

THE CHALLENGES OF GLOBAL ECONOMIC CRISIS TO HOUSING DEVELOPMENT IN NIGERIA

A.N Iroegbu; C.L Wogu ; K. Obialor and O.F.Nwanekezie

Abstract

At the beginning of the global downturn in the world economy, it was widely held view that Nigerian economic environment is insulated from its effects. However, recent happenings, consequent government pronouncements, newspaper articles, radio and television talks had since shown we are not immuned from the effects of the global economic crisis. This paper examined the challenges of global economic crisis to housing development in Nigeria with workable strategies to help Builders and Developers overcome this enemy. This among others include, that the professional builders should be project initiators and not back consumers.

Introduction

The world is passing through one of its most difficult period in what has been widely referred to as-Financial Meltdown (Bela, 2009). The capitalist financial system which has been forced on the world by the western has virtually collapsed. Smith (1991); Dutse (2008) as quoted in Bala (2009) Wrote that:

The capitalist principle of freedom of ownership once sacrosanct has also proved disasters and ruinously damaging for society in the west. He added that the collapse of the western market system brought about manifestation of contractions in their market policies and principles.

He also cited some of the obvious contractions as follows:

- (a) Previously profitable failed companies have been nationalized (e.g Northern Rock in UK and Bear Sterns in US).
- (b) Monopolies and anti-trust (or anti-competition) laws have been disregarded (e.g forced merger between Lloyds and HBOS in the UK).
- (c) Hundreds of billions of tax payer's money has been proved into the private banking system to lend money to commercial profit making financial institutions.
- (d) Interest rates contradicting 'sound' monetary policy (e.g. US, UK and Europe).
- (e) 100% of financial liabilities of private profit making companies (banks) have been guaranteed by governments (e.g Ireland).
- (f) Car manufacturing private corporations given credit guarantees to stimulate investment (e.g US).
- (g) Government has used tax payers money to buy shares in insolvent private corporations (e.g UK).
- (h) Government has nationalized house mortgage lending (e.g) Freddie Mac and Fannie Move bailouts in US).

According to Bala (2009) citing Dutse (2008), the global financial crises (or meltdown) started to show effects in the middle of 2007 and into 2008 – which was obviously a direct consequence of illegal and corrupt bankers. These bankers presented a scenario of an inflated exaggerated view of the US economy which is reflected by the level of cash in corporate books.

This allows the economy to appear much larger than its real size (Real Economy), which is based on the assumption that the real money will not be tapped into and therefore, it is possible to deal with an assumed larger (virtual) value for money. Example of such scenarios includes:

- (i) Banks borrowed even more money to lend out so they could create more securitization. Some banks didn't need to rely on savers as much then, as long as they could borrow from other banks and sell those loans in as securities, bad loans would be the problem of whoever bought the securities.
- (ii) Some investment banks (like Lehman Brothers) got into mortgages, buying them in order to securitize them and then sell on.
- (iii) Some banks loaned even more to have an excuse to securities those loans.
- (iv) Running out of who to loan to, banks turned to the poor; the sub-prime, the riskier the loans. Rising house prices led lenders to think it wasn't too risky; bad loans meant repossessing high-valued property.
- (v) Some banks even started by buying securities from others.
- (vi) Collateralised Debt Obligations (CDO) which are even more complex forms of securitization-spread the risk but were very complicated and often hid the bad ones etc.

Global Financial Meltdown: The Nigerian Case

At the beginning of the Global Downturn in the world economy, it was widely held view that Nigerian economic environment is insulated from its effects (Windapo, 2009). However, recent happenings, consequent government pronouncements, news paper articles, radio and television talks had since shown we are not immuned from the effects of the Global Economic Crisis.

The Nigerian economy, though currently, one of the strongest economics in sub-Saharan Africa, is expected to maintain its strength over the next few years. The Nigerian economy has been growing at a steady pace of over 5% for the past six years (i.e 2003-2009), and this represents the longest and strongest period of sustained growth in over two decades (Agusto Industry Report, 2006 cited in Windapo, 2009).

Growth according to Windapo (2009) is evident in all major sectors of the Nigerian economy including agriculture, oil and gas, communication, financial services, construction and real estate housing development. In the case of the real estate sector's performance, the Nigerian Real Estate Sector's (NRES)

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performance between 2001 and 2008 has been consistent with that of the economy. As the economy continues to recover from long term recession due to bad policies and mismanagement, there has been according to Windapo, a corresponding increase in real estate activities. According to Frank and Rutley as quoted by Windapo, the Nigerian property market is now showing signs of stabilizing as private sector investments enlarge and greater number of development projects are initiated.

However, the effects of the global economic recessions which started with the US sub-prime lending failures and which mortgage facilities were granted to consumers to purchase houses for which they couldn't amortize due to low incomes, jobs and so forth, is gradually creeping into the Nigerian economy (Windapo, 2009). Even, when the case of the Nigerian economy being immuned (with respect to the global economic crisis) came on board, the Nigerian government came out with positive statements to buttress this. This has now been found to be a false assertion because the global recession is now evident in the number of local companies that are folding up, the sector refusing to invest in viable development projects due to the amount of money lost in the stock markets and the "stimulus package", of Eighty Billion Naira given to the Nigerian Textiles by the Federal Government of Nigeria (FGN). The US sub-prime lending failure and its worldwide disastrous global effect in the mortgage and stock market has also slowed down investment in Housing Development in highly sensitive world economics, Nigeria not being an exception.

The Present Global Economic Situation

According to a survey released Monday 12th October, 2009 by (NABE) as quoted by Kolawole (2009), more than 80% of top economists believe that the recession that started almost two years ago is finally over. But most don't expect meaningful improvement in jobs, credit or housing for months to come.

The group (the National Association for Business Economics- NABE) asked 43 top economists last (i.e. September, 2009) month if they believe the battered US economy has pulled out of the worst US downturn since World War II. Those surveyed according to Kolawole (2009) include economists from leading Wall Street firms and major corporations, as well as from highly respected universities and research firms.

Thirty (35) five respondents, or 81% believe the recovery has begun. Only four (4) or 9%, believe the economy is still in a recession. The other four (4) say they're uncertain.

Economists in the survey forecast annual rate of 3% in the three (3) months that ended in September 2009, though the official reading of gross domestic product was not given. And all of the economists surveyed expect the recovery to be slow and painful, leaving many people and business feeling the effects of the downturn for years to come.

The only organization according to Kolawole (2009) that can officially declare the beginning or the end of a recession is the National Bureau of Economic Research (NBER). But that group according to him doesn't make any sort of declaration until months after the fact, in order to take into account final reading of various economic measures such as employment, income and industrial production. For example, the NBER didn't declare that the recent recession had begun in December 2007 until a full year after the fact.

The NABE survey results echo comments made by many other prominent economist who have recently said they think the economy hit bottom at some point this summer. Most notably, a recent statement from the Federal Reserve declared that economic readings, suggest economic activities has picked up following its severe downturn.

Still the NABE survey found that economists are forecasting lingering weakness in the labour and housing markets, and that the tight credit markets will continue to be a drag on economic growth into next year. Unemployment, which was at a 26 year high of 9.8% in September 2009, is forecast to hit 10% during the last three months of this year (2009), and stay there through the first quarter of 2010. By the end of next year, it's only expected to fall back down to 9.5%.

About 54% of those surveyed according to Kolawole (2009) don't expect the economy to regain the jobs it lost during the recession until 2012, while another 38% expect that to take even longer. Just three (3) of the economists that the NABE spoke (according to Kolawole) to expect these jobs to come back in 2010 or 2011. And many don't think the worst is over yet for housing either. About a third of economists believe that home prices won't bottom out until early 2010 or later, while a quarter of them believe the low will come in the fourth quarter.

Half of those surveyed expect the financial markets to continue to be a drag on the economy until next year, while 30% of them said that trend could continue into 2011. The NABE last surveyed economists in May 2009, and they were far less optimistic at the time (Kolawole, 2009).

In a related development, Obama (2009) said, "I want to be clear that probably the jobs picture is not going to improve considerably – and it could even get a little bit worse-over the next couple of months. Also, in another wide-ranging interview, the IMF's Managing Director Dominique Strauss- Kahn, according to Bayagbon (2009) discussed the out look for the global economy, the threats to social stability from rising unemployment, and the role of the International Monetary Fund (IMF) in a post-crisis world.

Reiterating concerns he (Strauss-Kahn) according to Bayagbon (2009) first voiced in a speech at the Bundesbank in Germany on September 4. Strauss-Kahn said he was concerned about "the third phase of this crisis," namely high unemployment. The IMF is expecting unemployment to continue rising through next year as economic growth falls short of potential. Also in an edited version of

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a video interview, on what it will take for a firm recovery to take hold, Strauss-Kahn (2009) said:

Our forecast is that a global recovery will take place during the first half of 2010. There are some good figures which have been released during the last few months so it may happen even a little sooner than that. But if we have in mind that the global economy will only fully recover when unemployment goes down, then it will take more time. Because as everybody knows, there is some delay between the time when growth comes back and the time when the employment situation improves.

The Challenges of the Global Economic Crisis to Housing Development in Nigeria.

The global economic crisis has posed challenges to Housing Development in Nigeria in the following ways:

- (1) Securing Finance for Housing Projects:- According to Akinwale (2008), the limitations imposed by the International Credit Crunch will make this goal seem unachievable. Developers are reporting excessive credit restrictions, banks are cutting off credits and loans for viable new housing projects.
- (2) Declining Property Values: - The value of property are either declining or stagnant. According to Windapo (2009), a property in Chevron Area Lekki, Lagos, sold last year October, 2008 for N120 million is not even getting an offer of N80 million today (June, 2009). This according to Windapo has made investment in housing development unattractive and unviable to prospective developers.
- (3) Reduced Purchasing Power of Consumers:- The sale of properties-housing inclusive, has been slow. Due to low purchasing power, lack of credit facilities and poor credit history, low income, redundancy and unemployment, housing consumers are not able to make effective demand for houses.

Strategies to Help Builders and Developers Overcome This (The Global Economic Crisis) Enemy

According to Umoru (2009) president Umaru Yar'Adua, speaking in Abuja at the official launch of the flag-off campaign for patronage of Made in Nigeria products maintained that our industries have closed down because of lack of patronage. According to him, Nigerians must exhibit that patriotism by going for goods manufactured in the country if Nigeria must counter the effect of the global economic meltdown where people will be gainfully employed. He (president Umaru) disclosed for example, that the government was boosting the textile sector with an additional N30 billion Naira, said with this, the dedicated Textile Development Fund would now move from 70 billion naira to 100 billion Naira.

Represented by Vice President-Goodluck Jonathan, the president explained that the additional 30 billion Naira was a further manifestation of Federal government's commitment towards revitalizing the ailing industrial sector of the economy. According to him:

This Campaign therefore is certainly one of the measures meant to counter the negative effects of the global economic crisis on our manufacturing sector. It is akin to what the Central Bank of Nigeria (CBN) is doing to ensure that our banks remain afloat in spite of the current global financial meltdown the world over.

With a population of over 140 million people, Nigeria's market is big enough to sustain a bubbling domestic industrial sector if only Nigerians look inward at their local products.

By these, what Mr. President is saying, is that we must take measures to re-orientate ourselves to value what we produce in order to develop a strong and virile industrial base.

Blaming the current global economic and financial crisis on the lack of purposeful regulations and the inability to bridle greed associated with capitalism, Moghalu (2009) identified the lack of effective regulations and failure of corporate governance as the reasons for the country's financial crisis. He stressed the need for stakeholders in the financial sector to have a clear understanding of issues relating to corporate governance and ownership control. He also maintained that mortgage institutions in the country should be repositioned.

Again, in what could pass for an indirect indictment of his predecessor, Prof. Chukwumah Soludo, the Central Bank of Nigeria (CBN) Governor, Mallam Sanusi Lamido has admitted that the apex bank erred in the charge of its duties last year, when it created the impression that the country was immune to the impact of the global financial meltdown that hit the world economy like a thunderbolt. The governor who gave a keynote address at the Nigerian Economic Summit Group (NESG) in Lagos, according to Ogbonna (2009) said:

The Nigerian economy would have benefited from the current financial sector reform if it was executed between October and November 2008, when other leading economies like the United States of America, the United Kingdom, France and other nations were going through the horrendous experience of the global economic reforms.

He explained for instance, the level of attention the current reform is generating across the globe which would have been lost by the fact that other bigger economies were going through the same process. He said that the issue of sacking bank chiefs or injecting bailout out funds would not have generated the kind of attention that it is having now.

Conclusion

The challenges of the global economic crisis are being felt in many sectors of the country's economy including, the banking sector. Based on this,

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banks are now finding it difficult (very difficult) to approve loans for housing development, and this to a great extent has affected the development in housing. Also, with the deteriorating values of most houses, coupled with the low purchasing power, it becomes expedient that workable strategies be made to help Builders and Developers overcome this enemy.

Recommendations

If we must counter (the enemy) the effects of global economic crisis, the following must be observed:

- (i) The Professional Builders should be project initiators and not laid back consumers.
- (ii) Most projects are presented to potential investors while they are still in the “idea state”. In order to get the attention of the financial institutions, developers must convert ideas into fully developed projects and show how the various risks identified will be addressed.
- (iii) Ensure there is a plan to put in place the necessary technology, management and the resources available to succeed.
- (iv) Identify obstacles early enough and look for the solution on time.
- (v) Have feasibility and Viability study reports and cash flow statements.

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