

An Appraisal of the Extent of Market Maturity in Nigeria Property Market

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Abstract: *With increasing globalization of investments in recent years, it is becoming more important for investors to have better understanding of the Nigerian Property Markets. This paper aims to explore perceptions of market maturity and issues of importance for investment in the property markets. Maturity is a key concept in investors' decision making as it takes into account the nature and evolution of the markets as well as their economic, social and institutional condition. Interview guide and questionnaire was used to elicit information from Estate Surveyors and Valuers, real estate financiers and real estate investors. The information collated shows that Nigeria Property Market is highly immature due to unsound financial and economic structure, strength and stability of the economy, market openness, low level of professionalism, lack of information availability and standardization and culture. The paper therefore recommends that government should develop a workable framework and environment to improve on existing data.*

Keywords - *Globalization; Investments; Market Maturity; Nigeria; Property Market*

I. Introduction

Generally, the nature of landed property, the method of conducting transactions on it and the lack of information on transactions, all contribute to the imperfection of competition in the real property market. The majority of transactions in the property market are conducted privately and even if the result of the transactions were available, they would not necessarily be particularly helpful in the absence of detailed information on such matters as the extent and state of the buildings and tenure (Tony et al., 2005). Market Maturity can be defined according to Keogh and D'Arcy (1994) as an intrinsically desirable set of market features. The principal characteristics of which are:

- Accommodation of full range of use and investment objectives;
- Flexible market adjustment in both the short term and long run
- Existence of a sophisticated property profession with its associated institutions and networks
- Extensive information flows and research activity.
- Market openness in spatial, functional and sectoral terms
- Standardization of property rights and market prices.

Property market exists where private rights in land are recognised, sustained and may be social, economic, and political relation in society. It provides the basis upon which planner predicate their strategies of development (for the purpose of this study, land market and property market will be used interchangeably). In this regard, land is the most crucial factor of production as it is the single most important natural resource in the sense that it affects every aspect of a people's live. (Acquaye, 1978 adapted from Olayiwola and Adeleye, 2006).

It is argued by many development specialists that a free land market is the engine of economic development (Brandão and Feder 1995, Feder and Nishio 1998). However, land ownership patterns in many African countries have taken the predominantly class differentiation strategy of the colonial era. The tenure system allows the rich to have access to land while the seemingly poor are denied access to this important land resource. An important prerequisite for sustaining the growth of emerging countries is the creation of an efficient land market which currently is not in existence in many developing countries like Nigeria. The absence of an efficient land market is a major panacea to housing problems. It is also a reason for continuous aggravated level of poverty as people and citizens are hampered or prevented from freely transacting business on land. Where land transaction is allowed, the conditions for perfecting transaction are difficult and not easy to satisfy. In Nigeria, for instance, the requirement for obtaining governors consent for both partial and total transfer of interest in land is cumbersome. Given the global commitment towards sustainable development and eradication of poverty as contained in the Millennium Development Goals, it is important to explore what benefits accrue from the land resources by creating an efficient market. Assuming that the benefits are identified, what are the factors inhibiting them or likely to do so? A subsequent question will be, in what ways could effective market be facilitated and sustained?

II Literature Review

2.1 Meaning of land market:

Land connotes different things to different people. A geographer views land as the physical earth crust. In economics, it is regarded as the first factor of production, followed by labour, capital and enterprises. The concept holds that land is believed to sustain all human activities on earth. According to Simpson (1976) 'land is the source of all material wealth. From it we get everything that we use or value, whether food, clothing, fuel, shelter, metal or precious stones. We live on land and from the land and to the land our bodies and ashes are committed when we die. The availability of land is the key to human existence, and its distribution and use are of vital importance. Land is therefore perceived as an economic good, often demanded, for what it could be used for. Hence, the demand for land is derived in nature. However, the importance of land cuts across all region of the earth. From the medieval age, land has been a source of wealth and power. Some attach spiritual connotation to land and hence some lands in some regions are regarded as deity and are therefore subjected to worship. Land is important to all-whether as an individual or as a nation.

Dale et al., (2002) asserts that it is part of the culture and essence of a nation. Irrespective of geographical location, individual and government assert ownership rights at the exclusion of others. It is also common that government often make legislation to own and control some portions of land. Mineral Act and petroleum Act are some government enactments to put the control of land resources that are regarded as valuable under the control of the government, supposedly for national benefit. The foregoing therefore views land beyond the physical earth crust. It incorporates other land resources beneath the earth crust. For instance, petroleum is a major economic source of Nigeria, which gives it recognition among other nations of the world. This makes the lawyers definition of land relevant. To the lawyers, land may be considered to extend 'from the centre of the earth to the infinite in the sky' and includes all things in permanent contact with the soil such as building, minerals and vegetation (Dale et al, 2002). Hence, the principles of *Quid Quid Plantateur Solo Solo Cedit*.

With a view exception (such as Antarctica) the ultimate owner of the land is the state, which retains the right to acquire private property for public purposes and to control the manner in which the land is used, for instance, through physical planning legislation (Dale et al., 2002). This is referred to as nationalisation of land. Government achieves this by the enactment of laws and legislation that confers ownership of land on the state. The Land Use Act, 1978, in Nigeria, for instance, holds that land in the urban area is held by the governor of the state in trust for the citizens. The same law purports to guarantee the access of all individuals to land by stipulating the procedure and the size of land that individuals and bodies are entitled to. With the exercise of the police powers and powers of eminent domain of the government, land use distribution and pattern are influenced by the government. Nevertheless, Dale et al., (2002) observes that subject to this, many societies permit private land ownership with rights held either as freehold, which represent the maximum degree of freedom for the land owners, or leasehold in which there are greater limitations on how and when the land may be used. In Nigeria, for instance, the Land use Decree attempts to unify the land tenure system in the country. It abolished the freehold system and exists to create leasehold interest for all. All landowners are by this automatically converted to government lessee with a maximum holding period of 99 years for residential use. Where private interests in land are recognised, they may be exchanged for a consideration, usually money. A land market can be said to exist where the number of these transactions passes a critical threshold (Dale et al., 2002). Therefore land market is an arrangement and system that enable private transfer and exchange of rights among individuals within the framework of the law.

2.2 Property market

Property market is believed to be localised in nature. Transactions in the property market reflect the peculiarity of the environment or the locality where the land is situated. Whether in the rural or urban area, two types of markets are identifiable. Dale et al (2002) classified them into sale market and rental market. According to them sale market is such in which the freehold may be exchanged and a rental market is such in which 'use rights' are transferred for a limited period. While their emphasis in the sale market is the transfer of freehold interest, it should be noted that many societies allow for both partial and total disposal of leasehold interest in land for consideration. Section 21 and 22 of the Land Use Act 1978, a major Nigeria land policy allows that a lessee can assign his unexpired interest in land but with the consent of the governor.

A market can either be formal and structured or informal and operating extra-legally. A formal market is guided by rules and regulations. Participation in the market is in accordance with legal procedures both for acquisition and disposal. On the other hand, the informal market often predominant, despite government land nationalisation in developing countries is not regulated. Though believed to be very active, huge sums are lost as a result of involvement and participation in informal market.

2.3 Value Determinants in the Property Market

Value is the worth of an asset. It is intrinsic and believed to be objective. The worth of a landed property is a function of many factors. To a purchaser, the present value of the all discounted anticipated income and benefits from the property is a major consideration. The sellers' maximum price is influenced by the selling price of comparable properties, expectations regarding future price changes, economic policy and prospects and cost of equivalent reinstatement elsewhere. In a recent study, Dale et al., (2002) summarised the factors that influence the financial worth of a property to include: location; size; condition and type of construction; the form and security of tenure; the permitted land use; and the general state of the national and global economies. While demand and supply factor is conspicuously not mentioned by Dale et al., (2002), the factor is a major determinant of price in the market. An efficient market allows free entry and exit. The nature and quality of demand and the corresponding supply is worth consideration.

Land sales market influence productivity and level of efficiency in the industry, since commercial enterprises and individuals can borrow against their real assets. Land rental market can facilitate access to land, and so for example in urban area, they can create opportunity for migration that people can move to where work is available (Dale et al, 2002). Land market in general affect income distribution, which is why many members of rural communities, especially the young move into urban environments. This impact into social attitude and practices, the need for housing, land for development, portable water, transport facilities, and the general condition of the physical environment. In turn, these issues affect the priorities in political decision making, the types of land tenure (especially where un official and un controlled settlements emerge) fiscal policy and the focus of financial support services.

2.4 Externalities to efficient property market

Dale et al., (2002) argues that land markets do not operate in isolation and their level of impacts depends on a number of other external factors. These include: an efficient tenure and legal framework; transparent land policies; macroeconomic stability; freer trade; non predatory government. Participation in the markets unlocks the key of wealth to market participants. It leads to improved learning and standard of living. Investment in land and landed resources is a lucrative venture. It sustains the growth of a national economy and ends poverty in the land under the existence of the following (i) Clear recognition of land rights, (ii) Access to credit, (iii) Affordable transaction costs (iv) Cultural acceptances (v) Appropriate levels of education and (vi) Market understanding

2.5 FRAMEWORK FOR CREATING EFFECTIVE PROPERTY MARKET

Extant literature identifies frame work for establishing and sustaining effective property market. The following are prominent:

2.5.1 Policy and legal framework

A free land market is an engine of development in any nation. Free transactions in the market however, must operate within a clear set of policies and laws that are consistent, enforceable and acceptable to the people. It thus requires the enactment of laws that reflects the custom, belief and way of life of the people as a means to prevent informal market operation. Land rights should therefore be exercisable within the framework of a given environment.

2.5.2 Integrated institutional framework

In many African countries, the administration of land posed almost intractable problems (Fabiya and Adesina, 1979). Firstly, the fragmentation of land administration decision among many ministries posed an 'insurmountable' problem for the development of an effective land market (Dale et al, 2002). On the other hand, many developing countries, lack separate administrative structure for the implementation of land policies especially in Nigeria, (Olayiwola and Adeleye, 2006). There must therefore be a clear lines of responsibility and accountability for decision about land and mechanism in place to ensure that such decisions are consistent with the national land policy as a whole (Dale et al., 2002). A vibrant legal basis will provide institutional support and guidance for efficient land market.

2.5.3 An efficient land registration and cadastral system

Appropriate documentation of land rights is important for efficient land market. Arnot and Meadow (2006) observed that uncertainties regarding the status of land documentation and delays in the process showed the development and land and property markets and make the development of lending difficult to advance or sustain. The importance of an efficient land market is the need to determine, record, and disseminate information about the ownership, value and use of land. If well achieved, may also contribute to the 'alleviation of poverty'. Advocating for an introduction of cadastral survey, Olayiwola and Adeleye (2006) argues that it

will serve as a basis for knowing the extent of the land each community, family and individual or other land owning unit possess. It recognised that cadastral survey is expensive; determination of ownership is messy and time consuming. But it is high time the countries took inventory of her resources, both human and materials. After it has been determined, who owns which piece of land; it is then necessary to document ownership through title registration. (Op cit). Dale et al (2002) advocates that each piece of land registered must be identifiable and the location of its boundaries known at least, appropriately to a level that is economically viable. According to them, the mapping must be fit for its intended purpose and be kept up to date to enable the register mirror what is on ground. The development of a map-based and textural system of registration is an essential pre-requisite for an effective land market.

2.5.4 Public and private partnership

Secure land markets are dependent on cooperation and partnership between the public and the private sector, though the overall responsibility for land administration should ultimately be retained by the state (Dale et al, 2002) this effort supports the goal of economic efficiency of land use because private owners presumably will act in their self interest to maximise their income from their investments in land. These efforts also supposedly stimulate the increased owner investment in their land which they make today (Stanfield et al. 2003). The partnership allows the government to shed some burdens or responsibility which might be effectively performed by the private sector and concentrate on key issues of land administration.

2.5.5 Human resource and professional skills

Embracing modern land market requires capacity building to provide the new skill necessary to support the market (Dale et al, 2002). Re-organisation of staff and offices, continuous staff training and the involvement of both in house and out-sourced professionals are identified by Arnot and Meadows (2006) as being necessary for efficient land administration in Nigeria. They provide the necessary link between political office holders and players in the market and also supply the input that drives the market.

III. Methodology

There is a fundamental lack of quantitative data available to support a meaningful econometric analysis at a time when rapid change is taking place in the Nigeria Property Market. This study is intended as an exploratory analysis of the nature, evolution and maturity of the Nigerian Property Markets and the identification of the perceptions of key issues for investment of those working in the markets. These qualitative comparative analyses explore attitudes and perceptions of local investors in several key property markets across the country. Key determinants used in this study are based on previous work undertaken by Keogh and D'Arcy (1994) in mature markets. These determinants are: market openness, professionalism, the presence of property intermediaries, information availability and standardization, development stability, flexibility, quality of property products and user and investor opportunities. The study also accessed the impact of institutional frame works in the perception of maturity.

Questionnaire and interview guide was designed to obtain data from property consultancy firms active in the City of Lagos-Nigeria with more concentration on interview due to time constraints. Nevertheless, information collected is reliable and objective in nature. Closed ended question style was utilized in the survey to extract information about the perception of the market in Nigeria. This was to enable the level of maturity and institutional environment to be assessed using the inferential statistics (X^2 -Chisquare). In addition, closed questions are used for group comparison and less time consuming to complete.

IV. Data

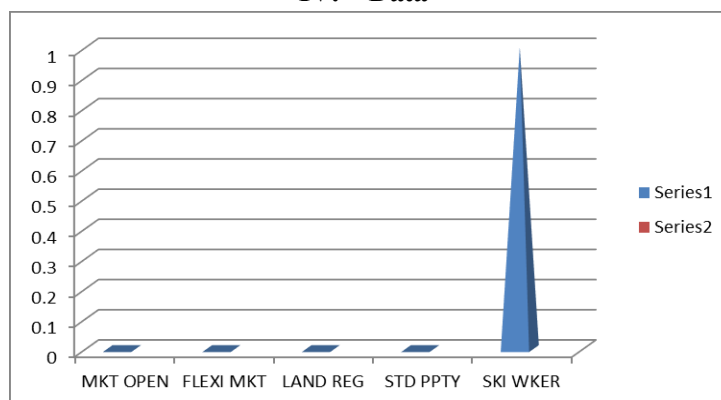


Figure 1: Source: field survey, 2009

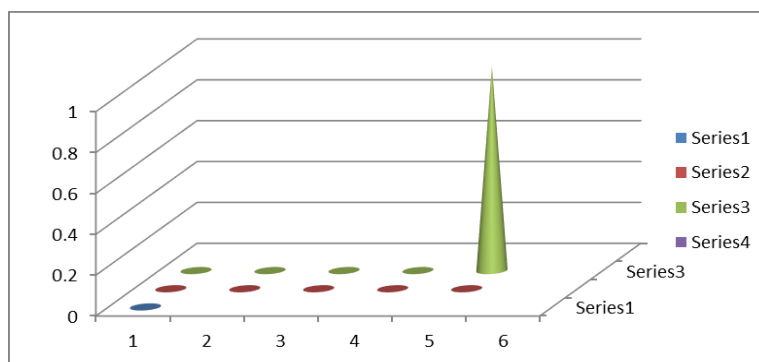


Figure 2: Source: field survey, 2009

Perception of respondents was sought about the extent of maturity of the Nigeria Property Market. The response was collapsed into binary numbers for ease of analysis.

The Data Tested were

- Market openness 1
- Flexible market 2
- Land/title registration 3
- Standardization of property 4
- Skill worker 5

Fig. 1 shows that only the skill workers, for example; the professional in real estate are evident in the Nigeria Property Market. While Figure 2 shows that the Nigeria market is yet to adapt or show evidence of maturity in its day to day activities furthermore, it asserts that with the existence of skill workers, and good political environment, maturity factors can emerge and be sustained in the Nigeria Property Market.

V. Discussion

An important prerequisite for sustaining the growth of emerging countries is the creation of an efficient land market which currently is not in existence in many developing countries like Nigeria. The absence of an efficient land market is a major panacea to housing problems. It is also a reason for continuous aggravated level of poverty as people and citizens are hampered or prevented from freely transacting business on land. Where land transaction is allowed, the conditions for perfecting transaction are difficult and uneasy to satisfy. In Nigeria, for instance, the requirement for obtaining governors consent for both partial and total transfer of interest in land is cumbersome. Currently in Nigeria, land market has been ineffective and inefficient, a trend that needs to be urgently reversed. The creation of an efficient land market where interest in land could be easily transacted is closely linked to a guaranteed access to land by all. Developing an appropriate legal policy, integrated institutional framework, efficient land registration and cadastral system, equal rights for women and minority group, public and private participation will be required for a successful land market. Survey showed that a sound financial and economic structure, and the strength and stability of the economy are perceived to be the most significant factors. Many of the respondents identified that investment activities generally follow economic trends while many market participants believed that the financial structure was one of the main problems that caused the property market immaturity, Also the cultural believe of the people in Nigeria that abhor sale of land is a factor. (i.e landed property are to be inherited by their children and grand children, so when they sell, they do so secretly and the transaction is not always registered or documented through governor consent).

Respondents also ascribed more weight to perceived corruption levels, urban form and cultural differences. Restrictions on foreign investment were also seen to be an important factor influencing property market maturity in Nigeria. In a mature market restriction on foreign investors entering the market would be minimal.

VI. Conclusion

Without reliable data, the Nigerian property markets remain trapped in a double feedback loop of supply and demand of investment. The country has experience poor international investment inflows into property sector caused by lack of investors' confidence, which is primarily due to low levels of research activities and poor information flows. As a result, data coverage and reliability remains low. The property markets continued to be perceived, as too high a risk for most investors and consequently, investment levels remain low. Nigeria property markets are therefore characterized by high level of immaturity due earlier stated

maturity factors that is lacking in the property market. Although with an enabling environment and institutional frame work, existing data could be built upon for market maturity emergence in Nigeria.

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