



**A STUDY ON HOW COOPERATIVE CAN BE USED
AS A TOOL IN REAL ESTATE INVESTMENT: A
CASE STUDY OF NIGERIA**

BY

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for the degree of Master of Science in Islamic Banking
and Finance**

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ABSTRACT

Over the years there has been a tremendous increase in the demand for housing in Nigeria, particularly affordable housing due to the increase in rental and the general rise in price level. To tackle this problem, this thesis proposes that cooperative tenure be pursued as a tool for real estate investment in Nigeria. The problem which can be associated with the inability and ineffectiveness of both the public and private sectors to meet the housing needs of the general population. This Thesis contends that with cooperative, aspiring home owners can break themselves off from the pack of government dependents. The government and the financial institutions have been very slow and they cater for a small sector of the millions of demand for affordable housing. The proposed solution is pursued through innovative financing method commonly known as *Musharaka Mutanaqisah* (diminishing partnership). Data collected through primary source using questionnaire, a structured closed end questionnaire distributed to the general population of some selected states in Nigeria have been utilized for the empirical studies. The questionnaire provided adequate information on how cooperative would benefit the general population in acquiring property. The paper is designed to fulfill the requirement for an actual implementation of the proposed model in Nigeria. This study is expected to benefit the real estate industry in Nigeria as a whole and also provide an alternative to the increasing dependence on debt based economic system which is gradually affecting the housing industry. The result reveals that there is great prospect and benefit from using co-operative model for real estate investment in Nigeria and the proposed model is feasible. In addition to that the proposed model is a better alternative to the current home financing methods currently available in Nigeria.

ملخص البحث

يزداد الطلب على المنازل السكنية في نيجيريا كل عام، خاصة المنازل منخفضة التكلفة بسبب ارتفاع أسعار الإيجار، والغلاء العام لمستوى الأسعار. لإيجاد حلول لهذه المشكلة، تقترح هذه الدراسة الإمتلاك التعاوني كوسيلة للإستثمار العقاري في نيجيريا. قد تعزى المشكلة الى عجز وعدم فعالية كلا القطاعين الحكومي والخاص على حد سواء لتغطية المتطلبات السكنية لعموم السكان. من هذا المنطلق تثبت هذه الدراسة أن النظام التعاوني يمكن الراغبون في امتلاك المنازل السكنية من الإستغناء عن معضلات الإعتماد على القطاع العام، حيث أبطأت الحكومات والمؤسسات المالية في توفير عدد ضئيل للمنازل منخفضة التكلفة في مقابل الطلب العالي لها، من هنا تقترح هذه الدراسة الحل في طريقة تمويل مبتكرة والمعروفة بالمشاركة المتناقصة. جمع البيانات تم من خلال المصادر الأولية عبر الإستفتاء الميداني، وقد تم توزيعه على عموم السكان في بعض الولايات المنتخبة في نيجيريا باستخدام الطريقة التجريبية، وقد زودت النتائج الباحث بالمعلومات الوافية في سبل استفادة عموم السكان من النظام التعاوني للإمتلاك العقاري. صمم البحث على استيفاء كافة المتطلبات لتفعيل النموذج المقترح على أرض الواقع في نيجيريا، ويأمل الباحث أن يستفيد القطاع العقاري في نيجيريا بشكل عام من هذه الدراسة، كما أنها تسهم في توفير البديل عن الإعتماد المطلق على نظام القروض في المعاملات الإقتصادية والتي تؤثر تباعا على القطاع العقاري. استخلصت الدراسة من نتائجها بأن هناك مؤشرات نجاح وفوائد كبيرة في تفعيل النموذج التعاوني للإستثمار العقاري في نيجيريا، كما أن النموذج المقترح ملائم للتطبيق في نيجيريا، بالإضافة الى أنه البديل الأمثل لطرق التمويل القائمة فيالبلاد.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science in Islamic Banking and Finance.

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Ahamed Kameel Mydin Meera
Supervisor

I certify that I have examined and read this study and that in my opinion it conforms as acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science in Islamic Banking and Finance.

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This research paper was submitted to the IIUM Institute of Islamic Banking and Finance (IiBF) and is accepted as a fulfilment of the requirement for the degree of Master of Science in Islamic Banking and Finance.

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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for my other degrees at IIUM or other institutions.

Mustafa Muyibi

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For my Family:

The Muyibi's

For their continuous support, sacrifice, and encouragement

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In the Name of Allah, the beneficent the Merciful

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LIST OF ABBREVIATIONS

CBN	Central Bank of Nigeria
BDC	Bureaux-de-change (BDCs)
DMBs	Universal deposit money banks
EFINA	Enhancing Financial Innovation & Access
EDL	Estate Development Loans
FMBN	Federal Mortgage Bank of Nigeria
FCs	Finance Companies
FHA	Federal Housing Authority
FCT	Federal Capital Territory
HPF	Housing Provident Fund
MSPs	Microfinance Services Providers
MCCA	Muslim Community Cooperative
MMP	Musharakah Mutanaqisah
NDIC	Nigerian Deposit Insurance Corporation
NAICOM	National Insurance Commission
PENCOM	National Pension Commission
PMI	Primary Mortgage Institutions
SEC	Securities and Exchange Commission

TRANSLATION

<i>Murabahah</i> :	sales contract
<i>Wakalah</i> :	Authorized agent
<i>Fiqh</i> :	Islamic jurisprudence
<i>Shariah</i> :	Islamic Law
<i>Ijarah</i> :	Rental contract
<i>Istisna</i> :	Contract of exchange with deferred delivery
<i>Haram</i> :	Forbidden
<i>Gharar</i> :	Uncertainty
<i>Takaful</i> :	Insurance

CHAPTER 1

INTRODUCTION

1.1 AN OVERVIEW OF THE RESEARCH BACKGROUND

Shelter is essential to all living, which is why Allah The Almighty Says: *{And Allaah has made for you from your home's a place of rest.}*[Quran 16:80]. This verse of the Quran buttresses the importance of home and shelter, Supports the understanding of home being a place of rest, stability, comfort, reassurance, safety and tranquility, in which we live, and with which we protect ourselves from the heat of summer and the cold of winter. It is also our shelter in which we take refuge after the trouble and toil of the day. Based on general understanding and studies done, having a home a person calls his own has an in-depth socioeconomic relevance in every society, According to Onibokun (1998) Housing represents one of the most basic human needs. As a unit of the environment, it has a profound influence on the health, efficiency, social behavior, satisfaction and general welfare of the community.

Furthermore Real estate is one of the primary (and indeed one of the only) asset whose value hardly depreciates over time, except for some rare events such as the housing bubble. According to Nubi (2008), to most groups housing means shelter but to others it means more as it serves as one of the best indicators of a person's standard of living and his or her place in the society.

For a typical house-owner, the house is a major asset in his portfolio and for many household, the purchase of a house represents the largest (and often only) lifelong investment and a store of wealth.

The problem of housing in Nigeria has been addressed on few occasions but has yet to be given sufficient attention to solve the problem. The government has

partly intervened through the construction of housing estates, establishment of mortgage institutions, facilitating disbursement of housing loans and also by providing housing subsidy but those efforts are very limited and short lived as the demand for affordable housing in Nigeria continues to increase tremendously. According to Omirin (2007) The housing deficit in Nigeria stands between fourteen and seventeen million up from eight million in the 1980's, and an estimate of over seventy two million are either homeless or live in rented substandard homes. This figure has clearly multiplied over the years. Availability of housing finance clearly is one of the major ways to address this issue, the fact remains that with Nigeria's population registering over 150 million and according to world bank (1995) In 1985 – 1992, total extreme poverty in Nigeria increased from 10.1 million people to 13.9 million with a near three-fold increase in the urban extreme poor from 1.5 million to 4.3 million people the efforts of the government alone does not suffice. This means that the people themselves have to step up and create innovative ways to improve the quality of life, in which shelter plays a major role. According to Kim (1997) with the absence of a well-functioning housing finance system, a market-based provision of housing would therefore be lacking.

Looking at other developed nations, the real estate industry is much matured, with the help of the government and a sound financial system it has been made possible for an average family to be able to afford a decent home of their own. In addition to that, in some emerging economy's such as Malaysia, the housing industry and the financial sector are well established, this have made it possible for not only the rich but also the middle income to not only own their own homes but also to be able to purchase multiple homes as forms of investments.

It cannot be denied that the quality of shelter a person has is dependant on how much the person earns, bearing in mind that the source of funding for individuals in

Nigeria to meet the cost of building or purchasing a home is from an individual's earnings. This is seen as the best alternative as it involves zero interest increments. The Solution to this problem does not only rest on the government but on the society itself to come up with a solution with the current available resources.

The emergence of Islamic finance has brought about tremendous improvement in *Shariah* compliant financial products. Conscious Muslims are now given the option to trade and invest in *shariah* compliant products and financial instruments. This has brought about financial product innovation and different financial products which are in compliance with *shariah*, example of such product is *Musharakah Mutanaqisah*, which is also known as diminishing partnership. This Islamic financial instrument is implored in the structuring of the housing cooperative propose in this thesis.

1.2 RESEARCH QUESTIONS

The proposition of these questions is to guide in the collection, analysis and interpretation of data in line with the aims and objectives of the research. The answers to these questions are expected to be in accordance with the research design at the end of the research. The study aims to answer the following questions:

1. Is cooperative a feasible alternative to the current house financing issues in Nigeria?
2. Would the introduction of *Musharakah Mutanaqisah* in the housing Co-operative model make housing more affordable and feasible?
3. Is the proposed model more affordable compared to the interest charged by financial institutions?
4. Would the proposed model provide an alternative to real estate investment?

1.3 RESEARCH METHOD

The research method used in this paper is mixed method research, in which both quantitative and qualitative method is used. According to Creswell (2007) it is considered as a research design and method of inquiry that dictates the direction of the collection and data analysis whereby the collection and analysis of data has a mix of quantitative and qualitative research processes. The nature of the research is investigative, by using quantitative method for data analysis it is made possible to extract important element to build a cooperative model for real estate investment in Nigeria. Various studies in the area of housing finance have been mainly qualitative and descriptive in nature.

The research being investigative in nature made the use of quantitative approach for data analysis the best means of compiling useful information in deriving an appropriate structure for real estate investment using cooperative as a tool.

In order to structure a model for how cooperative can be used for real estate investment in Nigeria, empirical evidence on factors that influences home financing is collected. Survey of the general population of Nigeria from some selected states is carried out using questionnaire to gather the required empirical data. The survey covers workers from different sectors and industries in the country from different income groups. This helps in giving a proper classification and grouping in the findings for easier implementation of the proposed model. The questionnaire is divided into 2 sections; the first section includes questions on the demographics of the respondents while the second section includes relevant questions which would largely dictate the outcome of this research.

1.4 PROBLEM STATEMENT AND OBJECTIVE

An average Nigerian with a family would want to own the home they live in, as a result of that individuals seek for funding through which ever means possible, may it be mortgage, bank loan, government schemes, borrowing from family and friends, personal savings. This becomes their biggest single financial obligation and burden. Bearing in mind that most of the available funds come along with a huge burden, which is interest, the challenge here is to develop *shariah* compliant alternatives which would be able to serve the masses at the same time be a very affordable alternative to the current available system.

Islamic finance has become important in both providing housing to lower and middle classes in many countries. In the case of Nigeria Islamic financial system is still at its infancy stage, which means the general public are left with very limited options. The current available system that may comply with the needed alternative is the housing cooperative. This study aims to introduce *shariah* principles into the cooperative system to improve and reinforce the current cooperative practice to fulfil the needs of the general masses.

1.5 AIMS AND OBJECTIVES

The aim of this research is to explore the means of using cooperative as a tool for real estate investment in Nigeria.

1. The study attempts to address the problem faced by the general masses in Nigeria to secure funds for housing by exploring the potential of cooperative as a possible alternative and remedy to the current problem.
2. The study aims to financially engineer a system that would enable individuals to invest in real estate without having to part with more than

they currently are spending on rental or lease using the principles of *Musharakah Mutanaqisah*.

3. The study aims to look further into the affordability of the proposed model by comparing the figures generated with the interest charged by the financial institutions.
4. Furthermore the study aims to determine how the proposed model would create an avenue for real estate investment.

To address this issues this study undertakes an empirical research on housing cooperative and Islamic financial instrument, focusing on the following main objectives: first, to investigate how cooperative can be used as a tool for real estate investment. Second, to model a housing financing alternative, using the element of cooperative and the principle of Islamic financial system which can be implemented through the introduction of the elements of *Musharakah Mutanaqisah* (diminishing partnership) as the underlining contract.

Hence, this research is not merely for academic purposes but an implementable manual for the Nigerian housing Market.

1.6 LIMITATIONS

Every research has its limitation, this research is not any different, and its limitations are:

- a. the method of data collection is limited to the survey questionnaire and short group interview to some selected respondent, the fact that this research is meant to be implementable, having seminars and workshops at work places to educate people about the research would have given an edge to the research findings, these could not be made possible due to

logistics, time and financial constrain. Regardless the questionnaire and short group interview is sufficient for a reliable and credible research.

- b. It would have been more beneficial if more cities are covered in the survey; however, due to limitation of resources this was not possible.
- c. Like any other questionnaire survey, the diligence of the respondent in answering the questions all the way through, honestly and earnestly is not in the control of the researcher.

Besides the few limitations mentioned, during the research a number of difficulties were encountered. Among them are:

- a. There was a small difficulty in approaching respondents, because it involved explaining to them what the questionnaires was about, approaching groups where a lot easier and the response was better, meeting individual respondent meant explaining the aim of the questionnaire in which in some cases some respondent find the demographic questions personal and interrogative.
- b. During the compilation of the data collected through the survey, grouping and classification was abit of a challenge because some of the questions in the questionnaires were not answered by the respondent.

The result of the survey is generally applicable to the rest of the cities in Nigeria, based on the fact that the socio economic structures of most of the cities in Nigeria have a common dynamics besides one or two cities that maybe at the extreme.

1.7 STRUCTURE OF THESIS

This research is structured over seven chapters; including the introduction and all chapters are interrelated to fulfil the primary objective of this research.

Chapter 1: Introduction- contains a sketch of the research as a whole; it starts with an introduction highlighting the importance of having alternative means of house financing. This chapter proposes cooperative as an alternative means for real estate financing. It further sheds light on the aim and objective of this research, which is addressing the problem faced by the general masses in Nigeria to secure funds for housing by exploring the potential of cooperative as a possible alternative and remedy to the current problem. In addition to that, in this chapter a brief explanation is given on how the research would be conducted, which is imploring the use of questionnaire as a survey tool in gathering the relevant information. Further more, in this chapter a set of questions is generated in which has to be answered through the findings in order to fulfil the main goal of this research. To sum up the whole chapter a humbling admission is made to the challenges and limitation faced during the research.

Chapter 2.1: A review on the real estate industry- this chapter reviews the real estate industry in Nigeria and the rest of the world; particularly highlighting the availability of affordable housing. Lastly, a discussion on the available sources of funding for real estate, this part does not only focus on Nigeria but also other relevant economies around the world.

Chapter 2.2: Review on housing co-operative, house financing and Co-operative regulatory framework: the main objective of this section is to review the available housing cooperative in Nigeria.

Chapter 2.3: Islamic home finance- this section highlights the different forms of Islamic home finance found around the world. This chapter shows the existence of alternative *riba* free forms of home financing which are not available in Nigeria yet and also the reasons why even though it is an alternative but may not currently be the proposed solution in the Nigerian economy.