

Integrating Factors Of Housing Affordability As A Scheme In Governmental Policies

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Abstract—Many households in Nigeria, particularly the urban dwellers, are experiencing housing stress. This is because of affordability, which is the capability to pay for an adequate housing. Affordability examines the cost, technology and the form of housing available to a group of people within their income. On the other hand, studies have shown that, the household income and housing price are the primary determinants of housing affordability. This paper examines the factors that can be integrated in housing policies in Nigeria. This paper is a review of existing literature from Journal, article, books, and internet on housing affordability problems that relate to household income in Bauchi metropolis and other parts of Nigeria, particularly within the low income groups who buy or rent houses provided by private developers is presented. The result shows that the provision of public housing is an important aspect in the housing sector for all income groups, but most especially for those in the low income group. In conclusion, all of the discussed information are essential to providing understanding and conceptualization of the study area for integrating the factors of housing affordability as a scheme in governmental policies in Nigeria.

Keywords—Housing; affordability; policy; sector; Nigeria.

I. INTRODUCTION

Housing is not only a basic necessity of life; it also has a profound and universal impact on many aspects of human lives. Housing is the principal setting of personal, family, and community life. Usually, spending on housing is the largest element of most households' budgets and the influence on the budgets is not only in the kind of housing, but also on how much the households have left for other necessities [1]. For so many years, Nigeria has been experiencing rapid economic growth especially in major cities of the country, such as Abuja, Lagos, Kano and Bauchi to mention but a few. With the fast economic growth, it has cause the rapid development in the real estate market and also increases the migration, size of

population, and the level of income. [2]. All of these growths have much contributed to the housing market by the increase in the demand for housing. The household income and housing price are the primary determinants of housing affordability. Therefore, [3] has conducted a research to identify the housing affordability by using the household incomes and housing price to evaluate the households' affordability in Beijing, China. It is well known that the principal component of most households is spending a large sum of money on housing budgets [2]. However, with the substantial increase in housing price, it poses a threat to the housing affordability of many households especially the low income group [3]. Affordability is the most frustrating problem in the housing scenery. Many households are concerned about it because affordability affects their ability to become or remain a home owner, and as well, the size of the house and the amenities they are able to purchase. Even though, the Government of Nigeria again reviewed its housing policy in 2004 with the aim of ensuring that every citizens of the country could own at least a decent, safe and healthy housing at a reasonable price housing affordability as a scheme in governmental policies is still lacking.

II. LITERATURE

A. Housing Affordability issues in Nigeria

Many households in Nigeria, particularly the urban dwellers, are experiencing housing stress. This is because of the problem of affordability which is the capability to pay for an adequate housing. Affordability examines the cost, technology, and the form of housing available to a group of people within their income. Household income is usually apportioned to a variety of contending purposes like education, clothing, food, transportation and other essential needs in order to sustain a healthy and decent living in a particular socio-cultural and economic environment. All these issues are of major concerns in the Nigerian situation in terms of affordable housing.

Shire [4], argues that housing stress occurs when the budget for housing negatively impact on the capability of the household to meet other vital

requirements. Like the situation of a house price to a household income in Imo State where [2] argues that the ratio of the market value of a 3-bedroom bungalow in Owerri; which costs (N5, 000,000.00) approx. (RM97, 650.00), compared to the average annual salary of a fresh graduate (i.e. Level 8 Officer) in the Civil Service of Imo State, Nigeria, which is (N261, 631.50) approx. (RM5, 109.66) is about 19:1, as at January 2007. This and many more have been suspected to contributing immensely to the problems of why many public servants in Bauchi state cannot afford to own a house, especially the staff of the educational institutions in the study area; and this had become a burden to their lives.

According to [5], who opined that it is most likely that the problem of the people who cannot afford to own houses are associated with the low level of their income.

B. Definition of Housing Affordability

Housing affordability as a term elicits the connection between household income and household spending on housing costs [7]. Research has shown that there has been a decline in housing affordability in many housing sectors in the world, particularly in major cities of many countries of which Nigeria is not left out. Though, it has been noticed that many reasons can be adduced for the shortfall in affordable housing [8]. According to [9] housing is arguably the most extensively debated topic in any cosmopolitan nation.

Affordability of housing requires the securing of a standardized housing at an exchange (price) that does not engender undue pressure on household income in the eye of the government [3]. According to [11], affordability to a large extent is the financial capacity of a person to make provision for and increasing the propensity to acquire something. It reflects the ability of the people to purchasing or renting houses. Following [12], housing affordability is a situation where people have a reasonable propensity to save a portion of their income to acquiring a house and at the same time be able to cater for other needs in their active period. Housing affordability is measured by household income and expenditures and as a concept, it considers a number of components such as the conditions of the housing market, the distribution of housing price, the ability of household to borrow, government policies, housing quality and income [13].

III. METHOD

This paper presents a review of existing literature on housing affordability from Journals, articles, books, and internet as well as discussion with authorities in the field of Housing Mortgage as shown in Figure 1 and these were categorized based on existing policies in order to integrate factors of housing affordability in governmental policies in Nigeria.

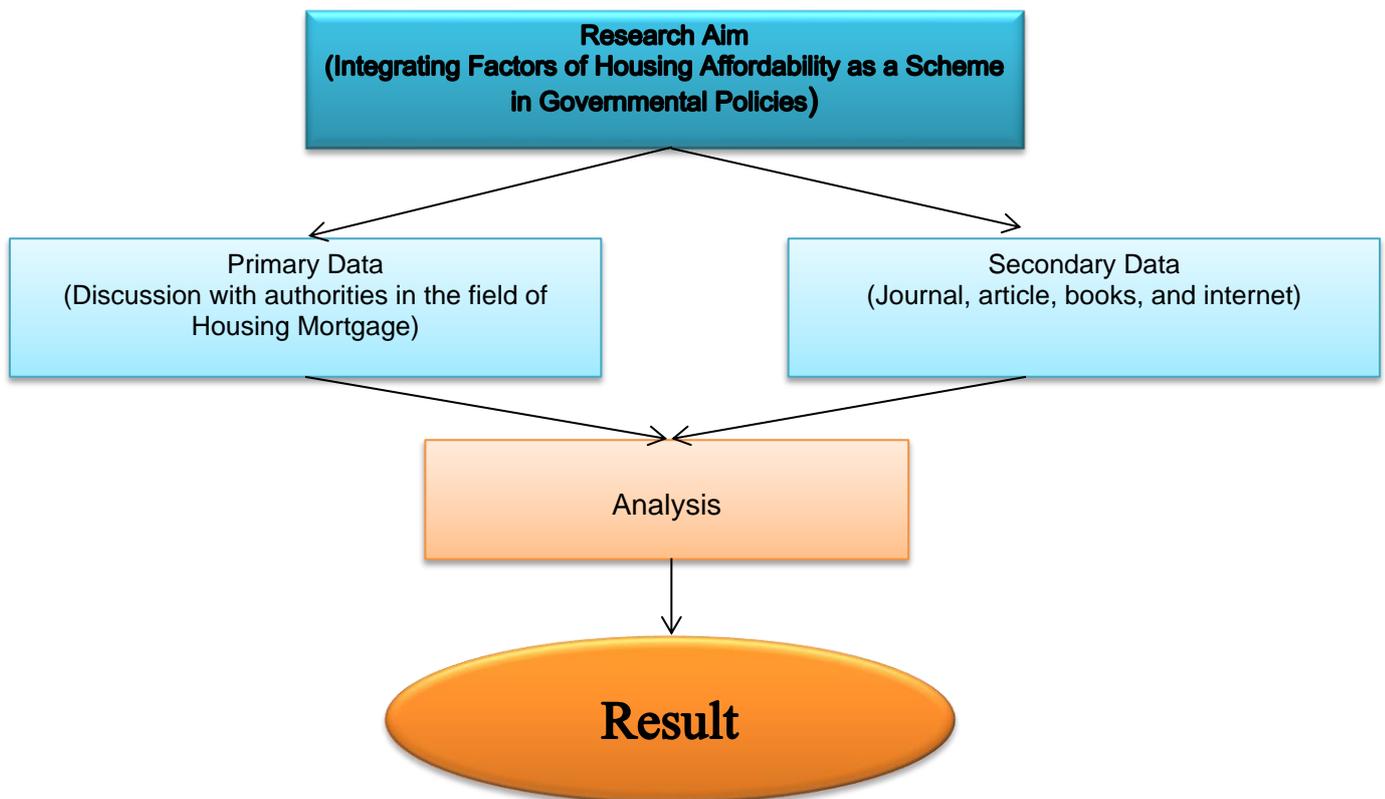


Fig 1. Research Outline source Research field work

IV. RESULT AND DISCUSSION

A. *The Mortgage Industry and the National Housing Fund*

A colonial mortgage firm in Nigeria, the Nigerian Building Society, was changed to Federal Mortgage Bank of Nigeria (FMBN) in 1976. FMBN developed to be the nucleus of the mortgage industry in Nigeria. The Mortgage Organization's Decree No. 53 of 1989 rationalized the housing finance scheme. A two-phase loan facilities for construction was established with the FMBN at the highest main mortgage institutions () at the second tier. As such, the performance has been recorded as being below expectations and there was no consideration for bringing public servants into confidence in solving the present state of housing problems.

B. *Measuring housing affordability*

The study of affordability is as challenging as having a grasp of the components of affordability itself. Actually, the discussions on affordability as illustrated earlier on means that, the measurement of problems can be associated with contested knowledge of the problem. To further grasp the term housing affordability, one needs to underscore it as that cost or costs that maintain the appurtenance of the mortgage against the income of the individual. This further lays credence to the policy specifications of 30% of income expendable on housing. Spending beyond income for home ownership, could impact negatively on an individual's ability to meet other areas of needs. Housing affordability could pose more severe issues when looked at in the light of the following: transport, employment, health and other consumption trade-offs that couples, singles and sole parents would have to cope with, while trying to make needed adjustments to their varying circumstances against increasing housing costs and low income [14].

The problem consistent with affordability is that there is no one best way of assessing the characteristics and extent of affordability problems. Rather, the important factors are to be laid down, with which policy formulation will be addressed. Moreover, policy matters need to be formulated with the best fit strategies that will follow through, considering the trends in the housing market and to be able to provide regulations for the industry [15]. So many researchers had identified various methods that can be used to measure housing affordability. Different countries and researchers are using different measurements or housing indicator to achieve the level of affordability. However, most of the researchers preferred to use ratio measurement and residual income measurement as the method to evaluate housing affordability.

Although there are many types of housing affordability measurements, however, [15] categories affordability measurements only into two broad groups and named them as shelter first and non-shelter first measures. According to [15], the shelter first approach is most common and relates the household's housing costs to their income in percentage terms. The method assumes that housing has first claim on the household budget, and other expenditure is met from the

remainder. Conversely the non-shelter first approach assumes that other expenditure has first claim, and housing cost come out of the remainder.

C. *Affordable Housing*

According to [16] and [17], they recoil on the challenge of obtaining affordable housing concept of affordable housing is not to involve the ability of a household to obtain housing facilities. It is understood to mean that affordability of housing can be built around income and the price of housing. It is also generally accepted that a household should not spend more than 30% of its income on rent. Also, [18] posits that affordable housing refers to a household's ability to pay for a house.

The concept of affordable housing refers to that part of the income that must be spent on housing, its appurtenances and other household expenses. In another way it is looked at from the stand point that does not impact negatively on the remaining part of the income. In other words, it must not go beyond 30% of the total income limit. According to [19], the "30% limit becomes the basis for assessing housing finance, and by implication a pointer to financial risk. The key inference that can be drawn from the foregoing discussion is that housing affordability describes the one major aspect in the totality of the attributes housing has; which enables it meet a wide range of physiological, psychological, social and economic needs of users within various social, economic, cultural, environmental and political contexts [19].

This means that housing affordability is among the multi-dimensional concepts that can be viewed in many different ways according to individual perspective and circumstance. Thus, it could be concluded that what constitutes adequate housing in one context may not necessarily be considered as adequate housing in another context. But, housing affordability is the key component of adequate housing, which must comply with health, safety and habitability standards [19]. Therefore, the concluding observations on housing affordability by [20] is that the indices based on real housing user costs or rentals, provide more credible information on affordability than it does in indices based on housing acquisition costs. However, the estimates of housing affordability require value judgments as well as estimates of housing costs [8].

D. *The importance of housing affordability*

The importance of Housing affordability is crucial not only for the costs borne by individual homeowners and households, but for the wider costs and responsibilities shouldered by the society at large and the economy. Scholars most often have looked at this issue primarily for its impacts on society in many of their researches, such as frequent moves by those with housing affordability problems, which can bring about social imbalance. However, the economic burden requires that more attention be given to the importance of housing affordability. In analyzing the economic and social impact, [7] identifies housing affordability as having a potential impact on economic outcomes in many ways. Firstly, that it can affect the

macro economy; secondly, that the absence of affordable housing can impact negatively on the efficiency with which labor markets works, both at the national and regional levels, and largely in the metropolitan urban areas such as Australia. Thirdly, housing affordability has a critical effect on the way resources are in society, and can bring about social and economic imbalance due to inequitable distribution of resources. Therefore, the stability, efficiency, and equity of the economy could be improved through workable housing affordability.

Perhaps [20] recognizes the simplest definition of housing affordability to be based on the ratio of house prices to income. He gave an example of the Productivity Commission (2004) who estimated the ratio of the median house price to the average per capita income and realized it rose from about 6 in the mid-1990s to about 9 in 2004 for the Australian as a whole [14]. Yates et al,[7] tries to estimate a fourfold growth in this ratio between 1960 and 2006. Meanwhile the measure of affordability relates house prices to individual rather than to household income, thereby making it a relative measure. Despite all these, neither of these reports define a house price to income ratio that is affordable. Researchers have often emphasized on the housing difficulties faced by the low earning brackets in the population. This concern is the more entrenched by the uncontrolled increase in the value of real estate, anticipated buying, unemployment, low earning capacity and the absence of policy. Another reason can be reached; and that can be seen in the departure in structural design from the Brazilian forms of housing to single family houses and flats as the factors responsible for the major shortage of housing for the lower earning groups [21].

E. Housing Financing

At this point it is important to consider the various sources of funds available to civil servants, to enable them own a house of their own, either through purchase or through building a house for themselves. Following [22] "Property development as an economic activity has always been considered traditionally to be the responsibility of the benefiting individual." The period of mortgage financing has grown and by implication, the modern approach to housing finance has gone beyond individual and group financing to government, financial institutions, and the capital market [2]. Brett [23] emphasizes that financing home ownership comes in different ways. They could be from individual savings over time, loans from financial institutions and government programs and assistance on housing policy. The Capital market would be best suited for large companies that are into estate and should not be delved into in detail. There are two fundamental sources of finance for mortgage. They are debt and equity finance. Debt finance associates with the monies and credits available to carry out projects, while equity finance looks at the credits and capitals that are raised internally by investors on a risk and reward sharing basis [2].

The categorization of housing finance in developing nations is placed into formal and informal sources [24]. While [25] categorizes the above as traditional and

conventional sources, and went on to state that the traditional sources are structured informally, lack uniformity in the way they are operated and are not structured within government regulations [2]. The traditional and informal systems operate by mutual agreements and contributory structure where resources of agreed specifications are pulled into a common purse and delivered to the agreed member. This process is agreed upon and is structured in a cycle and ends when the last member has received his/her bulk contribution from the rest [24]. This traditional system allows for a rotating structure and members that are unable to continue can be replaced with new members that will be placed in the cycle of disbursement of pulled resources [2].

V. CONCLUSION

The issues on housing affordability problems that relate to household income was analyzed based on the result from the literature reviewed and the discussion held with some stakeholders. Even though the majority occupying the study area are the low income groups who buy or rent houses provided by the private developers or the Bauchi State Government as well as from others in other parts of Nigeria. Therefore, the provision of public housing is an important aspect in the housing sector for all income groups but most especially for the low income group. In conclusion, all of the discussed information are essential parts to providing understanding and conceptualization for integrating the factors of housing affordability as a scheme in governmental policies in Nigeria

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