

Case Report

Improving Affordable Housing Delivery Through Private Developers in Lagos State

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Abstract: Over the years, increase in population, rural-urban migration and financial incapability of governments have been responsible for huge housing deficits in African cities. As at 2013, the housing deficit in Nigeria was seventeen million units. Lagos, the largest city in Nigeria has a fair share of the deficit going by the number of dwellers which had exceeded twenty million in 2014. Presently many private housing development firms are springing up in Lagos to fill this gap by providing serviced houses and plots in form of estates to the public for sale with various payment plans. The focus of this research is to investigate and propose how the Lagos State Government can institute a synergy with willing private developers to compliment her efforts to alleviate present and future low and medium income housing deficits. Data related to the cost of buildings and serviced plots offered by some private firms including payment plans were collected and literature was reviewed on housing provision. A close ended questionnaire on how the property developers can improve delivery was also administered. The data were subjected to analysis using statistical tools. The data on payment plans did not yield any significance to the number of units achieved by the property developers. The opinion survey gave some trends on the views of the developers towards improving affordable housing delivery. The paper concludes that the government and the private firms can work on the data collected to arrive at a harmonized model through increased funding of existing channels to address the housing deficit in Lagos. The interests of the developers, the public and the government are ultimately protected in the model.

Keywords: Housing Deficit, Affordable Housing, Government Subsidy, Property Developers

1. Introduction

African cities become the new home of over 40,000 people every day, many of whom find themselves without a roof over their heads (IFC, 2016). Urban areas with large populations usually face the challenge of affordable housing. This is particularly prevalent in Nigeria's largest city of Lagos. More than 500,000 people move to the city every year and across Nigeria there is already a housing deficit of more than 17 million units [1]. Lagos is Africa's largest city and its population is expected to double by 2050 [2] putting even more pressure on already limited housing options. Nigeria requires 720,000 housing units annually to

meet the Millennium Development Goal on housing [3]. Lack of affordable housing is a source of distress for families who cannot find a place to live and has negative effect on a community's overall health. A combination of high housing costs and debt levels cause a reduction in savings. This can lead to decreased investment in sectors that are essential to the long-term growth of the economy. Affordable housing crises range from the homeless who are forced to live in the streets to the denial of important working class citizens who are unable to find affordable accommodation near their places of work. The consequence of housing shortage is infrastructural decay, poverty, environmental degradation, declining quality of life and

under-utilization of human resources.

Investment in housing creates employment directly for consultants, technologists, technicians, contractors, subcontractors and artisans in the construction industry and indirectly for suppliers of materials and construction components. Spending money made from construction activities generate further employment. Significant focus on the housing and construction sector is an effective strategy for sustainable economic development.

A major obstacle to affordable housing delivery in Lagos is scarcity of affordable and suitable land. The Land Use Act of 1978 confers ownership of all land on the government which then gives rights of occupancy and tenures of lease to individuals [4]. This is not compatible with mass or affordable housing development [5]. With this act, there are problems with certainty of title, acquisition and perfection of title, government consent to transfer of title, revocation of title and re-certification among others. Land cost which is already high is exacerbated by transfer and perfection costs. Huge capital outlays are also required for housing provision. This is often beyond the reach of the medium and low income groups who are directly impacted by the serious shortage. Recently, the Lagos State Government has tried to improve housing delivery using two official schemes; the Rent-To-Own (RTO) and Lagos Home Ownership Mortgage (Lagos HOMS) schemes. Rent-To-Own is a model where prospective home owners deposit 5%, take possession and pay the balance as rents towards owning the house over a period of ten years. Lagos HOMS is a government initiative to encourage and support home ownership of first time buyers (FTB) who are residents of Lagos to purchase decent homes values through the provision of accessible mortgage finance. The two schemes are priced at existing market values. The low and medium income earners are out priced. An alternative is evidently needed to compliment government effort and make housing more available and affordable. The research investigates how the Lagos State Government can create an enabling environment for the myriad of indigenous developers springing up within the city to take advantage of affordable housing shortage. The focus is on low and medium income housing.

The National Affordable Housing Summit Group of Australia has developed a definition of affordable housing which proposes that such housing should be reasonably adequate in location and standard for lower and middle income households [6]. The cost should not prevent the households from meeting up with their other basic needs at subsistence levels. The most common approach to measure affordability has been to consider the percentage of income that a household spends on housing expenditures. A thumb rule for measuring housing affordability is the rent-to-income ratio approach which proposes that the cost of housing should not exceed twenty-five to thirty percent of monthly income [7]. When the monthly expenses on owning a home is more than 35% of household income, then the housing is considered unaffordable for that family.

2. Housing in Nigeria

The problem of housing in Nigeria in terms of stock and quality has remained persistent. Many government intervention policies and programmes have evolved over time to address the issue [8]. These include: Promoting and energizing Primary Mortgage Institutions (PMIs) to raise funds and loans for housing projects; Reorganization of the Federal Housing Authority (FHA) to focus on social housing; Home ownership scheme for civil servants by monetizing their benefits and give them opportunity to purchase government houses; Reviews of the National Urban Development and Housing Policies in 2004 to ensure that all Nigerians own or have decent, safe and sanitary housing accommodation at affordable cost; Government white paper on the recommendations of the Presidential Review Committee on Housing in 2008. This is an annual target of providing one thousand housing units per annum by each State Government; Urban Development Bank of Nigeria (UDBN) and Federal Housing Authority (FHA) reforms. Recent intervention by the Lagos State Government include Rent-To-Own and Lagos Home Ownership schemes. The First Nigerian National Development Plan (1962-1965) made an effort at housing provision which was principally focused on Lagos. A total of 61,000 housing units were targeted in the breakdown. The Federal Government was able to construct 500 units only to decongest Lagos Island. In 1971, the National Council of Housing was established as a tool for the Second National Development Plan (1970-1974). It was supposed to achieve the housing target of the first National Development Plan by providing 59,000 units Nationwide. 15,000 units were to be provided in Lagos State and 4,000 units each for the 11 state capitals. In 1976, the Nigerian Building Society was renamed the Federal Mortgage Bank to fast-track access to housing funds for Nigerians. In 1977, the Federal Government set a target of 2,000 housing units annually for each of the 19 states and Abuja to be able to meet up a projected 160,000 units by 1983. Target achievement by 1983 was about 15%. A ten man committee founded in 1986 led to the formation of the National Housing Policy in 1991 with the slogan "Housing for all by the Year 2000AD". A target of 8 million housing units was set for the programme as the projected housing need for the country. When the goal was not met, the policy was reviewed in 2006 with more emphasis on private sector participation and provision of incentives instead of direct federal participation in housing provision. Till date, affordable housing still remains out of the reach for a vast majority of Nigerians. [9] Resolved that Nigeria with a population of 174 million people was facing a national housing deficit of about 17 million units.

3. Methodology and Survey Results

Literature review was carried out on housing, housing provision and efforts by the government, including Lagos State Government to solve the problem of affordable housing deficit. There are 87 registered real estate property developers

in Lagos State [10] under the Real Estate Development Association of Nigeria (REDAN). A cursory look into their websites revealed that only 32 of them are offering properties for sale during the time of the investigation. The sample size was calculated on the thirty-two companies. The general formula for calculation of sample size for a finite population where the outcome of responses can't be predicted was used to determine how many property development companies will be visited.

$$n = N / (1 + [(N - 1) / N])$$

Where n is the desired sample size and N is the population size.

Data were collected on the asking prices of buildings and serviced plots and payment plans from 16 indigenous private developers within the state. The range of figures for the initial deposits payable, the monthly installment payments and the total cost of the units were collected and the central tendencies were deducted. The relevant percentage of the total cost of

property that is payable as initial deposit was also computed for each of the units around Lagos State. The payment periods, extrapolated to yearly basis, were also collected for analysis. The data were checked for bivariate and multivariate significance at ninety-five percent confidence level, using different models. The data were analysed to provide and develop guidelines for regulation of property developers with government input to achieve affordable housing. Opinion polls were also collected from the property companies on the relevant measures to make housing more affordable. Three hundred questionnaires were distributed to the office staff and field workers of the companies to give a more inclusive opinion poll. Direct government subsidy of the housing units, lower bank and mortgage interest rates for the developers and better accessibility to property titles (including building plan approval) were the major options provided. The results were tabulated to obtain the statistical levels of central tendencies for discussions and proposal.

Table 1. OPINION POLL ON MEASURES TO MAKE HOUSING MORE AFFORDABLE.

Variable	Mode	Categories	Frequency	Proportion (%)
Increased output	Government subsidy	Lower interest rates	22.000	7.383
		Government subsidy	137.000	45.973
		Title accessibility	31.000	10.403
		No Idea	52.000	17.450
		Other Reason	56.000	18.792
Longer duration	Lower interest rates	No Idea	55.000	18.456
		Government subsidy	63.000	21.141
		Lower interest rates	92.000	30.872
		Title accessibility	41.000	13.758
		Other Reason	47.000	15.772
Lower instalments	Government subsidy	No Idea	53.000	17.785
		Government subsidy	86.000	28.859
		Lower interest rates	69.000	23.154
		Title accessibility	55.000	18.456
		Other Reason	35.000	11.745
Lower costs	Government subsidy	No Idea	53.000	17.785
		Government subsidy	101.000	33.893
		Lower interest rates	71.000	23.826
		Title accessibility	59.000	19.799
		Other Reason	14.000	4.698
Faster delivery	Title accessibility	No Idea	53.000	17.785
		Government subsidy	58.000	19.463
		Lower interest rates	59.000	19.799
		Title accessibility	79.000	26.510
		Other Reason	49.000	16.443
Lower deposits	Government subsidy	No Idea	46.000	15.436
		Government subsidy	140.000	46.980
		Lower interest rates	34.000	11.409
		Title accessibility	57.000	19.128
		Other Reason	21.000	7.047

Source; Author (2020).

The data collected on the amounts being paid as initial deposit and monthly installment were subjected to correlation tests with the number of units provided. Bivariate and multivariate tests using the General Linear Model yielded no significant relationships. Pearson's correlation coefficients for the data were also obtained. There was no significance at 0.05 level for any of the dependent variables. The duration of payment was also subjected to similar tests singularly and the

combination of all the variables. No significant relationship was established. In essence, the initial deposits, monthly instalments and the tenure duration of the packages being provided by the property developers have no relationship with the number of units attained. The approach of manipulating the variables to increase the number of units provided in improving affordable housing cannot be used. The responses from the questionnaire were also examined to establish the

variables that can have more impact on affordable housing. The responses from the developers lend more credence from the modal values obtained that government subsidy will increase housing units achievable, lower initial deposits, monthly instalments and initial deposits. The subsidy increases the capital available for the developers who can in turn provide more units and relax the payment terms being packaged for the clients. From the responses, lower interest rates have more effect on the duration of payments while accessibility to title documents and approval will only accelerate delivery of the housing units. Given this general trend, it is obvious that the property developers believe that government subsidy remains the key factor for improving affordable housing provision in Lagos State. Interest rate reductions will also enhance delivery but may be difficult to achieve within the national economic policies. Interest rates are regulated by the federal government. The state can only intervene by reducing mortgage interests in its own mortgage institutions. Interest rates reduction across board for only property developers is not feasible. Fast tracking accessibility and building plan approval is a continuous exercise being carried out by the government. More impetus can be given to the exercise for the benefit of property developers and all property owners within the state.

4. Discussion

To improve delivery of affordable housing will have to involve some far reaching measures. Proposals have been given to reduce housing cost provision by developing cheaper materials [11] and using intermediate or cheaper technology for construction [12] as major inputs in achieving affordable housing in Nigeria. Other proposals support the increase of housing provision in numbers to improve affordable housing [13]. It is expected that the forces of demand and supply will improve affordability with increased supply. [14] took a position that the bureaucracy and bottlenecks in securing access to proper title and getting building plan approval were major hindrances to provision of affordable housing in Nigeria. There are also postulations that the cost of funds and prevailing interest rates strongly affect the provision of affordable housing [15]. While the official interest rates for mortgage housing stands at five percent (5%), the official rates for banks is twelve percent (12%) [16]. The interest rates offered by commercial banks in Nigeria as at the time of the research range between twenty-three and twenty-six percent (23% – 26%). Financial institutions in Nigeria have limited their lending operations to short term loans with high credit quality in order to reduce potential losses that are synonymous with commercial lending in the banking system [17]. While mortgage repayments could tarry for thirty years in developed economies, the maximum repayment period in the study is just four years. Repayment period and monthly installments payable are interdependent. The property development companies in Lagos access their borrowed capacity from commercial banks and other private financial institutions. The Federal Mortgage Bank (FMB) and the Lagos Building

Investment Corporation (LBIC) that offer mortgages at lower interest rates with longer repayment periods are more accessible to civil servants and working class individuals. The volume of the initial deposit paid is usually higher than the monthly repayments. The developers depend on the lump sum to amortise a considerable amount of the total thereby reducing the risks on their investment.

The data collected from private developers indicate that smaller living units of one to three bedrooms are being provided for the beneficiaries. Very few units of four-bedroom apartments are available in areas within the metropolis. Majority of the schemes are located far from the metropolitan city. The tenure for offsetting the cost of the units range from six months to four years. The initial down payments charged to secure a purchase agreement varies from three percent to sixty percent. There are no government regulated guidelines within which the private property developers operate. Each entity has designed its scheme to attract patronage and make profit. They are self-financed and sometimes depend on high interest loans from the commercial banks. This interest is built into the property cost and defaulters in the monthly subscriptions are charged huge penalties. The official minimum wage in Nigeria is thirty thousand naira per month [18]. From the field data, the lowest monthly installment for a single room apartment on a quarter plot is about 300% above the extrapolated amount payable for affordable housing with respect to the national minimum wage. Such a monthly salary is beyond most Nigerians with about seventy percent of the population living below the poverty line. The total number of units at different stages of construction by the firms investigated is 2,186. Over 10% of Nigerians live in Lagos [19] and the target provision of housing units should be reflected in the units being provided by the developers, private individuals and the government. The need to enhance delivery of the units and make them affordable is very challenging.

Government subsidy is possible if the authorities have enough funds to sponsor such a programme. The Federal Government is already subsidising housing through the Federal Housing Authority (FHA). Lagos State also subsidises housing through Lagos State Development and Property Corporation (LSDPC). The impact of these bodies on the general housing provision is minimal [[20], [21]], going by the ever increasing housing shortage being experienced. Government subsidies can be explicit or implicit. It is explicit where the government makes direct financial interventions and implicit when the government uses other means whose values can be quantified in cash like incentives and rebates to achieve its objectives. Whatever measures are proposed must guard against abuse and curtail expected sharp practices by initiators and beneficiaries.

The state government already subsidises education and health care. These sectors of the polity are underfunded. Any direct financial intervention in the housing sector may eventually lead to underfunding like the others. It is better to evolve an indirect model to subsidise housing through the private developers to improve delivery. One of the common implicit devices that the government uses to subsidise

housing through private investors are mortgage bailout guarantees. The model has been deemphasized over time and in some instances described as regressive [22] and of little impact [23]. The major reason for the rejection of the model is the increased rates of foreclosure in the instances studied. Since the two extremes of government funding have been examined and may not be entirely suitable in the context, other models and existing procedures can be enhanced to improve delivery of affordable housing. The Lagos Building Investment Corporation (LBIC) which was established in 1980 as a state funded mortgage bank has been giving mortgage loans at very low interest rates and more flexible payback periods to individuals. Property developers are unable to have better access to the loans due to the limits placed per transaction. Colossal sums of money will be required to finance housing if the targets for affordable housing delivery must be met. Since the LBIC has been operating for forty years at profit with minimal recourse to the state government for bailouts, it can be used to indirectly subsidise housing delivery through the property developers for improved affordable housing. It may involve a fresh funding of the body by the government to be able to meet up with the level of financial demands of private developers to execute much larger projects. The funds can be raised from international financiers at very low interest rates. It can be given to the LBIC at a marginal increase on the rate of about 0.25%. The LBIC already has a system of obtaining collaterals for its loans. The property developers should register with LBIC to access the loans which will be issued in a revolving manner among the participants. The access to larger funding will eventually increase the number of units delivered, lower the amounts charged for initial deposits and monthly instalments and increase the duration for payment for the units. With a much larger level of supply, the prices of the units will adjust to the supply levels by virtue of market forces. The property developers will also be inspired to develop design and construction models that are more competitive to attract patronage.

5. Conclusion

The persistence of affordable and decent housing deficit in Lagos despite government's past and recent efforts indicate that government alone cannot fill the gap of current and future deficits. The evolution of private developers to provide houses and serviced plots for sale at various costs and payment plans is a clue to solving the housing crisis. If the Lagos State Government can institutionalize an affordable housing and serviced plots provision model that aligns the interests of these indigenous private developers, potential house and plot owners and the government, this gap will be greatly reduced. An indirect subsidy of housing through greater funding of the existing state mortgage institution will provide larger volumes of funds at lower interest rates. This will ultimately increase production and lower costs for improving affordable housing.

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