



## ABSTRACT

Recapitalization in Nigeria was achieved primarily through merger and acquisition which shrink eighty nine (89) banks into twenty five (25) banks at the end of the exercise. The exercise has been ongoing and currently the number of banks has been further reduced to twenty one (21). This study examines the impacts of the recapitalization policy on real estate finance

# RECAPITALIZATION AND REAL ESTATE FINANCING-SITUATION IN IBADAN

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## Introduction

Real Estate development is characterized by a high level of debt financing, where the modern real estate financial institution came to play the role of financing. These institutions include a variety of mortgage banks, commercial banks, merchant banks, insurance companies and other specialized institutions like the National Housing Fund and Pension Fund Scheme. Their task is to provide financial services which include giving varieties of mortgage loans on long and short term basis. These financial service in the real estate sector are generally geared towards promoting real estate development and satisfying the objectives of developers whether private or public. Until the outbreak of the financial crisis the resultant effect of financial liberalization opened up the Nigerian economy to global financial markets which has generated increasing apprehension in the



*considering the situation in Ibadan metropolis. Sixty questionnaires were administered on estate firms and property development companies while interview was also conducted with real estate finance institutions. Data obtained was analyzed using descriptive analysis such as tables and percentages. We equally employed using Relative Importance Index (RII) ranking model to reveal the significance of each and every factors. The findings show that there is significant improvement in the way the financial institutions have been performing their roles in financing real estate development.*

**Keyword:** Real Estate Property, Development, Recapitalization, Financial Institution, Government policy.

economy and has exposed the fragility and vulnerability of the financial system (Cooper, 2012).

It is therefore imperative for the Central Bank of Nigeria to introduce measures that will reduce the exposure and enhance the stability of the Nation's financial system (Soludo, 2009). The scenario arises as a result of poor performances of Nigerian commercial banks According to Soludo (2009), "The Nigeria banking system today is fragile and marginal, the system faces enormous challenges which if not addressed urgently could snowball into a crisis in the near future". Soludo.(2009) identified the problems of the banks. especially those seen as feeble, as persistent illiquidity, unprofitable operations and poor asset base.

Imala (2011) posited that the objectives of banking system are to ensure pure stability and facilitate sustained rapid economic development These Objectives have remained largely unattained in Nigeria as a result of some deficiencies in the banking system (Imala, 2011).

This phenomenon has necessitated continuous financial sector reforms globally. In 1988' an international agreement among the banking authorities known us Basle agreement was reached.



The main objective of this international agreement was to apply a common set of rules for capital adequacy in order to minimize the risk of bank failures (Bakare,2014).

In compliance with the Basle agreement. the former governor of Central Bank of Nigeria Professor Charles Soludo announced on July 6, 2004 that the banking sector should increase their capital base with about 100% (from initial capital base of N2 million to a whopping N25 billion(Bakare, 2011).

The policy directives of this initiative according to the CBN governor are to, strengthen the commercial banks thereby intensifying the growth of the economy, be tuned with the global requirement of minimize capitalization of \$500 million and to encourage competition locally and internationally in conformity with the new trend of globalization (Bakare, 2011). In the new policy of recapitalization, banks that cannot meet the required amount will have to merge with the bigger or stronger ones.

Following the implementation of the policy, an unprecedented process of recapitalization has taken place in Nigerian banking sector shrinking the number of commercial banks from 89 to 21 (Central Bank of Nigeria, 2013). No other event is more challenging as this recapitalization policy in the history of Nigeria banking where major finances for real estate comes from.

### **METHODOLOGY**

The data collection instrument used include questionnaire and interview guide. A total of sixty (60) structured questionnaires were administered while 50 were retrieved and analyzed. Stratified random sampling technique was adopted. Interview was also conducted with real estate financial institutions.

### **THE LITERATURE**

The influx of people into the urban areas in search of employment opportunities incidence of population growth, the enormous availability



of essential raw materials for productivity processes in the rural areas, the emergence of deadly diseases due to poor habitation by citizens are important reasons for the provision of decent and affordable houses both in urban and rural areas in Nigeria (Adeniyi & Rai 2008)

Warnock (2008) examined the effects of housing market in the provision of housing finance in twelve different countries among them are Malaysia, China, Indonesia and came up with a result that efficient legal system, stable and conducive macroeconomic environment, existence of credit information system had positive effects on mortgage finance system. Tomlinson (2007), corroborates that adverse legal, macroeconomic institutions and regulatory environment impact enormous effects in the provision of long term finance for housing. He opined that financial innovation in the form of mortgage – backed securities has shifted focus of mortgage from the credit worthiness of potential home owners to marketing of financial instruments which is also known as financializing of mortgage now becomes a driving force for source of profit rather than house itself which not only impedes the main objective of providing housing but exacerbates the risk of a financial crisis due to the spillover effects.

Today, the problem of inadequate provision of housing in Nigeria stems from the inability of the national housing fund (NHF) to fund housing development. Other problems are high inflation and interest rate and income distribution, low saving culture and also the problem of land tenure system in some parts of the country (Olutuah, 2006). These housing inadequate, particularly for the low income group or the average poor citizens have been complicated by high rate of population growth, resulting in overcrowding, deplorable urban environment, degrading infrastructure, inadequate dwelling where greater number of people live in shelter built with materials such as grass matting, disused paper cartons, corn sticks, as well as plastic sheet, some live in an uncompleted building others live under bridges, close to refuse dump



sites and to an extent, outright homelessness in most of the city centres in Nigeria (Nubi 2008).

The problem of housing delivery in Nigeria is becoming a source of concern to many as it affects the well-being of the citizens also the growth and development of the economy housing problem has become gloving that greater number of people living in urban areas in Nigeria live in housing environments that are dehumanizing and those that have access to decent houses do so at astronomical cost. Onibokun (2000) confirmed that rent in major cities in Nigeria is about sixty percent of average workers' disposable income. A major threat of housing arises especially in the urban centers in Nigeria where inadequate supply of houses relative to demand is experienced. However, the major constraints inhibiting the provision of housing in Nigeria is the inability of the mortgage institutions to carry out their primary objective of providing fund for housing development in Nigeria.

Mailafia (2007), commented that the poor performance of the mortgage financial system in Nigeria could be attributed to low accessibility, and underdevelopment of the land tenure system. The primary mortgage institutions are not sufficient in number and there is a wide difference between the number of people who actually applied for the loan and the amount that was approved. Omole (2001), added that "Mortgage institutions should be made more proactive and accessible to the people". Against this backdrop on the importance of mortgage finance that government should introduce ways to improve the prevailing housing as well as housing policies.

According to Omirin (2007), it is a known fact that in Nigeria, the demand for housing outweighs the supply for housing. Despite all efforts made by both government and the private sector to provide affordable shelter, the fact remains that most Nigerians are not comfortably accommodated. Also, existing realities indicates that the potentials of the mortgage industries remain untapped as it is constrained by factors



undermining the access and sustainability of mortgage finance by the average poor citizen in Nigeria. This study therefore examines the impact of recapitalization on real estate financing.

### Research Findings and Discussions

**Table 1:** Assessment of available financing option for real estate in Oyo State

S/N	AVAILABLE FINANCING OPTION FOR CONSTRUCTION OF REAL ESTATE	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE	TR	TWV	RPI	BANK
1.	Domestic credit to private sectors	10 (50)	20 (80)	15 (45)	5 (10)	0 (0)	50	215	4.3000	1 <sup>st</sup>
2.	Financing of SMEs	20 (100)	25 (100)	5 (15)	0 (0)	0 (0)	50	185	3.7000	5 <sup>th</sup>
3.	Venture capital availability	11 (60)	21 (84)	17 (51)	0 (0)	0 (0)	50	195	3.7200	4 <sup>th</sup>
4.	Market capitalization	13 (65)	19 (76)	10 (30)	8 (16)	0 (0)	50	187	3.74000	6 <sup>th</sup>
5.	Insurance premium	7 (35)	20 (80)	22 (66)	0 (0)	0 (0)	50	181	3.6200	8 <sup>th</sup>
6.	Sponsor / developer	10 (50)	17 (68)	20 (60)	3 (6)	0 (0)	50	184	3.6800	7 <sup>th</sup>
7.	Lenders	8 (40)	20 (80)	22 (66)	0 (0)	0 (0)	50	186	3.9000	3 <sup>rd</sup>
8.	Private developer scheme	4 (20)	18 (72)	28 (84)	0 (0)	0 (0)	50	176	3.5200	2 <sup>nd</sup>
9.	Loan size and term	10 (50)	13 (52)	20 (60)	7 (14)	5 (5)	50	176	3.5200	9 <sup>th</sup>
10.	Full recourse loan	7 (35)	20 (80)	15 (45)	8 (16)	0 (0)	50	176	3.5200	9 <sup>th</sup>
11.	Non-recourse loan	13 (65)	20 (80)	17 (51)	0 (0)	0 (0)	50	196	3.9200	9 <sup>th</sup>
12.	Additional equity investors	7 (35)	18 (72)	15(45)	10 (20)	0 (0)	50	172	3.4400	10 <sup>th</sup>

**Source:** Field Survey, 2022

Table 1 shows the most preferred social media marketing platform used by real estate firms in Ibadan through the Total Respondents (TR), Total Weight Value (TWV) and Residents Perception Index (RPI). Likert scale of (strongly agree, agree, undecided, strongly disagree) was used and the data collection was ranked. The total weight value (TWV) for each



perception rating was computed by summing the product of the number of responses for each rating to the respective weight value. The RPI to each variable was arrived at by dividing the TWV by summation of the respondents to each of the five ratings of perception.

From the table, Domestic credit to private sector mulled 1<sup>st</sup>. Private developer scheme ranked 1<sup>st</sup>, Private developer scheme ranked 2<sup>nd</sup>, Lenders ranked 3<sup>rd</sup>, Venture capital availability ranked 4<sup>th</sup>, Financing of SME ranked 5<sup>th</sup>. Market capitalization ranked 6<sup>th</sup>. Sponsor developer ranked 7<sup>th</sup>, Insurance premium ranked 8<sup>th</sup>, Non-recourse loan, Loan size, and term and Full recourse loan were ranked Additional Equity investors ranked 10<sup>th</sup>.

**Table 2: Common Risks associated with real estate finance system**

S/N	COMMON RISKS ASSOCIATED WITH REAL ESTATE FINANCE SYSTEM	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE	TR	TWV	RPI	BANK
1.	Inflation	10 (50)	20 (80)	15 (45)	5 (10)	0 (0)	50	215	4.3000	1 <sup>st</sup>
2.	Macro-Economic stability	20 (100)	5 (15)	0 (0)	0 (0)	0 (0)	50	185	3.7000	6 <sup>th</sup>
3.	Debt Dynamics	12 (60)	21 (84)	17 (51)	0 (0)	0 (0)	50	195	3.5200	10 <sup>th</sup>
4.	Lucrative	13 (65)	19 (76)	10 (30)	8 (16)	0 (0)	50	187	3.5200	10 <sup>th</sup>
5.	Budget transparency	7 (35)	20 (80)	20 (60)	3 (6)	0 (0)	50	181	3.6200	8 <sup>th</sup>
6.	Transaction cost	10 (50)	17 (68)	20 (60)	3 (6)	0 (0)	50	184	3.6800	7 <sup>th</sup>
7.	Interest rate	8 (40)	20 (80)	22(66)	0 (0)	0 (0)	50	186	3.9200	2 <sup>nd</sup>
8.	Exchange rate Credit	4 (20)	18 (72)	28 (84)	0 (0)	0 (0)	50	176	3.9000	3 <sup>rd</sup>
9.	Credit risk	10 (50)	13 (52)	20 (60)	7 (14)	5 (5)	50	176	3.5200	10 <sup>th</sup>
10.	Liquidity risk	7 (35)	20 (80)	15 (45)	8 (16)	0 (0)	50	176	3.7200	5 <sup>th</sup>
11.	Policy risk	13 (65)	20 (80)	17 (51)	0 (0)	0 (0)	50	196	3.7400	4 <sup>th</sup>



12.	General market risk	7 (35)	18 (72)	15 (45)	10 (20)	0 (0)	50	172	3.4400	11 <sup>th</sup>
13.	Asset-level risk	7 (35)	18 (72)	15 (45)	10 (20)	0 (0)	50	172	3.4400	11 <sup>th</sup>
14.	Idiosyncratic Risk	8 (40)	18 (72)	15 (45)	10 (20)	0 (0)	50	177	3.5400	9 <sup>th</sup>
15.	Conflict of interest regulation	7 (35)	25 (100)	15 (45)	3 (6)	0 (0)	50	186	3.7200	5 <sup>th</sup>
16.	Incidence of corruption	7 (35)	10 (40)	23 (69)	10 (20)	0 (0)	50	164	3.2800	12 <sup>th</sup>
17.	Cost of starting a business	10 (50)	18 (72)	15 (45)	7 (14)	0 (0)	50	181	3.6200	9 <sup>th</sup>

**Source: Field Survey. 2022**

Table 2 shows the most preferred social media marketing platform used by real estate firms in Ibadan through the Total Respondents (TR), Total Weight Value (TWV) and Residents Perception Index (RPI). Likert scale of (strongly agree, agree, undecided, strongly disagree) was used and the data collection was ranked. The total weight value (TWV) for each perception rating was computed by summing the product of the number of responses for each rating to the respective weight value. The RPI to each variable was arrived at by dividing the TWV by summation of the respondents to each of the five ratings of perception.

From the table, Inflation ranked 1<sup>st</sup>, Inflation rate ranked 2<sup>nd</sup>, Exchange rate ranked 3<sup>rd</sup>, Policy risk ranked 4<sup>th</sup>, Liquidity risk ranked 5<sup>th</sup>, Macroeconomic stability ranked 6<sup>th</sup>, Transaction cost ranked 7<sup>th</sup>, Budget Transparency ranked 8<sup>th</sup>, Idiosyncratic Risk were ranked 9<sup>th</sup>, Lucrative, Debt Dynamics and Credit risk were ranked 10<sup>th</sup>, General Market risk and Asset-level risk were ranked 11<sup>th</sup>, Incidence Corruption ranked 12<sup>th</sup>.

**Table 2: Solution to the Common Risks and Uncertainties Associated with Real Estate Finance System in the Study Area**

S/N	SOLUTIONS TO THE COMMON RISKS AND UNCERTAINTIES ASSOCIATED WITH REAL ESTATE FINANCE SYSTEM IN THE STUDY AREA	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE	TR	TWV	RPI	RANK
1.	Budget transparency	10 (50)	20 (80)	15 (45)	5 (10)	0 (0)	50	185	3.7000	6 <sup>th</sup>
2.	Judicial independence	20 (100)	25 (100)	5 (15)	0 (0)	0 (0)	50	176	3.5200	10 <sup>th</sup>



3.	Look for below market	12 (60)	21 (84)	17 (51)	0 (0)	0 (0)	50	186	3.7200	5 <sup>th</sup>
4.	Look for favorable financing that reduces cash flow	13 (65)	19 (76)	10 (30)	8 (16)	0 (0)	50	187	3.9000	3 <sup>rd</sup>
5.	Intellectual property protection	7 (35)	20 (80)	20 (60)	3 (6)	0 (0)	50	181	3.6200	8 <sup>th</sup>
6.	Quality of land administration	10 (50)	17 (68)	20 (60)	3 (6)	0 (0)	50	184	3.6800	7 <sup>th</sup>
7.	Strength of auditing and accounting standards	8 (40)	20 (80)	22 (66)	0 (0)	0 (0)	50	195	3.7400	4 <sup>th</sup>
8.	Diversification	4 (20)	18 (72)	28 (84)	0 (0)	0 (0)	50	196	3.9200	2 <sup>nd</sup>
9.	Hedging	10 (50)	13 (52)	20 (60)	7 (14)	5 (5)	50	176	3.5200	10 <sup>th</sup>
10.	Insurance	7 (35)	20 (80)	15 (45)	8 (16)	0 (0)	50	215	4.3000	1 <sup>st</sup>
11.	Opening practices	13 (65)	20 (80)	17 (51)	0 (0)	0 (0)	50	196	3.5200	10 <sup>th</sup>
12.	Deleveraging	7 (35)	18 (72)	15 (45)	10 (20)	0 (0)	50	172	3.4400	11 <sup>th</sup>
13.	Active labour market policies	7 (35)	18 (72)	15 (45)	10 (20)	0 (0)	50	172	3.4400	11 <sup>th</sup>
14.	Labour tax rate	8 (40)	18 (72)	15 (45)	10 (20)	0 (0)	50	177	3.5400	9 <sup>th</sup>
15.	Pay and productivity	7 (35)	25 (100)	15 (45)	3 (6)	0 (0)	50	186	3.7200	5 <sup>th</sup>

**Source: Field Survey. 2022**

Table 3 shows the most preferred social media marketing platform used by real estate firms in Ibadan through the Total Respondents (TR), Total Weight Value (TWV) and Residents Perception Index (RPI). Likert scale of (strongly agree, agree, undecided, strongly disagree) was used and the data collection was ranked. The total weight value (TWV) for each perception rating was computed by summing the product of the number of responses for each rating to the respective weight value. The RPI to each variable was arrived at by dividing the TWV by summation of the respondents to each of the five ratings of perception.

From the table, Insurance ranked 1<sup>st</sup>, Diversification rate ranked 2<sup>nd</sup>, Look for favorable financing that reduces cash flow ranked 3<sup>rd</sup>, strength for auditing and accounting standards ranked 4<sup>th</sup>, look for below market ranked 5<sup>th</sup>, budget transparency ranked 6<sup>th</sup>, quality of land administration ranked 7<sup>th</sup>, intellectual property protection ranked 8<sup>th</sup>,



labour tax rate were ranked 9<sup>th</sup>, office practice, hedging and judicial independence were ranked 10<sup>th</sup>, General Market risk and deleveraging and active labour market policies were ranked 11<sup>th</sup>.

### **Recommendations**

The study shows that the recapitalization policy has come to stay and to achieve the main aim of the policy, following suggestions have been proffered to correct some anomalies caused through the policy and hence promote growth and further development in real estate in Ibadan. Since real estate development is a wealth generating asset there is a need for financial institution especially commercial banks to set up departments devoted exclusively to handle all matters relating to real estate loans and advances. Such departments should be staffed with suitably qualified personnel assisted where possible by Estate Surveyors and Valuers. The department will handle matters on mortgage loan applications and approvals, project appraisal, performance measurement arranging suitable repayment schedule etc. Financial institutions should lower their strict and stringent conditions as to the financing real estate development and commercial banks should engage in medium and long term loans.

The recapitalization policy at its wake has several mouthwatering promises some of which are more fund for loans, hence interest rate of large percentage of focus should be placed on real estate development banks. This calls for Central recapitalization. Bank being the apex bank to retrace the step of all banks to the primary aim of recapitalization

### **Conclusion**

Despite the availability of financial institution in Nigeria, there is still a deep problem plaguing the Housing industry in Nigeria. People are still homeless and finance for housing development is still very hard to come by. This study has clearly presented the problems as well as prospects for



improved housing delivery in Nigena. All possible source of financing should be exploited to facilitate the finance of real estate development ( Bassey 2009) . One of such sources is insurance companies. This company has abundance of long term loan especially from life insurance policies.

In Nigeria, such hinds usually lie idle in a fixed deposit account awaiting collection and disbursement. The long term fund represents a viable source of financing real estate development. These funds can be used to finance real estate development as it is been done in developed counties.

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