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THE EPISTLES OF DISEQUILIBRIUM IN PROPERTY INVESTMENT AND AFFORDABILITY - DEVELOPED NATIONS VS DEVELOPING COUNTRIES

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Abstract

The holistic value of land or properties has over time being determined by various factors ranging from physical, social, legal, political, cultural, ecological, economical and even spiritual factors and more. As such, the investment in land or property market is also in turn influenced by these factors therefore creating diverse forms of dynamism as it affects land ownership all over the world. It is held in the scholastic history of property market that two major events affected the grassroots of property affordability which translates into property ownership and investment. These two major events, First & Second World War are believed to have affected the equilibrium of property ownership - in form or recession and others- which has passed on over time to what we see today. However, there are two economically based exceptions, the depression of the early 1930s and the oil and secondary banking crisis of the early 1970s. Owing to this early realization of these phenomena, developed countries like USA and UK among others were able to see the need to study the value of land or property interest from an ownership or investment perspective in the national and global land or property market scope. Certain world occurrences created a platform for these countries to rise to the occasion and afforded them a frontline view that pushed to critically study and examine the market, develop formulae to study the value of land per time, imbibe the culture of land value forecasting or estimation using various analytic tools and more. Also the theory of the time value of money became quite economically quintessential as the need for the monetary quantification of these interests in land or land properties is a can't-do-without in the businesses of land and property market amidst the urbanization and technological advancement being experience till this day. Thus, this paper highlights and explains the relative genesis and epistles of the disequilibrium in property investment and affordability in developed nations like United Kingdom and developing Countries like Nigeria.

Keyword: Estate, Land, Property investment

INTRODUCTION

'*A nation of homeowners is unconquerable'* - Franklin D. Roosevelt

Land is almost an indispensible good whether economically, socially, politically, emotionally and so on. The thirst to have land or landed property is almost completely unquenchable by most individuals as those who have it want to have more and those who don't want to have. Housing has become a regular feature in economic, social and political debates often with highly charged emotional contents (Agbola, 1998)

Different Property professionals and academics have preached about the positive impact property in diverse dimensions. The need and provision of sufficient housing in any country is very vital as housing is a catalyst of the national economy. Property and property investment plays a significant role in the wider economy. Property is a factor of production, it is also a corporate asset and it is also an investment medium. Housing is a set of lasting assets, which accounts for a chunk of a country's wealth and on which households spend a substantial part of their income. The impact of a good percentage (say 70) of the citizens of a country owning land is that of immense positive contribution to its economy and its standard of living. As a factor of production, property provides the space in which economic activity and production takes place. Unfortunately, evident and inherent enough, the concept of land ownership has taken an awkward and chaotic turn especially in most developing countries like ours. The reason behind the need and the need to own land has sky-rocketed albeit the actual owning of it or investment in it in most developing nation's almost nothing to write home about.

In developing countries like Nigeria, quite a number of reasons have been alleged or made accountable for the poor ownership of land by its citizens. Housing problems are exacerbated by the combination of many factors. In Nigeria, like in many other developing nations of the world housing problems are multi dimensional. Chukwujekwu (2006) was referenced in Business Management Dynamics Journal of 2011 on 'Issues and Challenges Militating against the Sustainability of Affordable Housing Provision in Nigeria' by Ayedun and Oluwatobi. Summarily but not limited to were twelve points, ten was which were directly anchored on cost or finance as regard the creation of housing. Thus, inferring that about 80 percent of Issues and Challenges inhabiting Sustainability of Affordable Housing Provision in Nigeria is cost/ finance. Although some other academics have seen property owning and investment in nation as arising from poor land accessibility as off-shooting from poor land titling, policies harshness and bureaucracy, the bane of the problem is finance which is in fact the reason for the elaborate lacuna between the level of adequacy in developed countries versus the paucity in developing countries.

Thus, the resultant factor of all of these cumulative encumbrances is that investment and willingness in property is that of high sensitivity and volatility as investors want to out cover the cost(financially and stress-wise) and risk or investing in landed property. In an article dated April 27, 2013 and titled 'Home ownership options for low income earner' by Maureen Azuh said 'Even investing in estates has proved to be expensive too. Developers who are into the business acquire land and develop into plots or finished buildings. They must recover the money invested in the project.'

More so, in an American-Eurasian Journal of Scientific Research in 2012, Adedeji and Olotuah said that Fundamental to inadequate and un-affordable housing in the nation is the lack of access to housing finance by this segment of the society. In view of its enormous cost, housing is the item of the highest expenditure of every household and it can rarely be purchased directly from one's earnings. Access to housing finance is thus imperative in the acquisition of housing, but this has always eluded low-income earners a great deal.

The history of the genesis property investment disequilibrium or tilting is often related to major events such as the two world wars. However, there are two economically based exceptions, the depression of the early 1930s and the oil and secondary banking crisis of the early 1970s. There was no evidence in the data collected that the depression of the early 1930s impacted on the property and its valuation process or technique but there is evidence that the two later property market downturns in the early 1970s and 1990s had an impact. The most radical change in investment in the post second world war era was an opinion rather than a real change.

Thus, after the Second World War, there was a huge shortage of properties as opposed to the surplus or adequacy it used to be. The economy law of demand and supply became full-fleshed; when demand outweighs supply, the value as reflected price (inflation) of such commodity increases and the birth of inequality in property investment or ownership was delivered to world which has spread far and wide throughout the nation of the earth.

Perhaps one is prompted to ask; how can a land issue or use in another nation spread to several other nations? The answer is this; an inherent characteristic of land is that it is relatively fixed. Thus any use land is put to in another part of the world is actually a fraction of its total relatively fixed size.

By illustration, Just like one can take a bite from and apple and the other side still looks fresh and untouched doesn't mean it is still complete and bitten part unprone or unsusceptible to bacterial that can spread round and contaminate the rest of the apple. It is diverse tools like innovative and calculative policies and financing schemes among others that the developed countries have used and still using to strike a balance or restoration of the bitten part of the property investment market and the maintenance of it. The property market is like a being suffering from a cancerous disease in which damage if not urgently operated will lead to a lasting awful end

The rise in price, of course created a drop in those who could afford land before which translated into the gap among land owners, land borrowers and non-owners. It is the overlooking of such mere gaps or disparities, as little as it was then, that has spread to almost incurable challenge we have today in most developing countries. Unfortunately, the cue of negligence was early enough detected and worked upon by the developed countries but the blind men (developing countries) couldnt see or read the cue until it became too late and almost incurable or like to terminal disease to its citizens in the social or economic light.

The resultants of the occurrence by post Second World War first; relatively rapid introduction of rent reviews. Secondly; reduction in the time period between reviews. By the early 1970s reviews are present in most long leases which was not so in the 1960S period. The periods reduced quickly from 21 and14 years in the 1960s to periods of 7 and 5 years by the early 1970s. Unpleasant enough, the next event was the 1970s property crash. In an attempt by the conservative UK government to curb the inflation and minimize the gap between the now three class people- land owners, land borrowers and non- owners, they introduced a commercial property rent freeze with all rents frozen at their current level. This however didn't go down too well as it created a conception for the investors, right or wrong, that the current income was more important than prospective increases at review. It has been suggested that the to-date phenomenon of upward only rent review was a product of this downturn but property market data suggests that, due to high inflation rates, rents did not fall within a standard rent review period (5-7 years at the time). So, where rents were reviewed after the downturn, they were generally reviewed upwards.

This history culminated and translated into the evolution of new valuation models or methods. This also showcased itself by the development of new degree courses in UK in the 1970s and also led to a changing authorship of the basic texts by the new academics. Crosby among others later became notable and accepted authors of some of new models.

For about 5 decades, attempt of the made to bridge this grab. For instance the 'rent freeze' introduction in the UK around the 1970s is an example. The Primary Mortgage Instruction (PMI) and Secondary Mortgage Institution (SMI) in the US is another example. More Securitization by most nations is also an effort in-tune to this. However little has been done in developing countries to bridge such is is expanding over the years.

The Nigeria Chapter

Ogieto (1987) has said that the disparity between the price and quantity of housing on the one hand, and the number of households and the money available to them to pay these prices on the other, constitutes the central problem of housing.

Thus the unbalance in land ownership and investment is not a new phenomenon and shouldn't be seen as such. Just as the developed nations experienced, although due to no cause of theirs, the developing nations is also expected to experience hers. The onus is on them to brace up and stand up to the challenged innovative and strategically enough to reach of a balance. Shortage of adequate housing virtually abounds in every country, particularly in the developing and third world countries (Adedeji & Olotuah 2012*)*.

Despite this high importance placed on houses and property, it is regrettable to note that only 10% of those who desire home ownership can afford to acquire it either by way of purchase or personal construction as against 72% USA, 78% UK, 60% China, 54% Korea and 92% Singapore. Careful examining the following data, will automatically picture to one the appalling state of housing in our nation. Onibokun (1985) and Ebie (2003) stated that rent in major cities in Nigeria is about 60% of an average workers disposable income which is very much higher than the 20-30% recommendation of the United Nations. Interestingly also, the national minimum wage is N44, 000. 00 per annum. About fifty-seven percent (57%) of the Nigerian population falls below the poverty line, which is on the average of US$1 per day .This, by implication indicates that about seventy percent (70%) of Nigerians fall into this category, which also forms the nucleus of the nation's economy. Hence is one is weigh the possibilities of a poor man owning a house in his lifetime it would be that of looking for a needle in a haystack.

Setting aside the potential for indirect investment in property by purchasing shares in property companies or investing in Real Estate Investment Trusts (REITs), direct investment in property will usually require a loan -65 per cent of the price-value of a property. The ability of the borrower to meet mortgage repayments will be assessed by the lender against the expected rental income stream from the property. The canons of lending in developed and emerging economies like Nigeria include;

Collateral Factor : the ratio between the loan amount and the value of the collateral-loan-to-value (LTV).

Capacity Factor: This is the borrower's financial ability to repay his loan obligation and

Credit Factors: This refers to the borrower's history of fulfilling his financial obligations (repaying loans, paying telephone bills paying rents etc).

By Implication any individual without a collateral factor, a good job or a faithful borrowing history is almost completely ineligible for a loan grant. Thus the requirement for a loan grant cannot be met by most people and the interest rate charged also cannot be met. One is urged to ask' is there indeed a mortgage system in the nation? The environment of loan- getting is zero enabling and encouraging and yet the government of boast of its commitment to affordable housing. No wonder the provision of housing in the nation is fraught with a plethora of problems especially for low-income earners who incidentally constitute the majority of the population.

One may choose to opt for other sourcing of funding in the nation which may include; government, individual savings, life insurance reserves, commercial banks, savings and loans institutions (Primary Mortgage Institutions or Building Societies) and so on. However, the most common, best-bet and traditionally that of bank loan in developing countries. The buy-to-let scenario represents perhaps the simplest arrangement of property investment, but for higher value commercial properties the situation is more complex. For commercial properties such as office blocks or shops, finance is generally raised by corporate entities, such as property companies, using existing property and other assets as collateral.

Loan or mortgage system is supposed to be a form of means by which the disequilibrium in property investment or ownership is amended, just as seen in developed countries, but the case is inverse in Nigeria. In fact loan is for rich individuals and blue chip companies. The critical role or goal of loan or mortgage which is supposed to a bridge in the disparity for those who cannot normally afford some asset (property) to be able to and overall create for some measure of equitability and empowered of its citizens has be derailed and mis- exploited. Thus, the true essence of loan and mortgage system has been misplaced. Commercial banks did not then nor do they now serve the financial needs of households (Nubi, undated). Thus the commercial banks which is supposed to be one of the poor man resort is that with the most ferocious pangs with its high and scary interest rates. The President, Nigerian Institute of Quantity Surveyors, Agele J. Alufohal ,on 6- 10 May 2013 said Housing finance and mortgage system in Lagos cannot be totally ostracized from what is obtainable in Nigeria. Generally, there is no credit or finance structure available to the low income groups for land, housing and basic services in Nigeria.

Concisely, The usually practise of the nation system of copying the developed nations systems and still poorly performing is one which everyone is tired of laughing or frowning about. Mortgage banking development in Nigeria can be traced to the establishment of the Nigeria Building Society in 1956 which transformed, due to its high poor performance, to Federal Mortgage Bank in 1977 yet performed badly. Around 1989, PMI's was created to serve as secondary housing finance institutions still we had no headway in our crave for solution to housing problem. The only window for all Nigerians to access financial facility for land, housing and basic services is the National Housing Fund (NHF) established in 1992 and has woefully performed.

If not for the early enough realisation, as at the 1970s by the UK and US government of the need to curb inflation, create an effective financial scheme or mortgage system geared towards equitability and empowerment of its citizens, they would as well be suffering from this housing plaque we are in Nigeria. High cost is the major reason behind non-affordability. Finance creation to meet such is the best way out as it is more or less a strategic to handle the bull by its horn

The solution is finance creation and accessibility. Omole (2001) highlighted the fact that financial institutions should be more accessible to the people. Thus there is a need for innovative finance scheme, and friendly interest rates which are result- yielding by Commercial Banks, Merchant Banks, Specialised Development Banks, Insurance Companies, financial institution, Pension Fund, Corporate Bodies, Developers/Contractor Financed, Securitisation.

SUMMARY

Just like the two quotes at the beginning of this paper, the sorry case of property investment in Nigeria is and eye-sore but now more less a casual joke for even a professor in the nation. The nation and its leaders should realise that it is not a matter or regime difference anymore, military or democratic. Neither is the problem cornered only to unfavourable policies and land inaccessibility but the Yoke of problem is lack finance and its accessibility and the creation of it is the way out.

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