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Factors Affecting the Involvement of Commercial Banks in Real Estate Development in Nigeria: A Study of Awka in Anambra State

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Abstract
This evaluated the factors affecting the involvement of commercial banks in real estate development in Nigeria with a view to marshal out some modalities that will enhance the performance of commercial banks in real estate development in Nigeria. Three banks were randomly selected from the study area and examined to ascertain their opinion in the subject matter. They include: United Bank for Africa (UBA) Awka, Access Bank Awka and Zenith Bank Awka. An interview recording schedule was designed and administered to obtain relevant information from the following management personnel of the banks under study who are involved in credit lending: DGM - Risk/Portfolio management, Senior Manager- Real Estate sector, Senior Manager-Credit/Marketing and Manager - Property department. It was found that Commercial Banks are constrained in lending for real estate development because of several problems they encounter, which may include: High risks associated with real estate lending, long-term tenor of real estate loan in relation to Commercial Banks short term short term deposits, inability of potential real estate investors to meet Commercial Banks lending requirement, unduly lengthy process of conducting search/perfecting title documents used as collateral security at the Land Registry in the State Town planning ministry, non repayment of loans by borrowers and fraudulent/dishonesty in information provided by potential borrowers. The study thus recommends that: Government must therefore evolve other finance options/strategies that would make long term finance for real estate development readily available and accessible, Real Estate development should also be considered when setting-up such banks so that the housing needs of majority of the masses would be taken care of, Government should provide Commercial Banks guarantee for loans obtained by real estate developers who are duly registered and approved by the National Association of Real Estate Developers and the Nigerian Institution of Estate Surveyors and Valuers'. Also Government should strengthen Primary Mortgage Institutions (PMI's) by reviewing current legislations on which they were established.
Keywords: Involvement of Commercial Banks, Real Estate Development.

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

According to Omuojine (2001) the major reasons militating against real estate development and by extension housing the poor in Nigeria are low income capacity, access to credit, land tenure system, high cost of building, low employment capacity of the economy and lack of a National Housing Policy. Badiru (2003) however opined that whereas availability of adequate finance in the private and public sectors of any economy is the hallmark of a meaningful, efficient and productive property development, more often than not it happens that funds for prompt property development are not readily available. He asserts further that factors like limited size of individual incomes especially in the third world countries, banks' paltry rates of interest on savings, inflation and government fiscal policies which are sometimes unfavourable for easy access to loanable funds from the financial institutions hinders access to finance for real estate development. Bichi (1998) was however of the view that "unaffordable levels of interest rates on housing loans and shortage of long term finance as the main constraints to housing delivery and the promotion of home-ownership." He asserted further that "much of the housing finance problems experienced are an unequivocal expression of cumulative distortions from policy weaknesses in the past.

Whilst a plethora of problems have been identified as constraining development of real estate in Nigeria, there seem to be an unequivocal and unanimous acceptance of inability to access credit/inadequate finance as the problem that portends a more profound impact on the development of real estate in Nigeria.

Commercial banks as "those institutions that create money in the form of demand deposits and holding checking deposit (Steiner and Shapiro, 1976 and Bichi, 1998). Steiner and Shapiro (1976) stated further that the functions of Commercial banks could be divided into two parts namely:
1. Money creating function
2. Service rendering function

The service rendering functions of Commercial banks are:
1. Serving as paying and receiving stations for hand-to-hand currency,

2. Providing facilities for domestic and foreign remittances,
3. Collecting cheques, drafts, currencies, bills of exchange and other negotiable instruments for their customers,
4. Credit lending-loans and overdrafts,
5. Offering treasury/ finance advisory services,
6. Providing finance services that facilitates international trade and
7. Providing facilities for safe keeping of customers valuables

Commercial banks as defined in the Banking Decree of 1969 as amended are "deposit taking banks that provide chequeing facilities as well as providing short-term finances".

Commercial banking ushered in institutional banking services and predate Merchant banking in Nigeria. It constitutes the largest sector of the banking system in terms of number and volume of deposits. The broad functions of Commercial banks includes:

- Creation, distribution and transfer of deposit as well as the provision of commercial credit
- Savings function which comprise of savings mobilization for surplus units of the economy and the channeling of such funds to deficit units for the funding of investment in trade, commerce and capital projects.

Due to the durability and fixity of location of real estate, it has since the earliest days proven an ideal medium for mortgage investment financing. Britton and Kenwood (1977) defined real estate financing as "the process of creating a financial package for an income producing real estate investment that satisfies the objectives of the lenders and equity investors". They further went on to discuss the processes involved in financing by identifying four steps. These steps are:

i. Funding a real estate project that is economically sound that is, a set of capital assets that produces an adequate net income before consideration of financing techniques employed. This is generally the highest job in the financing process.
ii. Determining what financing alternatives to choose and apply and looking at both debt alternative. Here, we are concerned with the methods of leverage financing to be employed, amount and terms of the loan and type of financial institution to deal with. On the equity to be employed, the amount and terms of the loan and type of financial institution to deal with on the equity side, we are interested in the sources of equity to be employed, the rate of return and other objectives sought by equity investors.

Olusegun (2003) opined that land is an essential ingredient in all forms of human activity and a primary condition of production. He went further to identify some advantages derived from investment in real estate as:

i. The individual developer/investor usually finds it possible to acquire complete ownership control rather than just a share of the total ownership rights.
ii. This type of investment involves physical assets that investors can see and easily inspect.
iii. The management of real estate involves familiar types of operation that many investors feel that they can take over and handle without the help of hired management. There is no doubt that the importance of real estate in modern world is unparalleled especially in developing economies like Nigeria where wealth is more often measured in terms of value of real estate owned beside the joy of ownership devoid of pecuniary benefit. Investments in real estate are also looked upon with favour especially with financial institutions because of their durability and relative immobility.

According to Olusegun (2003) the economic goals of investors in real estate include the following:

- Safety of investment- the assurance that investment will produce sufficient yield or increase enough in
- Value to permit its re-sale at a price that will justify the initial investment
- Certainty of yield- ability of a property to provide returns or increments of additional capital value that will give the investor an acceptable return on his investment
- Capital appreciation- the hope that an investment will increase in capital value, that there will be little or no depreciation in values, and that the investment will provide a good hedge against inflation. Liquidity of investment- relative ability of the investor to sell his interests at their market value within a short period of time.
- Re-investment of net returns - opportunities to reinvest periodic profits from an earlier investment. Opportunities for leverage- ability to use one's equity funds along with borrowed capital to spread one's realm of economic control over larger amounts of property.
- Managerial responsibilities- opportunities to re-invest periodic land rents and profit in the investment.

In general, investment in land development have the advantage of long life. They can be used now and still have considerable use value many years hence. Whilst their values may deteriorate because of exploitation, depletion or depreciation, losses of this type can however be minimized.

1.2 STATEMENT OF THE RESEARCH PROBLEM

Commercial banks in Nigeria have also acted as agents of the government in implementing various schemes aimed at promoting core sectors of the economic including housing development.

From the early 70s to mid 90's Commercial banks were active in lending towards real estate development. This explains various housing loans scheme like the various United Bank for Africa (UBA) Pic and Union Bank of Nigeria (UBN) Plc housing loan scheme. A review of various Central Bank of Nigeria Annual Reports and Statement of Accounts shows that in recent times Commercial banks loan portfolio on housing development have been on a downward trend. What is known today is that most Commercial banks outrightly do not grant loans for real estate development (Fortune, 2002). The few that still grant loans for real estate development have very stringent conditions that intending borrowers for real estate development find it very difficult to fulfill. This study thus investigates the factors responsible for the failure of these commercial banks in playing the role of financing the development of real estate in Nigeria.

2.0 METHODOLOGY

The research employed the survey research design. Three banks were randomly selected from the study area and examined to ascertain their opinion in the subject matter. They include: United Bank for Africa (UBA) Awka, Access Bank Awka and Zenith Bank Awka. An interview recording schedule was designed and administered to obtain relevant information from the following management personnel of the banks under study who are involved in credit lending. They are:

1. DGM - Risk/Portfolio management,
2. Senior Manager- Real Estate sector,
3. Senior Manager- Credit/Marketing and
4. Manager - Property department.

Thus a total of 12 persons being were sampled. The essence of choosing these top management personnel is to ensure the reliability of information sourced.

3.0 DATA PRESENTATION AND ANALYSIS

3.1 CONSTRAINTS TO THE DEVELOPMENT OF REAL ESTATE IN NIGERIA

TABLE 1: Table Showing the Response on Constraints to the Development of Real Estate in Nigeria.

Constraints	Frequency	Total	%of Total
Lack of a clearly denned Housing policy by government	-	-	-
Inconsistency /non implementation of government Housing policy	-	-	-
Lack of long-term finance	-	-	-
All of the above	12	12	100
Total	12	12	100

Source: Field Survey, *2014*

From table 1 above, 12 or 100 per cent of the respondents were unanimously of the opinion that several factors such as lack of clearly defined housing policy by the government, inconsistency/non-implementation of the existing government housing policy, lack of long term finance and high cost of inputs for buildings constrain Real Estate development in the country.

3.2 FINANCE AS A MAJOR CONSTRAINT TO REAL ESTATE DEVELOPMENT

TABLE 2: Table Showing Response on Finance as a Major Constraint to Real Estate Development

Response	Frequency	Total	% of Total
Yes	9	9	75
No	3	3	25
Total	12	12	100

Source: Field Survey, 2014

From table 2 above, 9 or 75 per cent of the respondents were of the opinion that lack of adequate finance is a major factor that constrain real estate development in the country. However, 3 or 25 per cent of the respondents was of the view that lack of adequate finance does not constitute a major impediment to the development of real estate in the country.

Some of the respondents who opined that real estate development is hampered by lack of adequate credit to the real estate sector further argued that the problem of lack of adequate funds for investment in developing the real estate sector can be attributed to the high risk of credit lending to the average Nigerian borrower, the fact that Commercial Banks are not an ideal medium for long term lending usually required by real estate investors and lack of government's commitment to developing the real sector.

3.3 WHY COMMERCIAL BANKS SHY AWAY FROM LENDING FOR REAL ESTATE DEVELOPMENT

TABLE 3: Table Showing Response on Reason why Commercial Banks

Reasons	Frequency	Total	% of Total
Low rate of returns	-	-	-
High risks associated with Real Estate lending	9	9	75
Long gestation nature of real estate investment	1	1	8.33
Political/ economic instability	-	-	-
All of the above	2	2	16.66
Total	12	12	100

Source: Field Survey, 2014

From table 3 above, 9 or 75 per cent of the respondents where of the view that high risks associated with real estate lending is the major reason why Commercial Banks shy away from lending to the real estate sector. However, *2* or 16.66 per cent respondents sampled believed that various factors such as low rate of returns, high risk involved in real estate lending, long gestation nature of real estate investment and political/economic instability are responsible for the apathy of Commercial Banks towards real estate lending.

3.4 PROBLEMS ENCOUNTERED BY COMMERCIAL BANKS IN REAL ESTATE LENDING

TABLE 4: Table showing the Response of the Respondents on Problems Encountered by Commercial Banks in Real Estate Lending.

Problem	Frequency	Total	% of Total
Unduly lengthy process of perfecting title documents			
Inability of potential real estate investors to meet the bank's lending	1	1	8.33
Fraudulent/ dishonesty in information provided by potential borrowers			
Non-repayment of loans by borrowers	1	1	8.33
High risk associated with real estate lending			
Problems of loan tenor in relation to bank's deposits	1	1	8.33
All of the above	9	9	75
Total	12	12	100

Source: Field Survey, 2014

From table 4 above, 3 or 25 per cent of the respondents, each was of the view that the inability of potential real estate investors to meet the bank's lending requirements, non-repayment of loans by borrowers and problem of loan tenor in relation to bank's deposits are the major problems their banks encountered respectively in lending to real estate sector. However, 9 or 75 per cent of the respondents were of the view that a combination of factors ranging from the unduly lengthy process of perfecting title documents used as security for credit, fraudulent/dishonesty in information provided by potential borrowers, high risk associated with real estate lending, non repayment of loans by borrowers and the general inability of most real estate investors to meet the banks lending requirement are factors that create problems for banks in lending to the real estate sector.

4.0 SUMMARY OF FINDINGS

1. Commercial Banks are not an ideal or suitable medium for financing real estate development. This is so because whereas Commercial Banks deposits are short term in nature, real estate is for long term which is usually vulnerable to vagaries in the economy like changes in economic variables -interest rates, exchange rates and the rate of inflation.

2. Commercial Banks are constrained in lending for real estate development because of several problems they encounter. Some of these problems are:-

- High risks associated with real estate lending.
- The long-term tenor of real estate loan in relation to Commercial Banks short term short term deposits.
- The inability of potential real estate investors to meet Commercial Banks lending requirement.
- Unduly lengthy process of conducting search/perfecting title documents used as collateral security at the Land Registry in the State Town planning ministry.
- non repayment of loans by borrowers
- fraudulent/dishonesty in information provided by potential borrowers

There is no doubt that finance is a major factor in real estate development. Commercial Banks are certainly not suitable mediums for sourcing long term funds required for real estate development. The inability of real estate investors to obtain long-term loans from Commercial Banks has greatly hindered real estate development in the country.

Although government has over the years made some efforts in addressing the problem of lack of long term finance for real estate development through the establishment of the National Housing Fund (NHF) managed and administered by the Federal Mortgage Bank of Nigeria (FMBN) the National Housing fund has not provided the need panacea in addressing the problem of inadequate finance for the development of the real estate sector. Wittingly or unwittingly, government has not shown much concern on other possible strategies for financing real estate development. Whilst the recent involvement of Commercial Banks in financing housing development projects particularly in commercial cities like Lagos and Abuja initiated by private institutional investors is commendable this can however be best described as a 'tip of the iceberg'. Again, it shows clearly that Commercial Banks tend to be more risk aversive when lending to small borrowers who actually constitute bulk of real estate developers in Nigeria.

5.0 RECOMMENDATIONS:

In the light of the foregoing, to achieve any meaningful development of real estate sector, a holistic approach with greater emphasis on finance is certainly desired.

1. Government must therefore evolve other finance options/strategies that would make long term finance for real estate development readily available and accessible. Recently the federal government set-up a Bank named Bank of Industry, which will take care of the financial needs of those who are interested in starting-up Small Scale industries.
2. Real Estate development should also be considered when setting-up such banks so that the housing needs of majority of the masses would be taken care of. Also such government policies and Act that makes interested investors shy away from real estate development should be revisited so that adequate housing needs and also commercial needs like building of market and shopping malls and centers would be made available to the masses.
3. Government should provide Commercial Banks guarantee for loans obtained by real estate developers who are duly registered and approved by the National Association of Real Estate Developers and the Nigerian Institution of Estate Surveyors and Valuers'. This way Commercial Banks will be encouraged to lend to the real estate sector.
4. The Federal Mortgage Bank of Nigeria (FMBN) should be re-engineered. The leadership should be made to understand the place of mortgage banking in contemporary economy. The Federal Mortgage Bank of Nigeria should be more innovative. Central Bank should provide the necessary framework and support in this regard.
5. Government should strengthen Primary Mortgage Institutions (PMI's) by reviewing current legislations on which they were established. Some areas will include upward review of their minimum paid up capital (equitybase), stipulation of minimum branch network and the creation of public awareness especially among employers and employees on the importance roles of Primary Mortgage institutions and what they stand to benefit.

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