Enhancing Financial Innovation & Access

Making financial markets work for the poor

OVERVIEW OF THE HOUSING FINANCE SECTOR IN NIGERIA

Commissioned by EFInA and FinMark Trust
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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ADB	African Development Bank
BoI	Bank of Industry
CBN	Central Bank of Nigeria
DMBs	Deposit Money Banks
EFInA	Enhancing Financial Innovation & Access
EIU	Economist Intelligence Unit
FCT	Federal Capital Territory
FHA	Federal Housing Authority
FIRS	Federal Inland Revenue Service
FMBN	Federal Mortgage Bank of Nigeria
FSS	Financial System Strategy
HoFPAN	Housing Finance Professionals Association of Nigeria
IFC	International Finance Corporation
IMF	International Monetary Fund
MBAN	Mortgage Bankers Association of Nigeria
MTNF	MTN Foundation
NACRDB	Nigerian Agricultural Cooperative and Rural Development Bank
NBS	National Bureau of Statistics
NDP	National Development Plan
NEEDS	National Economic Empowerment and Development Strategy
NEXIM	Nigerian Export Import Bank
NGO	Non-Governmental Organisation
NHTF	National Housing Trust Fund
NHP	National Housing Policy
NIESV	Nigerian Institution of Estate Surveyors and Valuers
NITP	Nigerian Institute of Town Planning
NIA	Nigeria Institute of Architects
NIOB	Nigerian Institute of Building
NISER	Nigeria Institute of Social and Economic Research
NNPC	Nigeria National Petroleum Corporation
NSE	Nigerian Society of Engineers
NUC	National Universities Commission
PFA	Pension Fund Administrator
PMIs	Primary Mortgage Institutions
PPP	Public Private Partnership
REDAN	Real Estate Developers Association of Nigeria
REITs	Real Estate Investment Trusts
RIRFHUD	Roland Igbinoba Real Foundation for Housing & Urban Development
SEC	Securities and Exchange Commission
UDBN	Urban Development Bank of Nigeria Plc
UN	United Nations
UN-HABITAT	United National Human Settlements Programme

USAID	United States Agency for International Development
WHPI	Women's Housing Plan Initiative

Exchange rate: Naira, the Nigeria currency, is indicated by 'N' throughout this document. All local currency figures converted at N150 to US$1 current as at June 2010.

BACKGROUND TO THE SERIES

Enhancing Financial Innovation & Access (EFInA) is an independent, professional and non-profit organisation funded by the UK Department for International Development (DFID) and the Bill & Melinda Gates Foundation. EFInA's purpose is to promote Financial Sector Development and Financial Inclusion in Nigeria.

FinMark Trust was set up in 2002 with the mission of, "Making Financial Markets Work for the Poor", first in the Southern African Customs Union (SACU) countries and now throughout Africa. An independent trust with core funding from the UK Department for International Development (DFID), FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Africa.

The Centre for Affordable Housing Finance in Africa (CAHF), a division of the FinMark Trust,[1] conducts research and engages with sector stakeholders in the promotion of innovative housing finance mechanisms to enhance access to housing finance for the poor.

This report is the twelfth in a series of studies that explore access to housing finance in various African countries. It was funded by EFInA, Nigeria. It is meant as an input into a larger debate about how to enhance access to housing finance by low and moderate income earners throughout Africa. Drawing largely on secondary sources, supported with interviews and a limited household survey, the study was undertaken by Pison Housing Company, with editorial oversight by the CAHF and EFInA.

The CAHF hopes that its research into access to housing finance in Africa will begin to shed some light on the key issues facing the poor as they seek to mobilise the finance necessary to access adequate and affordable housing.

Country Profile: Nigeria

- **Population:** 154.7 million (UN, 2009) growing at 3.8% pa (2005-2010 estimate)
- **Capital:** Abuja
- **Area:** 923 768 km^2 / Largest city: Lagos
- **Major language:** English
- **Major religions:** Christianity, Islam
- **Life expectancy:** 47 years (men) 48 years (women) (UN)
- **Literacy**: 68% of people over the age of 15 can read and write
- **Monetary unit:** Naira
- **Main exports:** Petroleum and petroleum products, cocoa
- **GNI per capita:** US $1 160 (World Bank 2008)
- **Mobile phones in use**: 70 million (April 2010[2]) / **landlines**: 1.5 million (April 2010)

[1] To go to the CAHF page on the FinMark website, go to www.finmark.org.za, click on "focus areas" and then click on "housing finance".
[2] Nigerian Communications Commission (NCC)

EXECUTIVE SUMMARY

Nigeria has a population of 154 million people, the largest in Africa, and the second largest economy on the continent. The urban population has increased from 10% in 1952 to 48% in 2009 (UN Statistics Division, World Statistics Pocketbook, 2010), with Lagos estimated to have around 17 million inhabitants[3] (although this estimate varies considerably from the national population 2006 census of about 9 million people) making it one of the most populous cities in Africa.

The real estate and housing sector is regulated primarily by the Federal Ministry of Lands, Housing and Urban Development. The ministry has two implementing agencies, the Federal Mortgage Bank of Nigeria (FMBN), which is the apex mortgage institution, and the Federal Housing Authority (FHA), which is responsible for supplying low-income housing. While the FHA is regulated by the Federal Ministry of Lands, Housing & Urban Development, FMBN is regulated by the Central Bank of Nigeria (CBN). At the state level, each of the 36 states has a state ministry of housing which is responsible for policy and regulation, while housing corporations focus on the supply of middle-income housing. In addition, several professional bodies influence the activities of industry participants through technical and professional regulations.

There are about 10.7 million houses in Nigeria[4]. Regardless of the policies, institutions and regulations which the Nigerian government has put in place since independence in 1960, there is still a dearth of housing, especially for the low-income segment. The housing backlog is estimated at 14 million units[5] and it will require N49 trillion ($326 billion) to bridge the housing deficit of 14 million units[6] based on an estimated average cost of N3.5 million ($23,333) per housing unit.

In 2010, it was reported that eighty-five percent of the urban population lives in rented accommodation, spending more than 40% of their income on rent[7]. Of these, 90% are self-built and this is mainly due to lack of mortgage financing, and less than 5% have formal title registration.

Informal housing is most prevalent as more than 80% of the population lives in settlements that are unplanned with poor living conditions[8]. In the rural areas, people live mostly in mud buildings and thatch roofs. The informal urban settlements are visible in the Lagos metropolis and other major cities. The Mowe and Ofada axis in Ogun State (close to Lagos) provides an example of this kind of settlement, with unhealthy conditions due to overcrowding and lacking adequate infrastructure. Interestingly, the people living in such housing conditions work in both the formal and informal economy and only a few of them are financially integrated into formal financial institutions. Housing in these settlements is built incrementally and completion of buildings can take as many as 10 years.

The formal sector, which constitutes about 15% of the housing market, is insufficient to meet demand. Where supply exists, this is targeted at high-income earners, while houses categorised as low income are mainly outside the reach of low-income earners. As a result, rents and house prices are high. This sector is predominantly a seller's market where rents are paid on average two years in advance. The cheapest apartments for sale in the suburbs of Lagos cost about N2 million – N3 million ($13,000 – $20,000), on the outskirts of Lagos around N5 million ($33,333), while in Lagos itself the figure is closer to N10 million ($66,666).

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[3] www.lagosstate.gov.ng/index.php?page=subpage&spid=12&mnu=null (Assessed August 19, 2010)
[4] Federal Mortgage Bank of Nigeria, 2007
[5] Roland Igbinoba Real Foundation for Housing and Urban Development (RIRFHUD) 2009 estimated the housing gap in Lagos State to be about 900 000 units using the national trends in housing production practices_Vol 4_Nigeria and the NBS statistical sheets (2005). When extrapolated for the 36 states including Abuja, you will arrive at nearly 14 million units.
[6] Roland Igbinoba Real Foundation For Housing & Urban Development (2009), The State of Lagos Housing Market
[7] N. Kokularupan, Housing Finance Consultant, IFC Malaysia at the International Housing Finance Workshop 2010 in Lagos, Nigeria
[8] Housing National Technical Working Group Report, July 2009

The mortgage industry is underdeveloped and generated less than 100,000 transactions between 1960 and 2009. The sector's aggregate loans to total assets fall far below the best practices standard of at least 70% as stipulated by the Central Bank of Nigeria. Mortgage to loanable funds for the five years ending 2009 averaged a dismal 14.51%, while the total mortgage market is put at a mere N127.5 billion (US$850 million)[9]. The contribution of mortgage finance to Nigeria's Gross Domestic Product (GDP) is close to negligible with real estate contributing less than 5%, and mortgage loans and advances at 0.5% of GDP, compared to 77% in the US, 80% in the UK, 50% in Hong Kong, and 33% in Malaysia[10].

The FMBN, which is responsible for the provision of mortgages to low-income earners through the National Housing Trust Fund (NHTF), has operational and financial capacity constraints that limit its performance. Within this scenario, the few low-income earners who own their houses usually acquire land and build incrementally with their savings. At the other end, high-income house owners buy with cash, or mortgage finance, usually amortised over a maximum period of 10 years.

A fundamental difficulty has been with ownership rights under the Land Use Act 1978[11], which vests ownership of all land to the Governors of each state and is a significant deterrent to housing and housing finance in Nigeria. Another challenge in delivering affordable housing to low and middle-income households is the affordability gap. This is defined as the difference between the required monthly mortgage repayments on the least expensive house, and the 33% (an industry standard as recommended by the International Labour Organisation) that can be deducted from the total salary of a potential homeowner. The gap affects 52% of the population or 65 million households. While some households achieve affordability with supplementary, informal income, this is not counted in loan origination procedures.

Other major factors affecting housing in Nigeria include limited access to finance; slow bureaucratic procedures; and the high cost of land registration and titling.

The Nigerian housing sector needs intervention in all aspects to ensure that it functions effectively. One way to achieve this is through the introduction of innovative products like housing microfinance, which have been successfully adopted in other countries with similar macroeconomic indices.

[9] Simon Walley, World Bank, Making Finance work for Nigeria (Housing section), 2009
[10] World Bank Report, 2008
[11] Land Use Act 1978 governs the ownership of land in Nigeria

1.0 OVERVIEW OF NIGERIA'S MACRO ECONOMY

Nigeria is located on the Gulf of Guinea in West Africa and shares borders with Benin, Niger, Chad and Cameroon. The country has about 154 million inhabitants (2009 estimates) and an estimated GDP of $319 billion[12] (see Table 1). Its area mass is 923,769 square kilometres, made up of 909,890 square kilometres of land and 13,879 square kilometres of water[13].

Nigeria is Africa's largest oil producer and the twelfth largest producer in the world. It has significant gas reserves and its macroeconomic balances are impressive. Opportunities in telecommunications, tourism and power generation are huge, but the country still suffers from interrupted power supply. Following a series of military regimes after independence in 1960, a successful transition to civilian rule in 1999 opened the way for a well-tailored, home-brewed, economic reform programme, known as the National Economic Empowerment and Development Strategy (NEEDS) that set the stage for a solid lift-off in investment and economic growth. Though classified as a low-income country in sub-Saharan Africa,[14] the Nigerian economy grew at over 5% in the past six years and this represents the longest and strongest period of sustained growth in more than two decades.

Table 1: Key Economic indicators (2009)

	2009	**2008**	**2007**
GDP ($bn)	319	212	167
Public debt ($bn)	56.78	$28.40	4.80
Inflation rate (%)	12.00	11.60	10.80
Economic growth rate (%)	3.80	5.30	5.60
Unemployment rate (%)	4.90	4.90	4.90
Exchange rate to USD (N)	150.40	117.80	127.46
Monetary policy rate (%)	6.00	9.75	9.00
Treasury bill rate (%)	4.48	6.90	6.67
Savings deposit rate (%)	3.35	2.96	3.15
Prime lending rate (%)	18.93	16.00	16.50
Maximum lending rate (%)	23.10	18.97	18.29

Source: Central Bank of Nigeria Reports

1.1. Key Economic indicators

According to the Economist Intelligence Unit (EIU) and the World Bank, Nigeria's GDP at Purchasing Power Parity (PPP) almost doubled from $170 billion in 2005 to $319 billion in 2008[15]. Its growth rate is ranked 3rd in Africa[16].

Over the past three years, the inflation rate in Nigeria has constantly fluctuated (see Figure 1). It declined from 12.5% in December 2009 to 11.8% by the end of April 2010.

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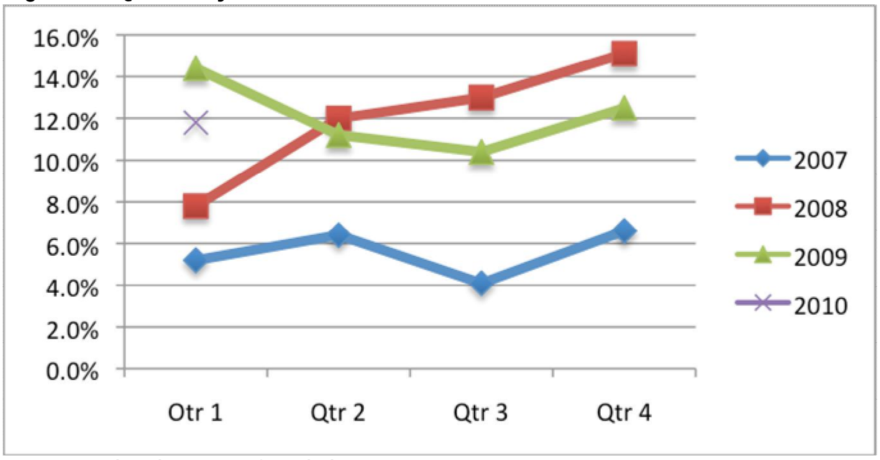
[12] Facts and figures , 2008, Nigeria Bureau of Statistics
[13] Federal Ministry of Works and Housing, 2006
[14] Classification of Economies by income and region, FY 2005, the World Bank
[15] Central Bank of Nigeria, Annual Report 2008
[16] CIA world factbook, 2008

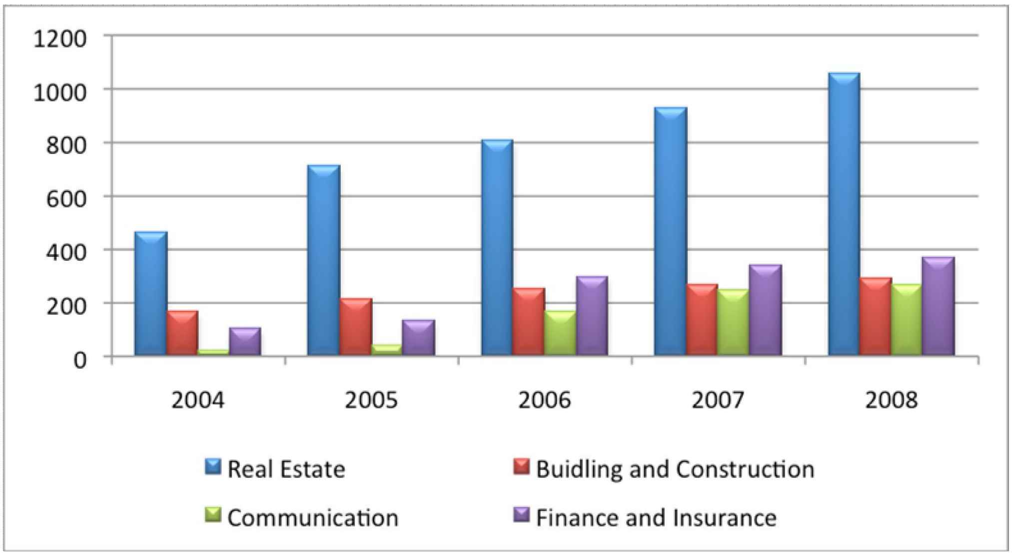
Figure 1: Quarterly annualised inflation rate movement for 2007 to 2009



Source: National Bureau of Statistics

The crash of the Nigerian stock market in 2008 saw market capitalisation drop from N13.3 trillion (US$88.6 billion) in 2007 to N7 trillion (US$46.6 billion) in 2009. This shifted more investments to the real estate sector in mid 2008, until the banking crisis in the third quarter of 2009. The consequent credit squeeze undermined investments in the real estate sector. The real estate sector recorded a marginal growth from 12.68% in the third quarter of 2008 to 12.7% in the corresponding period of 2009[17]. Instructively, the real estate sector constantly generates more economic activity than other focal sectors such as telecommunications, finance and insurance (see Figure 2).

Figure 2: Sector contributions to GDP at current basic prices (billion)



Source: Central Bank of Nigeria, Annual Report 2008

1.2. Demographic factors

More than 50 million of Nigeria's 154 million people are actively employed, representing about 35% of the population. Table 2 provides basic demographic data, including household income and poverty levels.

[17] Central Bank of Nigeria, GDP Report Q3 2008 – 2009.

Table 2: Basic demographic data 2010

Age structure:	• 0-14 years: 41.2% • 15-64 years: 55.7% • 65 years and over: 3.1%
Median Age:	• Male: 19.8 years • Female: 19.2 years
Major ethnic groups:	• Hausas (29%) • Yoruba (21%) • Ibos (18%). • Others (32%) Including *Ijaw, Ibibio, Kanuri, Annang, Tiv*
Economically active population	• 50,607,355
Economically active population profile	• Wage Earner Urban 36.2% • Wage Earner Rural 13.1% • Self Employ • ed Urban 63.8% • Self Employed Rural 86.9%
Percentage share of household income (2004 estimate):	• Lowest 10% earn 2% of national household income • Highest 10% earn 32.4% of national household income
Unemployment rate *(% of economically active population/labour force)*	• 2004 – 13.4% • 2005 – 11.9% • 2006 – 13.7% • 2007 – 14.6% • 2008 - 14.9% • 2009 – 19.7%
Poverty level (2004)	• National 54.4% • Urban 43.2% • Rural 63.3%

Source: CIA World Fact book 2008/National Bureau of Statistics 2004

1.3. Income levels

Data from the National Bureau of Statistics categorizes the various income groups in Nigeria as shown in Table 3 below:

Table 3: Economic grouping by class and by expenditure

Classification	**2004**		**1996**		**Expenditure band**
	Population %	**Population (million)**	**Population %**	**Population (million)**	
Lower class	50.00	63.16	50.00	51.15	Less than N118,384 (US$789)
Lower-middle class	1.20	1.52	8.44	8.64	Greater than N118,384 (US$789) but less than N120,742 (US$804)
Upper middle class	28.79	36.37	21.57	8.03	Greater than N120,742 (US$804) but less than N225,692 (US$1,504)
Lower-upper class	3.68	4.64	7.84	22.07	Greater than N225,692 (US$1,504) but less than N251,789 (US$1,678)
Upper-upper class	16.32	20.61	12.14	12.42	Greater than N251,789 (US$1,678)

Source: National Bureau of Statistics data (2004)

This economic grouping corroborates a study of the middle class carried out in Nigeria in 2007[18]. The study was based on expenditure rather than income, having discovered that the income methodology underestimated and biased the size and profile of the middle class. This is because respondents gave wrong information about their income for fear of how such information could be used.

According to the EFInA Access to financial services in Nigeria survey, monthly income distribution is split as follows:

Table 4: Income distribution

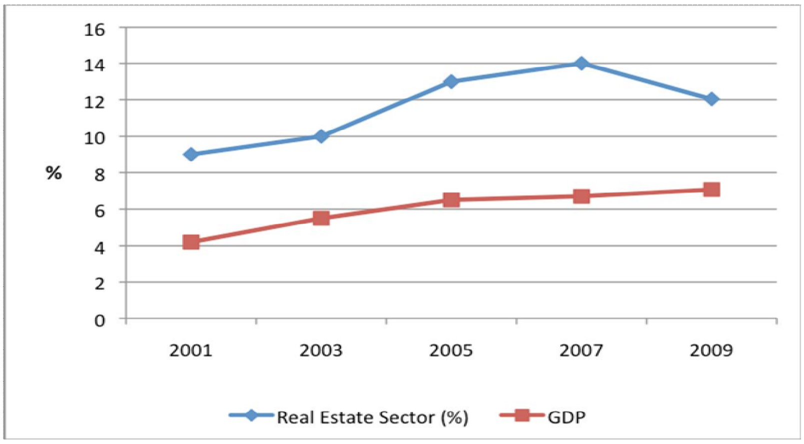
Monthly Income Distribution (N)	Percentage (%)
No Income or less than 1,000	10
1,001 to 3,000	12
3,001 to 6,000	13
6,001 to 13,000	13
13,001 to 20,000	9
20,001 and above	9
Refused to answer/Don't Know	35

Source: EFInA Access to financial services in Nigeria 2008 survey

1.4. The real estate sector

The Nigerian real estate sector has grown significantly from 1999 up to 2008, due to the country's return to democracy and ensuing relative political stability. The sector was valued at N1.06 trillion ($7 billion) as at end of 2008[19] representing about 2% contribution to GDP. The average growth rate in the sector between 2000 and 2005 was 10.7%[20] (see Figure 3). Like other economies in the world, growth in Nigeria's GDP is directly linked to growth in real estate activity. For every unit of increase in GDP, 75% of that unit is directly linked to real estate/housing related expenditure.

Figure 3: Growth rate of the real estate sector



Source: Central Bank of Nigeria, Annual Report 2008

Growth in this sector is largely driven by the entry and expansion of new and local multinational companies in sectors such as telecoms, oil and gas, and finance. The upturn in economic activity led to an increase in

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[18] The Middle Class in Nigeria, Analysis of profile, Determinants and Characteristics, NBS 2007
[19] Central Bank of Nigeria, Annual Report 2008
[20] Nigerian Stock Exchange, Annual Report, 2008

demand and supply for commercial and residential real estate development particularly in the key cities of Abuja, Lagos and Port Harcourt. Also, as a result of the increased occupancy of property in Nigeria by these companies and their staff, awareness and demand for high quality properties grew. Most private developers in Nigeria have now focused on high-end residential developments as a result of this perception.

The capital values of real estate assets in Nigeria have, over the past three years, experienced a boom as prices have in some cases doubled especially around the key commercial areas. The downward trend during the 2008/2009 banking crisis in the country is, however, expected to manifest in declining property prices in 2010/2011.

2.0 LEGAL, POLICY AND REGULATORY FRAMEWORK

The Nigerian legal system is based on the English common law system as it concerns mortgages and property transactions. Land ownership is backed by the Land Use Act of 1978. This Act vests ownership of all land in the Governor of each state, who has the rights and privileges to allocate land through a leasehold system. The lease is generally for 99 years less one day. In reality, this right of occupancy is legalised with a Certificate of Occupancy issued to the beneficiary. This often delays and adds significant costs to the registration process[21].

In all areas of the country, 65% to 70% of land is still held under customary title. Families or communities that want to transform such land for development must subject themselves to the dictates of the Act. Land allocated under the leasehold structure must be developed within three years or the Governor can take back the land. However, notices are often given instead to the owners of the land when they have flouted this clause.

Computerised land registries are being introduced, starting with Lagos and Abuja. In Lagos, assistance from the British Council and the Land Registry in England and Wales has helped in championing this exercise. In Abuja, a computerised title registration system and cadastral mapping using GIS has begun and titles can be printed out on secure, numbered paper at the Abuja GIS office on request. This has improved the search for titles, which previously took several weeks to complete.

Much work is, however, still needed. In 2007, the World Bank ranked Nigeria 173 (out of 178) in the country ranking of registering property[22], with 14 procedures, 82 days duration, and costs of 22.2% of property value. While the figures show an improvement on the 2006 figures of 16 procedures[23], 274 days and 27.1%, Nigeria's performance in registering property is one of the biggest contributors to its 108th place in the World Bank's *Doing Business* index.

2.1. Regulatory institutions and key players

The real estate and housing sector in Nigeria is regulated primarily by the Federal Ministry of Lands, Housing and Urban Development. A number of professional bodies influence the activities of industry participants through regulations and pronouncements. These include the Nigerian Institution of Estate Surveyors and Valuers (NIESV), Nigerian Institute of Town Planning (NITP), Nigeria Institute of Architects (NIA), Nigerian Institute of Quantity Surveyors (NIQS), Nigerian Society of Engineers (NSE) and Nigerian Institute of Building (NIOB). On the financial side, the CBN and the Securities and Exchange Commission (SEC) are responsible for regulations.

Figure 4 details the key players in the Nigerian housing finance market.

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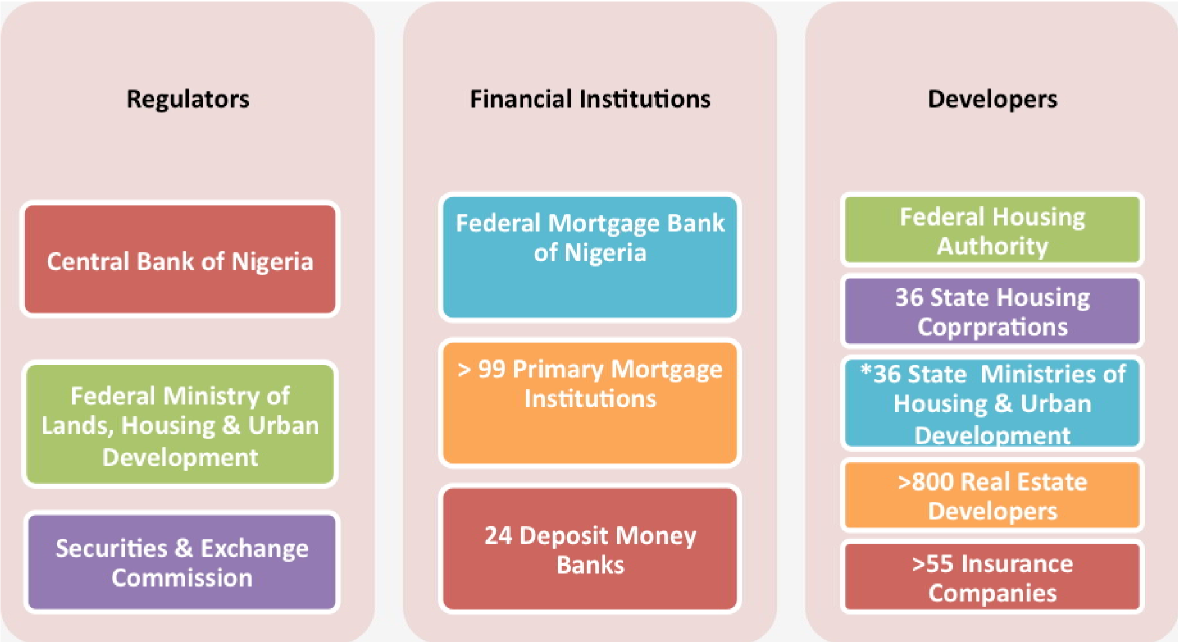
[21] Tunde Agbola, Institutional constraints on housing development: The urban areas of Nigeria, The land-use decree and the building plan approval process , Habitat International, (1987) Volume 11, Issue 2.

[22] Doing Business, World Bank Report, 2007

[23] Simon Walley, Making Finance Work For Nigeria (Housing Section), November 2009

Figure 4: Key Players in the Nigerian housing finance market



Source: Pison Housing Company

The Ministry of Lands, Housing, and Urban Development

The Ministry of Lands, Housing and Urban Development (formerly the Ministry of Housing, Urban Development and Environment) was created in 2002 with housing accorded for the first time a separate status free from the bureaucracy and financial stranglehold of the Ministry of Works. The Ministry of Lands, Housing and Urban Development's roles include policy formation, setting standards for the sector, establishing building standards and codes for housing delivery, and safety in collaboration with relevant professional bodies.

Central Bank of Nigeria (CBN)

The CBN is the apex regulatory authority of the financial system. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations in July 1959. Among its primary functions, the CBN promotes monetary stability and a sound financial system, and acts as banker and financial adviser to the Federal Government. It is the banker of last resort to licensed banks[24] and approves licences to financial institutions, which include Deposit Money Banks, Primary Mortgage Institutions, Microfinance Banks, Finance companies, Bureaus De Change, and Development Finance Institutions.[25]

In 2005, the Federal Government in conjunction with the CBN set up the Financial System Strategy (FSS) 2020 Mortgage committee. Four key objectives[26] were spelt out for the committee:

1. Establish a safe and profitable mortgage market by setting up appropriate infrastructure / institutions / processes and remodelling existing ones.
2. Introduce a framework to strengthen property/security rights.
3. Use the mortgage market to make long-term finance available and affordable to all Nigerians.
4. Enhance market mechanisms to improve the housing delivery system.

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[24] http://www.cenbank.org/AboutCBN/Coremandate.asp
[25] http://www.cenbank.org/supervision/framework2.asp
[26] FSS 2020: A blueprint for the Nigerian financial system

Federal Mortgage Bank of Nigeria (FMBN)

The FMBN is the apex mortgage institution in Nigeria with a broad mandate as follows:

- Link the capital market with the housing markets
- Encourage the emergence and promoting the growth of viable primary mortgage loan originators to serve the needs for housing delivery in Nigeria
- Mobilize domestic and foreign funds into the housing sector
- Collect and administer the NHF in accordance with the provisions of the NHF Act

The NHTF, established in 1992, was aimed at addressing housing finance challenges in the low-income sector.[27] It was formulated taking into consideration the housing demand gap and the difficulty of accessing finance through commercial banks and other financial institutions[28]. It was granted a take-off fund of N250 million (US$1.7m). Key objectives of the Fund include:

- Ensuring the provision of housing units is based on realistic standards that house owners can afford
- Giving priority to housing programmes designed to benefit the low-income group
- Encouraging every household to own its house through the provision of credit or funding

FMBN lends to PMIs from this fund. The scheme has had little success because the amount raised through contributions is only sufficient to fund loans for a small proportion of those who qualify (see box *National Housing Trust Fund)*. An additional difficulty is the requirement that a loan can only be obtained if the borrower can produce clear title to the property. In practice, therefore, many people do not make contributions and so far only 43,402 loans have been disbursed.

National Housing Trust Fund (NHTF)

The NHTF was established under decree No 3 of 1992, making it mandatory for every Nigerian earning an income of N3,000 (US$20) and above to contribute 2.5% of their basic monthly income or salary to the Fund. The government, insurance companies, pension funds and banks operating in Nigeria also contribute to this fund. It is managed by the FMBN.

The accounts are held in the names of the individuals who should receive annual statements. Contributions receive 2% per annum. The contributions plus interest are repayable at age 60 or on death. After contributing to the scheme for six months, workers are entitled to a mortgage loan of up to N5 million ($43,000) at a rate of 6% per annum for 30 years. The loan is for a maximum of 90% of value, so the borrower needs to have a N500,000 ($4,300) deposit. The loan must be used for house purchase, house expansion or building on a plot that is owned. Loan applications are made through the PMIs established under Mortgage Institutions decree of 1989. The PMI checks the application and forwards all the documentation to the FMBN. The processing time is between four and nine months. If FMBN approves the applicant's NHTF loan, the funds are disbursed to the PMI at a rate of 4% per annum. The PMI then disburses the loan to the NHTF loan applicant at a rate of 6% per annum. The PMI may make an additional loan at market rate if the borrower requires more than N5 million ($43,000).

Money from the NHTF is also used by FMBN to make estate development loans to private developers and state housing corporations at a rate of 10% per annum over 24 months. These loans are usually granted to finance construction of properties which are then sold to buyers at 6% per annum from the NHTF. For some of these developers, the land is often provided free by the government as a contribution to its housing provision efforts.

[27] Public Housing Delivery In Nigeria: Problems And Challenges by L.M Olayiwola, O Adeleye
[28] Privatization of workers' housing Provision: The National Housing Fund Scheme in Nigeria by Edlyne E. Anugwom

The properties must be sold for no more than N5 million ($43,000). This is an attractive scheme for potential home buyers. After saving just 2.5% of their income for six months they can borrow N5 million ($43,000) at 6%, in contrast to the average open market rate of 22%, to buy a house. However, in reality the amount raised through contributions is not sufficient to fund loans for more than a tiny proportion of eligible applicants. The scheme is seen by many workers as a compulsory regressive tax, in that the majority of workers could never earn sufficient income to afford to buy a house, even with the available finance[29].

Over the past two years, the scheme has improved its operations through a new management structure at the FMBN. However, the scheme has other practical difficulties. A loan can only be obtained if the borrower can produce clear title to the property he/she is buying. This often constitutes a major challenge in some States and as a result few loans have been made in those States. Loans can be made only through PMIs and at least 10 states have no PMIs. Many PMIs do not have a large capital base to adequately provide loans to a significant proportion of Nigeria's population. The FMBN will not disburse through a PMI more than 25% of the PMI's capital, and it requires a bank guarantee for the loans it does disburse. Because of the NHTF's shortcomings, trade unions objected to the scheme and asked workers to stop contributing. This happened, between 2000 and 2007, in all but three States, although this changed in 2007 and contributions are now being made in 27 States. States currently not contributing include Taraba, Borno, Lagos and Kano States.

Source: Simon Walley, Making Finance Work for Nigeria, November 2009, World Bank. Note that the contents of the box originally put together by the Making Finance Work For Nigeria team has been updated by Pison Housing Company to reflect current information on the NHTF and to put the objective of this scoping study in perspective.

To address these challenges, the FMBN board introduced reforms in February 2010. These provided an increase in the mortgage loan accessible by an individual contributor to a maximum of N15 million ($100,000). They also expanded mortgage loan originators which on-lend NHTF loans to include universal banks, insurance firms, pension funds and microfinance banks, subject to their meeting the criteria and requirements laid down for PMIs and the provisions of their enabling laws and regulatory authorities.

The board also approved the down payment (or equity contribution) for NHTF applicants in the following proportion: N5 million ($33,333) loan and below, 10% equity contribution; loan between N5 million ($33,333) and N10 million ($66,666), 20% equity contribution; while a loan between N10 million and N15 million attracts 30% equity contribution.

Table 5: Status of NHTF as at end of 2008

	2002	2008
NHTF fund base	N10.3bn	N41.96bn
Registered contributors	1,855,686	3,427,348
Average contribution	N5 ,550.50	N12,242.70
Participating states	3	24
Average contribution/State	N3.43bn	N1.75bn

Source: FMBN, 2009

Securities and Exchange Commission (SEC)

The Securities and Exchange Commission (SEC) is the apex regulatory agency for the Nigerian capital market. Originally established by SEC Decree 29 of 1988, the Commission has evolved over the years with its current

[29] See class classification by expenditure - Table 4

enabling law being the Investment and Securities Act (ISA) 45 of 1999. The Commission is mandated to regulate and develop the capital market.

In 2007, SEC issued the first set of guidelines for the registration and issuance requirements for the operation of the Real Estate Investment and Trusts scheme (REITs) in Nigeria. This guideline is detailed in the Investment and Securities Act (ISA 1999, repealed in 2007). The introduction of REITs will in the long term give investors value-based investment options and provide the needed cheaper, long-term funding to the real estate sector, which will in turn lead to the development of good quality property stock. Nigeria's first REIT was the N2 billion ($US13.3 million) Skye Shelter Fund launched in 2007. However, at the time the fund was issued, the Federal Inland Revenue Service (FIRS) had not given a tax-exempt status to REIT instruments in Nigeria. The second REIT was the Union Homes Hybrid REIT launched in 2008 and promoted by Union Homes Savings and Loans Plc. Even though this REIT was better structured than the Skye Shelter Fund, its N50 billion ($US 333 million) public offer was grossly undersubscribed. The reason could be because the issuance coincided with the crash of the stock market.

2.2. Housing policy

Nigeria's housing policy has always emphasised that housing must be seen in the context of overall national development including social development, generation of employment opportunities, geographical distribution of population, and location of industrial, commercial and agricultural activities[30].

Prior to the promulgation of the Mortgage Institutions Act of 1989, the first public intervention in housing delivery was the provision of housing for expatriate officials and for selected indigenous staff in specialised occupations such as the railways and police during the colonial period[31]. At independence in 1960, there was the need to strengthen and boost the economy. This prompted the formulation of a five-year National Development Plan, covering 1962-1968. Although housing was not given much attention in the plan, it recognised the need for urban centres and included a section on town and country planning[32].

The Second National Development Plan was formulated for the period 1970 to 1974. This plan was necessitated by the growth in urban population and expansion of cities such as Lagos, Ibadan, Kano, Port-Harcourt, Enugu, Benin City and Kaduna. The government set a target of 60,000 units during this period and established the Federal Housing Authority (FHA) in 1973 to supervise and manage the programme. The second plan did not achieve its housing targets; however the FHA was created and is still responsible for the supply of affordable housing in Nigeria.

A Third National Development Plan was formulated for the period 1975 to 1980. During this period, some important decisions on housing were reached such as establishing a housing unit in the cabinet office; floating the FMBN; setting up a committee on standardisation of housing types/policies; passing the Rent Control Law and the Land Use Act[33]. In 1979, the new civilian government inherited this plan. This led to the launch of the National Housing Programme by President Shehu Shagari in 1980, which targeted low-income groups whose annual income did not exceed N5,000 ($33) and culminated in Nigeria's first housing policy in 1982. The policy aimed at resolving the huge housing shortage but little was achieved because the political landscape was inhospitable and eventually less than 15% of the planned dwelling units were completed[34].

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[30] T. Agbola (PhD), L. Egunjobi (PhD), C.O Olatubara (PhD), 2007; Housing Development and Management: A Book of Readings; University of Ibadan, Malijoe Softprint.
[31] Ibid.
[32] Ibid.
[33] T. Agbola (PhD), L. Egunjobi (PhD), C.O Olatubara (PhD), 2007; Housing Development and Management: A Book of Readings; University of Ibadan, Malijoe Softprint.
[34] Ibid.

The period 1981 to 1985 gave rise to the Fourth National Development Plan. This encouraged and supported private efforts to build dwellings. It was also aimed at mobilising housing finance from all available sources; providing infrastructural services to facilitate the establishment of new building sites; and improving the quality of rural housing and the rural environment through integrated rural development programmes[35]. Like the preceding development plans, the fourth plan came with little success. In 1989, the Mortgage Institutions Act (No. 53 of 1989) was promulgated to regulate and supervise the operation of PMIs. PMIs were set up with the aim of providing affordability through long-term repayment of housing for low-income groups.

The next major policy move was in 1991 when the National Housing Policy was formulated. This was the second housing policy for Nigeria. The policy discussed several issues including availability and accessibility of land, and the challenges of sourcing building materials. The 1991 National Housing Policy was responsible for restructuring the FMBN into a wholesale bank. It also restructured PMIs and deposit money banks to do mortgage business.

The analysis of PMIs operations indicate that loans to customers amounted to N5.99 billion ($399 million) in the period 1992-2001, and the number of operators rose to a peak of 280 in 1995 before declining to 98 by 2009. The decline was as a result of CBN's mandatory recapitalisation for mortgage banks from N20 million (US$13,333.33) to N100 million (US$667,000) in 2002.

Despite the laudable objectives of the 1991 housing policy, its achievements have been relatively poor (see Table 6).

Table 6: A review of the impact of the 1991 National Housing Policy

Mobilisation of savings into Mortgage Institution	• Limited success
Provision of incentives for the capital market to invest in property development	• No success
Provision of policy controls over the allocation of resources between the housing sector and other sectors of the economy	• No visible success
Facilitation of flow of domestic and international resources into the priority housing areas, such as low income housing	• Limited success
Need for government to establish voluntary schemes and provide substantial budgetary allocations and financial transfer to the housing finance system	• Limited success
Establishment and Management of National Housing Fund (NHF) to be administered by the Federal Mortgage Bank	• Successful
Ensuring that Commercial Banks, Merchant Banks and Insurance Companies are given reasonable conditions to encourage them to invest in mortgage business	• No visible success

Source: Pison Housing Company

From 1991 to 2002, a host of other policy initiatives bolstered the housing market. These include the 1991 National Construction Policy, the 1992 National Housing Fund, the New National Housing Programme launched in 1994, and the creation of the Federal Ministry of Housing and Urban Development in 2002.

[35] Ibid.

The 1999 transition to civil rule started a new policy thrust in the housing sector when the new government appointed a Presidential Committee to create and draft the Third National Housing Policy. The White Paper on the Report of the Presidential Committee was made public in 2002.

The 2002 National Housing Policy became an official document in 2006 with the responsibility given to the Federal Ministry of Lands, Housing and Urban Development for its implementation. As a result, the NHTF management and operations was reformed to make the Fund more accessible to prospective borrowers. Interest rates on loans to private developers, state housing corporations were reduced from 15% to 10% per annum and loans to individuals from 9% to 6% per annum with a longer repayment period of 30 years as against 25 years previously.

Furthermore, the National Technical Committee on the Niger Delta was set up in July 2006 to develop a framework for implementing housing programmes in the Niger Delta region. Also, the FHA was restructured to focus on social housing.

In the Vision 20: 2020 document, a target was set to build ten million new homes by 2020. The proposed breakdown of the housing requirements is as follows:

Table 7: Vision 20: 2020 Housing requirements

Year	Houses built nationwide	Average No. of homes per State
2011	-	-
2012	500,000	12,500
2013	600,000	15,000
2014	720,000	18,000
2015	864,000	21,600
2016	1,036,000	25,920
2017	1,244,160	31,104
2018	1,492,992	37,325
2019	1,791,590	44,790
2020	2,149,908	53,748
Total	**10,398,650**	**259,987**

Source: Sam Odia, ThisDay, August 3 2010

Table 8 provides a summary of key national housing policies

Table 8: Summary of housing policies

Housing programme	Main features	Major achievements
National Development Plan (NDP) 1 (1962-68)	• Specifically addressed housing as part of industrial estates, Land Acquisition and Town Planning • Production of 24,000 housing units during the plan period	• Only 500 units were built by the Federal Government before the outbreak of the civil war in 1967 representing only 2.1% of the 24,000 units planned for this period • N39.2 million, representing 47% of the N84 million allocated to Urban and Regional Planning was disbursed

NDP2 (1970-74)	• Government's acceptance of housing as part of its social and political responsibilities • Emphasis on housing provision for all social groups • Construction of housing units by the Federal Military Government and State Military Governments' for rent at affordable prices. • 54,000 housing units to be delivered between 1972 and 1973, comprising 10,000 units in Lagos and 4,000 units in each of the then 11 state capitals • The housing volume was distributed as 60% for the low-income groups, 25% for the middle-income and 15% for the high-income groups • Construction of additional houses for government workers • Development and expansion loans for private housing • Increase in investment in local production of cement and other building materials as well as supplementary importation of cement for excess demand from new housing construction	• Establishment of the Federal Housing Authority (FHA) which did not commence operation until 1976. FHA currently has over 53,000 housing units in about 77 estates and a land asset holding of over 10,000 hectares nationwide • The FHA spent over N30 billion on housing developments and ancillary infrastructure
NDP3 (1975-80)	• N1.83 billion was allocated to housing. The Federal Military Government planned to build 202,000 housing units per year; 46,000 in Lagos, 12,000 for Kaduna and 8,000 units in the remaining 17 state capitals. The State Governments would be directly involved and FHA would provide the necessary infrastructure. (This marked the beginning of the decentralization of FHA to state levels) • Ministry of Housing, National Development and Environment with sole responsibility on housing was created • The additional financing of the Federal Housing Authority in order to directly construct and develop housing estates in various cities • In 1979, the civilian government of Lagos State declared a five-year state housing programme (1979-83) of 50,000 units	• Only 28,500 units completed
NDP4 (1981-85) Period	• The provision of 2,000 housing units yearly in each of the 19 states of the Federation • About N1.6 billion was allocated to housing	• Only 47,200 units completed

National Housing Policy in February 1991	• Ensure that by the year 2000, all Nigerians own or have access to decent housing accommodation at affordable cost • 700,000 housing units to be constructed annually in order to meet the target of eight million units by 2000 • Encourage and promote active participation in housing delivery by all tiers of government • Strengthen institutions within the system to render their operation more responsive to demand • Emphasize housing investment which satisfy basic needs • Encourage greater participation by the private sector in housing development. • In 1992, National Housing Fund was formed and granted a take-off fund of N250 million	• No visible impact
National Housing Programme for 1994 – 1995	• 121,000 housing units were to be constructed for all income groups (i.e. low, medium and high). Priority was given to newly created states. Each of the 9 newly created states was to have 5,000 housing units while the other 21 states share 76,000 housing units	• Only 1,014 units completed
National Housing Policy 2002	• Develop the mortgage finance market to increase mortgage flow and consequently home ownership • Participation of real estate developers and state agencies in the provision of affordable housing • Enhance housing supply chain components • Re-structure the FMBN to provide long term funds for mortgages • Creation of Federal Ministry of Housing and Urban Development	• No visible impact as the country still requires 14 million units of housing

State housing programmes and policies

Individual states have established agencies, ministries and parastatals to address their housing problems. Some states are more involved in housing development of their terrain than others (see Table 9).

Table 9: Summary of State housing policies

State	Programme/ Policies	Successes
Kano State	• Kano State has a housing corporation in which funds from government are channelled into developing housing. Houses developed are sold to citizens	• A few companies have partnered with the government. For example, SAW and Sons partnered with the state government to build 665 houses at a subsidised rate. The

	who can pay by instalments	State also partnered with the African Development Bank (ADB) in 2008 to construct 156 housing units
FCT – Abuja	• The Federal Capital Territory Administration (FCTA) and Satellite Towns Development Agency partnered with financial institutions and private development firms to develop houses within the territory, which were sold off to individuals in 2008	• To further consolidate on the partnership with financial institutions, the FCTA plans to setup a FCT Housing Agency that will efficiently coordinate and develop mass housing programs
Kwara State	• Kwara State manages its urban land and co-ordinates rural land through the Ministry of Lands, Housing and Urban Development. The Ministry provides land for all use, prepares layout and master plans, maps and surveys, processes land titles, approves housing transactions like mortgages and leases, creates policies on housing, designs and supervises building projects throughout the State	• The State has reconstituted a land allocation committee and the Ministry has finalised measures to build housing estates around three campuses of the State university in partnership with private investors
Rivers State	• The present administration anchored its housing development policy on three programmes: Urban Renewal, Greater Port Harcourt City Development Plan and Public Private Partnership (PPP). The State government in 2008 gave out notices to residents in the waterfront areas and over 550,000 people were evicted from their homes that year	• In 2009, Silverbird Entertainments, one of the projects for which the demolition was undertaken commenced business • In the same year, the State commenced the development of over 1,000 units of middle to high income housing in the Rainbow Town Development project, a PPP with First Bank of Nigeria and CityScape International Development Plc
Ogun State	• The housing industry in this State is managed by the State Ministry of Housing. The State has also established a Primary Mortgage Institution, the Gateway Savings and Loans Limited[36]	• In 2007, the government under a PPP arrangement delivered 340 low-income housing units and additional plots of land[37]. They currently have over 800 low- to middle-income housing units under development
Jigawa State	• Jigawa incorporated the Jigawa Mortgage Finance Ltd in 1994 wholly owned by the government to raise capital and ease access to housing	• This organisation constructed and sold 744 housing units in 2003

[36] http://www.compassnewspaper.com/NG/index.php?option=com_content&view=article&id=41817:housing-basic-neccesity-of-life&catid=72:property&Itemid=710
[37] http://bizhallmark.com/index.php/real_estate/Property/3459.html

3.0 HOUSING DEMAND AND SUPPLY

3.1. Housing need and effective demand

There is a gap between need for housing and the capacity to acquire the desired housing type, resulting in an effective demand crisis for affordable housing in the country. While it is clear there is a housing deficit, it is crucial to recognise that people can only acquire what they can afford. Affordability analysis shows that low-income earners can afford housing units at N2 million ($13,333.33). This is based on assumption that the borrower is on an average monthly income of - N34,000 ($226) and should spend a maximum of 33% of his gross income on housing. For a 30 year NHTF mortgage at 6% per annum and a down payment of 10% (N200,000 = $1,333) of the cost of the house, the monthly payments will be N10,792 ($71.94).

Analysis of the stock of dwelling units helps to understand affordability. As at 1991, the total dwelling units in Nigeria was estimated at 15.2million and more than 70% was in tenement rooms (called *face-me-I-face-you*) (see Table 10). Unfortunately, there is no more recent data available.

Table 10: Estimated housing stock, by dwelling types in Nigeria (1991) thousands

	Urban	**Urban**	**Rural**	**Rural**	**Total**	**Total**
	%	Units (million)	%	Units (million)	%	**Units (million)**
Maisonette	2	67	0	12	1	**79**
Duplex	3	101	0	–	1	**101**
Detached bungalow	10	337	20	2,289	17	**2,627**
Semi-detached	2	67	1	60	1	**127**
Flat	15	506	0	–	3	**506**
Tenement (Room)	65	2,194	77	9,200	74	**11,393**
Others	3	101	2	287	3	**388**
TOTAL	**100**	**3,373**	**100**	**11,848**	**100**	**15,221**

Source: UN-Habitat 2001 Report on National Housing Trend

Since 2006, government intervention has been through PPP programmes. Prior to this, government was directly involved in constructing housing units. Housing demand is higher in the urban areas, which is about 40% of the population.

3.2. Housing Demand

Demand is influenced by several economic factors, such as increased economic activity that has led to increased demand for labour and rural-urban migration. The result is that there are 14 million units of housing deficit in the country. This is about a hundred percent increase when compared to the deficit in 2001 (see Table 11).

Table 11: Estimated housing needs (1991-2001)

	Urban areas	**Rural areas**	**Total**
Housing stock 1991 ('000 units)	3,373	11,848	15,221
Estimated no of households 2001 ('000)	7,289	15,295	22,584
Required output 1991-2001 ('000)	3,916	3,447	7,363
Required annual output, 1991-2001 ('000)	391.6	344.7	736.3

Source: UN-Habitat, 2002

There has been an intractable gap between government's supply efforts and actual achievement over the years, worsened by a population growth from about 42 million in 1960 to more than 151 million in 2010[38] (see Table 12).

Table 12: Nigerian population and households – 2006

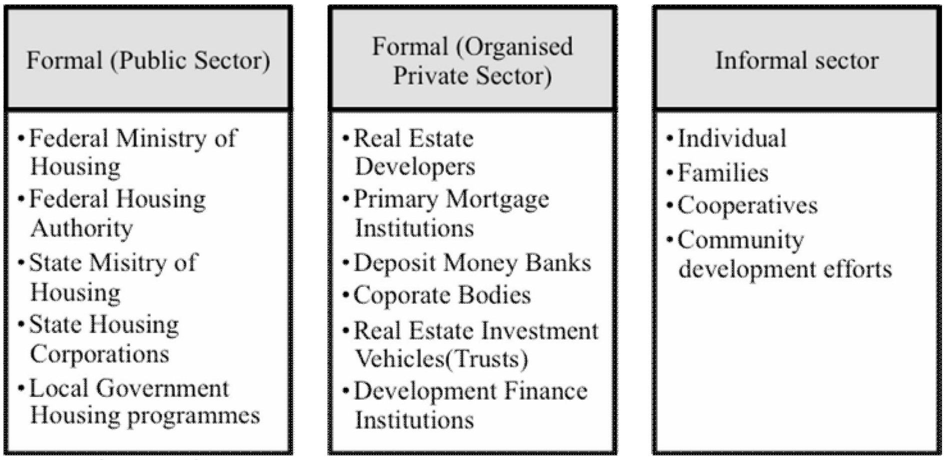
Population 2006	Number of households	Population 2010 *(assumed growth rate of 3.80%)*
140,431,790	**32,711,253**	163,025,239

Source: National Bureau of Statistics, 2007

3.3. Housing supply

Supply of housing units in Nigeria can be viewed from the formal and the informal sectors (see Figure 5). The formal refers to supply from the private sector and the various elements of the public sector.

Figure 5: Housing supply structure



Source: Pison Housing Company

Various authorities have offered strategies for improving housing delivery in Nigeria. Fasakin (1998) suggested the co-operative housing model; Oduwaye (1998) advocated a simple land allocation system; and Omole (2001) suggested an affordable financing model.

Public sector activities and efforts

The 1991 Housing Policy estimated that 720,000 housing units would be built each year but current estimates show that Nigeria needs an average of one million housing units[39] a year to replenish decaying housing stock and also meet rising demand. The 1991 policy further indicated that not less than 60% of the new houses would be built in urban centres throughout the country.

A study by (Onibokun, 1982) showed that 20% of most buildings in the urban areas of Nigeria were more than 25 years old[40]. The same study confirmed that over 65% of houses were in the urban areas and that 90% of rural areas were developed by informal, individual efforts.

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[38] World Bank, World Development Indicators March 2010
[39] Ameliorating Housing Deficit in Nigeria. Chamberlain S. Peterside, Ph.D. July 2005
[40] National Trend in Housing Production Practices Volume 4 Nigeria – UN Habitat

Table 13: Assessment of impact of National housing programmes from 1975-1995

Period	Planned	Achieved	% of achievement
1962 – 1968	24,000	500	2.1%
1970 – 1974	54,000	-	0%
1975 – 1980	202,000	28,500	14.1%
1981 – 1985	200,000	47,200	23.6%
1994 – 1995	121,000	1,014	0.8%

Source: Pison Housing Company, 2009

Despite several housing policies and successive administrations, not much impact has been made by the Federal Government in affordable housing supply (see Table 13). At the State level, the housing corporation model has been used by the State governments in an attempt to deliver affordable housing.

Housing Corporations

Virtually every State has established State housing corporations to largely operate as property developers of the government[41]. The corporations funding comes mainly from government budget allocations and units are usually sold for cash. Often the middle-income earners are the target market for these developments. Buyers either pay cash or are allowed to make installment payments during the period of construction, as mortgage finance is not provided.

The cumulative results from all of these initiatives remain inadequate. For example, the Lagos State Development and Property Corporation, the most active state housing corporation in Nigeria has produced less than 25,000 units since inception about 35 years ago. In the first quarter of 2009, the Lagos State government announced that it intends to provide 40,000 housing units within the next four years and about 50 hectares[42] of land has been identified for some of these housing initiatives, which will be developed in partnership with private developers.

Private developers

Activities of private estate developers were concentrated in Lagos State in the early 1990s. Prior to that, private real estate developers had nominal success. A major operator between 1988 and 1993 was HFP Engineering Limited, which, under a joint venture agreement and using prefabricated technology, delivered over 2,500 units of housing including 1,434 units at Victoria Garden City, in Lagos. More recently, activities of private developers are now coordinated under the Real Estate Developers Association of Nigeria (REDAN). It comprises over 850 companies across the country.

Non-Governmental Organisations

A few Non-Governmental Organisations (NGOs) are also involved in the supply of housing to the low-income and informal market. The following are some of the notable housing projects embarked upon by NGOs.

<u>MTNF Low Cost Housing Project – Shelter for Comfort:</u> In 2005, the MTN Foundation and Habitat for Humanity low-cost housing project was launched. The project was aimed at addressing poverty and homelessness through providing simple, decent and affordable houses to low-income earners. The foundation plans to build 600 low-cost housing units in blocks of 100 units in each of the six geo-political zones. Individuals will be able to acquire these houses by obtaining mortgages. The mortgage term is 15 years with the loan interest fixed

[41] Sustainable Housing Development in Nigeria – The Financial and Infrastructural Implication by Joseph Segun Ajanlekoko, 2001.
[42] Commissioner for Housing, Lagos State 2009

over the period. One hundred units have been completed in New Karu, Nasarawa State (North Central). The second and third phases of the project will be in the South East and South West regions.

Women's Housing Plan initiative (WHPI): This initiative was created to empower women and families towards owning quality, affordable houses. To make it accessible, the plan is often structured with gradual repayments. WHPI also collaborates with developers and provides them with bulk buyers after negotiation on behalf of its members. The initiative has sites in Lugbe, Kubwa, Gwarinpa and Masaka in Abuja. It is the first organisation to focus on housing for women. [43]

3.4. Demand and Supply analysis

To validate the demand, supply and affordability issues, quantitative and qualitative surveys were carried out (See Annexure 1).

On the **demand** side:
A breakdown of respondents interviewed showed that 44% are self-employed, engaged in all kinds of small enterprises. A total of 16%, 15% and 11% of the respondents are low cadre staff in the professional services, public and financial services sectors. Other sectors account for 14% of all respondents.

Most of the respondents (both homeowners and non-homeowners) reside in flats and tenement (one room) apartments: 41% of the respondents reside in flats and another 41% in tenements (one room). For homeowners, 33% built their houses incrementally over time; 27% with their savings; 23% with mortgage; and 17% with gifts from friends and family, thrift collections and pensions. A further analysis of non-homeowners shows that 45% reside in tenement (one room) apartments while 38% live in flats, 8% in detached bungalows, 4% in semi-detached bungalows, and 1% each in duplex, townhouse, and self contained apartments, while the remaining 2% live in other house types not specified 37% of non-homeowners have insufficient income to finance a home because of their inability to save, due to their low income. Also, the low level of income coupled with the lack of a vibrant mortgage market affects the resale market.

From the survey, only 14% of the respondents own one or more houses. Of these homeowners, 47% have apartment sizes not exceeding $40m^2$. About 70% of the respondents earn less than US$4,000 a year. This underlines the need for both the private and public sector to develop an inclusive housing finance system for this category of people.

13% of respondents preferred buying already built houses, while 80% preferred to acquire land and build over time, this is due to the high cost of fully built houses.

Validating the incremental savings building strategy of low-income earners, 60% of homeowners have worked 25 years or more while 52% of non-homeowners have less than five years work experience. This shows that low-income home owners have been able to acquire their houses because they have worked for a longer period of time and during this period have accumulated savings and built incrementally. This is further corroborated by the fact that majority of the non-homeowners have lesser years of work experience. About 60% of the non-homeowners believe that their rented apartment is worth less than the purchase price. With home ownership plans, most respondents preferred a two-to-five year acquisition time.

On the **supply side:**
The survey showed that developers tend to focus on the middle to high-income markets. This is largely because middle to high income earners are either able to pay cash outright or complete instalment payments during the construction period. Fifty percent of the developers confirmed that they are more inclined to serve

[43] http://www.womenshousingplaninitiative.org/php

the middle-income group, 30% claimed the low-income group as their target, and 20% identified the high-income group as their major target.

Only 15% of the houses sold by developers are bought using mortgages. One of the developers interviewed claimed that 90% of his customers acquired their properties by paying cash. For example, Lagos State with more than 15 million people requires 224,000 units of housing a year. However in 2008, only about 1,000 units of housing (low, middle and high income) were delivered.[44] This anomaly of a high demand in the low-income group while supply is focused on middle and high-income markets presents a market opportunity to supply low-income housing.

Another limitation to supply is the increased costs of building materials[45]. About 60% of the building materials are imported. For example, there are no large-scale manufacturing companies for items such as doors, windows and door knobs; and there are insufficient artisans and workers with skills such as carpentry and plastering.

In the informal sector, land acquisition and incremental housing development have been on the increase, especially in the low-income segment. From 2003, a new strategy to formalise land acquisition in the low-income segment emerged with a few private residential developers buying large plots of land and dividing it into smaller plots of 648m^2 for sale to the low-income segment on the outskirts of major cities. The significant value added is that buyers pay in instalments of up to 24 months. Some buyers pay as little as N20,000 (US$133) monthly. Over 30,000 plots (1,000 hectares) have been sold in the past six years in the Mowe Ofada - Ibafo axis of Ogun State. On acquisition of the land, the individuals proceed to build their homes incrementally over a period of 8 to 10 years. Some of them start from developing as small as 25m^2 and expand over the period.

Demand outweighs supply in the low-income segment and most people live in rented housing units – 85% of urban population rent properties spending over 40% of their income on rents[46]. This brings to the fore the need for a rental housing model in the country. Rental housing in Nigeria is largely provided by individuals who rent out their own properties. There is no policy focus by the government on rental housing in Nigeria. Private sector real estate developers have either not identified the rental housing model as a commercially viable model, or they do not have the capacity to provide rental housing in large scale. Research into rental housing opportunities is needed to determine the extent of the viability.

3.5. Pricing trends

There are several factors responsible for high house prices. These include land allocation costs, the high cost of funding, the high cost of building materials (cement, steel), logistical challenges and the dearth of skilled artisans. The price of land is beyond the reach of most individuals and even where Government partners with developers, the land allocation costs and charges makes it impossible to deliver the housing units at an affordable price for the low income market. The site and services land acquisition programme in Lagos State has not been as effective as planned e.g. in Ikorodu, a low-cost housing development in 2009 delivered a single bedroom apartment at the price of N5 million (US$33,333), which excludes low-income earners.

House prices in Nigeria are also a function of location of the property. Both sales and rental prices are higher in urban areas than rural areas. This is why most low-income housing is located in suburbs of major cities.

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[44] Roland Igbinoba Real Foundation For Housing & Urban Development (2009), The State of Lagos Housing Market
[45] See section – Pricing trends
[46] N. Kokularupan, Housing Finance Consultant, IFC Malaysia presented in the Mortgage Banking Association of Nigeria CEOs Retreat held at Transcorp Hilton Hotel, Abuja, November 20-22, 2009.

However, as the cities expand, these suburbs soon become part of the cities. In the past 10 years, values of properties have generally been on the increase (15% a year for both sales and rental) until 2008 and early 2009 when prices in the middle and upper income segment fell by 30% to 40% depending on the location. Since then, they have stabilised around the crashed prices.

4.0 HOUSING FINANCE

The Nigerian housing finance market is structured along informal and formal sectors. The formal sector has two components: the upper-income groups, whose activities are located in the urban areas, and the lower-income groups which rely on the subsidised NHTF for access to housing. The informal sector includes the e*susu* (rotating savings and loan associations), the traditional co-operative system, credit co-operatives, and individual and family savings.

Several factors make the environment for mortgage lending difficult, including the absence of clear property and security rights; mandatory governor's consent; high interest rates; and inadequate sources of long-term funding[47]. Overall, there is evidence of declining activities in housing finance: the average share of GDP invested in housing declined from 3.6% in the 1970s to less than 1.7% in the 1990s.

4.1. Demand for housing finance

Nigeria's housing deficit presents an enormous potential for housing and housing finance investors. The country requires N49 trillion (US$326 billion) to meet its housing demand[48]. However, the outstanding credit to the economy as at December 2008 by financial institutions was put at $20 billion. Outstanding mortgage loans are 0.5% of GDP (2005), compared to 77% in US, 80% in UK, 50% in Hong Kong, and 33% in Malaysia.[49]

Housing finance needs derive mostly from population growth in the urban areas of the country. With a rural urban migration rate of about 5.5%, it is expected that Lagos, for instance, will reach 23.5 million by 2015. Generally, an increase in population translates into an increase in the demand for housing finance. Effective demand and home ownership relates to affordability, and this is based on household incomes. A review of EFInA's Access to financial services in Nigeria, 2008 survey showed several key findings relating to home ownership. Some of the findings include:

75% currently own their homes, 16% pay rent, while 7% live in the houses for free. Table 14 provides a comparison of ownership between rural and urban areas:

Table 14: Housing Status: Urban vs Rural

	Urban	Rural	Total
Own the house	52.0%	84.4%	75.4%
Pay Rent	39.8%	8.0%	16.8%
Live for free but do not own	8.2%	7.6%	7.8%
Total	100.0%	100.0%	100.0%

Source: EFInA Access to financial services in Nigeria 2008 survey

- Of those that pay rent, 92% stated that they pay normal rent, while the remaining 8% pay nominal/subsidised rents
- 59% of respondents don't consider their homes as tradable assets as shown in Table 15

[47] See chapter 5
[48] Roland Igbinoba Real Foundation for Housing & Urban Development (2009), The State of Lagos Housing Market.
[49] World Bank Report, 2008

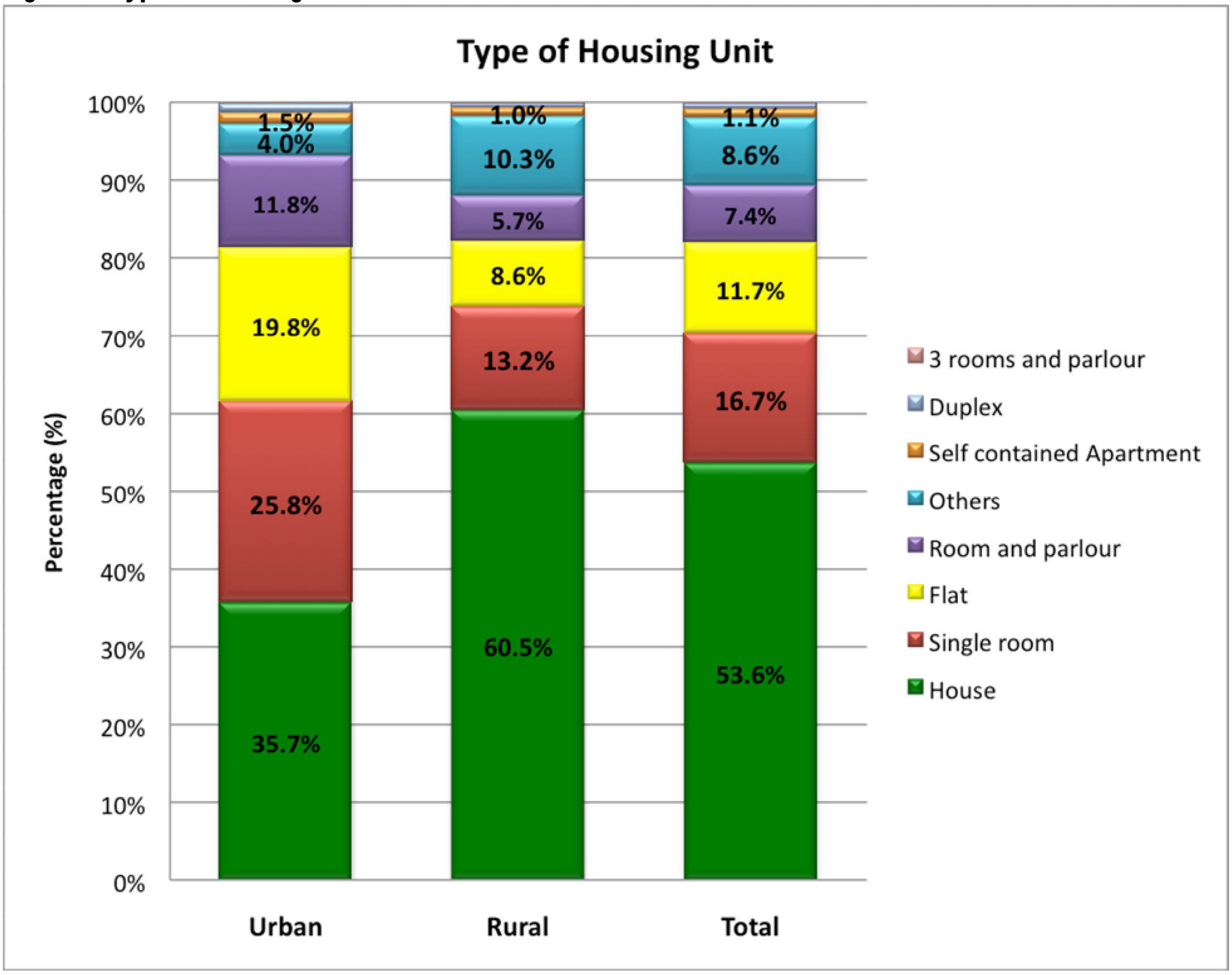
Table 15: Homeowners views on housing as a tradable asset: Urban vs Rural

	Sector		Total
	Urban	Rural	
No	56.8%	59.7%	59.2%
Yes	24.2%	21.2%	21.8%
Don't know	19.0%	19.1%	19.1%
Total	100.0%	100.0%	100.0%

Source: EFInA Access to financial services in Nigeria 2008 survey

The graph below provides a breakdown of the type of housing unit occupied

Figure 6: Type of Housing Unit

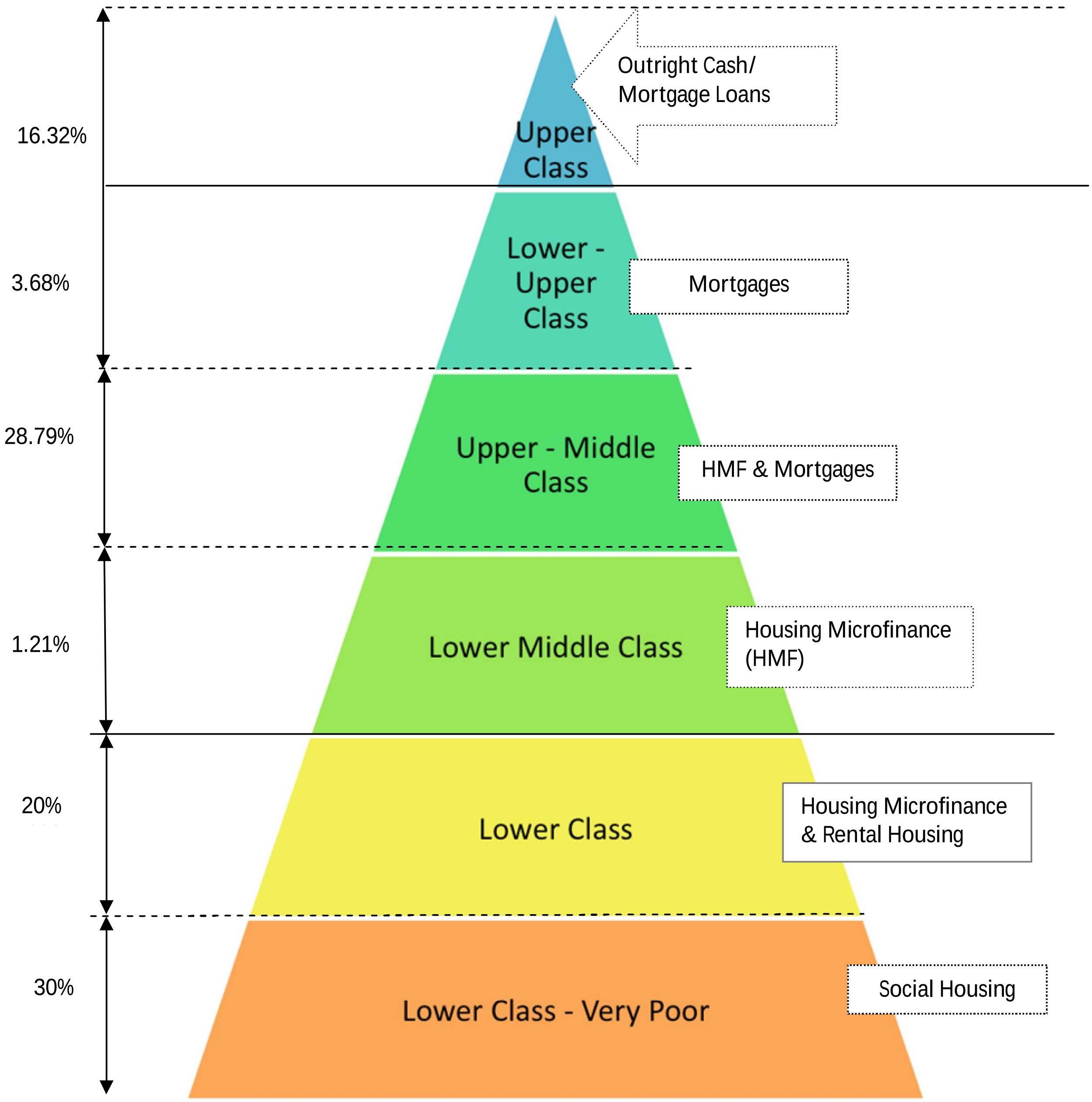


Source: EFInA Access to financial services in Nigeria 2008 survey

4.2. Access to housing finance

Most developers (housing suppliers) lack the capacity and expertise to develop products for the low-income segment of the market. This is evident by the low level of activity in this segment. Figure 7 attempts to categorise access to housing finance versus income levels based on data obtained from the National Bureau of Statistics, 2007 and the Nigeria Living Standard Survey, 2004.

Figure 7: Income class pyramid versus access to housing finance (not drawn to scale)



Source: Pison Housing Company, 2010

The upper middle-class represents about 30% of the population and they lack access to mortgage or formal housing finance[50]. The upper and lower middle-income class are likely to require housing microfinance to buy land and/or develop their houses incrementally. The lower class will also require rental housing. However, a large portion of the lower class – very poor (about 30%) in the bottom of the pyramid cannot afford credit, and would require social housing.

4.3. Supply of housing finance

Lack of access to finance affects the supply of housing[51]. Developers in the formal sector are mainly financed by deposit money banks at excessively high interest rates and stringent conditions. Low income individual homebuilders seek finance either from informal sources such as *ajo* (traditional thrift societies) or *esusu*, age / trade groups, traditional money-lenders, friends or family to build their homes. Classified as microcredit organisations (Osamwanyi and Megbolugbe, 1987, and Nubi, 2006), these sources are convenient and accessible. They operate on the basis of third party guarantees and rely on peer pressure to ensure repayments. They are, however, unsecured and hardly accumulate the magnitude of funds required for large-scale impact of individual household developments.

The Central Bank Governor, Mallam Sanusi Lamido, recently disclosed that the dearth of long-term deposits coupled with low level of capitalisation of PMIs[52] are factors militating against the drive to consistently finance long-term loans on a sustainable basis.

In addition to the NHTF and PMIs, other suppliers of housing finance include Deposit Money banks, Development Financial Institutions, Insurance companies, Pension Fund Administrators and Housing Co-operatives.

Deposit Money Banks (DMBs)

DMBs advance mortgages usually on a short term basis i.e. maximum of 10 years as there is a dearth of long term funds available to on lend. This tenure is incompatible with housing finance, which requires long-term finance with tenures of up to 25 years. Deposit money banks are not willing to invest in long term projects and this has limited their success in housing finance. The primary function of these banks is accepting deposits (short, medium and long-term) from individuals, the private sector, government and granting short term loans and advances. Currently there are only about 4 deposit money banks (out of 24) in the country that are actively involved in mortgage transactions.

Development Finance Institutions (DFIs)

Housing finance suppliers under the development banks include; the Bank of Industry and the Urban Development Bank of Nigeria Plc. They were established to grant loans of up to 25 years, for industrial, commercial, agricultural, infrastructural and housing development. The success of these banks in housing is limited as their focus is mainly industrial, agricultural and infrastructural. In 2008, the Urban Development Bank was privatized. However, there are high expectations from the bank in terms of housing and infrastructural development within the next five years. Other DFIs in the country include the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), Nigerian Export Import Bank (NEXIM) and the FMBN[53]. Apart from the FMBN, these other DFIs do not focus on housing.

[50] See table 3 for income class definition by expenditure
[51] Publication: Housing Finance International; The Role of Primary Mortgage Institutions in Housing Delivery, By Omirin, Modupe M,Nubi, Timothy Gbenga. September 1 2007
[52] Mortgage Banking Association of Nigeria CEOs Retreat held at Transcorp Hilton Hotel, Abuja, November 20-22, 2009.
[53] See section on Federal Mortgage Bank of Nigeria.

Insurance Companies

Life funds are long term savings in the form of annuities and endowment policies enables life assurance companies to invest in long-term capital assets like real estate investments. Available information shows that total insurance business investment in real estate & mortgage between 2002 and 2006 was N45.18 billion (US$ 301 million) which was 20.8% of their total business investment portfolio for the stated period.[54] Mortgage loans by insurance companies are usually to co-operatives of blue chip companies.

Pension Fund Administrators (PFAs)

Pension Fund Administrators (PFAs) collect funds from employers and employees towards their retirement. This gives the PFAs access to long-term funds and puts them in a good position to finance housing development. They are allowed to offer loans on long-term basis to mortgage institutions and building societies. As at December 2008, the pension fund's investment in the real estate sector was N125 billion ($833 million) representing 11.39% of the total assets under management. This amount includes both residential and commercial real estate development. There are indications that PFAs may consider increasing their investment in real estate as a result of the stock market crash.

Table 16: Portfolio of Pension Assets under Management

Asset Class	2008		2007	
	Amount (N'billion)	Percent (%)	Amount (N'billion)	Percent (%)
Ordinary Shares	222.77	20.27	243.74	29.86
Federal Government Securities	350.82	31.92	279.74	34.32
Corporate Debt Securities	15.12	1.38	0.24	0.03
Money Market Instruments	349.69	31.82	186.01	22.82
Mutual Funds	9.03	0.82	4.46	0.55
Real Estate Property	125.13	11.39	79.08	9.70
Unquoted Securities	6.86	0.62	4.43	0.54
Others	19.57	1.78	17.79	2.18
	1,099	**100**	**815**	**100**

Source: 2008 Annual Report of National Pension Commission

Housing Co-operatives

Housing co-operatives have been described as a society that corporately owns a group of houses or flats in which each member participates actively in all matters concerning the estate[55]. Co-operatives of companies buy properties and lease to their members at highly subsidised rates. They are usually organised as social associations but have more explicit commitment to the financial activities of individuals and thus the collective interest of their members (Agbola, 1998). Some of the housing co-operatives in Nigeria are highlighted in Table 17.

[54] National Insurance Commission

[55] Housing Provision in Nigeria the Cooperative Alternative. Danmole, Taibat Olaitan. 2004

Table 17: Housing Co-operatives

Co-operative	Background	Projects
The Owolowo Union	• Formed in Oyo State by three local Cooperative and Credit Societies with over 780 members	• In 1982 the cooperative embarked on a housing project comprising four blocks of four flats each. Flats were allocated through a lottery process. Allottees were to pay a deposit and monthly subscriptions. Loan period was between 10 and 15 years
Exxon Mobil Cooperative	• Members are made up of past and present employees. The cooperative has made an income of over N2 billion from real estate transactions[56]	• The co-operative has a fund for housing loans and development of real estate on commercial basis
NNPC Cooperative Society	• Has over 4,000 members including members from subsidiaries. There is loan ceiling of N5 million and N2 million (US$33,333 and US$13,333) to employees and retirees	• The co-operative recently collaborated with Exxon Mobil cooperative for 250 unit houses in Buena Vista Estate, Lagos
Happy People Cooperative	• Established in 1994 under the technical guidance of the Peculiar People Home Foundation, an NGO based in Ibadan	• Acquired 20 acre land for 75 housing units, nursery/primary school, shopping complex, recreational facilities and multipurpose hall
Urban Housing Cooperative	• Fully established in 1994 and includes serving and retired military officers, civil servants and the private sector	• Purchased land for development of up to 200 residential plots
The Cooperative Multipurpose Society	• Established in 1983, members are staff of the Federal University of Technology Akure	• Acquired land and allocated plots to members
Cooperative Thrift and Credit Society	• The co-operative was established by members of staff of the West African Examinations Council, Lagos as a multipurpose society with investments in housing	• Acquired land in 2002 and divided same into plots for members, however construction has not started

Housing co-operatives create economies of scale benefits for members and fast-track the process of housing completion. Co-operative groups improve access to land where large plots of land could be acquired for housing development.

Personal income and savings

This is the major source of finance for housing in Nigeria. It is also the most preferred option though it may take a longer time to complete building projects. Over 60% of new houses each year in Nigeria are financed by personal income and savings[57]. The interest rate of financial institutions is too high for most individuals and government finance is not readily accessible.

Development finance and international organisations

There are several development finance and international organisations operating in Nigeria. In the first quarter of 2010, FMO (the Netherlands Development Bank) provided a US$10 million convertible debt facility in Nigerian Naira to Abbey Building Society Plc, a mortgage institution in Nigeria. The convertible debt will be

[56] www.emcoop.com
[57] See Survey Report

used to support co-operative housing developments, with construction loans available for small developers as well as mortgage finance for co-operative members.

Other sources

These include NGOs and international aid organisations such as the United States Agency for International Development (USAID) and UN-HABITAT Ideal Habitat Co-Operative Housing Initiatives. Loans given by these organisations are usually for low- to middle-income earners.

5.0 KEY CHALLENGES OF ACCESSING HOUSING FINANCE IN NIGERIA

The Nigerian housing sector has an affordability challenge. Housing delivery is targeted mainly at the middle-high income segment of the population that can either pay cash or access mortgage finance from the banks. The sheer size of the low-income population, however, suggests a crucial growth opportunity for developers and financiers if they are sufficiently innovative. The affordability parameters inherent in the mortgage instrument limit access by the low-income population. These parameters include 20% - 30% equity contribution, maximum tenures of only 10 – 15 years, high interest rate of 22%, etc. Opportunities to address this market are limited by expensive building materials and the lack of local capacity to produce the supply chain components like doors, door knobs, windows, etc. The non-availability of long-term funding for housing development also compels builders of residential accommodation to recover their capital within the shortest possible time. It is in this area that the development of non-mortgage housing finance products, such as housing microfinance, could be very usefully explored. Some of the other challenges to the development of the Nigerian housing market include:

Macroeconomic challenges

Inflation: Inflation in Nigeria is still in double digits[58]. Investors, lenders and borrowers prefer a stable economy where decisions can be taken without trepidation. Apart from inflation, other macroeconomic indices should be kept stable and must continue to improve if the mortgage market is to thrive and become vibrant.

Policy and regulatory challenges

Land Use Act: The Land Use Act of 1978[59] has become an obstacle to making land available for housing. The Act has been blamed for the prolonged bureaucratic process of obtaining the Certificate of Occupancy, the document that confers ownership of the land to the individual from the government. Furthermore, the Act has not guaranteed security of title and cost remains prohibitive while access to titled and registered land is difficult and cumbersome[60].

Taxes, stamp duties and fees: The tax burden on housing development in Nigeria is enormous. Value Added Tax (VAT), which is collectible at various levels of the building process, adds as much as 30% to the total cost of a house. This is exclusive of titling fees and stamp duties. This ultimately puts the sales price of the unit beyond the reach of low income earners.

Property registration: Registering property is generally slow and expensive. However, there has been some improvement since 2008 when the World Bank's *Doing Business 2008* report recorded that reforms had led to a reduction in the time required to complete the process from 274 to 80 days. In the 2010 World *Bank Doing Business* sub-national report, the number of days for processing the governor's consent was estimated to be 52 days. However, it takes only 1 day for the same registration to be done in Singapore.

Financial sector challenges

Insufficient capital base: The inadequate capital base of most primary lenders limits their ability to provide needed finance to meet market demand.

Funding challenges: Funding is a major challenge in the Nigerian housing market. The market is characterised by high interest rates, which are a reflection of the source of funds which is predominantly short tenured (30

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[58] See Macroeconomics section.
[59] See Legal, Policy and Regulatory Framework section.
[60] Kunle Omotola, Real Estate Lawyers Association of Nigeria Land Use Act Summit, Abuja April, 2009.

days, 60 days and 90 days). Mortgage finance where present is structured as variable rate mortgages. Funding challenges lead to affordability issues. Thus, there is a gap between the cost of houses and the income of end users.

Unavailability of secondary market: There is no efficient secondary mortgage market linked to capital markets and institutional investors. This puts enormous burden on PMIs or housing finance institutions to carry the mortgage loans to maturity. Currently, outstanding mortgage loans remain on the books of the PMIs no matter the tenure. This limits the ability of the PMI to originate more loans.

Lack of credit enhancement vehicles: To extend mortgages to low-income levels, there needs to be some credit enhancement like mortgage insurance to guarantee credit risks up to certain loss levels for loans with high loan to value ratios. This may also extend affordability to the low income population as lenders will require smaller deposits if the loan is guaranteed.

Skilled manpower: There is limited capacity for the requisite skills required in the mortgage market in Nigeria. This is explained by the fact that the market has not being in existence for a long time.

Housing sector challenges

High cost of building materials: Nigeria imports about 60% of the building materials required for housing development. This is a key factor for the high cost of houses.

Infrastructure: Infrastructure accounts for about 25 to 30 percent of housing costs. It is a major determinant in the delivery of affordable housing. Government has neglected this area and developers now provide same, thus increasing the cost of houses. This is evident in many gated residential estates across the country, where the developer provides independent/alternative electricity, water treatment plant, sewage plants, access roads to the estate, etc.

6.0 CONCLUSIONS

The structure of the Nigerian mortgage market was evolving until the domestic financial crisis of 2009, which stifled the emerging mortgage market. PMIs have become more engaged in housing development and property trading as a means of survival.

The inadequacy of government's previous policies to address affordability issues is the bane of the housing finance sector. Despite government's inability to meet the housing finance need, the low-income population have been able to access shelter in some form. For example, low-income earners in Ogun State have been able to acquire over $100 million (30,000 plots at US$3,300 each) worth of land over the past three years[61]. On average, these properties have appreciated by more than 20% in value. This shows the potential for a housing microfinance market in Nigeria.

The important role of incremental building for most households in Nigeria is also evident across the country. Government should support what has worked. The major problem with government's policy is that it has not acknowledged that housing can be built incrementally. All attempts by successive governments in addressing the country's deficit have been about completed houses that are unaffordable to the targeted low income group.

Housing co-operatives, however, have been able to deliver housing to members where government and the organised private sector have failed. Housing co-operatives have applied peer pressure to enhance loan recovery since members of the group live within the same community and share a communal life. Their emergence is partly because of the poor economic situation of the country. Housing co-operatives are engaged in land acquisition, processing land title documents and acquiring building materials for their members. The co-operatives facilitate house ownership for their members by giving them housing loans, and constructing housing units (blocks of flats, tenement buildings) for members' benefit. However, the scale of their delivery is minimal compared to the target market. Government should intervene and complete the mortgage sector reforms and provide incentives that will expand the scope of delivery of housing cooperatives.

The NHTF scheme, in spite of the money it has collected from workers so far, has been unsuccessful in rising to the challenge of providing housing finance for Nigerian workers. The scheme is burdened with loopholes that have rendered it ineffective in assuaging the housing needs of workers. A major challenge is that the maximum amount the fund can approve was calculated on the basis of low-income housing but unfortunately there is either insufficient stock available in that price range or the units are simply not affordable.

The Federal Government should mobilise the relevant agencies and parastatals to make available incentives, such as land use reforms, subsidies, building materials, cost reduction programs, and tax exempt status that will ensure increased housing delivery in the appropriate price bracket. Serviced plots should be made available by the government for individuals who may prefer that route, although this may only be in areas where there are no mandatory uniformity in house designs. Housing microfinance can be used for this approach.

Housing microfinance is an interesting innovation appropriate for the Nigerian market. It functions by providing small, short-term loans to match step-by-step housing construction that the lower-income segment can afford. Technical support ensures that people get the best possible housing for their investments. Perhaps the largest such lender is the Grameen Bank in Bangladesh, which has lent for shelter development to over 300,000 of its members. Further cases of using the housing microfinance instruments include Mexico and

[61] See Demand and Supply Analysis in 3.4

South Africa and there are great lessons to be learnt on how these have improved the lives of the people in the low-income sector.

With a population of over 70 million low-income people and an almost non-existent mortgage market, the opportunity for a housing microfinance business model is evident. Both the public and private sectors should look critically at deploying housing microfinance in Nigeria. Interestingly, recent information from the CBN shows that the Microfinance policy in Nigeria is being restructured to allow full-scale housing microfinance business models.

7.0 RECOMMENDATIONS FOR IMPROVING ACCESS TO HOUSING FINANCE IN NIGERIA

Nigeria's housing finance sector depends on the active participation of both the public and private sectors. The following recommendations are broken down into issues affecting (a) Policy and regulation (b) Financial sector (c) Capacity building and knowledge gap (d) Housing sector

Table 18: Recommendations

Category	Challenges	Summary of recommendations
(a) Policy and regulation	• Difficulty in procuring consents for transfers, title deeds and very high processing costs.	• State governments should make administrative amendments to the Land Use Act to delegate endorsement of consent to Commissioners. At the national level, a Director of lands should do this • Simplification of land title registration and revision of procedures and cost structure. Revised fee schedule should be capped at 0.5%. Subsequent land transactions should NOT require Governor's Consent but mere registration of title • Policies and programmes should be aimed at the low income segment focusing on assisting them to acquire, build or improve their homes through easy accessibility to land and securing of title documents
(b) Financial sector	• Lack of access to funds by potential homeowners and PMIs. There also exists absence of synergies for generating construction and mortgage finance	• Housing microfinance for the low-income population is critical and resources should be committed to researching and understanding this emerging sector. There should also be concerted technical assistance programs and housing support services to be administered by the government
	• Low funding base and poor corporate governance of PMIs	• The CBN should direct PMIs to recapitalize to position them to finance big ticket transactions and to provide long term funding to developers and end users. The CBN should also encourage Mergers and Acquisitions among PMIs. • Institutionalize a code of corporate governance in the management of PMIs
	• Absence of secondary market	• CBN should issue a 20-25 year bond in collaboration with the Debt Management Office and use the proceeds to refinance eligible mortgages
	• FMBN's poor capital base	• FMBN should be given adequate resources by the government to strengthen its financial and operational capabilities

Category	Challenges	Summary of recommendations
	• High down payment percentages • Sectoral illiquidity issues • Inadequate investments by pension funds	• Government should provide a form of security to financiers/home buyers, for example securing a percentage of the total amount in case of default through a mortgage insurance scheme. This security should be targeted and removed after a certain period so that the mortgage insurance scheme can operate independent of government. This would help to reduce current down payment percentages required from home buyers. • Development of liquidity facilities framework for refinancing qualified mortgage assets of Deposit Money Banks and PMIs to fund affordable housing • Review existing provisions and allocation framework to allow for more participation of Pension funds in long term finance for housing
(c) Capacity building and knowledge gap	• Absence of data • Lack of trained and skilled housing finance personnel	• The CBN, FMBN, Housing Finance Professionals Association of Nigeria (HoFPAN), CIBN and Mortgage Bankers Association of Nigeria (MBAN) should collaborate to institutionalize training leading to the certification of professionals in the mortgage and housing finance sectors. The National Universities Commission (NUC) should be encouraged to offer courses on housing finance at Universities • A Real Estate Information Centre that will warehouse data and information on the real estate and housing market should be established. The centre will be the repository of market information on key data in the housing sector • Capacity development and training for real estate professionals should be done through local and international training programs, seminars, workshops and study visits
(d) Housing sector	• Infrastructure challenges • Affordability and cost issues	• The Federal Government should set up a Housing Infrastructural Development Trust Fund to provide incentives to participating State Governments to induce provision of housing related infrastructure in their states. • Basic building materials should be given tax and duty relief and government should develop incentives to encourage both the public and private sectors to use indigenous building materials • State and federal governments should engage housing finance experts to develop viable framework for public

Category	Challenges	Summary of recommendations
		private partnership for housing and infrastructure • Government, developers and financiers should work together and come up with strategies that can make housing affordable especially to the low income segment. Strategies may include granting tax holidays to developers and providing free land to them to reduce the cost of producing houses

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ANNEXURE 1: SAMPLE SPLIT OF FIELD SURVEY

Random sampling was done with a sample size of 322. Respondents targeted were the low–income group who are economically active, covering both urban and rural areas. These include carpenters, artisans, security guards, self employed, commercial drivers, civil servants, etc.

Not all the developers work/develop in a single band. Some developers build and sell houses across the low, middle and high income band.

BORROWERS

A1: Sample split - individual respondents (by region)

Sample Split	North-Central	North-East	North-West	South-East	South-South	South-West	Grand Total
Total	**31**	**44**	**49**	**32**	**61**	**105**	**322**
% Total	**10%**	**14%**	**15%**	**10%**	**19%**	**33%**	**100%**
Home Ownership Status							
Do not own a house	6%	13%	12%	10%	18%	28%	86%
Own a house	4%	1%	3%	0%	1%	5%	14%
Grand Total	**10%**	**14%**	**15%**	**10%**	**19%**	**33%**	**100%**
Sector of Employment							
Public Sector	0%	4%	0%	0%	4%	7%	15%
Professional Services	1%	2%	6%	1%	1%	5%	16%
Financial Services	1%	0%	1%	1%	4%	2%	11%
Manufacturing	0%	0%	1%	0%	0%	2%	3%
Oil & Gas	1%	0%	0%	0%	0%	2%	4%
Education	0%	0%	0%	1%	1%	1%	4%
Medicine	0%	0%	0%	0%	0%	0%	0%
Others & Self Employed	5%	6%	6%	7%	8%	13%	44%
Not Specified	1%	1%	1%	0%	1%	0%	3%
Grand Total	**10%**	**14%**	**15%**	**10%**	**19%**	**33%**	**100%**
Annual Income							
Less than $800	0%	0%	2%	1%	1%	1%	5%
$800 - $1 600	1%	3%	5%	2%	3%	5%	20%
$1,601 - $2 400	2%	3%	2%	2%	3%	10%	22%
$2,401 - $3 200	1%	2%	1%	2%	2%	4%	12%
$3,201 - $4 000	0%	2%	2%	1%	2%	2%	8%
$4,001 - $4 800	0%	1%	2%	1%	2%	2%	7%
$4,801 -$5 600	0%	1%	0%	0%	1%	1%	3%
$6,401 - $7 200	1%	0%	1%	0%	1%	1%	4%
$7,201 - $8 000	0%	0%	0%	0%	2%	0%	2%
$8,001 - $12 000	1%	0%	0%	1%	0%	1%	3%
$12,001 -$16 000	1%	0%	0%	0%	1%	1%	4%
$16,001 - $20 000	0%	1%	0%	0%	0%	0%	1%
$20,001 - $24 000	0%	0%	0%	0%	0%	0%	1%
$24,001 - $40 000	0%	0%	0%	0%	1%	1%	2%
Above $40000	0%	0%	0%	0%	0%	0%	1%

Sample Split	North-Central	North-East	North-West	South-East	South-South	South-West	Grand Total
Not specified	2%	1%	1%	0%	0%	2%	5%
Grand Total	**10%**	**14%**	**15%**	**10%**	**19%**	**33%**	**100%**

Age							
Less than 25 yrs	1%	3%	2%	2%	1%	7%	16%
Between 25 - 30 yrs	3%	6%	4%	4%	7%	11%	36%
Between 30 - 40 yrs	1%	3%	5%	3%	7%	8%	27%
Between 40 and 45 yrs	0%	1%	1%	0%	2%	2%	6%
Between 45 and 50 yrs	1%	1%	1%	1%	1%	2%	5%
Between 50 and 60 yrs	1%	0%	1%	0%	1%	1%	5%
Above 60 yrs	2%	0%	0%	0%	0%	2%	4%
Not Specified	0%	0%	0%	0%	0%	0%	1%
Grand Total	**10%**	**14%**	**15%**	**10%**	**19%**	**33%**	**100%**

Gender							
FEMALE	2%	2%	1%	4%	8%	10%	26%
MALE	8%	14%	6%	8%	12%	26%	74%
Grand Total	**9%**	**16%**	**7%**	**12%**	**20%**	**36%**	**100%**

Educational Qualification							
Primary School	2%	3%	3%	2%	2%	3%	15%
Secondary School	3%	3%	5%	6%	3%	12%	32%
Diploma	2%	1%	3%	0%	2%	4%	12%
HND/Bsc	3%	6%	4%	2%	8%	9%	31%
PGD	0%	0%	0%	0%	0%	0%	2%
MBA/MSc	0%	0%	1%	0%	2%	3%	7%
PHD	0%	0%	0%	0%	0%	0%	1%
No Education	0%	0%	0%	0%	0%	1%	2%
Grand Total	**10%**	**14%**	**15%**	**10%**	**19%**	**33%**	**100%**

A2: Sample split – Mortgage institutions

MORTGAGE BANKS	Sample Size (5)

Years in Mortgage Lending	% of Respondents
Less than 10 years	80%
More than 30 years	20%

SUPPLY SIDE

A3: Sample split – Real estate developers

REAL ESTATE DEVELOPERS	**Sample Size (7)**	
Price Range of Housing Units Sold	**% of Respondents**	**Number of Developers Within Price Range**
Less than US$33 400	29%	2
Between US$33 401 - US$66 700	29%	2
Between US$66 701 - US$133 400	43%	3
Between US$133 401 - US$266 700	14%	1
Between US$266 701 - US$666 700	14%	1

Note: Some real estate developers operate within more than one price range of housing units. Total is greater than 100%.

A4: Sample split – co-operative societies

COOPERATIVE SOCIETIES	**Sample Size (2)**
Year of Operation	**% of Respondents**
More than 10 years	100%

SURVEY REPORT

Individuals

From the survey, only 14% of the respondents own one or more houses while 86% do not. The bulk of homeowners are Northerners with houses located in the north (North West, North East and North Central). Although the survey did not probe further, the reason for this may be due to easier access to land or the use of locally made building materials (earth bricks) in the northern part of the country. Among the non-homeowners, 61.5% have worked for less than five years, 29.1% have worked between five years and 15 years, 5.8% have worked between 15 years and 25 years, while the remaining 3.6% have worked 25 years and above. In the case of homeowners, 57.1% have worked 15 years or more, 21.5% have worked for less than five years; and 21.5% between five years and 15 years.

The data shows that majority of non–homeowners have fewer years of work experience (i.e. less than five years), while a majority of the homeowners have worked for 15 years or more. Thus the longer the years of experience, the more the likelihood and ability to own a home; which in most cases is due to the individual's saving capacity over the years.

Current homeowners were asked about the funding arrangement used in acquiring their present accommodation: 60% acquired/financed their home through their personal savings (houses were built incrementally); 23% acquired through mortgages; 8% acquired through gifts; 3% acquired through their pension; 3% acquired through collective thrift (*esusu*) and 3% acquired through borrowing from friends. For non–homeowners, 43% would prefer to save and build incrementally over time; 25% would prefer to buy a new house; 9% would rather buy and renovate an old or uncompleted building; and 23% did not respond. This corroborates the fact that most homeowners in Nigeria acquire their houses through savings.

In addition, respondents were asked about the challenges they face in accessing housing finance in Nigeria. Although 29% of the respondents refused to respond, 37% mentioned insufficient income as a major challenge in securing housing finance; 7% indicated high interest rates; 6% indicated age restrictions when applying for a mortgage loan; 5% blamed it on bad governance; 5% indicated insufficient collateral; and 11% gave other reasons such as overpriced properties, unwillingness of the banks to lend and bureaucratic problems posed by finance houses.

Real estate developers

Instalment payments proved to be the most frequent method offered and used to purchase a house while mortgage payment was the least option offered. One of the developers attested that 90% paid cash to acquire their properties through outright purchase. Real estate developers are not willing to collect payments over a long term as this may delay other planned projects. Thus homes are mostly acquired by the high income earners by instalments over a short period (24 to 36 months) or an outright purchase by cash. Furthermore, 70% of the real estate developers surveyed indicated that the middle- and high-income earners are their current target market; while 30% target the low-income earners. In contrast, low-income housing is most demanded, and this is evidently not being met. For example, statistics from the State of Lagos Housing Market 2009 report reveals that 86% of Lagos residents require houses between N1 million and N5 million (US$6 666 - US$33 333); 9% need houses between N5 million and N10 million (US$33 333 and US$66 666) and 5% need houses between N10 million and N50 million (US$66 666 and $333 333).

In assessing mode of finance by developers, 42.8% obtained funding through bank loans; 28.6% through equity funding; 14.3% through a combination of bank loans and cash from off-takers (buyers who make a deposit prior to completion of unit); and 14.3% through a combination of bank loans and equity. Seventy-five percent of these developers based the rationale for their choice of funds on accessibility to finance, and 25% based their choice on the cost of funds.

Mortgage banks

Apart from the global recession in 2008 and the Nigerian domestic financial crisis in 2009, the survey sought to find out why mortgage applications were declining.

Customer's inefficient property documentation was sighted by 60% of the mortgage banks as a typical reason for refusing mortgage applications. A further 20% attributed refusals to customer's incapability to pay back; while 20% declined to respond. Furthermore, 60% of the mortgage banks interviewed are facing foreclosure problems.

In terms of the banks' default rate: 40% of the respondents indicated default rate of between 20% and 30%, 20% indicated between 10% and 15%, and 40% refused to respond.