

AN EMPIRICAL ASSESSMENT OF REAL ESTATE FINANCING CULTURE IN NIGERIA: A CASE ANALYSIS OF A BANK IN AWKA

Benedicta Njideka Okafor

Department of Estate Management, Nnamdi Azikiwe University, Awka, Nigeria

*Corresponding author, email: bnj.okafor@unizik.edu.ng

doi: 10.17977/um066.v4.i12.2024.6

Keywords

Empirical Assessment
Real Estate
Financing Constraints
Nigeria

Abstract

This study investigated the problem of real estate financing in Nigeria, using the United Bank of Africa, Awka as a case study. The study adopted the questionnaire survey and interview methods in obtaining data from the bank. The findings of the results of the analysis carried out showed that Commercial Banks are not an ideal or suitable medium for financing real estate development because whereas Commercial Banks deposits are short term in nature, real estate is for long term which is usually vulnerable to vagaries in the economy like: changes in economic variables, interest rates, exchange rates and the rate of inflation; Commercial Banks are constrained in lending for real estate development because of several problems they encounter, like: high risks associated with real estate lending, the long-term tenor of real estate loan in relation to commercial banks short term short term deposits, the inability of potential real estate investors to meet commercial banks' lending requirement, non-repayment of loans by borrowers and fraudulent / dishonesty in information provided by potential borrowers. In the light of the foregoing, the following recommendations were put forth: 1. Government should establish a specialized bank to be known as 'Real Estate Development Bank' (REDB) like the Bank of Industry (BOI) whose function will be the sourcing of funds and on-lending such funds to real estate investors who must be registered with the National Association of Real Estate Developers, 2. Government should encourage the establishment of micro credit financial institutions for mobilizing of funds and lending to small- time real estate developers, and 3. Government should provide Commercial Banks guarantee for loans obtained by real estate developers who are duly registered and approved by the National Association of Real Estate Developers and the Nigerian Institution of Estate Surveyors and Valuers'. This way Commercial Banks will be encouraged to lend to the real estate sector.

1. Introduction

According to Okafor (2018), the primary reasons militating against real estate development and, by extension, housing the poor in Nigeria are low-income capacity, access to credit, land tenure system, high construction costs, low employment capacity of the economy, and lack of a National Housing Policy. Onyeka et al. (2024), however, opined that. In contrast, the availability of adequate finance in the private and public sectors of any economy is the hallmark of a meaningful, efficient, and productive property development. Often, funds for prompt property development are not readily available. He further asserts that factors such as limited individual incomes, especially in third-world countries, banks' paltry interest rates on savings, inflation, and government fiscal policies that sometimes hinder easy access to loanable funds from financial institutions hamper access to finance for real estate development. Vitalis et al. (2024) were, however, of the view that "unaffordable levels of interest rates on housing loans and shortage of long-term finance are the main constraints to housing delivery and the promotion of home-ownership." He asserted further that "much of the housing finance problems experienced are an unequivocal expression of cumulative distortions from policy weaknesses in the past.

Whilst a plethora of problems have been identified as constraining the development of real estate in Nigeria, there is an unequivocal and unanimous acceptance that the inability to access

credit/inadequate finance poses a more profound impact on the development of real estate in Nigeria. In Nigeria, it was not until the early '90s that studies began to point to finance as a more serious constraint than land for housing delivery (Okeagu et al., 2024). It is instructive to observe that the National Housing Policy of 1990 identified finance as one of the pillars of housing delivery. Okpala et al. (2024), however, assert that "before that time, researchers had always concluded that once the problem of land is put to rest, houses should be delivered".

The acknowledgement of finance as a critical variable that affects real estate development, as enunciated in the National Housing Policy of 1990, led to the promulgation of the National Housing Fund (NHF) Decree. Igbokwe et al. (2024) assert, however, that the National Housing Policy of 1991 is a socialist approach to solving the housing problem in a capitalist economy and cannot work. Another factor that has become a paradox in the country's quest for real estate development is the Land Use Act. Whereas the Land Use Act and the National Housing Policy were intended to make land readily available and accessible to all and sundry, unfortunately, the Land Use Act has become a significant clog in the wheel of real estate development in Nigeria. The Land Use Act, which was enacted to streamline the land tenure system in the country, vests ownership and radical title to all land in the Federation in the Governors of the respective States for easy management. However, the contentious issues of the Governor's consent for any subsequent transaction in land and the intractable government bureaucracy have made the procurement of land problematic, unnecessary, expensive, and unquestionably out of the reach of the poor" (Nwamekwe & Igbokwe, 2024, 2024). This study, therefore, examines the problem of real estate financing in Nigeria with a view to proffering solutions.

Commercial banks and real estate investors face numerous challenges in financing real estate in Nigeria. These issues make real estate lending risky, as it exposes lenders to the potential loss of the principal and expected interest income, making it less attractive to commercial banks and thereby hindering the development of the real estate sector. Problems encountered by banks: Okafor (2018) listed some of the issues from the banks' perspective. One common problem is borrowers providing false information. Often, borrowers pledge the same security to multiple banks, leading to legal disputes. Additionally, borrowers may default on loan repayments either intentionally or for other reasons, which has become a widespread phenomenon in bank lending and significantly deters banks from offering loans for real estate or other purposes. A loan default occurs when the mortgagor is unwilling or unable to make installment payments, rendering the loan vulnerable to classification as bad or doubtful debt; by law, such debts must be provisioned for in the bank's accounts, reducing profits. Defaults caused by rent below expected levels are less severe. Still, if default results from the diversion of rent pledged for loan repayment and servicing, the bank or mortgagee has legitimate concerns and may hesitate to extend future credit for real estate financing.

The freedom to pledge land, assign interest in land, or purchase land no longer belongs to individuals under the Land Use Act. Certificates of Occupancy (C of O) are largely controlled and overseen by the State and Local Governments, which allocate these rights of occupancy. Usually, banks consider them safer security for real estate loans. However, recently, the process of obtaining a Certificate of Occupancy has become unduly lengthy and complicated. The emphasis by banks on Certificates of Occupancy for lending purposes has also led to an increase in forgery cases. Additionally, checking the authenticity of a C of O at the Land Registry is often cumbersome. These factors discourage banks from financing real estate. According to Nwamekwe et al. (2020), the Land Use Act aimed to simplify land tenure systems in the country and grant ownership and a radical title of all land to the governors of respective states for easier management. However, issues such as the requirement for the governor's consent for subsequent land transactions and the complex government bureaucracy have made land procurement problematic, unnecessarily costly, and, quite often, out of reach for the poor.

Today, it is common for the mortgagor to make unexpected requests for extensions or renewals of mortgage terms before or at maturity. This creates a significant challenge for banks and can discourage them from funding real estate development. The ongoing economic instability is also a major issue for banks when lending for real estate projects. Most loans are taken out with the expectation of future returns. However, economic instability often causes financial projections to fall short, making it difficult for borrowers to meet their repayment obligations. In such cases, banks risk losing their capital and expected interest, which ultimately reduces their profits. As a result, banks

become more hesitant to lend for real estate development, a sector characterized by long-term projects and economic uncertainties. According to Nwamekwe et al. (2024), much of today's housing finance problems stem from cumulative policy distortions in the past. He further explains that the introduction of the Structural Adjustment Program (SAP) in 1986 required banks to lend a minimum percentage of their funds for housing at concessionary interest rates. This compelled lenders like state housing corporations and commercial banks to reduce their mortgage lending due to the low profitability of these loans. Although interest rates increased in later years, systemic distortions persisted. The combined effect of SAP measures was to limit the growth of the housing finance system for several years, as savings flows were hindered and financial development was stunted. As a result, credit for housing development increasingly relied on government support for long-term projects loans.

Potential real estate investors in Nigeria face significant challenges in securing bank loans, primarily due to stringent conditions tied to income levels and project feasibility. With the average Nigerian earning less than US\$350 monthly, many applicants struggle to meet banks' lending criteria (Ikegbusi et al., 2025). Additionally, overly ambitious building designs often include uneconomic features that escalate construction costs, making projects unviable (Ezugoh et al., 2023). Estate surveyors emphasize revenue-generating potential when recommending applicants, yet the mismatch between proposed designs and available funding frequently renders loan requests impractical (Egwu & Ekwe, 2024). An effective financing culture requires aligning income, design, and lending policies to enhance real estate development.

Nigeria is one of the countries with very high interest rates. Until November 2002, when the Central Bank issued a circular to commercial banks setting a maximum lending rate of 25%, lending rates were as high as 45%. High interest rates have been a significant constraint on the development of key sectors of the economy, such as manufacturing, agriculture, solid minerals, oil and gas, and housing. With the prevalence of high interest rates, investors in real estate development are discouraged from borrowing from banks. Even when they manage to secure loans at such high rates, the costs of development become very high, and in some cases, projects are not completed and are abandoned. Due to the high costs of construction materials, labor, and professional fees, potential real estate developers find it difficult to secure sufficient financing from banks to cover the full cost of their projects. This has significantly hindered the development of Nigeria's real sector.

2. Method

The study adopted the survey research design since it involved drawing sample from the population, which in this study is the United Bank for Africa (UBA) Plc. The research design was also longitudinal, as it examined the lending behavior of United Bank for Africa (UBA) to real estate development over the years. An interview recording schedule was designed and administered to obtain relevant information from the following bank management personnel involved in credit lending. They are DGM - Risk/Portfolio management, Senior Manager- Real Estate sector, Senior Manager- Credit/Marketing, Manager - Property department.

3. Results and Discussion

3.1. Problems Encountered By Commercial Banks In Real Estate Lending

Table 1. Data On Problems Encountered By Commercial Banks In Real Estate Lending

Problem	Frequency	Total	% of Total
Unduly lengthy process of perfecting title documents			
Inability of potential real estate investors to meet the bank's lending	1	1	25
Fraudulent/ dishonesty in information provided by potential borrowers			
Non-repayment of loans by borrowers			
High risk associated with real estate lending			
Problems of loan tenor in relation to bank's deposits			
All the above	3	3	75
Total	4	4	100

Source: Field Survey, 2024

From Table 1 above, 1 or 25 per cent of the respondents, the Senior Manager- Credit/Marketing, were of the view that the inability of potential real estate investors to meet the bank's lending requirements is the major problem the bank encountered in lending to the real estate sector. However, 3 or 75 per cent of the respondents were of the view that a combination of factors ranging from the unduly lengthy process of perfecting title documents used as security for credit, fraudulent/dishonesty in information provided by potential borrowers, high risk associated with real estate lending, non-repayment of loans by borrowers and the general inability of most real estate investors to meet the banks' lending requirement are factors that create problems for banks in lending to the real estate sector.

3.2. Assessment Of Banks' Requirements/Procedure For Granting Loans

Table 2. Response Assessment Of Banks Requirements / Procedures for Granting Loans

Assessment	Frequency	Total	% of Total
Too strict	-	-	-
Strict	-	-	-
Moderate	2	2	50
Not strict	2	2	50
Total	4	4	100

Source: Field Survey, 2024

From Table 2, 2 or 50 per cent of the respondents thought that the bank's lending requirements/procedures for granting loans were moderate in terms of the borrower's ability to comply with them. Similarly, 2 or 50 percent believe that the bank's loan requirements and procedures are not strict.

3.3. Assessment Of Commercial Banks' Role In Financing Real Estate Development

Table 3: Response On The Commercial Banks Role In Financing Real Estate Development

Assessment	Frequency	Total	% of Total
Very supportive	-	-	-
Supportive	1	1	25
Indifferent	1	1	25
Not Supportive	2	2	50
Total	4	4	100

Source: Field Survey 2024

According to Table 3, 1 or 25 percent of the respondents believed that commercial banks are not supportive in providing the finance needed for real estate development. While 1 or 25 percent of respondents were indifferent, 2 or 50 percent thought that commercial banks do not provide the necessary finance for real estate development. Interestingly, none of the respondents felt that commercial banks have been very supportive of efforts to develop the real estate sector. They argue that banks are not an ideal source of financing for real estate development, given the nature of commercial bank loans and their strong profit motives, especially given the perceived high risks associated with real estate lending.

3.4. Assessment Of Banks As A Medium Of Financing Real Estate Development

Table 4: Response On Banks As A Medium Of Financing Real Estate Development

Assessment	Frequency	Total	% of Total
Yes	-	-	-
No	4	4	100
Total	4	4	100

Source: Field Survey 2024

From table 4 above, 4 or 100 percent of the respondents unanimously agreed that Commercial Banks are not an ideal medium for financing real estate development. They argued that since

Commercial Banks borrow on short terms—meaning their deposits are short-dated—it makes it difficult to lend on long-term projects, which real estate lending usually requires. Additionally, they stated that real estate loans typically span an extended period, and this long-term nature makes repayment vulnerable to economic fluctuations. As a result, they claim these are some of the factors that make banks unsuitable for financing the real estate development sector.

4. Conclusion

The focus of this study is to critically appraise the role of commercial banks in real estate financing in Nigeria, with particular attention to the challenges that have constrained their capacity to provide credit for real estate development. The analysis finds that commercial banks have played a limited role in financing real estate projects, mainly due to the high risk associated with real estate lending. These perceived risks make commercial banks reluctant to commit funds to the sector, resulting in inadequate financial support for real estate development. Furthermore, the study reveals that commercial banks are not well-positioned to serve as the primary financiers of real estate development. This limitation arises from the inherent mismatch between the short-term nature of commercial bank deposits and the long-term financing requirements of real estate projects. Real estate investments are particularly vulnerable to fluctuations in macroeconomic variables such as interest rates, exchange rates, and inflation, which further heightens the risk exposure for commercial banks and discourages long-term lending to the sector. In addition, commercial banks face several operational and institutional challenges that constrain their ability to finance real estate development effectively. These challenges include the long tenure of real estate loans relative to the short maturity of bank deposits, the inability of many prospective real estate investors to meet stringent lending requirements, and the excessively lengthy procedures involved in conducting searches and perfecting title documents at state land registries and town planning ministries. Other critical constraints include borrower loan defaults and the prevalence of fraudulent or dishonest information provided by some loan applicants, both of which undermine banks' confidence in real estate lending. In light of these findings, the study proposes several policy recommendations to improve access to real estate financing in Nigeria. First, the government should establish a specialized institution, such as a Real Estate Development Bank (REDB), similar to the Bank of Industry, with the mandate to mobilize and on-lend funds to registered real estate developers. Second, the government should promote the establishment of microcredit financial institutions to support small-scale real estate developers through targeted funding mechanisms. Third, a legal framework should be introduced requiring commercial banks and corporate organizations to contribute a fixed percentage such as 2% of their profit before tax—to a Real Estate Development Fund, modeled on existing sectoral intervention funds. Key stakeholders, including the Federal Mortgage Bank, commercial banks, the organized private sector, the Nigerian Institution of Estate Surveyors and Valuers, and the Central Bank of Nigeria, should jointly manage this fund. Finally, the government should provide loan guarantees for qualified and registered real estate developers, which would reduce lending risks and encourage greater participation by commercial banks in financing the real estate sector.

Author Contributions

All authors have equal contributions to the paper. All the authors have read and approved the final manuscript.

Funding

No funding support was received.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

References

- Egwu, J. U., & Ekwe, N. I. (2024). Creating effective roadmaps for managing colleges of education to promote students' employability in a competitive society in Delta State. *NAEAP Journal of Studies in Educational Administration and Management*, 3(1), 70-85.

- Ezugoh, T. C., Agu, A. N., & Egwu, J. U. (2023). Quality assurance issues in the management of basic education in Nigeria. In *Emerging perspectives on universal basic education* (p. 259).
- Igbokwe, N. C., Okeagu, F. N., Onyeka, N. C., Onwuliri, J. B., & Godfrey, O. C. (2024). Machine learning-driven maintenance cost optimization: insights from a local industrial compressor case study. *Jurnal Inovasi Teknologi dan Edukasi Teknik*, 4(11), 2.
- Ikegbusi, N. G., Egwu, J. U., Okoli, C. C., Udegbe, C. C., & Ekwe, N. I. (2025). Influence of food insecurity on teachers' performance and motivation in rural public secondary schools in Adamawa State of Nigeria. *African Journal of Educational Management, Teaching and Entrepreneurship Studies*, 15(1), 529-551.
- Nwamekwe, C. O., and Igbokwe, N. C. (2024). Supply Chain Risk Management: Leveraging AI for Risk Identification, Mitigation, and Resilience Planning. *International Journal of Industrial Engineering, Technology & Operations Management*, 2(2), 41-51. <https://doi.org/10.62157/ijietom.v2i2.38>
- Nwamekwe, C. O., Chinwuko, C. E. & Mgbemena, C. E. (2020). Development and Implementation of a Computerised Production Planning and Control System. *UNIZIK Journal of Engineering and Applied Sciences*, 17(1), 168-187. <https://journals.unizik.edu.ng/ujeas/article/view/1771>
- Nwamekwe, C. O., Okpala, C. C., and Okpala, S. C., (2024). Machine Learning-Based Prediction Algorithms for the Mitigation of Maternal and Fetal Mortality in the Nigerian Tertiary Hospitals. *International Journal of Engineering Inventions*, 13(7), PP: 132-138. <https://www.ijeijournal.com/papers/Vol13-Issue7/1307132138.pdf>
- Nwamekwe, C., Ewuzie, N., Igbokwe, N., Okpala, C., & U-Dominic, C. (2024). Sustainable Manufacturing Practices in Nigeria: Optimization and Implementation Appraisal. *Journal of Research in Engineering and Applied Sciences*, 9(3). <https://qtanalytics.in/journals/index.php/JREAS/article/view/3967>
- Okafor, B.N (2018). Compliance with Road Setbacks Standards in Siting of Structures in Awka Capital Territory: Implications for Environmental Management. Unpublished Postgraduate PhD Research in Environmental Management: Submitted to the Department of Environmental Management, Faculty of Environment Sciences, NAU Awka Nigeria.
- Okeagu, F., Nwamekwe, C., & Nnamani, B. (2024). Challenges and Solutions of Industrial Development in Anambra State, Nigeria. *Iconic Research and Engineering Journals*, 7(11), 467-472. <https://www.irejournals.com/formatedpaper/1705825.pdf>
- Okpala, C. C., Ezeanyim, O. C., & Nwamekwe, C. O. (2024). The Implementation of Kaizen Principles in Manufacturing Processes: A Pathway to Continuous Improvement. *International Journal of Engineering Inventions*, 13(7), 116-124. <https://www.ijeijournal.com/papers/Vol13-Issue7/1307116124.pdf>
- Onyeka, N. C., Vitalis, E. N., Chidiebube, I. N., U-Dominic, C. M., & Chibuzo, N. (2024). Adoption of Smart Factories in Nigeria: Problems, Obstacles, Remedies and Opportunities. *International journal of industrial and production engineering*, 2(2), 68-81. <https://journals.unizik.edu.ng/ijipe/article/view/4167>
- Vitalis, E. N., Nwamekwe, C. O., Chidiebube, I. N., Chibuzo, N., Nwabunwanne, E. C., & Ono, C. G. (2024). Application of machine-learning-based hybrid algorithm for production forecast in textile company. *Jurnal Inovasi Teknologi dan Edukasi Teknik*, 4(12), 1-9.