a downtown area".

Development can likewise be viewed as the use of capital, work, administrative expertise and ability to pioneer to land assets to work on its useful limit.

Types of property development incorporate private, business, modern and office properties. The development of a specific real estate parcel is a cycle, which includes much than the simple doing of constructional works. It begins previously, maybe numerous prior years, works and structures are planned; and endures, maybe past when the new works are finished, until the new convenience is completely involved and utilized.

Development by and large means the most common way of completing the constructional works, which are related with an adjustment of the utilization of land or of land with its structures, or with an adjustment of the force of the utilization of land, or with a re-foundation of a current use.

Real Estate Finance

Real estate finance can be checked out, as need might have arisen to Cary out real estate development and other related activities. It is a fundamental fixing in advanced real estate development and most huge scope development wouldn't take their current scale without significant credit. The lodging finance framework in Nigeria isn't suitable and this makes preparation of finance and credit for lodging development troublesome.

Finance is a basic focal point in any real estate development; the capacity of an engineer to prepare an adequate number of assets for the venture decides to a great extent, the outcome of the undertaking. Finance is an exceedingly significant component, a sine-quantum and exceptionally vital fixings to projects, regardless of their inclination. It is fundamentally the support, which supports the switch for development projects.

The exhibition of any lodging finance framework will rely fundamentally upon the volume and nature of assets inside the economy and the extent of it that can be spread, activated or even committed for lodging. Real estate finance can be seen as the acquiring of cash to do real estate development.

Sources of Real Estate Finance in Nigeria

As the need might have arisen for real estate development, designers generally hotspot for reserve to supplement their value capital. Enormous engineers will typically have various subsidizing game plans with different monetary offices. In any case, the field is turning out to be so mind boggling and serious that successful venture the executives is progressively worried about the manner by which command over a specific plan will be impacted by the beginning and nature of development finance. There are different sources through which the designer can get asset to finance real estate development.

1. Equity Capital

This is the asset realized from individual reserve funds and family reserve funds. It is typically low on account of low per capita pay, inconsistent dispersion of pay and high populace in every nuclear family bringing about exorbitant utilization, low reserve funds and low interest in Nigeria.

Since this value capital is typically little, it is judicious for him to settle on a combination of value and obligation capital which will guarantee the most elevated expected return as well as not hinder the suitability of the development. A designer's capacity to get will be improved by the size of value capital available to him.

2. Direct Loans

These are the loans got directly from the various lenders such as banks and other financial institutions for a specific period. They are classified according to their duration, short, medium and long terms.

(a) Short Term Loans: The ordinary strategy for raising assets for the securing of land and the resulting development of potential speculation property more than a long term period is via transient finance. The conventional wellsprings of transient finance are the business and shipper banks as well as finance houses. The terms on which these loans are given are typically exceptionally rigid and the interests charged are normally on factor revenue premise and 2 percent to 6 percent above essential rate.

Before, joint stock or clearing banks have additionally been associated with this sort of loan.

One benefit of loans in business banks is that a significant extent will in general develop, inside 1-5 years. Most times, the types of guarantee security requested by the banks are not exactly agreeable and planned borrowers are deflected by these somewhat unyielding requests. Shipper banks also have a similar development design as business banks however are considerably more worried about liquidity.

With an end goal to prepare assets into private lodging area, business and vendor banks were coordinated by the national bank of Nigeria to regard the private area as a favored area and designate something like 7% of their loanable assets into the area. The rules additionally specified that where the absolute lodging loans allowed by the banks at whatever year is lower than the level

endorsed by the national bank, the deficit will be taken from the banks and on-loan through the national bank to the government contract bank. Loans for private structure development were for a base time of 15 years. Be that as it may, these rules have not been completely consented to as the banks are organized to oblige easily transient loaning. Property organizations likewise give momentary loans to designers.

(b) Medium Term Loans: These are loans granted for periods not exceeding 10 years. They are normally obtained by direct loan or overdraft from the commercial banks. Such loans are frequently raised while arrangements are being made for long-term loans. The banks are free to lend to whom they choose. Loans are repaid in a lump sum or by arrangement, and are subject to recall by the bank at any time.

Long Term Financing: Long-term development finance as its name implies is finance that is redeemable within 20 to 30 years or even more and usually at a relatively lower rate of interest. The greater equity participation providers in Nigeria are the federal mortgage Bank of Nigeria, various states' property Development Corporation and Insurance and Assurance Companies etc. Their lending activities are concentrated mainly in the residential housing sector.

Long-term development finance has traditionally been raised either by mortgage or particularly in terms of credit squeeze by sale and leaseback. Another aspect of long term financing is the forward sale, which is normally provided by the insurance companies and pension funds. These companies tend to exercise extremely tight control over the entire project, including land acquisition, design, construction and sale or letting of the project.

Empirical Review

In another study carried by Abdullahi & Issa (2018) Access to land and the Delivery of Affordable Housing in Nigeria: An Assessment of the Federal Housing Authority (FHA) in Abuja. The main objective of the study was to examine the extent to which access to land influences the ability of the Federal Housing Authority (FHA) in the delivery of affordable housing to the middle and low-income earners in Nigeria with a specific focus on the Federal Capital Territory (FCT), Abuja. The study adopted survey approach with questionnaire and unstructured interview as major instruments of data collection. The study selected a sample size of 150 out of staff population of 430 which represents 34.9% of the study population. In analyzing the data, the study employed simple percentage, and arithmetic mean with the aid of the Statistical Package for the Social Sciences. The hypothesis of the study was tested with Pearson's chi-square method. The findings of the study revealed that there is no significant difference among the staff of FHA in their perception of difficulty in access to land as a major challenge to the delivery of affordable housing in Abuja.

Theoretical Framework

Abraham Maslow's Hierarchy of Needs Theory was proposed by Abraham Maslow, an American psychologist, in 1943.

Abraham Maslow's theory, known as Maslow's Hierarchy of Needs, proposes a hierarchical model of human needs and motivations. Maslow suggested that individuals have a set of needs that drive their behavior, and these needs are organized in a hierarchical manner.

The hierarchy consists of five levels, often depicted as a pyramid, with the most basic needs at the bottom and higher-level needs at the top. The five levels of Maslow's Hierarchy of Needs, from bottom to top, are as follows:

Physiological Needs: This level encompasses the most fundamental biological needs required for survival, such as air, water, food, shelter, sleep, and sexual reproduction.

Safety Needs: After physiological needs are satisfied, individuals seek safety and security. This includes personal and financial security, stability, protection from physical harm, and a sense of order and predictability.

Love and Belonging Needs: Once the lower-level needs are fulfilled, individuals have a need for social connection, love, and a sense of belonging. This involves forming relationships, experiencing intimacy, and being part of a supportive community or family.

Esteem Needs: After satisfying the need for belonging, individuals strive for self-esteem and recognition. This includes developing self-confidence, achieving personal goals, gaining respect from others, and receiving acknowledgment for one's accomplishments.

Self-Actualization Needs: The highest level in the hierarchy is self-actualization, which represents the desire for personal growth, self-fulfillment, and reaching one's full potential. This involves pursuing meaningful activities, embracing creativity, seeking personal development, and engaging in activities that align with one's values and passions.

According to Maslow, individuals progress through these levels in a sequential manner, with the lower-level needs taking priority until they are sufficiently satisfied. Only when lower-level needs are met can individuals focus on fulfilling higher-level needs.

Maslow's theory has been widely applied in various fields, including psychology, education, management, and marketing, to understand human motivation, well-being, and the factors that drive behavior. It highlights the importance of addressing basic needs before individuals can strive for personal growth and self-actualization.

Proponents of the theory

Abraham Maslow is the primary proponent of Maslow's Hierarchy of Needs theory. He developed and introduced the theory in his 1943 paper titled "A Theory of Human Motivation." Maslow was an influential figure in the field of psychology and made significant contributions to the understanding of human motivation and behavior.

Methodology of Study

This study requires data on the problems that are being experienced in assembling assets for real estate development in Nigeria. To get this data, the organizations and people that are associated with the activation of assets for real estate development should be reached.

Likewise, some rehearsing firms of estate reviewing and valuation in Abuja that include in real estate development and some confidential real estate designers which adding up to 54 in number were all analyzed using polls to get data on reserves assembly for real property development. Likewise, authorities of a portion of these monetary establishments were likewise reached to evoke more data on this subsidizing.

The information accumulated were examined and introduced utilizing straightforward spellbinding measurable strategies.

Data Analysis and Discussion

The information gotten from the organization of polls on some rehearsing estate reviewing and valuation firms that participate in real estate development and a few confidential designers in Abuja along with the meeting led with the authorities of a portion of the monetary establishments structure the foundations of this examination.

Table 1: Sources of finance for real estate development

| Source | Frequency | Percentage |
|-------------------------------|-----------|------------|
| Internal funds | 22 | 40.7 |
| Funds from private Investment | 1 | 1.9 |
| Commercial Banks | 14 | 25.9 |
| Merchant Banks | 5 | 9.2 |
| Mortgage bank | 10 | 18.5% |
| Insurance and Pension Funds | 1 | 1.9 |
| Government Bonds | 1 | 1.9 |
| Total | 54 | 100 |

Source: Field Survey, 2023

Table 1 shows the different wellsprings of finance that the real estate engineers use in Nigeria. Inside created reserve in any case alluded to, as value capital takes as high as 40.7 percent of the complete respondents. This shows that greater part of the real estate engineers depend more on their value capital than some other source. 25.9 percent of the respondents determine their real estate finance from business banks while 9.2 percent get their finance from dealer banks. Contract banks take as high as 18.5 percent of the absolute respondents, with insurance agency and benefits subsidizes taking 1.9 percent and Government bonds representing 1.9 percent too. The table 2 shows obviously that the majority of the engineers focus erring on their inside produced income than different sources somewhat due to the problems they experience trying to use different sources and furthermore the exorbitant financing cost that these different sources are related with.

Table 2: Problems encountered in securing development finance from the financial institutions

| Type of Problem | Frequency | Percentage |
|------------------------------------|-----------|------------|
| Excessive protocol and bureaucracy | 17 | 31.5 |
| Collateral Security | 6 | 11.1 |
| Restriction of government policies | 5 | 9.2 |
| High Interest rate | 17 | 31.5 |
| Loan ceiling and duration | 9 | 16.7 |
| Total | 54 | 100 |

Source: Field Survey, 2023

Table 2 shows the plenty of problems that real estate engineers face in attempting to set up for development finance from different sources separated from value finance (individual reserve funds). Exorbitant loan fee along with the related extreme convention and organization are the problems that are seriously disturbing in the journey for development finance. They represent 31.5 percent each out of the absolute problems. Different problems that were found incorporate loan roof and span, government arrangements and guarantee security taking 16.7 percent, 9.2 percent and 11.1 percent, individually.

Table 3: Ranking the various requirements for loan in the various financial institutions

| Condition | Frequency | Percentage |
|----------------------------------|-----------|------------|
| Certificate of occupancy | 39 | 72.2 |
| Approved Building plan | 35 | 64.8 |
| Survey plan | 23 | 42.6 |
| Bill of Quantities | 22 | 40.7 |
| Feasibility and viability report | 17 | 31.5 |
| Evidence of past performance | 13 | 24.1 |
| EIA | 9 | 16.7 |
| Tax clearance | 9 | 16.7 |
| Development Levy receipt | 6 | 11.1 |

Source: Field survey, 2023.

Table 3 shows the different prerequisites as requested by the different monetary establishments for giving loans. Out of this multitude of prerequisites, declaration of inhabitation positions most noteworthy taking 72.2 percent, which shows that practically every one of the monetary foundations require it as a condition for loan payment. This is firmly trailed by supported building plan as a condition for giving loans to engineers, it takes 64.8 percent. Overview plan and bill of amounts take 42.6 percent and 40.7 percent separately. The possibility and suitability report of the proposed development and proof of past execution of the designer are additionally required taking 31.5 percent and 24.1 percent separately. The problem exuding from this past exhibition is with new designers who don't have this record meaning they won't be conceded loans. A few monetary establishments demand for development demand receipt from the state as a condition for giving loans. This positions least with 11.1 percent.

Table 4: Difficulties in meeting these conditions for loans

| Condition | Frequency | Percentage |
|----------------------------------|-----------|------------|
| Certificate of occupancy | 12 | 22.2 |
| Approved Building plan | 5 | 9.25 |
| Survey plan | 4 | 7.4 |
| Bill of Quantities | 4 | 7.4 |
| Feasibility and viability report | 6 | 11.1 |
| Evidence of past performance | 9 | 16.7 |
| EIA | 6 | 11.1 |
| Tax clearance | 5 | 9.25 |
| Development Levy receipt | 3 | 5.6 |
| Total | 54 | 100 |

Source: Field survey, 2023.

From table 4, certificate of occupancy has been discovered to be the most difficult condition for developers to meet in getting loan from these institutions. It takes 22.2 percent of the total respondents. Evidence of past performance is another condition that the developers find difficult to meet. This takes 16.7 percent of the total respondents.

Discussion

The study uncovers that the loan costs being charged by the moneylenders (monetary organizations) are normally extremely high. Different wellsprings of finance for real estate development separated from the value capital incorporate insurance agency and benefits reserves, Government Securities and the different business, vendor and home loan banks in Nigeria. The problems being experienced by real estate engineers in the journey for reserve remember regulatory bottlenecks for the monetary establishments accordingly making reserves challenging to arrive at the designers on time. Guarantee security and authentication of inhabitation as requested by a large portion of these monetary organizations are cause of problems for engineers in getting finance for real estate development.

Because of expansion, the real worth of loan gathered regularly diminished making it unimaginable for the undertaking to be finished with the organized finance. The circumstances under which loans are given especially the momentary loans are normally too severe and multiple times engineers find it hard to meet such terms. There is generally lack of data on how much subsidizing that happens, by whom, or the strategies utilized. This is on the grounds that there is no actual point of convergence where the subsidizing business can be executed, the market is a theoretical collection of discrete, inconsequential and ungraceful financing exchanges and the market is assorted and complex. The resultant impact of these is problem of getting real estate finance. There is consistently non-accessibility of asset to finance real estate development halfway on account of expansion and the enormous capital required. Loan reimbursement is in every case truly challenging because of the significant expense of adjusting the loan by the designers. The waning monetary circumstance in the nation is negatively affecting the development business

consequently decreasing the accessibility of loanable assets for real estate development. Because of long growth period for the development of real estates, most financial backers and loaning foundations are ordinarily put development down thus; it ought not be taken care of with levity by both government, monetary organizations and the real estate engineers.

Conclusion

From the foregoing discussion, it can be concluded that finance plays a vital role in real estate development; hence, it should not be handled with levity by both government, financial institutions and the real estate developers.

Recommendations

It is hereby recommended that a record of past transactions regarding borrowing and lending of finance for real estate development should be kept so as to assist others who would want to go into such transactions in future. Many problems plaguing the success of real estate financing in Nigeria can be solved if our economic problems are solved since most of these problems are due to the inflationary economy that Nigeria faces. Government should intervene in this financing by instructing these financial institutions to slack their stringent rules for lending loan to developers.

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