

INNOVATIVE HOUSING FINANCE IN NIGERIA VIA PUBLIC PRIVATE PARTNERSHIP (PPP)– NEW WEMABOD ESTATE , IBAFO, OGUN STATE AS A CASE STUDY.

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BY

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## **INNOVATIVE HOUSING FINANCE IN NIGERIA VIA PUBLIC PRIVATE PARTNERSHIP (PPP)– NEW WEMABOD ESTATE , IBAFO, OGUN STATE ON A CASE STUDY.**

### **ABSTRACT:**

Owing to the insufficiency of the traditional debt for infrastructural provision, Nigeria government would need between USD12 and 15Billion annually for the next six years to meet her infrastructural needs. This paper seeks to examine the effectiveness of Public Private Partnership (PPP) as an approach for financing housing infrastructure.

With focus on WEMABOD Estate, Ibafo, Ogun State Nigeria as a case study, the paper will examine the Public Private Partnership (PPP) arrangement adopted in providing 150 housing units and document the challenges involved in the adopted Public Private Partnership (PPP) arrangement. While recommending Public Private Partnership (PPP) model as a means to solving the rising housing problems in the country, the paper will provide useful information for solving the finance needs in the country.

### **KEY WORDS: INNOVATIVE HOUSING FINANCE, PUBLIC PRIVATE PARTNERSHIP (PPP)**

Nigeria has the largest economy in Africa, with a population of about 167million and an urban population of about 48% (UN Statistics division. World Statistic pocket book 2010). Nigeria is battling with the problem of huge housing and infrastructural deficits;

### **KEY STATISTICS**

Exchange Rate :1US \$	196 Nigeria Naira (2015)
Main Urban Area	Lagos Abuja, Port Harcourt
Population (NPC Estimates)	167 Million (2012)*
GDP	USD 502 Billion (2013)
GDP growth rate (real)	6.99 (2011)*
Prime & Maximum Lending Interest Rate	1657-2470 (2013)
Average Risk Free Rate (2-5 year Bonds)	11.04 (March 2013)
Mortgage % of GDP	0.55 (2011)
Cost of Standard 50kg Bag of Cement (In US \$)	1265/N2000(2013)
Pension Fund Administrators & Assets	302 Trillion(October 2012)- 20PFAs

Source: ~ Global Findex/World Bank (2012)

~CBN

\*Trading Economics

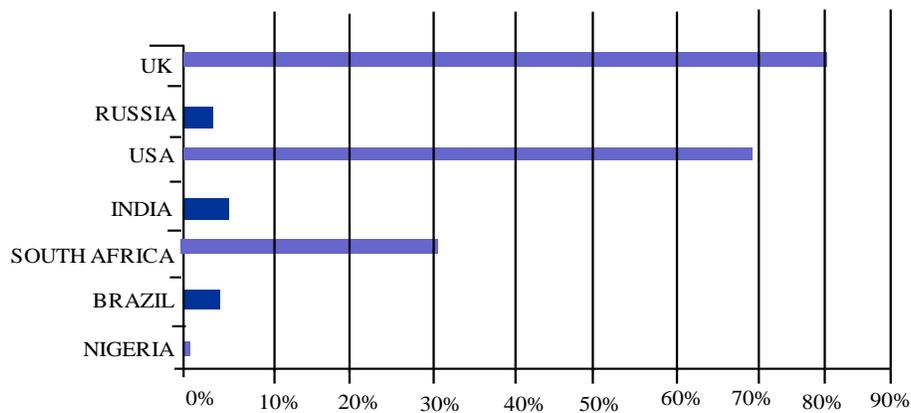
The current receipts in terms of revenues from the Federal Government of Nigeria cannot be sufficient to finance the infrastructure demand of the country.

It is estimated that Nigeria will need between \$12Billion to \$51Billion annually for the next 6years to meet its infrastructure demand (PM Network, 2011); this financial demand will put intense pressure on the country's fiscal deficits and National budget, particularly with the pervading dwindling international oil price that is the mainstay of the economy.

According to the Federal Mortgage Bank of Nigeria 2007 report, there are **10.7 million** houses in Nigeria, with housing backlog estimated at **14 Million** units, which will require **N49 Trillion (\$326Billion)** to bridge the housing, deficit of **14 Million** units based on an estimated average cost of **N3.5Million (\$23, 333)** per housing unit.

The mortgage industry is strongly underdeveloped and has between 1960 and 2009 generated less than 100,000 transactions (Simon Walley, 2009). The contribution of the mortgage industry to Nigeria's GDP is 0.5% which is quite negligible, compared to other countries like the United Kingdom, Brazil and South Africa

#### KEY STATISTICS



	NIGERIA	BRAZIL	SOUTH AFRICA	INDIA	USA	RUSSIA	UK
MORTGAGE LOAN % AS OF GDP	0.55%	5.50%	32.00%	5.80%	73.00%	2.70%	81.00%

SOURCE: Dunn Loren Merrifield (2013)

Finance has for long being established as one of the main bottlenecks of the capital intensive housing development especially in Nigeria ,where the mortgage system is not well developed and entrenched (contributing minimally to the GDP), with cost of fund mostly too high for sustainable development. Real Estate developers in Nigeria, are battling with the cost of raising fund from the financial market which is in excess of 15% if it is moderate and getting above 20% often.

In the same vein, the buyers struggle to meet mortgage obligation which is in excess of 15% when it is moderate. The data from the Central Bank of Nigeria corroborate that the lending rate from banks are high.

## DATA & STATISTIC

### DATA & STATISTIC/ALL CENTRAL BANK OF NIGERIA (CBN) PUBLICATION

Money Market Indicators (In Percentage)

MONTH	JANUARY	FEBRUARY	MARCH
Inter-Bank Call Rate	10.21	23.50	12.59
Minimum Rediscount Rate (MRR)			
Monetary Policy Rate (MRR)	13.00	13.00	13.00
Treasury Bill Rate	11.20	10.80	10.77
Savings Deposit Rate	3.48	3.47	3.76
1Month Deposit Rate	8.61	8.47	8.42
3 Month Deposit Rate	9.64	9.54	9.02
6 Month Deposit Rate	9.74	9.46	9.88
12 Month Deposit Rate	9.51	9.37	9.52
Prime Lending Rate	16.86	16.77	16.90
Maximum Lending Rate	25.97	26.33	26.61

SOURCE: Central Bank of Nigeria Publication (July 2015) ([WWW. Cenbank.org/rates/mnymktind.asp](http://WWW.Cenbank.org/rates/mnymktind.asp))

Dirie (2005) asserted that financial resources for infrastructural development will remain scarce and that scope for closing that gap remains uncertain. However, developing countries cannot rely on donor support or traditional financing sources, hence, innovative solutions are required (Suhombing, 2009) which is creating a win-win situation to all the stakeholders that are involved in the housing delivery cycle; be it the state, private sector and the end users of the houses.

Traditionally, the National, State and Local government in Nigeria play active roles in the housing delivery, however with the dwindling resources available and to the 3 tiers of government and other competing demand, that is begging for attention, necessitate the need for an innovative finance model such as PPP(Public Private Partnership) that will accelerate housing delivery in Nigeria.

Hill (2011) defined Public Private Partnership (PPP) as an agreement between the private sector and the public sector where the private partner delivers a service or infrastructure assets that is, traditionally, provided by government, which comes with a wide range of contractual provision, characterized by their relatively long duration, the source of funding, the strategic role of the private sector throughout the life of the project and the significant transfer of risk from the government to the private sector.

Public Private Partnership (PPP) projects are characterized by non-recourse or limited recourse financing, where lenders are repaid from only the revenues accruing from the project.

Public Private Partnership (PPP) is an innovative finance model that is now gaining momentum in Nigeria as private sector financier's of construction and operation of infrastructure projects, which could have been otherwise provided by the public sector. Public Private Partnership (PPP)structures are typically, more complex than the traditionally public procurement project and their complexity is due to the number of parties involved and mechanism used to share the risk (Agrawal et al, 2011).

Earlier studies on Public Private Partnership (PPP) identify some of its attendant benefits such as cost saving, risk sharing, improved levels of services or maintaining existing level of services, enhancement of revenues and more efficient implementation, greater commercial discipline and sustainability in developing and operating infrastructure services and alleviating the financial burden on the public sector (Kwak et al, 2009, Seemela, 2008, Dailami etal, 1991).

## **THE CASE STUDY: NEW WEMABOD ESTATE, IBAFO, OGUN STATE**

The new Wemabod Estate, Ibafo, Ogun State is located at about 15 minutes drive from Ikeja, the capital of Lagos State. The Estate is located within the Lagos Mega City Corridor, has conferred by the United Nations on Cities with a population of 10 Million and above. Sustaining a model mega city comes with great challenges that will accommodate over 18 Million populace which will require both the Public and Private Sector participation in terms of housing and infrastructure delivery.

The new Wemabod Estate is on 5 Hectares of land belonging to Wemabod Estate Limited, one of the oldest real estate company in Nigeria, incorporated in 1962 with a share capital of 10,000 pounds. It was then a wholly owned subsidiary of the defunct National Bank of Nigeria Limited and called Nabani Estates. In October of the same year, the bank sold its shareholdings for 1,231,000 pounds to the Western Nigeria Marketing Board at Ibadan and the name of the company was changed to Wemabod Estates Limited.

Wemabod Estates Limited basically offer services in Property Development and Property Management, the company is currently expanding its portfolio of properties managed and developed.

The new Wemabod Estate which is divided into phase I and II and upon completion, it will provide 150 units of 3 Bedroom Detached Bungalows cum 3 Bedroom Semi-Detached Bungalows, Recreation facilities and shopping lots.

The price of the 3 Bedroom Detached House is selling for **₦12,500,000.00 (Twelve Million, Five Hundred Thousand Naira)** per unit and the 3 Bedroom-Semi Detached houses is selling for **₦10,500,000.00 (Ten Million, Five Hundred Thousand Naira)** only per unit.

### **ACCOMMODATION DETAILS**

**DESCRIPTION:**                    **3 Bedroom Detached Bungalow**

#### **ACCOMMODATION**

**DETAILS:**

- Living Room
- Visitor's Water Closet Suite
- Master Bedroom ensuite Bath/Water Closet suite
- 2 No. Bedrooms
- Bath/Water Closet Suite

- Kitchen/Store

**BUILT UP AREA:** 90m<sup>2</sup>

**SIZE OF LAND:** 270m<sup>2</sup>

**DESCRIPTION:** 3Bedroom Semi-Detached Bungalow

**ACCOMMODATION**

**DETAILS:**

- Living Room
- Visitor's Water Closet Suite
- Master Bedroom ensuite Bath/Water Closet suite
- 2No. Bedrooms
- Bath/Water Closet Suite
- Kitchen/Store

**BUILT UP AREA:** 80m<sup>2</sup>

**SIZE OF LAND:** 225m<sup>2</sup>

**FACILITIES:**

- Recreation Area
  - Street Lights
  - Pipe borne Water
  - Connection of Electricity grid
  - Paved Road

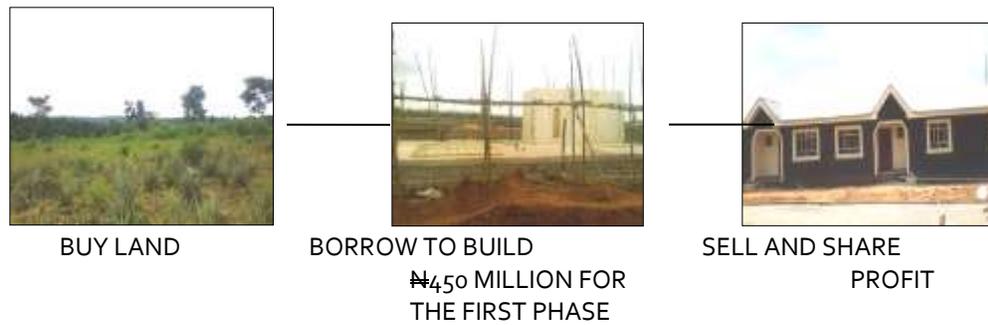
The board of directors of the Wemabod Estate Limited appointed the firm of Messr Tope Ojo and Tunde Olonisakin, Estate Surveyors and Valuers, to act as the developer/concessionaire of the project, with rights to source for fund, build and sell the entire 150 units of 3bedroom bungalow. The profit from the project will be shared by the two principal parties. (Messr Tope Ojo and Tunde Olonisakin, Estate Surveyors and Valuers and Wemabod Estate Limited). The target of the developer are the middle level income earners working and commuting within the Lagos Mega City corridor.

## **THE BUSINESS MODEL**

### **THE TRADITIONAL HOUSING FINANCE MODEL**

The traditional finance model for the housing project would have presupposes that the firm of Messrs Tope Ojo and Tunde Olonisakin Estate Surveyors and Valuers raised fund to either purchase the land, which was valued as at that time as ₦85,000,000.00 (Eighty Five Million Naira) or accept the land as equity contribution from Wemabod Estate Limited and borrowed or raised the sum of about ₦450,000,000.00 (Four Hundred and Fifty Million Naira) from banks at interest rate of about 22% per annum for a period of about 2years, this will serve as the cost of construction and the provision of the infrastructure, for the first phase, which will provide 58 units, of 3Bedroom Detached/Semi Detached Bungalow which will now bring the average cost of each units of the property to about ₦8,300,000.00 (Eight Million, Three Hundred Thousand Naira), for the Fully completed and well finished 3bedroom bungalow / detached.

### **TRADITIONAL HOUSING FINANCE MODEL CHART**



## THE INNOVATIVE HOUSING FINANCE

### MODEL

This business model is a form of Public Private Partnership (PPP), that breaks into various components the critical business processes involved in the project and identify the critical stakeholders in the business cells that would have gup the huge fund, rather than paying them liquid cash, the critical stakeholders will take up part of the estimated profits that will accrue to the developer in exchange for the product delivery at a premium.

In this case study, the critical business component, has to do with the construction of the housing units, which would have covered about 65% of the project cost exclusive of the cost of fund.

The developer approached Trinity Savings and Loans Limited, a Mortgage Bank, to raise fund for the project. Simultaneously the developer approached Moladi building technologies Limited (Nigeria) to construct the entire phase 1 of the project with their proven technology, but rather than providing fund to Moladi building technologies limited, Trinity Savings and Loans Limited, provided a bank quarranty and soft fund for Moladi building technologies limited, and at the same time, the developer encouraged Moladi building technologies limited to take up substantial stake in the estimated profits, that will be accruing to the developer in the project.

With this alliance between Moladi Building Technologies and the developer (Tope Ojo and Tunde Olonisakin, Estate Surveyors and Valuers), that is, Moladi building technologies; is now a technical partner and co developer, and a copy of the technical agreement was forwarded and approved by the Wemabod Estate Limited, as such the financial burden of the project was drastically reduced and the risk burden has been shared between the bank / developer and the Moladi building technologies limited. Also, the profit dynamics is now reconstructed to capture the innovative finance realities.

This business model also forestall the possible of cost variation and cash illiquidity required for the entire project and the interest burden was only on about 50% of the estimated project cost because the agreement with Moladi building technology to build, actually help to neutralize the cost, as Moladi building technologies limited came with the fund and structured purchase agreement with other suppliers of the building materials at an affordable price.

In order to douse the tension on financial distortion in the project life cycle, the project account was domiciled in a reputable bank, in such away that all the key stakeholders were signatories to the account, inclusive of Wemabod Estate Limited as such; inflows and outflows from the project account could be monitored.

The developer with the cooperation of the key stakeholders, Wemabod Estate Limited, Trinity Savings and Loans Limited and Moladi Building Technologies Limited (Nigeria) entered into loose contract with FBN Mortgage Bank Limited and Imperial Homes Mortgages Bankers Limited to market the properties that were constructed and provide Mortgages for prospective buyers and end users via there branch networks.

Presently, handful of subscribers has successfully made full payment for the bungalows, especially all the detached bungalows, with other end users making part payment as a sign of commitment to the project.

In conclusion, the innovative housing finance model through the Public Private Partnership (PPP) has adopted in this project has, been a win-win situation to all the stakeholders (Dirie 2005 and Suhombing 2009).

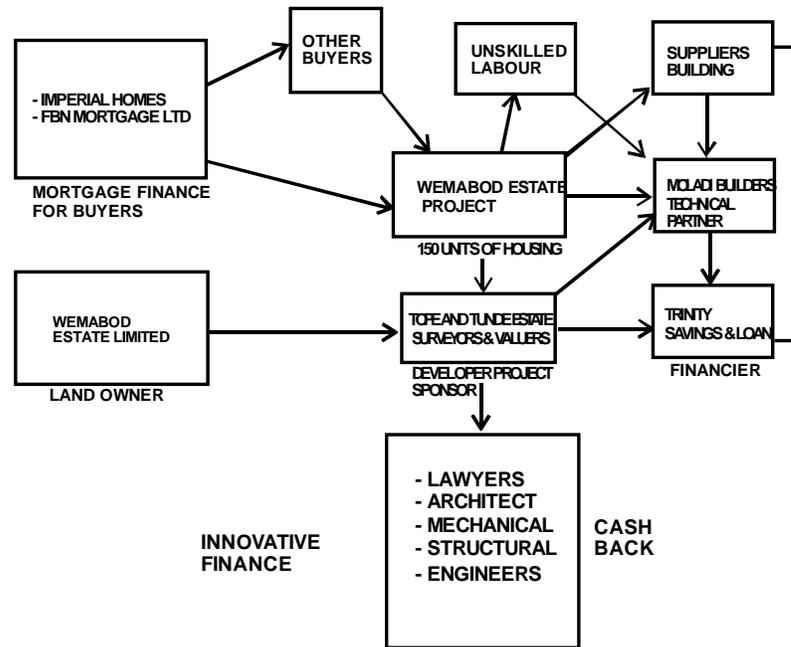
Wemabod Estate Limited not only fulfilled its operation mission mantra of property by providing a 58units of bungalows in the first phase of the project, beside this, the accruing profit was shared, exclusive of the amortized cost of the land and the Legal Fee collected for the preparation of the Legal document pursuant to the transaction. Also Wemabod Estate Limited will still be collecting ground rent annually in perpetually from the allottees.

The firm of Messr Tope Ojo and Tunde Olonisakin, Estate Surveyors and Valuers (Developer) acquired extensive skills in the area of Public Private Partnership (PPP) consulting, project finance and project management, beside this, profit accrued to them at the conclusion of phase 1, for putting the project together.

Lastly, Moladi building technology limited (Nigeria) was able to show case there affordable building technology in Nigeria, made and partook in the profit sharing dynamics from the successful completion of the project.

Lastly, Trinity Savings and Loans Limited, recovered all the fund put into the project and also earn interest rate on the project and other bank charges.

### INNOVATIVE HOUSING FINANCE MODEL CHART



The innovative housing finance finally put to end the idea of looking for the fund to cover the cost of the project, rather such cost could be transferred to other key stakeholders in the project life cycle to deliver their products and take a part of the developer's profit at the completion of the project. It is also pertinent to say the integrity of the developer is critical towards building consensus in this model.

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## APPENDIX A



APPENDIX B



APPENDIX C

