International Journal of Scientific Research and Engineering Development-– Volume 4 Issue 6, Nov-Dec 2021

Available at www.ijsred.com

RESEARCH ARTICLE OPEN ACCESS

Examination of the Accessibility of Finance for Property Development by Private Developers in Anambra State

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Abstract

Property development requires huge financial resources and the availability of finance is very important for the successful development of any property. Limited access to finance and its availability has been one of the many challenges faced by majority of property developers most especially in developing countries such as Nigeria. The situation is not farfetched in Anambra state. With the increasing demand for housing, there is need for private developers to augment the efforts of the government in housing provision. To achieve this finance has to be made available and accessible to private developers to be able to carry out this task. It is to this effect that this study seeks to examine the accessibility of finance to private developers for property development in Anambra State with a view to examine the level of accessibility of such funds. Survey research design was adopted for this study. The population of the study includes Professionals in the property development industry and some financial institutions in the study area. Data retrieved were analyzed using Chi- square test. The study discovered that the various sources of finance are accessible but at varying degrees. It revealed that there is a significant relationship between private developers and the accessibility of finance. It is recommended that an increase in the percentage allocation of CBN to financial institutions have to be implemented.

Keywords: Accessibility, Finance, Property, Property Development, Private Developer

1.0 Introduction

Property development is the process of buying, improving and selling buildings and land and arranging for new buildings to be built. It is an activity that involves large sums of money tied up in the production process providing a product that is relatively indivisible and illiquid (Wilkinson and Reed, 2008). Classes of property development include residential, commercial, industrial, agricultural and recreational properties. Due to the importance and demand for housing, residential properties are usually the primary focus in the discussions of property development, and also falls as subject of this study. According to Oladapo (2008), housing is a major economic asset which has profound impact on the prosperity of the country and the productivity of an individual as decent housing has an impact on the health and well-being of individuals.

Housing problem is a global issue facing both developed and developing countries. In Nigeria, majority of cities are fast becoming homes to many individuals due to migration, increasing population, rapid urbanization, among other factors. With this trend, there has been increase in the demand for houses across the country (Ekpo, 2019).

According to the World Bank Report in 2018, Nigeria requires about 700,000 housing units annually, for a 20-year period to accommodate the increasing population (Ekpo, 2019). This endeavor is highly unattainable by government effort alone. Hence, the need for private developers to engage in housing development to augment the effort of the government. However, they are still constrained in several ways, one of which is the unavailability of finance. Since property development in particular involves huge capital expenditure, finance is therefore an essential input. The focus on finance has been more prominent because the provision of houses requires huge financial resources which most of the low-income earners in Nigeria are unable to afford (Sanusi, cited in Udoka and Kpataene, 2017).

Nwanekezie and Onuoha (2019) opined that the availability of adequate housing finance is the cornerstone of any valid and sustainable housing development. In Nigeria, property development could be financed through the traditional methods (Isusu and social clubs/associations) and modern methods (Debt finance and Equity funds) (Egolum, 2002). However, access to these modern sources of finance (especially Debt finance) is increasingly becoming challenging for prospective property developers particularly in developing economies.

Access to housing finance is a major issue faced by private developers. Thus this study examines the availability of finance for property development by private developers in Anambra State by determining the level of accessibility of finance to private developers for property development in order to provide a fresh perspective on finance available to prospective private developers for residential property development in Awka, Onitsha and Nnewi, considering modern sources of finance (Debt finance) given mostly by financial institutions such as commercial banks, mortgage institutions, pension and insurance companies etc.

2.0 Literature Review

2.1 Concept of Property

Property is the exclusive right to possession, enjoyment and disposition of anything which can be the subject matter of ownership. It also includes the exclusive right to the future benefits of an economic good, be it material or non-material, as determined by law (Denman, as cited in Ogedengbe and Adesopo, 2003). According to Weir (2001) property is sufficiently comprehensive to include every type of estate, real and personal, and everything which one person can own and transfer to another. However, for this study the term property will be any object (tangible or intangible), over which ownership rights can be expressed to the exclusion of others.

2.2 Concept of Property Development

Development can be seen as the application of capital, labour, managerial with entrepreneurial ability to land resources for the purpose of carrying out the constructional works which are associated with a change in the use of the land, or with a change in the intensity of the use of land or with a re-establishment of an existing use. (Ogedengbe and Adesopo, 2003).

Property development also known as Real Estate development is the process of developing buildings or lands into a high use value. It is a multi-faceted business which can encompass any of the following- buying land and building property on it, renovating, extending or improving property, converting property from one use to another etc. Property developers are the entrepreneurs who carryout real estate development and by so doing add value to the land or property. The concept of developing property to its highest and best use value is fundamental to the property development process. (Bromley, 2016).

It is not unusual that feasibility studies are required for any development project and that the key factor to be considered for a successful property development project include; physical, legal, economic, technology, finance and government policy initiatives (Madichie and Madichie, 2009). The need for development is constant because technology, population, taste, never stop changing. New generations and revolving immigrant groups, technological evolution drive economic changes in consumers taste and preferences (Bansode, 2005).

2.3 Professionals of Property Development

According to Lawal (2000) property development team comprises the following professionals; developers, agents if any, consortium of professionals, civil, mechanical and electrical engineering contractors. The roles and duties of these members are as follows;

i. **The developer:** this is a person or body of persons, corporate or incorporate and it includes any applicants who undertakes a physical development of land for residential, commercial, industrial or recreational purpose. Developers could be public or private.

   Developers engage in property development for occupation, investment or speculation.

ii. **Developer's agents:** this is the project manager. He oversees the whole development project. The project manager engages in the preparation of brief and advises the developer on the appointment and selection of the design team. He prepares a feasibility or cost-benefit study to access the economic feasibility and financial viability of the project. He prepares the financial plan or viability report, scheduling of the project into time frame based on the contract agreements. He monitors the project and other administrative work.

iii. **Estate Surveyor and valuer:** He engages in the valuation for several purposes, manages the property, sells and lets it out to interested parties, carries out feasibility and viability studies. He is also involved in project management. Other professionals include;

iv. **Land Surveyors:** He surveys the perimeter, layouts and topography of the area. He also provides a detailed survey plan and map of the area. The land surveyor also prepares a proposed site plan and foundation location of the project. (Olanrewaju and Akinpelu, 2014).

v. **Quantity Surveyor:** He engages in the preparation of bill of quantities and other tender documents, he advices on tendering procedures and contractual agreements, tender evaluation, analysis and reporting. He schedules materials and provides the construction cost of replacement for insurance and other purposes. With his skill in cost and contractual matters he can advise the developer on how the building will be constructed within redefined cost limits and profit margin.

vi. **Architects:** They are involved in the design of the building, production of architectural drawings, interior decoration and aesthetic of the building. He prepares the master plan, engage in the establishment of neighborhood and any organized space needed for human and other activities. He translates the concept of the clients into a building form which he records in the form of drawing and specification for other members of the team to understand.

vii. **Builder:** According to Lawal (2000) the builder is involved in the production and construction management of the building project. He manages the direct labour project, engages in building surveying, reactivation of abandoned project, maintenance management etc. He also prepares the construction program, health and safety plan and the quality management plan for the project. (Olanrewaju and Akinpelu, 2014).

Others include Town planners, Engineers, etc.

2.4 Property Development Finance

Property development finance is a type of finance used for the purpose of funding residential, commercial, industrial or mixed-use property development. It refers to the largescale funding of significant building or renovation works. Udechukwu (2006) defined property development finance as funds or capital acquired generally for housing development to gain control over the asset. The performance of any property development system will depend on the volume and nature of funds within the economy and the proportion that can be spread, mobilized and made available for property development (Ogedengbe and Adesopo, 2003).

Real estate finance also refers to finance, equity or borrowed, which is sought to be used for construction or development of buildings. It is very scarce in that equity finance is not always big enough to serve any appreciable purpose, while the borrowed type is hard to secure and when secured carries with it a high interest rates and cumbersome financial charges. (Ebi, 2017).

2.5 Sources of Debt Finance for Real Estate Development

Debt finance are often sourced through instruments issued by any of the following institutions;

1. Bank financial intermediaries
2. Non- bank financial intermediaries
3. Employers/ Associations/ Unions
4. Other informal institutions (Emoh and Nwachukwu, 2011).

Bank financial intermediaries are institutions licensed to accept deposits from the public and create credit facilities for borrowers. Examples include; commercial, merchant and mortgage banks etc. Non-bank financial institutions are those that offer financial services but do not have the license to accept deposits. Examples are; pension funds, insurance companies, finance companies etc.

1 **Federal Mortgage Bank of Nigeria (FMBN)**: The Federal Mortgage Bank of Nigeria (FMBN) is one of the developmental financial institutions. The bank which was established by the Decree No. 7 of 1977 now FMBN Act CAP. F16 LFN 2004. following the dissolution of the Nigerian Building Society (NBS), whose assets and liabilities were taken over by the new bank was primarily responsible for granting long-term loans at low interest rates.

2 **The Primary Mortgage Institutions (PMIs):** The Central Bank of Nigeria revised guidelines for PMIs states thus 'primary mortgage institution shall be construed as any company that is licensed to carryout primary mortgage banking business in Nigeria'.

3 **Commercial Banks:** this is a financial institution that grants loans, accepts deposits and offers basic financial products such as savings accounts and certificates of deposit to individuals and businesses. It makes money primarily by providing different types of loans to customers and charging interest. Their functions include; accepting deposits, advancing credit facilities, credit creation, provision of foreign exchange, etc.

4 **Insurance Companies:** this is a financial institution that provides a range of insurance policies to protect individuals and businesses against risks of financial losses in return for the payments of premium.

5 **Pension Funds:** these are pools of savings accumulated over the working life of an individual. Emoh and Nwachukwu (2011) asserts that Pension funds as a source of property development finance are not yet well developed in Nigeria. They also stated that these funds are significant in the provision of long-term finance for capital investments in developed countries.

6 **Cooperative Societies:** According to Gbadeyan (2011) co-operative Societies have been playing significant role in the delivery and provision of housing services in Nigeria. This is done through cooperative housing which is a pragmatic and cost-effective means of home ownership.

(Tajudeen and Basirat, 2017). Co-operative societies provide credit in form of loan advancement for their members towards housing procurement. Durodola, Oloke and Opoko (2016) describes Co-operative housing an approach formed after the principles and practices of co-operative societies to realize housing objectives of its members.

3.0 Research Methodology

Research design is a framework that includes the methods and procedure to collect, analyze and interpret data (McCombes, 2019). This study made use of survey research design. Check and Schutt (2012) defined survey research as the collection of information from a sample of individuals through their responses to questions. The instrument of questionnaires and oral interview were used to retrieve relevant information from the various professionals in the property construction industry. These professionals include; Estate surveyors and valuers, Builders, Architects, Quantity surveyors and Surveyors within Anambra state. The total number of registered professionals is 300 (three hundred) as obtained from the records of their various state secretariats are presented as follows, with questionnaires distribution and retrieval statistics:

Table 1: Population of Professionals

Registered Professionals	Number	No. of questionnaires distributed	No. of questionnaires retrieved	Percentage (%)
Estate Surveyors and Valuers	70	69	63	91.3
Builders	105	98	82	83.7
Architects	35	34	30	88.2
Quantity Surveyors	29	28	24	85.7
Surveyors	61	57	51	89.5
Total	**300**	**286**	**250**	**87.4**

Information was also obtained from financial institutions comprising of Commercial banks, Pension and Insurance companies, Mortgage institution and Cooperative societies. The population of financial institutions within the study area engaged in this research was 30 (thirty). The responses from the professionals on the availability of finance from the above mentioned financial institutions are presented in the table below.

Table 2: Sources of finance available from various financial institutions

Sources of Finance	Responses
Commercial Banks	125
Pension companies	36
Insurance companies	27
Mortgage insttutions	134
Cooperative societies	134

The Chi square test of independence was carried out to determine if there is any relationship between private developers and the accessibility of finance (this is a test for the Hypothesis). If there is any relationship, then it means that the sources of finance are accessible to private developers. The decision rule for Pearson Chi square test is to accept the null hypothesis H_0 if p-value is greater than 0.05, otherwise reject.

4.0 Data Presentation and Analysis

4.1 The level of accessibility of finance available to Private developers for property development

Table 3: Cross Tabulation analyzing the relationship between private developers and the available sources of finance.

Sources of Finance * Private developers Crosstabulation

			Private Developers/ Professionals					
			Estate Surveyors	Builder	Architects	Quantity Surveyors	Surveyors	Total
Sources of Finance	Commercial Banks	Count	13	18	7	5	11	54
		Expected Count	13.6	17.7	6.5	5.2	11.0	54.0
		% within Sources	24.1%	33.3%	13.0%	9.3%	20.4%	100.0%
		% within Dev.	20.6%	22.0%	23.3%	20.8%	21.6%	21.6%
		% of Total	5.2%	7.2%	2.8%	2.0%	4.4%	21.6%
	Pension Companies	Count	10	10	3	2	6	31
		Expected Count	7.8	10.2	3.7	3.0	6.3	31.0

	% within Sources	32.3%	32.3%	9.7%	6.5%	19.4%	100.0 %
	% within Dev	15.9%	12.2%	10.0%	8.3%	11.8%	12.4%
	% of Total	4.0%	4.0%	1.2%	0.8%	2.4%	12.4%
Insurance Institution	Count	11	13	5	4	4	37
	Expected Count	9.3	12.1	4.4	3.6	7.5	37.0
	% within Sources	29.7%	30.1%	13.5%	10.8%	10.8%	100.0 %
	% within Dev	17.5%	15.9%	16.7%	16.7%	7.8%	14.8%
	% of Total	4.4%	5.2%	2.0%	1.6%	1.6%	14.8%
Mortgage Institution	Count	15	21	7	7	16	66
	Expected Count	16.6	21.6	7.9	6.3	13.5	66.0
	% within Sources	22.7%	35.8%	10.6%	10.6%	24.2%	100.0 %
	% within Dev.	23.8%	25.6%	23.3%	29.2%	31.4%	26.4%
	% of Total	6.0%	8.4%	2.8%	2.8%	6.4%	26.4%
Cooperative Society	Count	14	20	8	6	14	62
	Expected Count	15.6	20.3	7.4	6.0	12.6	62.0
	% within Sources	22.6%	34.3%	12.9%	9.7%	22.6%	100.0 %
	% within Dev	22.2%	24.4%	26.7%	25.0%	27.5%	24.8%
	% of Total	5.6%	8.0%	3.2%	2.4%	5.6%	24.8%

From the analysis carried out in Table 3, in the first row of the table titled Commercial banks, we have count which is the number of private developers who agreed that commercial banks are accessible as a source of finance. The expected values were also given. The % within developers means what percentage of developers can have access to finance in the said financial institution. Architects have the highest percentage value with 23.3% access to finance in commercial banks followed by Builders with 22.0% then the Surveyors with 21.6%. The % within sources of finance means what percentage of finance is accessible from the said financial institution. 33.3% of finance was available for Builders in commercial bank and 24.1% was available for estate surveyors, 20.4% was available for Surveyors. From the Table, it can also be seen that private developers have more accessibility to finance from mortgage institutions, cooperative societies and commercial banks at 26.4%, 24.8% and 21.6% respectively. Finance from pension and insurance companies are least accessible at 12.4% and 14.8% respectively.

4.2 Test of Hypotheses

H_{01}: There is no significant relationship between private developers and the accessibility of finance

The data in Table 4 is used to test the hypothesis using Pearson's Chi Square statistical analysis.

Table 4: Chi Square test for hypothesis

Table 4 Hypothesis testing Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.525[a]	16	.008
Likelihood Ratio	4.832	16	.997
Linear-by-Linear Association	.604	1	.437
N of Valid Cases	250		

A chi square test of independence is carried out to determine if the sources of finance are accessible to private developers. If there is any relationship between private developers and the accessibility of finance, then finance is accessible. However, if there is no relationship then finance is not accessible.

Decision for Hypothesis: The null hypothesis states that there is no significant relationship between private developers and the accessibility of finance. The decision rule is to accept H_0 if p-value is greater than 0.05, otherwise reject. Since the p-value is 0.008, we therefore reject the null hypothesis and conclude that there is a significant relationship between private developers and accessibility of finance. This means that based on the test done, sources of finance are accessible to private developers.

5.0 Findings and Conclusion

5.1 Findings

The study revealed that sources of finance are available from the various financial institutions which are commercial banks, mortgage institutions, cooperative societies, insurance companies and pension companies. However, they have varying levels of accessibility. The cross-tab analysis in Table 3 revealed that finance for property development within the study area is more accessible from commercial banks, cooperative societies and mortgage institutions at 21.6%, 24.8% and 26.4% respectively. Finance from insurance and pension companies are least accessible at 14.8% and 12.4% respectively.

The Chi-square test of Independence conducted produced a p-value of 0.008 which is less than 0.05 which led to the rejection of the null hypothesis. The test concluded that there is a significant relationship between private developers and accessibility of finance. Hence, sources of finance are accessible to private developers.

Oral interview conducted revealed that some commercial banks grant loans for property development to property development companies and not individual developers. This is due to the notion they have that the development companies are more secured in terms of credits and they are more reliable.

Also, few pension and insurance companies exist in the study area that are willing to grant loans to private developers. Before such access can be given to developers, they must be a client of these companies. In this vein, insurance companies only grant loans to insurance policy holders who have satisfied every necessary requirement. Since, majority are not aware of the insurance policies, they do not have a policy and are not eligible for such loans therefore making them less accessible.

5.2 Conclusion

This study has been able to examine the accessibility of finance available to private developers for property development in Anambra state. The level of accessibility of finance from commercial banks, cooperative societies, mortgage institutions, insurance and pension companies were considered for this study. It is established that although these finances are available, their accessibility are at varying levels. It is discovered that finance from commercial banks, cooperative societies and mortgage institutions are the most accessible to private developers. Although their accessibility is hindered by some factors such as high interest rate, difficult requirements, bureaucracy amongst others.

5.3 Recommendations

Central Bank of Nigeria needs to increase the stipulated percentage allocation of these financial institutions to property development. Government can also aid easy accessibility through the provision of some guarantee to the private developers so that recovery becomes easier in the case of default in repayment, this will boost financial institutions' confidence in granting loans to prospective developers.

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