Assessment of Financing Options for Housing Project Development in Lagos State, Nigeria

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Abstract— *Housing project financing in Nigeria is crucial, hence there is need to assess the various financing options for housing projects. The study examines the factors affecting the supply of finance on housing projects. The study also evaluates the factors affecting housing finance in a developing economy. The study reveals the impact of Nigeria financial system in lending out loans for housing projects in Nigeria. A total of 105 questionnaires were administered to various respondents in the construction sector and some financial institutions out of which sixty-six were retrieved and found suitable for analysis. Mean score ranking was used for data analysis. The study revealed that the major finance options for housing projects include consortium/syndicated loans, government grants, bank borrowing, personal savings, retained earnings, mortgage institutions, equity capital, debt factoring etc. The factors affecting the supply of finance on housing projects include regulation and monetary policies, inflationary expectations, efficiency of the financing system, level of economic activities, structure of the financial system and public- sector deficit. It is recommended that contractors, clients and property developers should know the various requirements and means to source for finance for housing development projects in Nigeria.*

Keyword— Finance options; Housing development; Housing finance

1 INTRODUCTION

Construction is one of the most important activities in any economy. Large chunks of national resources are usually used in the provision of infrastructures, thus this sector plays an important role both in production and provision of services to the community. These infrastructures include buildings, bridges, dock, lands, airfield and host of other structure created to provide mankind with goods and services. Creedy [1] opined that the industry have common characteristic stemming mainly from physical nature of the construction product and its demands. Furthermore, finance may be described as the pivot around which other construction resources revolve. Since without it, it will be difficult to obtain other resources.

Hence, whenever housing projects are initiated by building contractors or clients, the problem of ensuring adequate financial requirement to complete the design, commence construction, and ensure smooth operation on site through to completion remain very glaring. Without adequate provisions for these financially, there will be budgetary difficulties, cash flow constraints that often lead to disputes and abandonment of projects [2]. In Nigeria, most housing projects require a commitment of huge amount of resources in form of money, materials, machine, and manpower. Of these four resources, money which may be described as the financial requirement play the pivotal role since other resources will hinge and revolve around it. From the conception of any housing project, arranging for financing is the first and paramount necessity of client and/or the contractor . In Keatsy & Waston's study (as cited [3], have all identified the difficulties in obtaining the required finance as a major constraint in a developing country like Nigeria. Akintoye and Fitzgerald [4] carried their argument further by posing conceptual model for financing small contractors in developing countries.

1.1 The Needs of Financing Housing Projects

The need for project funding arises from the fact that the scope of most projects demands fairly large sums of money, which are usually beyond the means of the project sponsor. Thus, there is the need to develop financial packages that would assist the sponsor to realize the project objectives and plan [5]. In Nigeria as in most developing countries; project funding is necessitated as a result of inflation problems which give rise to fluctuations and cost overruns. Regulatory policies which arise from changes in government laws can sometimes pose problems of funding a project and includes such thrusts as import duty, excise duty and other forms of tariffs and interest rates.

1.2 Characteristics of Financing Housing Projects

Characteristically, no one party alone assumes the full responsibility of a project; rather project financing is made possible by combining undertakings and various kinds of guarantees by parties who are interested in a project. Pandy's study as cited in [6] articulated these attributes and posited that typical project financing package is noted for having a separate project entity created which receives loans from lenders and equity from sponsors. Debt services and repayments are entirely dependent on the projects' cash flows. Project financer's risks are entirely covered by the sponsor's guarantee. Third parties like suppliers, customers, government and sponsors commit themselves to share the risk of the project. The financing plan is therefore made sufficiently flexible to tap the most advantageous period in capital and financial market.

1.3 The Nigerian Financial System

The establishment of Central Bank of Nigeria (CBN) in 1959 effectively marks the beginning of formal and organized financial system in Nigeria. Before then, corporations operating in Nigeria could not raise capital for their operations while the surplus funds of financial intermediaries had to be invested in off-shore ventures. The CBN has since championed the process of the development of an efficient financial market through appropriate monetary policy instruments [7].

The Nigerian financial market can be broadly divided into two parts, the formal market system and the informal market. The formal system predates the colonial era and has refused to be totally eclipsed by the rather domineering informal market due to the inefficiencies in the formal system [8]. The formal system which understandably predominates the financial system comprises the money market and the capital markets. The money market deals with short term funds while the capital market takes care of long term finance.. The financial market can also be categorized into two segments which are the primary and the secondary segments. The primary segment of the market deals with fresh funds while the secondary segment provides liquidities to lender. It is important to note here that the formal system is highly regulated, supervised and controlled by several institutions including the Central Bank of Nigeria, the Securities and Exchange Commission (SEC), Nigerian Deposit Insurance Corporation (NDIC) and the Nigeria Stock Exchange (NSE). The major players in the money market are the Central bank, the Deposit money banks (DMBs) and discount houses. In the capital market, the major players are the private firms, development finance institutions (DFIs), and the Securities and Exchange Commission (SEC).

1.4 Factors Affecting the Supply of Finance on Housing Projects in Nigeria

Generally, the supply of loanable funds in Nigeria has been low as evidenced by the low level of aggregate saving to GDP. The supply of loanable funds have been constrained by low disposable income, low deposit rates, vis-a-vis the yield for alternative investment, a low level of banking habit and the existence of a large informal market. The demand for loanable funds in Nigeria has been significantly influenced by the fiscal operations of the government which have consistently relied on the banking system to finance their budgetary deficits leading to crowding out of developers of constructed facilities. Some of the factors that affect the supply of finance in housing projects in Nigeria are public-sector deficit, private savings, regulatory and monetary policies, level of economic activities, inflationary expectation, structure of the financial system and efficiency of the financial system.

1.5 Methodology

The methodology adopted for the study involved the use of a relevant research instrument which was administered to the various targeted respondents under the survey.

1.5.1 The Sampling Frame

The adequacy of a sample is known by how well it represents the whole population of participants from which the sample is intended to be drawn. The sampling frame is as shown in Table 1 below.

Table 1: **Sampling Frame of Respondents**

	Respondents	Number
1	Financial Institutions	49
2	Property Developers	25
3	Contractors	15
4	Sub-Contractors	25
	Total	105

1.5.2 Sample Size

There are several approaches to determining the sample size. These include using a census for population, imitating a sample size of similar study using published tables and applying formulae to calculate a sampling size. A census is attractive for small population e.g. 200 or less, although cost considerations make this impossible for large population. This research work adopted the formal method because of the large study population. The sample size in respect of the various categories of respondents was determined from the following formulae.

$$n = \frac{n^1}{\frac{1 + n^1}{N}}$$

Where n = sample size
N= Total population. The sample size for the study population is as shown in Table 2.

Table 2: **Sample size of Respondents**

	Respondents	Number
1	Financial Institutions	22
2	Property Developers	19
3	Contractors	12
4	Sub-Contractors	13
	Total	66

1.7 Method of Data Presentation and Analysis

Generally, the procedure and method employed in the analysis of data include a percentage representation of the opinion of the respondents collected through the instrument (questionnaire).

Mean score: This is the arithmetic average of the set of responses. It is calculated by summing all responses and dividing by the number of responses, possible score can range from 0 to 10.

$$\text{Mean score} = \frac{\sum Fx}{EF}$$

Where:
F= frequency
X=Ranking value
Where the likely score
5= Very important; 4=Important; 3=Neutral; 2= Fairly Important; 1=Not important

Mean score = $\frac{(Fx5)+(Fx4)+(Fx3)+(Fx2)+(Fx1)}{FX}$

The analysis of the responses under the survey is as indicated in the tables below

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Table 3: **Identified Sources of Financing Housing Projects in Nigeria**

	Identified sources	5	4	3	2	1	Total	Mean Score	Rank
1	Loans/Syndicated/Consortium loan	25	20	16	3	2	66	3.95	1
2	Government Grants	23	18	19	4	2	66	3.85	2
3	Bank Borrowing	23	21	8	10	4	66	3.85	4
4	Personal Savings	20	19	18	5	4	66	3.7	4
5	Retainrd Earnings	18	19	21	6	2	66	3.68	5
©	Mortgage Institutions	25	10	18	7	6	66	3.62	6
7	Traditional Loan	14	19	5	20	8	66	3.47	7
8	Equity Capital	18	20	5	19	4	66	3.44	8
9	Debt Factoring	10	25	15	10	6	66	3.35	9

Table 3 reveals the major sources of financing housing projects in Nigeria. From the result, loan/syndicated/consortium loan was ranked first with a mean score of 3.95. This was one of the major sources of financing housing projects identified by respondents from the field. This is closely followed by government grants, bank borrowing, personal savings and retained earnings with a mean score of 3.64. The least identified sources include mortgage institutions with a mean score of 3.62, traditional loan, equity capital and debt factoring with a mean score of 3.35.

Table 4 **Identified Factors Affecting Housing Finance in Developed Economies**

	Identified Factors	5	4	3	2	1	Total	Mean Score	Rank
1	Advancement in information Technology with financial Innovation	28	20	10	2	6	66	3.94	1
2	Broadened mortgage Contracts	27	24	4	5	6	66	3.92	2
3	Funding sources for lenders	19	15	17	11	4	66	3.52	3
4	Macroeconomic trend and Development	20	10	14	20	2	66	3.39	4
5	Deregulation and financial Liberalization	18	14	16	8	10	66	3.33	5

Table 4 shows the identified factors affecting housing finance in a developed economy with advancement in information technology with financial innovation ranked first with a mean score of 3.94. This is closely followed by broadened mortgage contracts, funding sources for lenders, macroeconomic trend and development as well as deregulation and financial liberalization with a mean score of 3.33.

Table 5 **Identified Factors Affecting Housing Finance in Developed Economies**

	Identified Factors	5	4	3	2	1	Total	Mean Score	Rank
1	Regulation and Monetary policies	28	20	10	2	6	66	3.94	1
2	Inflationary expectation	27	24	4	5	6	66	3.92	2
3	Efficiency of the financial System	20	19	18	5	4	66	3.70	3
4	Level of economic Activities	18	19	21	6	2	66	3.68	4
5	Private savings	19	15	17	11	4	66	3.52	5
©	Structure of the Financial system	18	20	5	19	4	66	3.44	6
7	Public sector deficit	20	10	14	20	2	66	3.39	9

Table 5 shows the identified factors affecting the supply of finance on housing projects. Regulation and monetary policies is ranked first with a mean score of 3.94. This is closely followed by inflationary expectations and efficiency of the financial system with a mean score of 3.70. Others are level of economic activities, private savings, structure of the financial system and public- sector deficit with a mean score of 3.39.

CONCLUSION

The study has been able to discover the various financing option for housing projects in developing economies like Nigeria. The study centers on various ways the government, private organizations as well as public and corporate clients could generate funds for housing development taking into cognizance the peculiarities of each of the financing options available for the purpose. It is envisaged that this will be for the overall enhancement of provision of relevant infrastructural facilities as well as the sustained growth of the construction industry.

1.9 Recommendation

Based on the summary of findings and conclusion, it is recommended that since the study have been able to identify major sources of financing housing projects, it is important therefore that contractors, sub-contractors, property developers etc should evaluate and subsequently harness the available finance options by satisfying the stipulated requirements for housing development in Nigeria.

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