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Housing Deficit in Nigeria: Issues, Challenges and Prospects

Prof. Akpan Ekpo *

I. Introduction

Housing is important to the development of any society, and it has both economic and welfare effects. Economically, investment in housing contributes to fixed capital formation, employment and substantial backward and forward linkages with the rest of the economy. Its welfare effects include shelter for the populace, access to health and educational facilities. Improved access to health and education services as well as employment opportunities may lead to higher productivity and income for poor families.

Provision of adequate and quality housing units is one of the roles of any government since housing is one of the human fundamental needs. This indicator signifies, among other factors, the standard of living of a country's populace. It can also be used to measure the economic viability of a nation. Housing deficit, when left unabated, could lead to increase in crime, outbreak of diseases, unaffordable house prices, poor standards of living as well as high mortgage payments. Due to this, the United Nations (UN) advocated for the adoption of Goal 11 globally. Goal 11 was targeted to capture a holistic perspective of the housing sector, with a view to achieving quality and affordable housing units for all by 2030. According to the Programme, a high-quality housing sector is one of the benchmarks for socioeconomic growth and development.

In Nigeria, majority of cities are fast becoming homes to scores of individuals due to influx, rapid-growing population and rapid urbanisation, among other factors. With this trend, there has been increase in the demand for houses across the country. The housing deficit crisis in Nigeria has worsened in recent times with the statistics showing a deficit of at least 17.0 million. There has been a steady rise in the housing deficit, from 7.0 million in 1991 to 14 million in 2010. From the report of the World Bank in 2018, Nigeria requires about 700,000 housing units annually, spanning through a 20-year period to accommodate the rising population. This is highly unattainable with current indices, coupled with the sluggish growth of

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housing sector in Nigeria. With a population of approximately 197 million (World Bank, 2019), coupled with high demand in housing units, both in quantity and quality, there is need to seriously address the issue of housing deficit in Nigeria.

Several scholars have examined the link between housing deficit and growth in the Nigerian economy (Anugwom, 2001; Olotuah & Taiwo, 2013; Adedayo 2015; Gemade 2014; Asojo, 2010). From a macroeconomic perspective, housing, that is, residential construction remains a potent component of investment demand. This paper, therefore, briefly examines the issues, challenges as well as prospects in the Nigerian housing sector. Following the introductory section, section 2 provides stylised facts about the real estate sector in Nigeria; section 3 investigates the challenges facing the housing sector in Nigeria, as a foundation towards proffering viable policy options in eradicating the housing deficit in the country. Section 4 provides the policies capable of curbing housing deficit in Nigeria, while section 5 discusses the prospects. Section 6 concludes the paper. It is expected that our insights would throw more light on the subject matter.

II. Housing Sector in Nigeria: Stylised Facts

II.1 Regulatory Framework

There are several key players and legislations whose activities control or regulate the housing sector in Nigeria. These key players in the Nigerian housing sector include; Federal Ministry of Lands, Housing and Urban Development, Central Bank of Nigeria (CBN), Financial Institutions and Property Developers, the Securities and Exchange Commission, Nigerian Institution of Estate Surveyors and Valuers (NIESV), Nigeria Institute of Architects (NIA), Nigerian Institute of Town Planning (NITP), Nigerian Institute of Quantity Surveyors (NIQS), Nigerian Institute of Building (NIOB), and Nigerian Society of Engineers (NSE).

There are a number of legislations in existence in the Nigerian housing sector. These include; the Central Bank of Nigeria (CBN) Act, the Federal Mortgage Bank Act, the Banks and other Financial Institutions Act, the Land Use Act, the Mortgage Institutions Act, the National Housing Fund Act, the Trustee Investments Act, the Investments and Securities Act, the Nigeria Social Insurance Trust Act, and the Federal Housing Authority Act. All things being equal, a proper administration of these Acts by the key players in the sector is expected to result in the provision of quality and affordable housing in Nigeria.

II.2 Housing Policies in Nigeria

Nigeria has embarked on several housing policies in order to provide adequate housing for the teeming population. A brief overview of various housing policies adopted in Nigeria through the years, as well as their accomplishments include:

II.2.1 National Development Plan (NDP 1) (1962-68)

The Housing Policy adopted under the NDP was designed to specifically address housing, as part of industrial estates, land acquisition and town planning. The blue print proposed to provide 24,000 housing units. However, the Programme could not achieve its objectives due to the outbreak of the Nigerian civil war. Only 500 units were built by the Federal Government. This, thus, created a wide deficit in the targeted housing units.

II.2.2 National Development Plan (NDP 2) (1970-74)

Under NDP 2, the federal and state governments proposed to construct housing units for rent, at affordable prices. It was proposed that 54,000 housing units would 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 Programme did not achieve much due to bureaucracy in government. The Federal Housing Authority (FHA) did not commence operation until 1976, thus, crippling the goals of the Programme during the period.

II.2.3 National Development Plan (NDP 3) (1975-80)

Under the NDP 3, the government established the Ministry of Housing, National Development and Environment with the primary responsibility to provide quality and affordable housing units. A total of ₦1.83 billion was allocated to the housing sector. It was proposed that a total of 202,000 and 46,000 housing units would be provided annually by the Federal and Lagos State governments, respectively. The Plan also proposed that 12,000 housing units would be built annually by Kaduna State government, as well as 8,000 housing units in the remaining state capitals. With the huge capital obligations, only 28,500 housing units were completed under the Programme.

II.2.4 National Development Plan (NDP 4) (1981-85)

NDP 4 was designed to provide 2,000 housing units annually in each of the 19 states of the Federation, with a lump sum of ₦1.6 billion allocated to the housing sector. But the Programme was relatively inefficient, with only 47,200 housing units completed during the period of the programme.

II.2.5 National Housing Policy (1991)

The 1991 National Housing Policy was intended to ensure that all Nigerians own or have access to decent housing accommodation at affordable cost by the year 2000. The objectives of the Policy include:

- To facilitate the mobilisation of funds for the provision of houses for Nigerians at affordable prices;
- To ensure constant supply of loans to Nigerians for the purpose of building, purchasing and improvement of residential houses;
- To provide incentives for the capital market to invest in property development;
- To encourage the development of specific programmes that would ensure effective financing of housing development for low-income workers; and
- To provide long-term loans to mortgage institutions for on lending to contributors to the Housing Fund.

The Fund was to be subscribed through mandatory contribution of:

- 2.5 per cent from every Nigerian earning an income of ₦3,000 or more per year as either paid employee or self-employed person;
- 10.0 per cent of commercial and merchant banks loans and advances;
- A minimum of 20.0 and 40 per cent of non-life funds and life funds respectively of Insurance Companies; and
- Adequate financial contribution from the Federal Government

In order to achieve this feat, the Programme encouraged the participation of the private sector in the housing sector as well as enhanced investment in the sector. It was proposed that by 2000, a total of 8,000,000 housing units will be attained at the rate of 700,000 housing units annually. As plausible as the programme was, there was no visible impact on the economy, thus it was overhauled.

II.2.6 National Housing Programme (1994-1995)

Under this Programme, it was proposed that 121,000 housing units were to be constructed for all income groups. The nine newly created states in Nigeria was to have 5,000 housing units each, while the other 21 states shared 76,000 housing units. As in the case of previous housing programmes, it failed to deliver on its promises. Only 1,014 units were completed under the Programme. The Nigerian government also adopted the National Housing Policy (2002) which led to the creation of the Federal Ministry of Housing and Urban Development. Even with

the adoption of the Nigerian National Housing Policy (NHP 2006), there is still huge housing deficit in Nigeria.

III. Issues in the Nigerian Housing Sector

Nigeria has experienced tremendous growth in its housing sector, as captured by the real estate sector, with the housing market estimated to have grown to about 20.0 per cent in terms of asset prices. However, the housing sector in Nigeria still accounts for only 3.0 per cent of Nigeria's GDP and the current housing construction stands at about 100,000 units a year for a country of over 190 million people (Agbugah-Ezeana, 2019). Figure 1 shows the trend in the growth of the real estate sector between 2015Q1 and 2019Q1.



Source: NBS various years

The figure clearly attests to the dismal growth performance of the real estate sector. The growth rate stood at a marginal 0.93 per cent in the first quarter of 2019.

With regards to the housing sector, the government has not been proactive in terms of policy formulation. For instance, in the face of high housing deficit, the government expended only 2.0 per cent of its total expenditure in the housing sector (NBS, 2012). In addition, of the ₦18.5 billion allocated to the Ministry of Lands, Housing and Urban Development, only a marginal ₦13.5 billion was allocated for capital expenditure on housing and urban development (CAHF, 2014). Further, most new housing construction were meant for the upper income households, leaving an acute housing shortage for middle- and lower-income households. The greatest need for affordable housing is lower income

households in urban areas. Almost 50.0 per cent of the Nigerian population lives in cities and about 80.0 per cent lives in substandard conditions (World Bank, 2016).

In the consideration of housing deficit in Nigeria, the following issues must be given adequate consideration:

- infrastructure and service provision;
- construction costs;
- labour skills;
- finance;
- disposable income; and
- access to land, etc.

IV. Nigeria Housing Sector

IV.1 The Need for Increased Government Intervention

In spite of government's intervention in the housing sector, there is an acute problem of housing availability, accessibility and affordability without corresponding actions to match the demand and call for urgent collaboration among stakeholders (Ihuala-Maduenyi, 2019). The need for increased government intervention is derived from the imperfections of the housing sector, the protection of vulnerable group(s) and the provision of an enabling environment for the sector to flourish. The imperfections of the housing sector emanate from the peculiar characteristics or unique features of the sector, differentiating its operations from other markets.

The unique characteristics of the housing sector which necessitate increased government intervention include the following:

- a) **Product Heterogeneity:** Housing is a highly heterogeneous good which differ in sizes, amenities, quality, age, location as well as conditions of occupancy. It makes these goods highly volatile in evaluating and pricing unlike other economic goods.
- b) **Transaction Cost:** The product has a high transaction cost (legal charges, survey fees, and others). This feature discourages mobility and limit response to prevailing market conditions.
- c) **Externalities:** The conditions as well as the pricing policy of housing have far-reaching consequences. It extends to the operation of the general society. It affects education, employment, health, security as well as the quality of life of the citizenry. Thus, housing involves more than provision of shelter for the population. It lies in the very fiber of the society.

- d) **Durability:** Unlike most goods, the life span housing units extends even beyond that of its owner(s). It is both a short- and long-term investment item due to its longevity.
- e) **Low elasticity of supply:** Owing to the complexity and variability of the product, housing has a relatively lower elasticity of supply. If left to the market forces, the supply of the product will be low. In the same vein, a sudden change in demand for the product will affect its price rather than its supply.

IV.2 Challenges of the Nigerian Housing Sector

There are various challenges which the housing sector in Nigeria faces. These challenges are the main causes of aggravating housing deficit, which the nation has encountered through the years. The challenges include:

- a) **Land Tenure System** - There is high insecurity in the current land tenure system being operated on in Nigeria, with the Land Use Act vesting the title to all lands in a State, in the hands of the State Governor who holds same in trust. The Act gives the Governor the mandate to reserve the right to revoke title to any land under his jurisdiction for public purpose. This Act has resulted in low investment on the part of property developers who constantly entertain fears about investing in housing. In the long run, the effect is felt in increased deficit in the housing sector.
- b) **High cost of infrastructure** - High cost of land infrastructure is a serious challenge to provision of housing both by the private and public sectors. This instance is further worsened if the land is located far from other building facilities. In most cases, investors are required to fully bear the high investment cost of provision of water and road infrastructure to the new site. This trend will significantly affect the final price of the land and ultimately the cost of the housing unit, thus affecting the affordability of the facility.
- c) **Bureaucracy in Government** - Cumbersome Legal and Legislative frameworks for land acquisition. The housing sector faces numerous bureaucracies in the process of land acquisition and titles. Such bureaucracies include availability, affordability and the ease of acquisition. For example, it may take up to five years to acquire a certificate of occupancy (C of O) from the governmental authorities in charge of issuing such documents. In addition, the cost of registering a mortgage has also skyrocketed. These have negatively

affected the ease of building more housing units in Nigeria, since the bureaucracies in the process will limit the quantity and affordability of such structures in the long-term.

- d) **Inadequacy of housing information system** - Nigeria lack requisite statistics of the housing sector. Most indices for planning in this sector are estimates for the World Bank, National Population Commission (NPC) or other government agencies. The NPC lacks up-to-date demographic data as regard population and migration, thus limiting the efficiency of housing policies based on such records. Such deficiency in terms of information will deter the formulation of any housing policy.
- e) **Taxation** - Investors in the Nigerian housing sector are subjected to multiple taxation. These taxes and levies include; income tax, development levy, building plan approval levy, land use tax, property tax, etc. These payments act as disincentives for existing and potential investors in growing the sector.
- f) **High Interest Rates and Inflation** - The high interest rate in Nigeria (16-24 per cent) has deterred to a large extent investment in the Nigerian housing sector. High interest rates have discouraged potential investors especially those within the low- and middle-income bracket from seeking mortgage loans. This has resulted in such group(s) resorting to personal savings, local thrift societies, friends, etc. to embark on housing projects, thus resulting in low output in terms of quality, quantity and affordability of such housing units.
- g) **Naira Devaluation** - Devaluation of naira at certain points in the country's history has not impacted positively on the housing sector, due to dependence on importation of material and equipment. When the naira is devalued, it raises the cost of imported building materials needed to stimulate the housing sector. This will ultimately affect the affordability of the housing units.
- h) **Rural-Urban Migration/Urbanisation** - One of the challenges facing the housing sector is the imbalance in the distribution of the population due to rural-urban drift and rapid urbanisation. The movement of people to urban centres has increased the demand for housing units in these locations. The housing deficit in Nigeria is highly observed in urban centres such as Lagos, Abuja, Kaduna, etc. The main challenge facing the housing sector in this instance is the

provision of adequate housing units for the teeming population in the urban centres.

- i) **High Costs of Property Development** - Building a house is highly expensive in Nigeria. The cost of construction is high for three reasons: high costs of building materials, high skilled labour costs, and costs associated with poor roads and sewerage systems. The high cost of building materials has negatively affected the rate of building housing units in the country. The main reason for this high cost of materials is the reliance on imported goods. Most of our local building material industries are incapacitated in their operations, hence not meeting up with the demand for the products. This condition is further worsened by lack of public infrastructure such as roads, power supply, etc.
- j) **Bribery and Corruption** - Bribery and corruption is also one of the challenges facing the Nigerian housing sector. Allocation, acquisition and approval for housing construction are prone to manipulation due to corruption which is backed by cumbersome bureaucratic processes in the sector. Investors may find it difficult to obtain the necessary documentation to embark on projects due to bribery and corruption.
- k) **Is there really a Mortgage sub-sector?** The mortgage sub-sector in Nigeria is rudimentary and for the most part caters for the elite class. A reasonable mortgage sub-sector should operate at a single-digit interest rate with a payment period of not less than 20 years.

V. Prospects of the Nigerian Housing Sector

Despite the challenges that the Nigerian housing sector has to grapple with through the years, the housing sector holds numerous prospects for socioeconomic growth and sustainable development of the nation. The opportunities for growth in the sector are increasing with the expanding population creating demand for residential and commercial properties. With sluggish growth in the housing sector in the nation, the prevailing housing deficit presents an enormous potential for housing finance investors. The country requires huge financial outlays to meet its housing demand. This trend is an incentive for investors to reap the huge financial benefits in this sector. The sector holds the potential of contributing more to Nigeria GDP than other sectors due to the peculiarities of the sector.

There is the prospect of increased foreign and domestic investment; entry of foreign developers, investors and service firms; increased joint venture arrangements between local sponsors and financial as well as strategic partners; and development expansion into secondary cities. Creation of more employment opportunities in urban and rural centres is creating enhancing potentials of more investment in the housing sector, coupled with increase in population. Unprecedented shifts in population will drive changes in demand for housing units.

The establishment of the Nigerian Mortgage refinancing company to cushion the financial burden of commercial and mortgage banks is a step in the right direction. However, the impact is yet to be felt on housing for low-income workers.

There are signs of emerging trends in the sector in recent times which include a shift from luxury development to middle income housing; affordable housing schemes through private-public partnership arrangements; and the potential to bridge the housing gap with new residential developments when mortgage reforms become effective. Governments at all levels need to provide the enabling environment for investors to show interest in the housing sub-sector.

VI. Conclusion

The demand for affordable and quality housing in Nigeria is very high and growing steadily. There is urgent need to stimulate the players in the housing sector in order to reduce the widening housing deficit in Nigeria. The following policy suggestions would help close the housing deficit in Nigeria:

- There is need for policymakers to ensure finance is adequately provided and guaranteed to enable investors perform optimally. Basic infrastructure such as roads, power supply, security, etc. should be adequately provided and guaranteed to attract investors (local and foreign);
- The government should also promote favourable macroeconomic policies capable of encouraging private sector investors to participate actively in the housing sector. There is need for macroeconomic stability;
- The Nigerian government should address the bottlenecks or bureaucracies in the process. Processes for land acquisition, construction permits, and property registration should be simplified and automated in line with the global best practice;

- The government should strengthen, challenge and closely monitor institutions like the Federal Housing Authority (FHA), Federal Mortgage Bank of Nigeria (FMBN), Urban Development Bank, Federal Mortgage Finance Ltd, Central Bank of Nigeria, etc to deliver on their core mandates. This implies that there is need for constant re-engineering of the capital and money markets in order to cope with the renewed challenges of provision of some mortgage financing;
- More than ever before, there is need to train and utilise local craftsmen. In the process of eliminating or at least reducing the housing deficit, government need to establish training schools for local artisans to cover such trades as plumbing, painting, electricians, welding and fabrication, carpentry, interior decorations among others. This will help reduce the cost of providing housing in Nigeria;
- In addition to funds through regular budgetary and fiscal programmes, there is need to put in place other measures to boost available investible funds in this sector. This may include the introduction of special-purpose bonds designed to attract institutional investors, firms and individuals to participate in the housing sub-sector; and
- There is need for the government to embark on collation and classifying of housing data which is largely insufficient in the country. This exercise will aid any housing policy aimed at reducing or eradicating the housing deficit.

The provision of housing for low-income earners must be a priority of government at all levels. The employment generation potential cannot be over-emphasised.

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