



“THE ROLE OF THE REAL ESTATE IN CAPITAL MARKET DEVELOPMENT” AN OPENING SPEECH BY MS. ARUNMA OTEH AT THE NIGERIAN INSTITUTION OF ESTATE SURVEYORS AND VALUERS (NIESV) SEMINAR AND FELLOWS NIGHT ON JANUARY 28TH, 2011

Distinguished members of the Nigerian Institution of Estate Surveyors and Valuers, ladies and gentlemen. I am honoured to be the Chairperson on this occasion of the fellows night of this highly respected and reputable Institution. I am pleased to be opening this event by discussing even though briefly an issue which is so topical, important and germane to the development of Nigeria at this time. The paper titled "The role of the real estate in capital market development" is not a Nigeria specific issue but relevant to most economies including advanced, developed, emerging and frontier markets of the world.

My objective therefore this evening is to identify some issues both generic and specific that relate to the topic, and provoke the thought of the participants. I am optimistic that at the end of the paper there will be a debate which will increase the understanding of Nigerians on this critical issue, thus elevating the level of discourse which unfortunately and regrettably has remained relatively sub-academic.

For ease of understanding and for the sake of consistency, I am going to use the term real estate almost interchangeably with housing. I am sure you experts will pardon my over simplification or better still generalization in the use of these very specialized terms.

As we know from the works of Maslow, generally described as the hierarchy of needs, shelter is one of, if not the most important, need after food, water and clothing. Therefore the question of shelter is both in its

historical and contemporary context extremely important. For example, there is hardly any political manifesto in democratic elections across countries that do not contain promises on how to improve housing. Therefore as we share thoughts tonight, I want you to see this discussion in the context and perspective of its importance to all stakeholders, the politicians, policy makers, economists, sociologists, investors and markets.

I will like to step back and take a look at the correlation between, housing or property and political stability. In the 18th and 19th century Europe and the supremacy of the capitalist state, we are able to trace in part most revolutions and wars to the disaffection of the landless middleclass or the Bourgeoisie. It was the landless Bourgeoisie that fuelled the anger of the people against the ancien regime in France. This as you all know led to the storming of Bastille and violent revolution of 1789. The use of the guillotine and the execution of so many aristocrats. As you all know, this revolution resulted in the rise of Napoleon Bonaparte, and thrusting Europe and North Africa into the Napoleonic wars which ended in 1815 with battle of Trafalgar and Waterloo. The extent of the war which some have described as the real first world war shows how vulnerable society is to crisis when you have a middleclass who have no property and possibly nothing to loose.

I have taken pains to draw this correlation and analogy between civil strife and landlessness to highlight the negative effect of ignoring the housing needs of society.

In more modern times and closer to our business, we can say that most portfolio managers will tell you that real estate holdings are one of the four most important asset classes. No portfolio that seeks to achieve diversification as well as hedge against inflation can afford to be underweight or ignore real estate. In fact in the latest asset mix recommendation of J. P. Morgan and Goldman Sachs, real estate is a good 5% of a defensive portfolio. In an aggressive portfolio real estate is allocated 10%.

Having taken pains to establish the importance, relevance and critical nature of this sector, I will now like to show how these phenomena are relevant to Nigeria.

Nigeria, with a population estimated by some at 130million, has 17million households. Property in Nigeria is mainly and tightly held by the landlords who are generously estimated at less than 5% of the population. Thus over 90% of urban Nigeria are tenants. Also there is no organized or efficient mortgage finance business.

Thus most working or emerging middleclass people have no hope of chance of ever raising finance to buy or build their own houses. Estimates are that the shortfall of housing in Nigeria is 17million. A programme to bridge this gap will lead to an investment of no less N59.5trn (which is approximately 180% of GDP) in direct construction, building materials and ancillary infrastructure requirements. If you apply an investment multiplier of 10% on this the impact on GDP is N5.95trn which is very significant.

On the funding and supply side the story is more startling. There is approximately N2trn of pension assets in Nigeria, with only a meager exposure to real estate. On the other hand, P7 countries (the leading nations in the pension space) have an exposure of approximately 17% to alternative assets (including real estate). Some emerging economies including the BRIC nations have an average of 17.4% exposure to the sector e.g Brazil 13%, Chile 10%, S. Africa 7%.

If Nigeria on one hand increases national savings and pension contribution and simultaneously its commitment to real estate the result and impact on economic growth, capital market development and national stability will be phenomenal. Its impact on jobs and downstream benefits are beyond any imagination.

As a regulator of the capital markets on the one hand and a policy maker on the other, I see the development of a virile real estate market as a major precursor to a large and buoyant capital market in Nigeria. Our broad goals remain to make the Nigerian market one of the most attractive destinations of capital in the world. This goal will be difficult if not impossible to accomplish without the lifting and advancing of the real estate and construction sector. The fixed income securities market a major pillar of our capital market development strategy will be greatly enhanced by the availability of investment outlets by asset managers in real estate and mortgages. In most advanced markets in the world the mortgage market is mostly larger than the consumer debt market and other markets. It is therefore unfortunate and regrettable that the

mortgage market in Nigeria is premature, undeveloped and a fringe segment of this large economy.

I do not want to sound unrealistic by suggesting that there are no obstacles on the path of these developments. These include the Land Use Act, the fundamental weaknesses in the savings culture and the availability of long term and affordable funding. I am pleased to note that all of the above are being addressed at this point in time. My role this evening therefore is to raise these issues, provoke thought and allow for a healthy and functional debate on how to approach these challenges.

In conclusion, I will like to draw from the words of a champion of housing the poor, Professor Mabogunje one of our few experts on housing and who has been globally recognized and acclaimed, said in his paper titled "Public Housing Delivery in Nigeria, A Historical Perspective of Policies and Programmes" "There are at least five powerful factors involved in the housing crisis and which are no doubt beyond an individual's control, namely population growth, rapid urbanization, natural disasters, political upheaval and persistent poverty"

While the record of government intervention in the housing sector in Nigeria looks quite impressive, policies are rarely or haphazardly implemented. In other words, Nigeria seems to be long on policy, but very short on implementation. Thus one can easily argue that there have been many lofty initiatives but the lack of political will has been a major barrier to progress. Therefore there is the need for the government to muster the necessary will and make more concerted efforts to address and solve for

the majority of citizens twin problem of shelter and better living conditions. I am therefore pleased to declare this event open and I wish the participants a very healthy and positive debate on the issues which are of national importance.

Thank you.

Ms. Arunma Oteh