Housing deficit, pandemic, recession, inflation - the way forward for Nigeria's real estate industry

By Noah Ibrahim

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Real estate has become a global asset class and, as a developing nation, the Nigerian real estate market continues to evolve at an impressive pace. This is owing to Nigeria's rapid population growth as well as the upward surge in the emergence of a more energetic, goal-driven, and technology-enlightened young working population.

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Young Nigerians are becoming more audacious in the pursuit of independence and are constantly channeling energy into taking risks and establishing companies of their own. They have the advantage of moving fast ahead of traditional, commercial, and residential shelter arrangements, and are quite adept in adopting the flexibility and economic benefits provided by shared living and working spaces instead. As a result of this, the real estate industry is forced to follow the trend and restructure as technology increases the power of consumers.

Alternative real estate options

The needs and preferences of the Nigerian populace will always change in response to economic changes, inflation, and others; property developers are expected to adapt their developments to meet the needs of the market. The growing demand for alternative real estate options for a new demographic-based economy like co-living spaces, crowdfunding, and even build-to-rent are new trends that cannot be ignored. Evolving the industry will require a collective effort of all stakeholders.

At a projected population of 263 million by 2038, the housing situation in Nigeria calls for immediate intervention. Today, the Nigerian real estate sector is faced with a housing crisis. The housing deficit in Nigeria is estimated at 17 million and growing at an average of 20% yearly and with the bulk of the pressure on urban communities for obvious reasons. The housing sector estimates an output of no more than 100,000 units per year to an optimistic 200,000 units per year, which covers only a fraction of the at least 700,000 units required per year to keep up with the growing population and urban migration. Furthermore, most new housing production caters to upper-income households, leaving an acute housing shortage for middle and lower-income households.

Delivering affordable housing

This challenge for the provision of affordable housing in the country can only be addressed by strategically planning to sustain growing communities. The Nigerian government is depending on several strategies for delivering affordable housing. The public housing provision remains a common approach, as states are looking to the private sector to address housing shortfalls through public-private partnerships (PPP) and targeted interventions.

With the recent pandemic, recession, and inflation, the Nigerian housing sector struggles even more. Following the Covid-19 pandemic, world economies are experiencing a downward slope that has caused a recession in many nations, affecting thousands of businesses worldwide, real estate included. A downward slope of the general business economic cycle is usually accompanied by a decline in the demand for properties; this means fewer people can afford to buy or build houses. Though the resulting effect is that prices of houses on sale drop gradually and as the economy gets tougher and demand slumps, but interestingly, the prices of rental houses increases. The recession forces the populace to pause all property purchases and focus on property rentals instead. Here’s why:

A rise in the inflation rate will usually result in a reduction in the selling price of properties mostly due to the slow turnover process, that is, fewer properties are being sold which leads to a higher volume of properties on the market and a corresponding increase in a competitive rate. The rental market almost always experiences growth. As the buying power of Nigerians reduces with the growing inflation, more people would rather continue to rent and wait for a more suitable time to buy a property. As more people seek rental options, the demand for rental properties increases, and we know from the concept of demand and supply that when demand goes up, supply reduces, and price increases. The average property owner will likely increase rent simply because there are more people willing to rent their property and they too will have to deal with the price hike of other products and services.

Another major reason for the dwindling performance in the property market may be the unstable nature of disposable income among buyers. GDP development over the last three years has been consistently listed below population growth, implying decreasing per capita income.

On the part of the developers, the property development sector is extremely responsive to economic changes and surviving in a recession can be a challenging task. There are varying factors that interfere with the pricing of a property, including infrastructure, land cost, cost of securing building approval, cost of construction materials as well as labour cost. All these costs are ultimately transferred to a buyer purchasing the property.

The way forward

The boom-bust cycle of real estate prices has caused developers and investors alike to consider a new residential scheme: 'build-to rent'. Build-to-rent has been around for a few years now, but, in the grand scheme of things, it’s still a relatively new concept. The build-to-rent scheme is designed with the intention of appealing to investors looking to play in the rental property market as opposed to long-term homeownership. This scheme can range from commercial to residential and also industrial property. In residential schemes, a developer builds mainly apartments, usually close to commercial and business districts, with the sole purpose of selling to investors that intend renting it to people in exchange for monthly or annual rent.

The build-to-rent scheme focuses on delivering housing solutions to renters across all demographics. As explained above, the current situation of the country has made homeownership difficult, the recession and inflation have caused a scarcity of funds, and purchasing a home has become an afterthought for the populace. Nigeria's annual inflation rate rose to 13.22% in August 2020 from 12.82% in the previous month, accompanied by high and volatile interest rates. Among the varying problems caused by inflation is the reduction in pricing power.

Development of affordable housing, transitional housing, and apartments, rather than luxury duplexes, accommodates more housing units, thereby making the houses more affordable to a larger group of middle-class buyers and home investors.

Also, with the provision of better mortgage financing by our financial institutions, investors won’t have to break the bank to purchase developed properties that they can easily place back in the market for rental returns. When the inflation rate is high and buying power is low, investors will naturally drift towards long-term payment than outright purchases.

Following these steps will help address the needs of renters, investors, developers, and all stakeholders in the Nigerian real estate market.

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