

Problems and Prospects of Forward Sale in the Nigerian Housing Market: *A Critique of Policy and Modus Operandi*

*Olayinka C. Oloke¹, Abiodun S. Oni¹, Adebayo A. Oletubo¹,
Afolashade O. Oluwatobi¹

¹Department of Estate Management, College of Science and Technology, Covenant
University

Km 10, Idiroko Road, Canaanland, Ota, Ogun State, Nigeria

Corresponding Author's Email: yinka.oloke@covenantuniversity.edu.ng

Michael A. Olukolajo

²Department of Estate Management, School of Environmental Technology, Federal
University of Technology, Akure, Ondo State, Nigeria

DOI Link: <http://dx.doi.org/10.6007/IJARBSS/v7-i4/2832>

Published Date: 12 April 2017

Abstract

One way of dealing with the challenge of demand uncertainty in property market is the use of forward sale. However, despite the huge demand for housing in Nigerian urban centre, it appears that the strategy is not popular with the demand base as expected. This study therefore examined the challenges of forward sale in the Nigerian housing market. This was achieved by reviewing the institutional policy provisions and operational guidelines within which forward sale transaction is conducted in Nigeria. Existing studies in this regards were reviewed while the opinion of three categories of respondents, the developers, buyers and estate surveyors and valuers in the Metropolitan Lagos State were obtained with the use of structured questionnaire. The percentages of options of responses were ranked. The study found that while developers prefer to harness the benefits of forward sale optimally, buyers are reluctant to use the method. Different challenges were responsible for this situation amongst which is the lack of policy protection for the buyer's thereby exposing them to developer's default, poor construction quality or delayed implementation. It was suggested that government regulate forward sale market to improve buyer's confidence thereby providing developers with unhindered access to development fund at no cost.

Keywords: Forward Sale, Housing Market, Policy, Modus Operandi, Prospect

1.0 Introduction

Finance is the backbone of real estate development and constitutes a vital requirement for a successful project implementation. It is the sum of all items of cost right from project initiation through planning, execution to completion. It entails the costs of acquiring land, procuring professional services, undertaking all necessary feasibility, viability and impact assessments, the cost of procuring building materials, labour and equipment as well as the cost of engaging the building contractors. Thus, finance constitutes a key input at every stage of project execution and the success of any real estate development project depends largely on client's access to steady supply and sufficient capital. Many projects are uncompleted or abandoned principally because of the inability to access finance or to raise sufficient capital for the project. Availability and access to steady finance give investors the innovative, technological and competitive edge among others and ensure timely completion and delivery of projects. Timely completion and delivery on the other hand preserve the monetary value of anticipated profit from the project and in order to ensure this, investors have explored different sources of financing development projects. These sources include loan from financial institutions, credit unions, sales and leaseback, real estate investment trusts, private equity financing, mortgage, securitization and unitization, finance lease, pre-letting, equity capital as well as forward sale (Hines 1995; Emoh and Nwanchukwu 2011).

One popular source of project finance in Nigeria is loan from financial institutions, prominent amongst which is the bank loan. However, in recent times the use of loan has been made difficult because of the high rate of interest, cost of loan management, bureaucratic processing procedures, collateral requirements and unstable economic situation. In Nigeria, the use of loan from financial institutions especially commercial banks is a common practice among investors in Nigeria property market and this is usually augmented with private or joint equity capital as well as public equity capital which could be derived from forward sale of property. Forward sale, although, popularly used in America, Europe, United Kingdom, Asia market like Singapore, Malaysia, Hong Kong, Taiwan, Japan, China as well as South Africa, much is still not known about its popularity as a source of financing real estate project in Nigeria. Also known as pre-sale or sale before completion, forward sale entails selling of new developments to the end users, well before completion and apart from the transfer of financial risk and discovery of market value of properties, pre-sale has many other advantages over loan finance which include access to smooth and sufficient fund, make fund available in time without interest and minimize cost overrun. Despite these attractive attributes, project development landscape in many parts of Nigeria today is characterized by delayed, uncompleted and abandoned projects resulting from lack of finance. It is in the light of the foregoing that this study beams the searchlight on the challenges and prospects of forward sale as a means of real estate project finance in Nigeria with a view to improving its acceptability and effectiveness in the Nigerian housing market.

1.1 Statement of the Problem

Evidence abounds today that the demand for real estate products in many urban centers across Nigeria exceeds supply. For instance in the housing sector, studies have shown that Lagos state alone needs an average of 224,000 housing units per annum to alleviate the challenges of housing shortage while Nigeria as a whole is in need of a minimum of 17 million housing units (Federal Ministry of Lands, Housing and Urban Development (FMLHUD, 2012). Despite the huge demand several housing projects undertaken by many investors are either

delayed or abandoned. Real housing project execution for many investors has become a nightmare because of the escalated cost of capital. In Nigeria, the cost of obtaining loan from financial institution is high and discouraging and has led to cost overrun especially where the amount involved is huge. Moreover, fluctuations in market indices such as inflation, exchange rate and building material prices often result in cost overrun thereby eroding the anticipated profit and increasing the risks. Consequently, lack of steady access to sufficient fund has crippled many projects and led to project delay or abandonment. Although, forward sale is presumed to have the potential of overcoming these challenges by making capital available early and ensure quick absorption in the market, its seemingly passive and unpopular nature among potential buyers in the Nigeria housing necessitated the conduct of this study.

1.2 Theoretical Framework

This study was anchored on the theory of financial development and economic growth. The theory according to Levine (2005) states that financial development occurs when financial instruments, markets, and intermediaries ameliorate – though do not necessarily eliminate – the effects of information, enforcement, and transactions costs and therefore do a correspondingly better job at providing the five financial functions. Thus, financial development involves improvements in the

- (i) production of ex-ante information about possible investments,
- (ii) Monitoring of investments and implementation of corporate governance,
- (iii) Trading, diversification, and management of risk,
- (iv) Mobilization and pooling of savings, and
- (v) Exchange of goods and services.

The theory further posited that each of these financial functions might influence savings and investment decisions and hence economic growth. Since many market frictions exist and since laws, regulations, and policies differ markedly across economies and over time, improvements along any single dimension may have different implications for resource allocation and welfare depending on the other frictions at play in the economy (Levine, 2005). Essentially, the level of development of forward sale as a financing instrument in the Nigeria property market, its perception and acceptability among the public investors, developers and government is not clear. This study therefore considers it a priority to unravel the instrument with a view to ameliorating market frictions that have hindered the use of forward sale in the Nigerian property market.

2.0 Review of Related Concepts

2.1 Real Estate Finance

Real estate finance remains the foundation of meaningful development of every nation around the world. Unfortunately, it been a critical issue as most of the times, it is either not available, accessible or not enough for the purpose. Financing real estate becomes an issue because of the huge capital required to execute capital projects as well as the level of risks involved. Many times, the capital requirement of a proposed project is far beyond the financial capacity of the investor thereby necessitating that the investor look elsewhere to raise the fund. Clauretje and Sirmans (2006) described real estate financing as the process of acquiring funds or capital specifically for the purpose of development in order to gain mastery over assets. On a broad term, real estate finance deals with the study of markets, institutions and instruments used to transfer money and credit for the purpose of developing or acquiring real property. Real property in this context refers to the powers, privileges and rights

connected with the use of real estate while real estate is the land and all moveable and on it. Since property development in particular involves huge capital expenditure, financing is therefore an essential factor, the nature of which is to provide capital to enable the enterprise operate commercially.

Development in real estate according to Ogedengbe and Adesopo (2003) generally means the process of carrying out the constructional works, which are associated with a change in the use of land or of land with its buildings, or with a change in the intensity of the use of land, or with a re-establishment of an existing use. Real estate development projects can take different forms such as the development of a new block of houses or the transformation of former industry sites into a multifunctional centre. Sometimes these projects are completed rapidly, while some take years or even decades depending on the availability, ease of access and adequacy of capital (Gehner, 2008). The availability, adequacy, accessibility and affordability of finance has significant impact on the viability of such project. In order to generate funds for capital development, investors often explore different financing strategies that would not only offer easy access but also at the lowest possible cost. Hence, the knowledge of the different sources of finance in the financial market is very important so as to reduce the overall exposure to risk and maximize profits on the investment.

2.2 Strategies for Real Estate Financing

In real estate development, finance is the lifeblood of every project conception. It is the critical factor that determines whether a proposed development would commence, on-going project continues or discontinued. Nkyi (2012) observed that real estate is a capital-intensive investment and developers often face challenges in accessing finance to complete the various stages in their development process. Other challenges require the one concerning allocation of scarce resources (land, cash, lines of credit, and the like) to various land uses at different periods so that the value of the developers' benefit flow is optimized. As such, financial strategies have become an efficient instrument for providing real estate developers/investors with the necessary financial proficiency to actualize the proposed development and enhance their operations. Financial strategies according to Bender and Ward (2002) involve the raising of funds needed by an organization in a cost effective manner and managing the funds within the organization. This entails identifying the potential sources of finance, the cost of procuring the fund from each source and the ultimate method(s) adopted to ensure minimum cost and optimal profit. A good finance option would be affordable, convenient and secured.

Over the years, different studies have identified different sources of finance. For instance, Hines (1995) identified six methods of real estate finance that are commonly used across the world. These are mortgage financing, unsecured institutional lending, joint venture equity and debt financing, sale-leaseback financing, advance payment of key money, and sale of securities. Omuojine (1993) also identified five methods of funding real estate. These are equity capital, loan, mortgage lending, and debenture and contractor finance. Various other methods of real estate development finance includes as suggested by different authors include sales and leaseback, lease and leaseback, partnership, forward funding, forward sale, joint venture, pre-letting, securitization and unitization, bank loan, bridging or mezzanine finance, finance lease, convertible mortgages, mortgage debenture, loan syndication (College of Estate Management, 1994; Emoh and Nwachukwu, 2011). It is therefore observed from the above that apart from the use of borrowed capital or private fund, other funding arrangements have been developed and explored over the years in response to the need to

meet the huge capital requirement of project development at reduced cost. Amongst such is forward sale.

2.3 The Concept of Forward Sale

Forward sale, also known as forward contract, pre-sale, sell-then-build or simply forward has been described as a contractual agreement where the contracting parties agree on price at the date of sale of the property which is still under construction, but only transferred to the assignee only at a certain period later, typically at the date of completion (Chau, Wong and Yiu, 2003). Forward sale is a risk-sharing strategy that involves the raising of development finance by selling the project to the end users or interested buyers before the commencement or completion of the project. Leung and Hui (2005) states that a forward property contract presents an agreement between a buyer, i.e. the investor, and a seller, i.e. the developer, that the buyer commits to buy a property to be completed in the future at a specified price, usually the date of completion of the construction. Developers attempt to sell their uncompleted properties through the use of forward contracts at the planning or during construction stage in order to enhance their financial leverage of large-scale developments. This practice according to Leung and Hui (2005) has been popular in cities with high rates of population growth like Kuala Lumpur, London, Toronto, Singapore, Beijing and Hong Kong. Forward sale according to Chang and Ward, (1993) is also practiced in Asian countries such as Hong Kong, china, Taiwan and south America. Chau, Wong and Yiu (2003) opined that a presale contract is a form of real forward contract that differ from the highly standardized commodity or financial futures traded in a centralized market. It is also observed that most of the studies that exist on forward sales are from Asia, Europe and North America (Wong, Yiu, Tse and Chau 2004). Empirical (published) studies on the use of forward sale in Africa and Nigerian in particular property market are hardly available.

2.4 Policy Guideline and Arrangement of Forward Sale Transaction

Though, the goal of forward sale is the same regardless of the market it is used, the arrangement of forward sale transaction often differ thereby affecting stakeholder's opinion and acceptability among concerned stakeholders in a particular country or region. Chang and Ward, (1993) observed that it is mandatory in Asia for developers to complete a specific part of the development before they can pre-sell to the public, while in Brazil, the developers have to report to certain authorities by submitting the material quality and quantity, the plan of the projects and other necessary specifications pertaining to the building. As soon as these requirements have been met, pre-sale of the residential units can start even if development has not begun. In Hong Kong, government introduced several anti-speculation measures to curb the activities of speculators. These measures according to Chau, Wong and Yiu (2003) include;

- First, permitted period of forward sales by developers was shortened to no more than 9 months
- Second, the government restricted developers' sale methods by reducing the quota for private sales from 50% to 10% of the number of uncompleted. The rationale was that "[private sales] fuelled speculation since the vast majority of such buyers is not end-users"
- Third, the government discouraged short-term trading through increasing trading costs. Stamp duty (a kind of tax) was imposed on the transactions of the Agreement

of Sale and Purchase (ASP), rather than on the subsequent transactions of the Deed of Assignment

Renaud, Pretorius and Pasadilla (1997) remarked that all these restrictions constituted significant disincentive to deter purchasers from adopting aggressive short-term investment strategies in the primary housing market then. In addition to this however, the government of Hong Kong introduced consent scheme to guide the sale of uncompleted properties in the forward market (Leung and Hui, 2005). With this, government moved to protect the interest of potential buyers in the pre-sale market. Under the scheme, the major requirements that developers must meet include:

- i. Legitimate documentations are required to show the developer's financial ability to complete the development
- ii. Solicitor of the developer will hold the money as stakeholders. Payments only be made to the work certified by the architect as having been expended
- iii. Finalized sales brochures and price lists are required to be made available to prospective buyers and the government before commence of the property sales.
- iv. Purchasers may either rescind the agreement or receive compensation if the buildings are failed to be completed on or before the date specified
- v. Warranty must be made by the developer to ensure that "the building work is done in a good and workmanlike manner, that the materials used are good and proper."

It was observed that since the introduction of the Consent Scheme, forward property buyers have received certain protections against unscrupulous developers though they admitted that forward property risks that have to be borne by the buyers cannot be totally eliminated by the Scheme (Leung and Hui, 2005).

In Nigeria, Oni (1991) opined that forward sale is perceived by the public as an aggressive form of property marketing which became popular following the increasing dearth of development finance, the difficulties of securing fund from financial institutions, the whooping lending rates and the short term repayment period. In doing this, developers aimed at reducing their exposure to loan capital by generating fund from the huge base of potential buyers. Securing fund via presale reduces time lag between project completion and subsequent sale, ensure early repayment of borrowed fund, secure additional fund for development and ultimately reducing the overall cost of finance. Therefore, in order to harness these benefits, developers try as much as possible to package the proposed project in such a way that promotes its marketability. Each developer determine what is packaged for presale to the public though they all agreed to the conditions that should be met before they could proceed to secure public interest and commitment to the project. These conditions are as outlined subsequently that the developers must have;

- procured and secured the site for the proposed development or partner with land owner
- gotten the bill of quantity of the project
- carried out feasibility and viability study of the proposed development
- ascertain the overall cost of the project
- carried out the soil test and have a soil test report
- got ready the design of the proposed development
- secured necessary title documents to the land such as the certificate of occupancy, survey plan
- secured necessary approval for the proposed development such as approval for the

- architectural design, structural, mechanical and electrical designs, layout plan etc
- obtain necessary planning and building permits
- a clear plan of project implementation schedule and definite period of delivery
- secured the services of building contractors and other professionals required for the project
- clear the site and construct prototype unit(s) for feedback from potential buyers
- produce and display architectural or animated model of the proposed development
- secure a reliable financing partner

Having met these conditions, the developer or their appointed marketing agent then print the brochure, fliers or hand bills and advertise the proposed development in print and electronic media to the public. They also proceed to the market to secure public interest and commitment to buying into the project. While the steps outlined above are very important to engaging forward sale contract, it is evident that government intermediation in form of regulatory or policy framework as observed in presale arrangement in Hong Kong, Brazil and Asia at large is lacking. There is no government intervention in whatever manner to midwife forward sale transactions or regulate the market in order to insulate it from arbitrary defaults, speculative motives and vulnerability to (advance fee) fraud. In order to boost public confidence in the use of forward sale, there is need for government intermediation. In the Nigeria housing market, the use of presale method is initiated, developed and designed to the terms and conditions of the developer without any input from the public or government or prior consultation with potential buyers.

3.0 Research Methods

Two sources of information were used for this study. The first was the extant literature on the subject and the second source was data gathered through the use of structured questionnaire administered to three categories of respondents; the Real Estate Developers, Estate Surveyors and Valuers and prospective buyers of residential properties all in Lagos State. Moreover, carefully structured interview guide was also administered to the developers and estate surveyors and valuers to elicit more information on certain areas. The twenty-six estate developers in Lagos State listed on business.com.ng/companies/estate-developers were used. Also, the 54 firms of Estate Surveying and Valuation in Ikeja, Lagos State obtained from the directory of Nigeria Estate Surveyors and Valuers (2014) was used for the study while 3 potential buyers were also accessed through each of these firms. The choice of three client (potential buyers) of the estate surveying and valuation firm was based on the advise of principal partners of the Estate Firms for ease of administration, co-ordination and retrieval. Previous journal articles were reviewed to find out the policy framework guiding the use of forward contract in other countries and in Nigeria. Forward sale arrangement, policy guideline, challenges and solution were also examined. Descriptive analytical tools such as frequency and percentage were used to obtain the perception of the various challenges. The percentages are then ranked in order of significance or impact. The ranking of the developers, estate surveyors and potential buyers are presented in Table for ease of comparison.

4.0 Results and Discussion

4.1 Response Rate

The pattern and rate of response to questionnaires administered to each category of respondents are examined in this section. This is summarily presented in Table 1

Table 1: Response rate

Respondent class	No Distributed	No Retrieved	Rate of Response
Developers	26	20	77%
Estate Surveyors and Valuers	54	46	85%
Potential Buyers	162	119	74%
Total	242	185	76%

Table 1 shows the rate of response to questionnaires administered to each category of respondents. It was revealed that the rate of response from each category is well above average and is sufficient enough to make decisive conclusion about the subject of study. Based on advise of the Estate Firms, the number of questionnaires administered to the potential buyers housing units was restricted to three for ease of administration, co-ordination and retrieval. This also contributed to the 76 per cent overall rate of response achieved from the three categories of respondents.

4.2 Characteristics of Respondents

Table 2 provides the characteristics of respondents under each category. The characteristics examined include the sex, age, highest education, marital status and employment status. The analysis reveals that male respondents dominate all categories of respondents while majority of respondents are also within the age of 41-50years across the respondent groups. Moreover, majority of respondents across the group are married and with minimum of 11 years of work experience. The dominating male respondents among the potential buyers is a pointer to the fact that most male are responsible for providing shelter for their household while this also attest to the fact that the profession of estate surveying and valuation are male dominated in the study area. All respondents from the developers are male and this could also be due to the nature of real estate development job. That majority of potential buyers are married shows that many of these respondents desire to put their family under a roof owned and belonging to the family. The fact that majority also have not less than 11 years of work experience in their respective profession also gave credibility to information provided on the subject as such period is deemed long enough to commence and conclude a housing project using forward sale contract agreement.

Table 2: Respondents Characteristics

Characteristics	Category	Potential Buyers		Estate Valuers		Developers	
		Freq	Rate(%)	Freq	Rate	Freq	Rate
Sex	Male	92	77	33	72	20	100
	Female	27	23	13	28	0	0
	Total	119	100	46	100	20	100
Age	31-40	11	9	11	24	-	-
	41-50	68	57	26	57	10	50
	51-60	31	26	9	20	10	50
	Above 60	9	8	-	-	-	-
	Total	119	100	46	100	20	100
Highest Education	SSCE	-	-	-	-	-	-
	Diploma	-	-	-	-	-	-
	First Degree	89	75	38	83	6	30
	Post-Grad	30	25	8	17	14	70
	Total	119	100	46	100	20	100
Marital status	Single	3	3	-	-	-	-
	Married	102	86	46	100	20	100
	Divorced	-	-	-	-	-	-
	Separated	8	7	-	-	-	-
	Widowed	6	5	-	-	-	-
	Total	119	100	46	100	20	100
Employment Status	Public	36	30	-	-	-	-
	Private	72	61	46	100	20	100
	Self	11	9	-	-	-	-
	Total	119	100	46	100	20	100
Years of Experience	1 – 10	23	19	12	26	-	-
	11 – 20	79	66	27	59	8	40
	Above 21	17	14	7	15	12	60
	Total	119	100	46	100	20	100

4.3 Developers' Preference for Project Financing Method

Respondent developers were requested to indicate preferred source of financing development projects. Responses were analysed and presented in Table 3. The Table revealed that among the different sources of finance identified, forward sale is the most preferred followed closely by joint venture equity and debt financing which ranked 2nd and 3rd respectively on the ranking table. This implies that developers would prefer to minimize their exposure to the harsh terms and conditions that surrounds loan from financial institutions and other sources of debt capital by opting for equity fund whether via public window or private coffers where this is available. This also is an indication of why forward sale is often used by developers especially for large development projects.

Table 3: Preference for Project Financing Method by Developers

Source of development finance	Frequency	Percentage	Ranking
-------------------------------	-----------	------------	---------

Mortgage financing	12	60%	4 th
unsecured institutional lending	9	45%	5 th
joint venture equity	16	80%	2 nd
debt financing	13	65%	3 rd
sale-leaseback	8	40%	6 th
forward sale	20	100%	1 st
sale of securities	7	35%	7 th
contractor finance	8	40%	6 th

4.4 Buyers' Preference for Acquiring Properties

In this section, potential buyers were requested to indicate their choice of acquiring a desired (residential) property in a desired location given the opportunity to buy on the spot or in advance. Response were analysed and presented in Table 4.

Table 4: Potential Buyers Preference for Acquiring Properties

Potential Buyers	Forward buy at discounted price	Spot buy at market price	Indifferent	Total
Number	33	75	11	119
Percentage	28%	63%	9%	100%

The analysis showed that majority of potential buyers indicated that they prefer to buy on the spot at the prevailing market price after the property might have been completed while 28 percent indicated that they would buy in advance to take the advantage of the discount. However, 9 percent were indifferent, that is they could choose to use either approach to acquire the desired property depending on their perception of the circumstances surrounding each approach. The high percentage recorded for spot buy could be attributed to the fact that it gives the buyer the opportunity to verify all necessary documents, inspect and be sure it meets the quality desired by the buyer while the low percentage recorded for forward buy showed that majority of respondents doubt the capacity and will of the project sponsors to deliver the project to time and specification. It is implied based on this result that forward sale might not be able to provide the entire capital required for the proposed development.

4.5 Challenge of Forward Sale in the Nigerian Housing Market

The challenges confronting the use of forward sales in the Nigerian property market were identified and respondents were requested to indicate their choice as regards their choice. The frequency of the choices of each class of respondents were converted to percentages and ranked accordingly. The analysis was presented together in Table 3 for ease of comparison. From the analysis, it could be observed that there are variations in the way each challenge is perceived among the classes of respondents and among the respondents of each category. This is reflected in the rankings of each of these challenges.

Table 5: Challenges confronting the use of Forward Sale in the Nigeria Property Market

Challenges	Developers			Estate Valuers			Potential Buyers		
	Freq	Perc	Rank	Freq	Perc	Rank	Freq	Perc	Rank
Low construction quality	5	25%	8 th	32	70%	4 th	91	77%	5 th

Use of substandard building materials	5	25%	8 th	27	59%	5 th	97	82%	4 th
Finishing mismatch	3	15%	10 th	15	33%	9 th	65	55%	9 th
Decoration mismatch	-	0	12 th	10	22%	10 th	21		13 th
Inaccurate, insufficient and misleading information	4	20%	9 th	21	46%	7 th	97	82%	4 th
Payment default	19	95%	1 st	39	93%	2 nd	91	77%	5 th
Developer's default	7	35%	8 th	35	76%	3 rd	109	92%	2 nd
Problem with squatters	2	10%	11 th	6	13%	13 th	34	29%	12 th
Dispute between developer and architect	7	35%	8 th	18	39%	8 th	59	50%	10 th
Management problems	10	50%	5 th	7	15%	12 th	65	55%	9 th
Urban and Physical planning regulations problems	10	50%	3 rd	8	17%	11 th	43	36%	11 th
Lack of regulatory policy intermediation for presale	12	60%	4 th	35	76%	3 rd	103	87%	3 rd
Reputation of developers	8	40%	7 th	35	76%	3 rd	91	77%	5 th
Credibility of contractor	8	40%	7 th	32	70%	4 th	76	97 th	7 th
Nature of development	14	70%	3 rd	39	85%	2 nd	69	58%	8 th
Economic condition	16	80%	2 nd	43	93%	1 st	87	73%	6 th
Project finance structure	10	50%	5 th	27	59%	5 th	91	77%	5 th
Activities of speculators	4	20%	9 th	21	46%	7 th	76	64%	7 th
Vulnerability to fraudsters	9	45%	6 th	25	54%	6 th	115	97%	1 st

Table 5 showed that while vulnerability to fraudsters, developer's default and lack of regulatory policy intermediation ranked 1st, 2nd and 3rd among the challenges limiting the use of forward sale from the perspective of the potential buyers, the estate surveyors and valuers ranked economic condition, 1st, nature of development, 2nd, payment default, developer's default and developer's reputation, 3rd while the developers ranked payment default, 1st, economic condition, 2nd, nature of development, 3rd on the ranking table. This lack of consensus among the class of respondents may be attributed to the roles and responsibilities of each respondent in the forward sale arrangement. While the potential buyers expressed concern over vulnerability to fraudsters and that forward sale transaction is largely not regulated by the government leading to arbitrary default and litigations, the estate agents are of the opinion that the overall economic condition, nature of development which is also a

function of the location, design and purpose, the developer's and buyer's default as well as developer's reputation significantly affect the use of forward sale. The potential buyers also showed concern over low construction quality and project finance structure. They are careful to commit to any project whose finance relies significantly on payments derived from forward sale. However, there appears to be a consensus among the three classes of respondents concerning the lack of regulatory policy intermediation for forward sale transaction and project finance structure as very significant challenges militating against the use of forward sale in the Nigeria housing market. Buyers and marketers alike become skeptical of project that fully relied on presale funds.

5.0 Conclusion and Recommendation

This study provides insight into the use of forward sale in the Nigeria property market. It showed beyond doubt that forward sale is known to both the sellers and buyers of properties in the Nigerian property market. From studies reviewed, the benefits of forward sale to both the developer and potential buyer were established. It was revealed that forward sale does not only improve cash flow of the development but also help developers hedge against possible financial loss on the unsold properties when price decline is expected by the time the construction is completed. Forward sale also helps to transfer financial risks to speculators at a price and identify the market value of properties. On the other hand, prospective buyers take advantage of early investment and acquire their dream possession at a discounted price which could be a lot of gain where inflation occurs unannounced. Maximizing the potentials of forward sale requires that the method receive complementary and popular acceptance with the demand base of potential buyers. From the analysis, it is evident that while majority of the developers prefer to use forward sale to raise finance for the development, majority of buyers are reluctant to pay in advance for housing units, the construction of which has not yet started or still under construction. The challenges responsible for this near parallel situation were identified and ranked in order of significance and as shown in Table 5. Vulnerability to fraudsters, developer's default, lack of regulatory policy intermediation/protection, inaccurate and insufficient information, use of substandard building materials, low construction quality, project finance structure and reputation of the developer constitute critical challenges facing the acceptance and use of forward sale among potential buyers in Nigeria. In addition, the three categories of respondents identified lack of regulatory policy protection which compels both the seller and buyer to honour the terms of forward sale transaction.

In view of the above, in order to make forward sale more effective and fully optimized by the stakeholders, it is important that the challenges are addressed. First, the issue of regulatory protection is critical as seen in the Asian, Hong Kong and Brazil where it is also used. Government of Nigeria has to introduce a policy that protects both parties, especially the prospective buyers against advance fee racketeers. It is also important that the development is jointly managed by the appointed project supervisor or manager by the developer and the association of prospective buyers so as to eliminate risk of shoddy execution and low quality construction. If these steps are taken, the confidence of prospective buyers will increase, thereby making more funds available at no cost to developers and ultimately facilitating the delivery of housing to the subscribers. Also, developers need to undertake detailed pre-investment feasibility and viability study that properly identify the proposed development as the most important need of the people in the area at that time. The economic condition is

crucial to developers and buyers alike, however adequate arrangement could be made to provide alternative means of financing the project without relying completely on public equity capital as this tends to put potential buyers on hedge. Moreover, development design and pricing should take into consideration and reflect the capacity of the target market. The study is a significant contribution to the scanty studies on forward sale in the Africa property market and the Nigeria property market in particular. It has shown that the method does not have the required necessary policy protection to make it reliable by buyers and sellers in the Nigerian property market. It also provides useful insight into the challenges confronting the use of forward in Nigeria sale to the buyers, sellers, developers, financiers and policy makers thereby assisting in addressing the challenges in the right direction.

References

Bender, R. and Ward, K., (2002). *Corporate Financial Strategy* (2nd edition) Great Britain: Elsevier Butterworth Heinemann

Chau, K.W., Wong, S.K. and Yiu, C.Y. (2003). Price Discovery of Forward Contracts in the Real Estate Market: An Empirical test. *Journal of Financial Management of Property and Construction*. 8(3), 129-137

Chang, L.O. and Ward C.W., (1993). Forward Pricing and the Housing Market: the Presales Housing System in Taiwan, *Journal of Property Research*, 10(3), 217-227.

Clauret, M.T. and Sirmans, S.G., (2006). *Real Estate Finance Theory and Practice* (5th edition). USA: Thomson-southwestern.

College of Estate Management (1994). *Business Strategy and Management*. Whiteknights, Reading: The College of Estate Management.

Emoh, I.F. and Nwachukwu, C.C., (2011). Critical Issues in Real Estate Finance as an Index in Building Construction Project Management Success in Nigeria: *American Journal of Social and Management Sciences*. 2(1), 76-90 doi:10.5251/ajms.2011.2.1.76.90

Federal Ministry of Lands, Housing and Urban Development (FMLHUD, 2012)

Figlewski, S. (1981). Futures Trading and Volatility in the GNMA Market, *Journal of Finance*, 36(2), 445-456

Gehner, E. (2008). "Knowingly Taking Risk, Investment Decision Making in Real Estate Development" A Ph.D Thesis Submitted to the Department of Department of Real Estate & Housing, Faculty of Architecture, Delft University of Technology.

Hines, M. A. (1995). *An Overview of Global Real Estate Finance*. Arizona USA: International Real Estate Institute.

Leung, B.Y.P. and Hui, E.C.M. (2005). Pricing of Pre-sale Properties with Construction Uncertainties. In: Khosrowshahi, F. (Ed.), *21st Annual ARCOM Conference*, 7-9 September, SOAS, University of London. Association of Researchers in Construction Management, 1: 277-286.

Levine, R. (2005). "Finance and Growth: Theory and Evidence" Chapter 12; *Handbook of Economic Growth, Volume 1A*. Edited by Philippe Aghion and Steven N. Durlauf © Elsevier B.V.

Millaris, A.G. (1999). *Foundation of Futures Markets*. Edward Elgar Publishing Co., UK

Nkyi, B.A. (2012). *Strategies for Financing Real Estate Development in Ghana*. Being an Unpublished Thesis submitted to the Department of Building Technology, Kwame Nkrumah University of Science and Technology, in Partial Fulfilment of the Requirements for the Degree of Master of Philosophy

Ogedengbe, P.S., and Adesopo, A.A., (2003). Problems of Financing Real Estate Development in Nigeria. *Journal of Human Ecology* 14(6):425-431

Omuojine, E.O. (1993) "Strategies for Private Participation in Real Estate Development Through Funding: New Trends and Future Prospects" – Paper Presented at the 23rd Annual Conference of NIESV, Benin, March.

Oni, A. S. (1991). "Problems and Prospects of Presale Arrangements in Property Development and Marketing in Nigeria – A Case Study of a Housing Estate Development in Abuja" Being an Unpublished Critical Analysis submitted to the National Council of Estate Surveyors and Valuers

Renaud, B., Pretorius, F. and Pasadilla, B. (1997). *Markets at Work: Dynamics of the Residential Real Estate Market in Hong Kong*, Hong Kong: Hong Kong University Press

Wong, S. K., Yiu, C. Y., Tse, M. K. S and Chan, K. W (2004). "Do the Forward sale of Real Estate Stabilize Spot Prices" *Journal of Real Estate Finance and Economics*, 32(3), 289-304.