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A framework for affordable housing governance for the Nigerian property market

AbdulLateef Olanrewaju*[1], Paul Anavhe[2], Tey Kim Hai[1]

[a]*Universiti Tunku Abdul Rahman, Jalan Universiti, Bandar Baratm 31900, Kampar, Perak DR, Malaysia*
[b]*CDP Partneshrip Limited, No 3 Borno Road, Kaduna North, Kaduna, Nigeria*

Abstract

Nigeria is perhaps facing the worst housing deficits in its existence with a homeownership of less than 20% and a housing shortage greater than 30 million. The deficits would lead to a crisis and consequently lead to poor standards of living, unaffordable house prices, high mortgage payments, abandonment, outbreak of diseases, dilapidation, and high maintenance costs. The main research from which this study forms part aims to develop housing governance. This current study aims to identify and the categorize factors accounting for the hosing deficits. Based on a cross sectional survey questionnaire the findings lead to the conclusion that the problems in the housing industry can be explained by policies, regulations, legal issues, market, economic and the construction industry. The Kaiser-Meyer-Olkin measure of sampling adequacy indicated that the strength of the relationships among variables was moderate. Bartlett's test of sphericity, which tests the overall significance of all the correlations within the correlation matrix, was significant. The discussions and results have some significant implications to the governments. For now, the government has to play multiple roles of providing housing and that of a market enabler.

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1. Introduction

The relationship between adequate housing and national productivity is very strong and positive. A country with adequate housing also means that such country would spend less on the preventions and controls of diseases, and reduction in crime rate and enhancement in social integration. For the pensioners or retirees, housing is required for

* Corresponding author. Tel.: +605 468 8888; fax: +605 466 7407.
E-mail address: abdullateef.olanrewaju@ymail.com

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security reason. Housing is a measure of quality of life. In most of the developing countries, housing is inadequate. There are several indices to measure the affordability of housing. But, two of these indices are mostly applicable. According to one of these, housing is affordable if the rental cost, or mortgage repayment does not exceed 30% of household income for households in the lowest 40% of the income distribution range [1]. For rental purposes, the 30% includes utility bills. In cases of a mortgage, the amount includes the actual consideration, tax, insurance, utilities, and maintenance. Affordable housing is also defined in terms of 'median multiplier' [2]. However, based on either of these definitions, housing in all major cities in Nigeria is 'severely unaffordable'. For instance, cumulatively, annual expenditure for the rental in the cities is ₦77,762 or 30.7% of the household monthly income [3]. With utility bills, the figure goes up to more than 40% of household income. Due to lack of accuracy on the median income, the mean income is used as proxy here. The mean income is 41,000 for more than 90% of Nigerians or 11,000 for more than 75% of Nigerians [3]. To put this study in context, while literature contains sizeable evidence on apparent causes of housing shortage in Nigeria [i.e. 3, 5, 6,], but due to methodological issues and 'compartmentalisation effect', systemic explanations cannot be made on how to reduce the shortage. With these backgrounds in mind, this paper reports part of a study that aims to develop housing governance for the housing industry. This current study addresses itself to identification of the causes of housing shortages in Nigeria.

2. Background

At 2014, the population was 178 million and estimated to increase to 205millsion in 2020 and will near 300 million in 2050[7]. The per capita is US$3 000 with urbanization rate of 3.8% [8]. The real estate accounted for approximately 8% of the GDP each for 2013 [9], 2014 and 2015 [8]. At 2014, the Nigeria property market was valued at US$41 billion [8]. As part of the Gross Capital Formation (GCF), housing constituted 18.99%, 24.48% and 28.07% in 2010, 2011, and 2012 respectively [10]. The housing industry constitutes about 42% of the total value of the real estate. However, housing deficits in Nigeria have remained a tropical issue, despite government interventions through policies, regulations and controls. Prices of houses have increased more than for any other products or services. The price to rent ratio also shows rent is increasingly significantly across the country. Based on World Bank's estimate cost of building a house in South Africa is USD36,000, USD26,000 in India, but USD50,000 in Nigeria [10]. From 2001 to 2011, house price has increased by 284%, 209% and 161%, in India, Russia and South Africa respectively [11]. In Nigeria, over the same period, house price has increased by 500% [11]. The increase in house prices has outpaced income by a significant margin, leaving mostly in medium and lower-income groups without access to affordable homes. Prices of housing are outstripping inflation. While the monthly rental price for a 4 bedrooms executive house is USD 8,500 in Nigeria (Abuja), in other major Africa cities like Cairo (Egypt), Accra (Ghana) Cape Town (South Africa) and Algiers (Algeria) is USD 3,500; USD 5,000; USD 5,000 and USD 5,000 respectively [12]. Statistical analysis based on data on existing housing stock, population, home production rate, population growth rate from World Bank data, National Bureau of Statistics Nigeria and the National Population Commission Nigeria, revealed that the housing deficit in Nigeria is more than 30 million [13]. The annual supply of housing in Nigeria is approximately a unit per 1000 of the population. 8-10 units per 1000 were recommended for the developing countries. Therefore, it was estimated that, it would take close to 300 years for the housing deficits to close based on existing home production rate. However, in order to close the gap in the next 30 years, the home production rate will have to be 21 times its current rate.

The academic literature suggests that primarily, the reasons for the Nigerian housing deficit include: lack of access to finance, poor capital and budgetary allocation, poor monitoring of mortgage institutions, an inefficient land market, a disproportionate number of speculators, poor infrastructure (i.e. roads, electricity, water, and telecommunication), and tedious and often conflicting legal requirements. The poor performance of the construction sector has a negative impact on the provision of housing. Despite the improvements in the financial and capital markets, less than 1% of Nigerians have mortgage to finance their homes and while the mortgage rate could be up to 30% [8]. The ratio of mortgage to the GDP is one of the lowest in Africa at 0.58%, whereas in South Africa, Namibia, and Morocco is 22.04%, 18.21% and 13.85% respectively [8]. This leaves most Nigerians to self-finance their homes. In fact, more than 90% of existing houses were constructed through unstructured self-help [14]. But the government has not been proactive in the formulations her of policies. For example, between 2007 and 2011, the

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