

# Financing Specialized Property Development in Rural Southwestern Nigeria: A Source Analysis

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**Abstract:** *The recent proliferation of sizeable buildings in the rural areas of Southwest of Nigeria where economic yardstick may not be the primary aim for such developments has continued to catch the attention of researchers. Specialized developments are so categorized because they are special by nature, size, design, land coverage, opulence and they are hardly sold in the open market. The properties are custom - built, and their types are rare: they should not have been found in the locations where they are sited in the first instance. Being so distinguished makes their appraisal to come with problems because the market data upon which to base their comparison with others are scarce and insufficient. This has made Valuers opt for advance methods such as Hedonic, Contingent and Artificial Intelligence Property Valuation Methods in their appraisals. This study centered at investigating the sources of financing such developments in the rural areas of the Southwestern part of Nigeria with the objective to determine if there are differences in the sources employed by property owners across the States in the region. Southwestern States are made up of six States sharing the same Yoruba language and of the same culture. Due to the spread of the region, Ondo, Osun and Ekiti States were sampled in the research. It was found out that owners of specialized developments in the region sourced their funding mainly from Commercial Banks, followed by Merchant Banks, Mortgage Institutions, and Insurance Companies in order of importance. The research also revealed that every development still has an element of personal contribution in form of equity contribution and that this runs throughout the lifetime of the development. A major problem that stares the owners in the face is the loan duration. Long term loans were found to account for 50% of the borrowed money, 33.3% are intermediate loans while 16.7% are short time; this however indicates that there is ample time at the disposal of owners to pay back borrowed funds.*

**Keywords:** Specialized developments, Rural Areas, Loan Duration, Financial Institutions, Artificial Intelligence Valuation, Valuers

## 1. Introduction

Real estate investment is peculiar in nature and wherever it is constructed, it requires vast initial capital outlay. Most of the time, owners depend on borrowed capital from the capital market for its finance either in an abridged format or fully as borrowed capital. In whichever way, recouping and paying back the borrowed money is paramount particularly to owners of specialized properties being considered in this research. Property owners all over the world are very concerned about the sources of funding their investments. Egolum, Emoh and Onyejiaka (2017), Kelly (2019), Lyons (2021) identified different sources of financing real estate development in the urban areas, this study wants to find out about the rural developments. Apart from the sustainability motive, property owners are also interested in the capital appreciation of the investments. In rural real estate investment, economic factors cannot be said to have much relevance. The concern therefore is how the interplay of non - economic factors such as religion, culture, class, status, tradition and friends influence can yield the expected result for owners in rural real estate investment.

A rural area are locations outside the cities or towns, areas that are non - metropolitan (Filani 1993, Haruna 2000, Akpan 2012). Unlike in the urban areas, properties in the rural areas rarely change hand in the market; capital

appreciation is very poor. The situation of poor demand in the property market has added to the risks faced, despite this, investment attraction to rural areas have continued to rise.

The non - economic motive of the developer has therefore started to gain upper hand considering the magnificent properties finding their ways to the rural areas. Fitzgerald (2021) emphasized on the importance of location. For investment properties, returns on rural real estate have continued to suffer uncertainty because of unstable market thereby causing a wide divergence between the expected income and realized income where such investments are for investment purpose.

### The Study Area

South - West Nigeria is one of the six geo - political zones of Nigeria. This zone is bonded together politically, culturally, educationally and geographically. The zone occupies a large portion of the Western part of Nigeria to the west of River Niger up to Atlantic Ocean to the south. It is made up of 6 States namely Ekiti, Lagos, Ogun, Ondo, Osun and Oyo States. This place has a population in the region of 47 million people (about 22% of the total population of Nigeria) with almost 51.4% living in rural areas. Out of the 6 Southwest States, 3 States of Ondo, Osun and Ekiti States were chosen for the study.



Figure 1: Map of Nigeria indicating the Six South - West States

Source: naijahomebased. Co

## 2. Methodology

Survey research designed using a well - constructed questionnaire where relevant questions were posed to the property owners in the study areas was adopted. Questions were made to centre on the sources of finance, loan duration, nature of equity contribution and ratio of equity to burrowed capital.54 property owners were sampled in the 27 settlements spread over 9 local Governments in the sampled 3 states. This is shown in table 1

Table 1: Sampling frame for property selected in the Study Area

State	LG Areas	Settlements	Sampled Buildings
Ekiti	Gbonyin	Aisegba	2
		Ijan	2
		Imesi	2
	Ido – Osi	Usi	2
		Orin	2
		Ora	2
Irepodun – Ifelodun	Afao	2	
	Igbemo Eyio	2	
Ondo	Akure North	Ita – Ogbolu	2
		Oba - Ile	2
		Igoba	2
	IleOluji– Okeigbo	Bamikemo	2
		Oke - Igbo	2
		Kajola	2
Idanre	Aponmu	2	
	Alade	2	
	Ofosu	2	
Osun	Boripe	Ada	2
		Ororuwo	2
		Egbejoda	2
	Obokun	Esa - Oke	2

	Oriade	Idominasi	2
		Ora	2
		Ikeji - Arakeji	2
		Erin - Ijesa	2
		Iloko - Ijesa	2
Total 3	9	27	54

Source: Authors compilation, 2023

## 3. Data Analysis, Discussion and Presentation of Findings

### 1) Responses to questionnaire distribution

The table shows the responses of the property owners to the questionnaire served, the analysed result is presented in Table 2

Table 2: Questionnaires Administered and Retrieved

S/N	State	L. G.	Settlement	Sampled Buildings	No Retrieved	%
1	Ekiti	3	9	6	18	100
2	Ondo	3	9	6	18	100
3	Osun	3	9	6	18	100
Total	3	9	27	18	54	100

Source: Researcher’s Pilot Survey, 2023

### 2) Financial Sources Employed by Property Owners for the Development of Specialized Properties in the Study Areas

Due to the nature of real estate investment particularly due to the size, land requirement, density of construction, use to be put and required finishing, understanding the sources of finance has become paramount. Table 3 presents the responses of the property owners on sources of funding adopted in the development of specialized properties in the study areas of the sampled states.

**Table 3:** Property Owners Sources of Finance and Loan Duration Employed to Develop Specialized Properties in the Rural Areas of the Sampled States

Sources of Finance employed	Ondo State	Osun State	Ekiti State	Aggregate
	Frequency (%)	Frequency (%)	Frequency (%)	Frequency (%)
Commercial Banks	3 (16.7)	3 (16.7)	3 (16.7)	9 (16.7)
Merchant Banks	3 (16.7)	2 (11.1)	3 (16.7)	8 (14.5)
Insurance Companies	1 (5.6)	2 (11.1)	1 (5.6)	4 (7.6)
Equity Contribution	8 (44.2)	7 (38.8)	9 (50.0)	24 (44.4)
Mortgage Institutions	1 (5.6)	2 (11.1)	0 (0.0)	3 (5.6)
Mixed Sources	1 (5.6)	1 (5.6)	1 (5.5)	3 (5.6)
Other Sources	1 (5.6)	1 (5.6)	1 (5.5)	3 (5.6)
	18 (100.0)	18 (100.0)	18 (100.0)	54 (100.0)
Loan Duration				
Long Term	10 (58.3)	9 (50.0)	7 (41.7)	9 (50.0)
Intermediate	5 (25.0)	6 (33.3)	6 (33.3)	6 (33.3)
Short Term	3 (16.7)	3 (16.7)	5 (25.0)	3 (16.7)
Total	18 (100)	18 (100)	18 (100)	18 (100.0)

Source: Field Survey, 2023: percentages are shown in parenthesis

The survey as displayed in Table 3 revealed the sources employed by the property owners in financing the development of the specialized properties. The table revealed that funding comes from hybrid of sources such as Commercial Banks, Merchant Banks, Mortgage Institutions, Insurance Companies, Investors Equity to even a mixed of these and other sources. The source of funding is a little complex. Property Owners in Ondo State were observed to depend mostly on Commercial Banks (16.7%) and Merchant Banks (16.7%) with some of them also burrowing from Mortgage Institutions (5.6%). The above notwithstanding, funding also conveniently relied on a mixed of all the other listed factors (5.6%) and other sources unlisted (5.6%). This shows that funding of real estate is not normally a “one off” thing, different means are adopted to achieve the purpose of investment. A very few proportions gets their funding too from Insurance Companies (5.6%). It should be noted that equity contribution is throughout the lifetime of the investment and represent 44.2% in the Table. The breakdown or analysis follows the same order for Osun and

Ekiti States. The loan duration talks about the length of time it took the developers to pay back the burrowed money. It is usually a condition given at inception. Questions were posed to the investors on the duration given. Long term loans accounts for 58.3%, 50% and 41.7% respectively. Intermediate loans stand at 25%, 33.3% and 33.3% respectively while short duration loans represents 16.7%, 16.7% and 25% respectively. On the average and with the loan duration for short term loan covering only 16.7% and medium - term loan being for 33.3%, it shows that there is ample time at the disposal of the investors to source and pay back burrowed funds particularly the long - term loans standing at 50% of burrowed funds. This study sought to confirm if there is no significant difference between the sources of finance employed for the development of specialized properties in the selected rural areas of the three States by the property owners. For this to be ascertained, Kruskal wallis (H) test was conducted and the result shown in Table4.

**Table 4:** Kruskawalis Test of Differences in the Sources of Finance Employed by the Property Owners in the Sampled States for Development of Specialized Properties in the Rural Areas

Sources of Financing Specialized Properties	Property Owners in Ondo State		Property Owners in Osun State		Property Owners in Ekiti State		Kruskawalis		
	WMS	Rank	WMS	Rank	WMS	Rank	Chi Square	Df	Sig
Commercial Banks	3.7321	1 <sup>st</sup>	3.5837	1 <sup>st</sup>	3.9798	1 <sup>st</sup>	48.053	5	.000***
Merchant Banks	3.2327	2 <sup>nd</sup>	2.6505	3 <sup>rd</sup>	3.4141	2 <sup>nd</sup>	22.214	5	.000***
Insurance Companies	3.0327	3 <sup>rd</sup>	3.4792	2 <sup>nd</sup>	3.3333	3 <sup>rd</sup>	88.859	5	.000***
Equity Contribution	2.1531	4 <sup>th</sup>	2.2765	4 <sup>th</sup>	2.404	4 <sup>th</sup>	148.692	5	.000***
Mortgage Institutions	2.0165	5 <sup>th</sup>	1.3311	6 <sup>th</sup>	2.0303	5 <sup>th</sup>	47.643	5	.000***
Mixed Sources	1.106	6 <sup>th</sup>	1.2542	5 <sup>th</sup>	1.7994	6 <sup>th</sup>	29.83	5	.000***
Other Sources	1.0283	7 <sup>th</sup>	1.0213	7 <sup>th</sup>	1.1032	7 <sup>th</sup>	64.632	5	.000***

Source: Field Survey, 2023: \*\*\*Significant[at]0.05

Table 4 considered all the major sources from which the property owners in the three Southwest States source the finance for the development of the specialized properties. The table shows that in Ondo State, Commercial Banks (WMS = 3.7321), Merchant Banks (WMS =3.2327) and Insurance Companies (WMS =3.0327) are the major sources of finance. These three sources are ranked 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> respectively. The three least considered sources are Mortgage Institutions (WMS = 2.0165), Mixed Sources

(WMS = 1.1060) and other undeclared Sources (WMS = 1.0283) which came in 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> respectively.

On the other hand, owners in Osun State declared that the main finance sources in order of ranking are Commercial Banks, Insurance Companies, Merchant Banks, Equity contribution, Mixed Sources, Mortgage Institution and Sales of Securities which were ranked 1<sup>st</sup> to 6<sup>th</sup> and with mean scores of 3.5837, 3.4792, 2.6505, 2.2765, 1.3311 and 1.2542 respectively.

Ekiti State developers were observed to source the finance in order after Ondo State with mean scores of 3.9798, 3.4141, 3.3333, 2.4040, 2.0303, 1.7994 and 1.1032 respectively.

The examined sources of finance employed showed that there are no statistical differences in the opinion of the respondents in the three (3) selected States of Ondo, Osun and Ekiti States with a significant level which is less than 0.05. Mere observation of the responses confirms this assertion too. Only in Osun State did Mortgage Bank displaced Merchant Bank for the 2<sup>nd</sup> position in rank, the difference is not significant.

#### 4. Conclusion

The study investigated the different sources employed by owners of specialized developments in the rural areas of Ondo, Osun and Ekiti States with a view to determining if the developers hold the same opinion as to the sources of financing their projects. With the recent upsurge in rural investment and realising that developments here cannot be for investment purposes, the interest therefore shown by this researcher in investigating the sources of funding. The result from this research therefore shows that all the respondent property owners in Ondo, Osun and Ekiti States depend on sourcing of funds for real estate development. This corroborates the nature of real estate investment being capital intensive and requiring a combination of sources of funding and debt financing. The research also revealed that the owners in Ondo sourced their developmental funds from Commercial Banks (16.7%), Merchant Banks (16.7%), Mortgage Banks (5.6%) and Insurance Institutions (5.6%). Most of the property owners in Osun State depend on funds from Commercial Banks (16.7%), Merchant Banks (11.1%) and Mortgage Institutions (11.1%). The Developers in Ekiti State got their funding from Commercial Banks (16.7%) and Merchant Banks (16.7%). It was also made clear that on the average, most specialized rural properties are financed through loans from commercial banks with merchant banks and Insurance companies taking 2<sup>nd</sup> and 3<sup>rd</sup> places. The following can also be deduced from this study: equity contribution or source is also important as a means of financing specialized rural properties; the loan duration showed that most of the loans obtained by property owners in the three States were long term loans (58.3%, 50% and 41.7% respectively). Intermediate loans stood at 25%, 33.3% and 33.3% respectively and short - term loans being 16.7%, 16.7% and 25% of the funds and that collateral securities are used as other form of support for the loans raised by property owners. However, since they only come as pledges made to give confidence to lenders that investors will pay back the borrowed money, the occurrence cannot be ranked as it entails some uncertainty. Property owners however rely on their Bank savings, other developments elsewhere, anticipated profit, jewelries or other personal effects as what can be pledged.

#### 5. Recommendation

The study's conclusions led to the following recommendations being made.

- Non - economic factors should be adequately considered while planning for real estate development.

- Mortgage facilities and funding should be more readily available for rural development.
- Government at all levels - especially the Local Governments should continue to encourage local real estate development and provide incentives for such developments as aids to rural growth and development.

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