RESIDENTIAL DEVELOPMENT AND BORROWING IN GHANA:
A CHALLENGE FOR BANKS AND PRIVATE ESTATE DEVELOPERS

by

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DECLARATION

I hereby declare that this submission is my own work towards the award of Commonwealth Executive Masters in Business Administration (CEMBA) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

Sub-Saharan African cities are faced with formidable housing problems, of which Accra, the capital of Ghana is no exception. The staple of these problems is the issue of finance, which has been uncovered to be of one the major factors affecting residential development in Ghana. Apart from these problems, hundreds of houses are produced by the private sector including private estate companies. Evidently, this requires a huge sum of capital to start such undertakings. Borrowing has been a very significant feature of residential development as a result of its high unit value (huge capital investment). Unfortunately, large traditional lending institutions particularly banks and other major lenders do not give acquisition, development and construction loans (ADC loans) to these private estate developers. In other words, major banks and other financial institutions are unwilling to offer credit facilities to estate developers. This study employed literature review, questionnaire inquiries, interview, purposive sampling technique and SWOT analysis to explore why banks or major lenders refuse to give ADC loans to private estate developers, and to offer recommendations, as to, how best to channel funds into residential development in Accra. The findings include the following; high risk for housing finance, insufficient funds and low income levels, information flow problems, poor macroeconomic policies, cultural aversion to own a house through mortgage finance, and immature housing finance industry. Hence, Government's direct investment subsidies, credit guarantees to lenders, tax rebate for developers, interest cost subsidies, affordable housing policies, more real estate financial institutions and development of capital market for access for long-term funds at competitive rates are recommended.

DEDICATION

This work is dedicated to my entire family and friends.

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TABLE OF CONTENT

TITLE PAGE………...i
DECLARATION ii
ABSTRACT...iii
DEDICATION.. iv
ACKNOWLEDGEMENT...v
TABLE OF CONTENTS..vi
LIST OF TABLES...ix
LIST OF FIGURES...x

CHAPTER ONE...1

INTRODUCTION..1

1.1 BACKGROUND TO THE STUDY...1
1.2 STATEMENT OF THE PROBLEM..2
1.3 OBJECTIVES OF THE STUDY...3
1.4 RESEARCH QUESTIONS…...3
1.5 SIGNIFICANCE OF THE STUDY...4
1.6 METHODOLOGY...4
1.7 SCOPE OF THE STUDY...4
1.8 LIMITATIONS OF THE STUDY...5

CHAPTER TWO..6

LITERATURE REVIEW..6

2.1 INTRODUCTION...6
2.2 DEVELOPMENT OF REAL ESTATE PROJECTS AND RISK 6
2.3 REAL ESTATE FINANCE 8
2.3.1 THE FINANCE SYSTEM 8
2.3.2 SOME PRINCIPAL FINANCIAL INTERMEDIARIES 10
2.3.3 DIRECT FINANCING 11
2.3.4 SECONDARY MORTGAGE MARKET 12
2.3.5 MONEY AND CAPITAL MARKET..12
2.4 THE REAL ESTATE FINANCING CYCLE...13
2.4.1 LAND ACQUISITION FINANCE...14
2.4.2 LAND DEVELOPMENT FINANCE..16
2.4.3 CONSTRUCTION FINANCE..18
2.4.4 RISKS OF ADC LOANS 19
2.4.5 PERMANENT FINANCING..20
2.5 INNOVATIONS IN REAL ESTATE FINANCE...21
2.6 VENTURE CAPITAL, AN OPTION 24
2.7 SOME OWNERSHIP TYPES IN THE REAL ESTATE EQUITY MARKET ...25

2.8 CONCLUSION....27

CHAPTER THREE....28

METHODOLOGY....28

3.1 INTRODUCTION....28
3.2 SAMPLING DESIGN....28
3.3 SAMPLE TYPE....28
3.4 PRIMARY DATA ACQUISITION....28
3.5 USE OF SECONDARY DATA....29
3.6 DATA ANALYSIS, DISCUSSION AND RECOMMENDATIONS....29
3.7 LIMITATIONS....30

CHAPTER FOUR....31

OVERVIEW OF THE HOUSING MARKET AND FINANCE IN GHANA....31

4.1 HOUSING DEMAND....32
4.2 HOUSING SUPPLY....33
4.3 HOUSING FINANCE....34
4.4 MARKET PARTICIPANTS....36

CHAPTER FIVE....37

DATA ANALYSIS AND DISCUSSION OF RESULTS....37

5.1 INTRODUCTION....37
5.2 FINANCIAL INSTITUTIONS´ INTERVIEWS....37
5.3 REAL ESTATE COMPANIES´ INTERVIEWS....41
5.4 SWOT ANALYSIS FOR RESIDENTIAL FINANCE IN ACCRA....43
5.4.1 STRENGTHS....43
5.4.2 WEAKNESSES....43
5.4.3 OPPORTUNITIES....44
5.4.4 THREATS....45
5.5 DISCUSSION....46
5.5.1 RISK AND ADC LOANS....47
5.5.2 INFORMATION ASYMMETRY AND ADC LOANS....49
5.5.3 FUNDS AVAILABILITY AND ADC LOANS....50
5.5.4 GOVERNMENT POLICY INITIATIVES....51
5.6 SUMMARY....53

CHAPTER SIX....54

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION....54

6.1 INTRODUCTION......54
6.2 SUMMARY OF FINDINGS......54
6.2.1 FINANCIAL INSTITUTIONS 54
6.2.2 REAL ESTATE DEVELOPERS………......55
6.3 CONCLUSION 56
6.4 RECOMMENDATIONS 57
6.4.1 THE ROLE OF GOVERNMENT IN HOUSING FINANCE 57
6.4.2 MORE REAL ESTATE FINANCIAL INSTITUTIONS......59
6.4.3 DEVELOPMENT OF THE CAPITAL MARKET......61
6.5 FUTURE RESEARCH RECOMMENDATIONS......62

REFERENCES 63

APPENDICES......66

APPENDIX A......66
APPENDIX B......68

LIST OF TABLES

Table 1: Features of selected ownership forms………………..……………………...26

Table 2: Regional distribution of stocks of houses and households..………………...32

Table 3: Estimated housing stock and deficit………………..………………….……...33

Table 4: Features of the selected banks…………………………...…..……………38

Table 5: Loan Features of the selected banks……………………………..……..…40

Table 6: Some features of selected real estate companies in Accra…………..……....41

Table 7: Annual units of houses actually produced and expected to produce………...41

LIST OF FIGURES

Figure 1: Phases of real estate project development and risk………...…………..……7
Figure 2: Flow of funds in the Saving-investment cycle…..…………………...….......9
Figure 3: Venture capital for housing ………..…………...………………...………..60

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Cities in Sub-Saharan Africa face daunting housing problems, and almost without exception, have housing deficits. Shelter is scarce and so costly in the cities of Ghana. Accra, the capital of Ghana shares and has the same picture of huge backlog of housing needs. For example, Ghana has been described by the World Bank as success story of Africa, which makes the country, a haven for potential investors. This accolade also comes with a demand for addressing housing problems, which will be one of the big steps towards the provision of enabling environment for investors, whiles also to addressing the housing needs of the expected teeming of workers that these potential investors may hire. This makes it an important and interesting phenomenon to study.

Land and finance have been identified to be the two major problem areas affecting residential development in Ghana (Osei and Antwi, 2004). There have been continuous government's efforts through various policies and programmes in supplementing the efforts of the private developers in providing houses. Until recently, most housing policies of the government are more geared toward solutions for land problems, and example is the creation of land bank currently in Accra and in other regional capitals. A special government agency called Land Administration Project (US$20.51 million project) with the support of World Bank has been created to work on land banks. Government's attempts so far fall below the country's demand for housing stocks.

Recently the government has initiated a massive housing project to provide an initial 30,000 units for the country's security agencies. Also, there is a public-private partnership between the government of Ghana and STX Engineering and Construction Company of Korea which involves $1.5 billion and is aimed at providing decent accommodation for more than 70 per cent of Ghanaians who cannot afford to buy or build their own houses (www.ghanaweb.com , 2011). Generally, Ghana housing deficits is currently around 250,000 and there is the need to provide 30,000 houses per annum in order to make up (HFC Bank Prospectus Supplement, 2004; pp 67; Ghana Investment Promotion Centre). The outcome is that, the private sector including private estate developers continuously account for the chunk of the housing supply in the country. However, in particular the development of houses by private estate developers has been limited by number of problems. These problems include absence of a proper housing finance mechanism, non-availability of loan capital, high interest rate, general low income levels of interested parties, bottleneck in the supply of building materials, increasing cost of building material and land acquisition problems (GIPC).

1.2 THE STATEMENT OF THE PROBLEM

Obviously, there is a requirement of substantial sum of capital to start a housing project. And as such borrowing has been a very significant feature of residential development as a result of high unit of houses and the volume of capital investment. Unfortunately, large traditional lending institutions particularly banks and other major lenders hardly want to get involved in giving acquisition, development and construction loans to private estate developers. In other words, major banks and other financial institutions somehow reluctantly give these loans or render credit facilities to these estate developers. And even those banks whose offer these loans tend to have high rejection of applications. Certain factors however, have worked to hinder the smooth flow of capital from banks and other lending institutions to the estate developers, which make it difficult for the estate developers in contributing effectively towards housing in Ghana.

Thus, there are setbacks to the free flow of funds from major lender and banks to the private estate developers. Hence the private estate developers in Ghana in the midst of performing their roles in reducing housing problems are found deficient in terms of funds.

1.3 OBJECTIVE OF THE STUDY

This work will explore;

1. The stages of Real Estate project development and their respective finances, and the forms of ownership of the Real Estate equity market.
2. Why banks or major lenders in Accra do not give acquisition, development and construction loans to private estate developers/ companies.

1.4 RESEARCH QUESTIONS

Evolving from the problem statement discussed above, the study aims at providing answers to the following questions:

1. What are the setbacks to free flow of funds from the major banks to the private estate developers?
2. What are the stages of Real Estate development and their finances?

1.5 SIGNIFICANCE OF THE STUDY

The main significance is to contribute to knowledge (an existing bank of information) on real estate finance in Ghana. This work will also warrant grounds for further studies in this field of studies on banks, other major lenders, private estate developers, acquisition, development and construction loans and residential development in Ghana. In addition, this will influence finance procedures, and may change the way private estate developers live without finance. Practically, the study and its subject area in Ghana will be useful for exchange of knowledge and experience between estate developers and lending bodies with similar characteristics.

1.6 METHODOLOGY

This is a brief description of the methodology for this work (for details, refer to chapter 3). This study is an explorative one and based on review of literature and interviews. Purposive sampling method was adopted to select 3 real estate commercial lenders and 4 real estate developers from Accra in December 2010.

Thus, both primary and secondary data were used. These were collected through phone and face to face interviews and questionnaire inquiries, and consulting already existing data based on their authenticities, connection in time, dependencies and partialities. Collected data were SWOT analysed and presented using tables, diagrams, matrices etc.

1.7 SCOPE OF THE STUDY

Acquisition, development and interim or construction loans for private estate developers forms the research scope of this study, despite the existence of long term property finance and indirect property finance. The study relates to Ghana as a whole. However, for detailed analysis and discussion, Accra was chosen as a region under study due to limited time and resource for this kind of thesis project.

1.8 LIMITATIONS OF THE STUDY

Time was a major constraint in this study. As a result of limited time within which to complete this work, the study was carried out using a case study approach. The study was further narrowed down to some loan officers and some management staff of the banks as well as the estate developers, from whom primary data was obtained. This also posed a limitation since there could be some biases regarding the information obtained. In dealing with this limitation, the study adopted objective questionnaires and interview guides for all respondents to reduce their personal perceptions. Again, respondents were assured of their confidentiality in order to give information that represented the facts and figures on the ground.

Accessibility to data was also a constraint in view of the confidentiality of information in banks. This limitation was minimized by relying on published annual reports and financial statements of the bank, both in the print and electronic media.

As an important measure to these limitations, time and resources were effectively managed to achieve the objectives of the study within the stipulated time frame for completion of the work.

CHAPTER TWO

LITERATURE REVIEW

2.1. INTRODUCTION

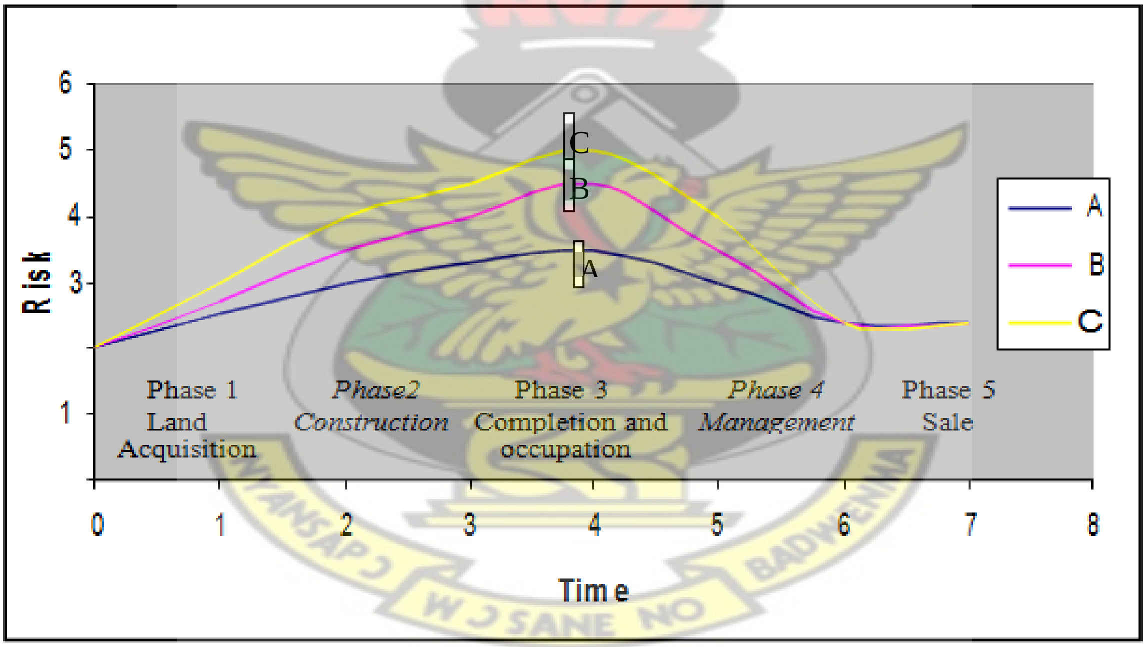
This chapter deals with real estate project development phases and risk and, real estate finance, real estate finance cycle, innovations in real estate finance, venture capital and forms of ownership in the real estate equity market. This sets up the theoretical background for analysis and discussion of results.

2.2. DEVELOPMENT OF REAL ESTATE PROJECTS AND RISK

Many kinds of real estate projects could be developed. Though, each kind has its own unique set of characteristics, a few general concepts are common to their developments. Figure 1 shows the typical development process, which is applicable and common to most categories of project developments, perhaps not at their management phases. Practically, a developer (1) acquires a site, (2) develops the site and constructs building improvement, (3) provides the finish-out and makes ready the space for occupancy by tenants, (4) manages the property after completion, and may eventually sell the project. All these phases have their specific risks. Thus, risk starts with land acquisition and steadily grows as construction begins until expected cash flows from leasing phase materialized. At management phase, risk declines because tenants are committed to lease. Business strategy adopted by a developer dictates the selling time after completion and the economic success of the project. A developer creates value by combining land and building improvements in such a manner that it is highly valued in excess of its cost (ibid; pp 433-434).

Broadly speaking, developers' business strategies are classified into 3 groups. First, developers who have leasing and management as integral parts of their businesses in conjunction with the development role, have the minds of owning and managing the properties after completion. Second, some developers sell properties after completion. Such developers usually rely on outsourcing for other professionals. Third, some developers also normally develop land and commercial properties such as parks and industrial parks for onward lease in a master-planned development. In brief, many developers intentionally specialized in one or many phases of property development (ibid; pp 433).

Figure 1: Phases of Real Estate Project Development and Risk



(A) Lower than normal predevelopment leasing, completion behind schedule

(B) Normal predevelopment leasing, completion on schedule

(C) Greater than normal predevelopment leasing, completion ahead of schedule

Source: Brueggeman and Fisher, 2005

2.3. REAL ESTATE FINANCE

Real estate finance plays an essential part in the development process. Real estate finance is a very broad area of sub-discipline of finance which includes the study of the institutions, markets, and instruments used to transfer money and credit with the view to developing or acquiring real property (Miles et al, 2000; pp 2-4). Real property can be described as the power, right and privileges associate with the utilization of real estate. Real estate is land and all fixed and immovable improvement on it. The link between real estate and the financial market is a crucial one to both investors and developers of real estate.

2.3.1. THE FINANCE SYSEM

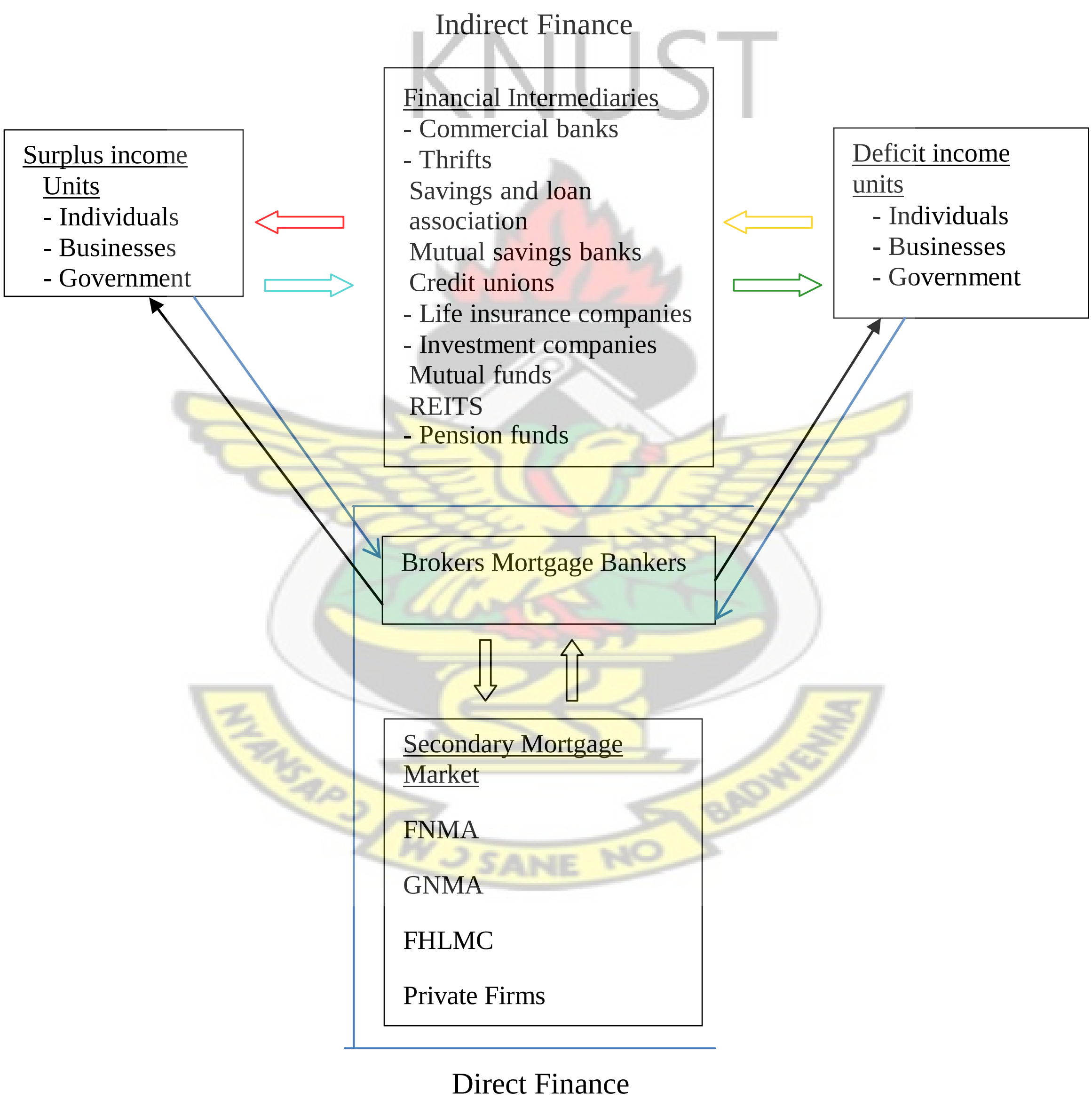
The transfers of money and credit for the purpose of developing and acquiring real property are executed by financial instruments. The institutions of a country that create and buy the instruments for the transfer of money and credit, and the market or the environment, within which the transfers are done, constitute the financial system of that country (*ibid*).

An intuitive model of the overall financial system once held the view that the real estate markets and the financial markets were separated. However, today it held that real estate projects are important part of the financial market, and even transcends borders of countries. It is clear nowadays that, market forces reinforce the global view of real estate development as a subject of the financial market particularly in the United States (Clauretie et al; pp 64).

The total tangible investment must be equal to saving, if we look at an economy as a whole but not just for individuals. This is called saving/investment cycle. The financial marketplace is the system in which savings are transferred from surplus income units (lending hand) to deficit income unit (borrowing hand). Both units are divided into three main classes namely, individuals or household, businesses and government.

This is illustrated by a simple flow of funds in the savings/investment cycle. This is the environment of real estate finance (Miles et al, 2000; pp 4-6).

Figure 2: Flow of funds in the Saving-Investment Cycle



Miles et al, 2000; pp 5.

Note: FNMA - Federal National Mortgage Association

GNMA – Government National Mortgage Association

FHLMC – Federal Home Loan Mortgage Corporation

2.3.2. SOME PRINCIPAL FINANCIAL INTERMEDIARIES

Financial Intermediaries take special position in the financial market and take fees on risks or rendered services associated with lending. They make funds more liquid to savers, give short term lending, and evaluate credit risks of borrowers. Because of their ability to evaluate credit risk, they are able to manage the risk that the borrowers may pose, in terms of defaulting on loans. However, these intermediaries are supervised and regulated by the government *(ibid).* Among them as described below are the commercial banks, insurance companies, investment companies, pension funds and thrift institutions

Principally, commercial bank accepts demand deposits (checking accounts), time deposit accounts and certificates of deposits. Commercial bank borrows funds from other sources and advances these funds to individuals, businesses and the government. These banks are supervised by the central bank, for instance the Federal Reserve System in the U.S, and where deposit insurance is given by the Federal Insurance Corporation (FDIC). They are importance source of funds of residential loans and the commercial real estate sector particularly loans for acquisition, development and construction (ADC loans) of real estate projects *(ibid).*

Secondly, thrift institutions include savings and loan associations, mutual savings banks, and credit unions. In the early 1980s, they were the major institutions handling the depository of individual savings hence their name ´Thrift´. They were prohibited from accepting demand deposits, however, they compete with the commercial banks for demand deposits nowadays *(ibid).*

Also, investment companies pool funds of savers and invest them in a portfolio of assets. The majority invests in stocks and some specialized in only in growth stocks, income stocks or stocks of some industries. For instant, Real Estate Investment Trust (REIT) are into estate properties or mortgages on real estate properties. Government National Mortgage Association bonds (GNMA) are one of the instruments (Mortgage-type securities) that some of the investment companies go into *(ibid pp7).*

Particularly, the life insurance companies accept payment from individuals or organizations periodically or a lump sum to make future payment in return if certain incidents happen. It is very crucial for insurance companies to build up pool of funds until the events occur. Many life insurance companies invest in commercial real estate properties because they have a long investment horizon *(ibid).*

In contrast, pension funds are private pension funds created through the contributions of employees and they are invested like the funds from the insurance companies. It is also essential to build a reserve to meet the contributors´ retirement needs. However, their investment into commercial real estate properties is not as a large amount as that of insurance companies, but it is on the increase *(ibid).*

2.3.3. DIRECT FINANCING

The flow of funds in the saving-investment cycle can occur without intermediaries thus, surplus income units advance funds directly to deficit income units however with the help of brokers as transaction facilitators (see figure 2). Direct financing occurs for instance when home seller grants buyer a note or if someone buys a bond directly from the federal government. Brokers are normally involved in cases where corporate securities are bought *(ibid).*

2.3.4. SECONDARY MORTGAGE MARKET

Secondary mortgage agencies and firms are of great significance in the financing of real estate projects. Among these agencies and firms in the U.S.A. are the Federal National Mortgage Association (FNMA), the Government National Mortgage association – GNMA, the Federal Home Loan Mortgage Corporation (FHLMC), and many private firms in the US. By issuing securities (mortgage-related securities, -MRSs) many a time through brokers, they generate funds. These funds are used to buy mortgages and the servicing of the interest payment on the MRSs is made with the stream of the cash flow from the mortgages *(ibid).*

It is very pertinent to distinguish between primary and secondary markets to know the significance of these markets, particularly the secondary market to the flow of funds in the financial system. The transaction which involves creation and selling of securities for the first time by the deficit income unit takes place in the primary market. Thus, new securities are created in the primary market and any subsequent sales of these securities occur in the secondary market. Secondary markets are helpful to the primary market in that their activeness make securities more liquid and also reduce marketability or liquidity risk *(ibid).*

2.3.5 MONEY AND CAPITAL MARKET

The market in which flows of funds takes place can be classified into two, namely the money markets within which short term securities are traded, and the capital markets deal in long term securities. Many institutions deal in both markets. Most real estate financing take place in the capital market and the exception is short term financing at both development and construction phases *(ibid pp 8).*

2.4. THE REAL ESTATE FINANCING CYCLE

This section talks about financing property development from the land acquisition phase through the construction phase. Thus, real estate financing (loan) is categorized according to the time the loan is made, into land acquisition, land development, construction of facilities on the land–ADC loans. These loans are nonpermanent financing. However, the final stage in real estate financing cycle, the permanent financing is also highlighted, and this starts when the property is put to use by owner or by tenants who have leased space (Miles et al, 2000; pp 366).

In practice, financing of acquisition through construction are rarely done at one time, through one source and with one set of loan package documentation. These phases of real estate financing involve several parties and agency cost problem is an important concept which permeates the relationship of the lenders, the developers and the contractors. One real estate project may have many parties such as the developer, the contractors, and two or more diverse lenders. Agency cost can be defined as any cost involved in an achievement of preventing parties from acting in their own interests at the expense of others. Covenants and restrictions contained in ADC loans are directed at agency problems. Such instruments are put in place to avoid agent cost (*ibid* 367).

2.4.1. LAND ACQUISITION FINANCE

Funding the acquisition of a raw land to be developed is the first stage of real estate financing cycle. Commercial banks and thrifts, are normally local lenders who dominant in land financing, since they are in good position to evaluate the risks (underwrite) concerned in land loans. The absence of large institutional lenders in land acquisition financing is the most unique feature in the land acquisition business. Land loan are frequently avoided in total or restricted to a small portion of a good number of institutions´ portfolios. Land acquisition loans are risky since raw land does not generate operating income. Also, raw land can be unsuitable for its ultimate highest and best use, and will be expensive to prepare for such use. A purchase money mortgage is another common source of financing for land acquisition in U.S.A. Sellers of properties form another sources of finance for land acquisition. Repeatedly, developers in financing the sales of parcels of land are accommodated by the respective sellers in several ways, such as option financing, seller financing, and subdivision trusts (Clauretie et al, 2003; pp 75-76; Miles et al, 2000; pp 367).

Many developers buy options to procure land at a future time rather than buying land outright. The purchase price, the option's expiration date, and cost of option or premium are the terms of a land purchase option. Thus, a developer is able to secure a land with the wish to develop without tying up equity in land. If the land is economically unviable a later date, the developer is able to let his option lapse at a cost of the option premium. Option cost depends on many factors such as the term of option, volatility of land price and the sort of index for land prices. Rolling options are normally use by developers especially those in residential development. Rolling option is the act of given a developer additional options on more land as existing ones are exercised. At the same time as he buys and develops the land with for instance housing, he wishes to be in a situation of having options on other parcels of land (*ibid* pp 367).

Sellers of land in some cases concur to take back a note from a buyer to finance the purchase. Through this method, the seller turns out to be the lender too with higher sales price of such land than usual. This stems from the fact that, sellers offer nonrecourse financing. The higher sales price is used as compensation should the project fail since the seller gives the buyer a put option. Seller having alien on property can complicate development process which in turn can bring about agency costs, which is not in the interest of the seller. Hence sellers have to insist on as many covenants as possible (*ibid* pp 368-369).

Subdivision Trusts are another means by which sellers accommodate the sales of parcel of land. By a subdivision trust, developers pay only part of the sales price and agree to pay the remaining when the properties are developed and sold. The seller of the land reassigns title to a trust and is nominated the first beneficiary of the trust. As the developers, nominated the second beneficiary, sell parcels of the developed property, he is at liberty to have portions of the lien unconfined by the trustee. Developers have the autonomy to develop the property as they see fit under a typical subdivision trust. Hence the vesting of the title to the property in the hands of the developer are avoided to serve as cushion for occurrence of developer default and bankruptcy (*ibid* pp 370).

It is worth mentioning the two types of investors –the speculators and the developers who typically acquire raw land. The speculators are those investors who have no development plan for the land they acquire. They acquire the land base on their anticipations for price appreciation opportunities, due to growth constraints, new transportation facilities, zoning changes and other economic or institutional changes that will bring about the value of the property to appreciate in the near future. Developers unlike the speculators, have definite plans for their properties. Developers normally specialized in a particular type of development, such as housing, shopping centres, or industrial facilities (*ibid* 367).

Large developers in particular are able to warehouse substantial amount of property. Warehousing is the act of holding of large track of properties in advance of the development process. Financing becomes paramount as developer desires to tie up as little equity as possible in large tracks of land. And this necessitates for lowest cost financing as possible (*ibid*).

2.4.2. LAND DEVELOPMENT FINANCE

Land development is the making of the acquired, raw land or site ready for development of improvements. There are several steps involved in this process, which includes zoning where necessary, engineering and surveying, subdividing if applicable and physical work, the final stage in this process which involves the physical work of grading the land and putting in utilities, streets, landscaping etc. These preparations of the land are costly. No wander the expenses involved in the first three steps are greater than those of the actual physical work. Value is added to the land through its preparation, though there are no physical changes to the land (Miles et al, 2000; pp 370-371; Clauretie et al, 2003; pp 75-76).

A developed land is one pace to its last use although it does not generate more income. Nevertheless, it is thorny to finance land development. The land development lender like the construction loan lender makes sure that value is added to the said project as the land development loan proceeds are paid out. Nearly all development loans represent the first lien on the property and are short-term. Typically, the interest charge on them is tied to commercial prime lending rate. Development loans are given out in draws or in stages while development advances. Normally, lenders allow for the discharge of specified tracts or lots from the overall mortgage as development proceeds and individual lots are sold to developers or builders of which payments must be made. The prices for these discharged lots are about 10% to 20% higher than the usual principal and interest associated with such lots to allow the lenders to receive more repayment of the early sale of the choice lots and deferring the developers´ profit until the development has been nearly sold out (Clauretie et al, 2003; pp 76).

Land development lenders are skillful to make good judgment about how development of a land increases its value. They ensure that the loan proceeds and developer's equity is less or equal to the value of the land when it is ready for construction. Apart from ensuring loan credentials, they offer deadlines for attaining the indispensable government approvals, and they are sentient of local land use directives and requisite governmental approval for developing a land (Miles et al, 2000; pp 371; Clauretie et al, 2003; pp 76).

Subdivision control ordinances and impact fee are some of the vital government approvals. Subdivision control ordinances necessitate developers to put up a minimum infrastructure either prior to building residences or selling it, and are linked with residential development. Municipalities also levy on developers, impact fees which are used to cover the added costs of burden to the infrastructure that results from a new development. Costs of burden may include more libraries, firehouses, waste water and sewage treatment facilities (Miles et al, 2000; pp 371).

2.4.3. CONSTRUCTION FINANCE

In real estate construction finance, construction loan is the final type of financing for a project prior to the permanent or take-out loan, when the project is completed and set for operation. This type of financing is short-term and covers the construction period only, with variable and deferred interest usually higher than the prime rate of the lender financed by lenders, and loan-to-value ratio of 70% to 80% and 60% to 70% for commercial project and speculative projects respectively (Miles et al, 2000; pp 172).

In addition, this is a specialized process with wholesale role by commercial banks. Primary collateral is the real estate and sometimes post additional collateral like other real estate, securities, or possibly third-party guarantees. Similar to land development loans, it is disbursed in stages as construction progresses. Often permanent loans are the source of repayment for construction loans. Being short-term loan and as means of hedging, construction loan lenders require developers to obtain permanent loans commitment as condition of obtaining construction loans. Permanent loan commitment or take-out commitment is the agreement of other lender to grant permanent loan, which are granted when the project is completed in concurrence to the approved plan and specifications (Clauretie et al, 2003; pp 76).

2.4.4. RISKS OF ADC LOANS

For both lenders and developers, there are several risks associated with ADC loans. From a lender's perspective, when the value of the property –collateral to move up disproportionately with a relative higher expenditure for construction, poses a major risk. Value of a property are sometimes not enhanced by soft cost, hence lenders may require developers to incur soft costs as equity contribution and, also have thorough monitor of all aspects of development and loan disbursement are ensured and done in conformity with all engineering and architectural plans (Miles et al, 2000; pp 377 and 379).

Also, lenders are concerned that projects are completed on time. Delay in construction brings about outsized balance due on the ADC loans at completion. Bad weather, worker strikes, material shortage can delay project too long, and the amount due on the ADC loans may approach or be greater than the value of the project, which affects the riskiness of the loan. In this sense, ADC lenders normally required developers to incur some of the costs if projects are delayed exceeding an agreeable limit of time. Furthermore, ADC lenders demand an approval of permanent loan with balance which cover ADC loan in case a project's termination before ADC loans are formalized (*ibid*).

Practically, developers too face risks. Losses are incurred by developers if there is a delay in construction. As a result of the delay, developer put more equity into project by incurring greater interest charges. Developer is also exposed to risk through increase in cost of building materials. This risk could be minimized in short-term project in which developer contract for a fixed price on materials at the beginning of the project. Time risk is also borne by developers on more frequent lengthy project, which sometimes demands for ADC loan carrying floating interest rate. An increase in the rate of interest during construction increases developer's interest cost (*ibid*).

2.4.5. PERMANENT FINANCING

Permanent financing is the last financing stage in the real estate cycle. It begins with when constructed property is put to use by owners or tenants, thus at this point the long- term loan is funded. Most of these loans are used to pay off the construction lenders (Clauretie et al, 2003; pp 76). Aside the completion of improvement as a requirement for permanent loan commitment, sometimes, a minimum level of tenants should be attained before full permanent loan is funded. This is for the lenders to ensure that enough income is forthcoming for loan servicing otherwise developers use gap financing from other lender. Gap commitment is when a new lender agrees to offer permanent second mortgages especially to developer in an event where full amount of permanent first mortgage is not advanced when construction is completed. Gap financing is expensive in terms of both interest and origination fee (*ibid*).

Amortization, refinancing and prepayment are the common ways by which permanent loans are repaid. Amortization, as a method of loan repayment occur when loan is gradually paid off during its term, eventually the loan is paid in its entirety at maturity. At maturity of the loan, owner's equity interest equates the full market value of the property (*ibid*).

On the other hand, refinancing occurs in any of the following ways for some reasons, prior to the maturity of an original mortgage owner may (a) renegotiate its terms with the original lender, so that property's potential for sale increases which makes the financing more lucrative to buyer; (b) bump up the loan amount with the view of generating tax- free cash for owner; or (c) pay off the existing mortgage and take new mortgage so as to reduce a monthly debt service and increase cash flow to owner (*ibid*).

Often owners of properties sell them prior to the payment of the existing mortgages, in such events, the loans are called by lenders or pay off may be made by new owners and new financing are put together. Prepayment clause is a section in a mortgage that allows early payoff (*ibid*).

2.5. INNOVATIONS IN REAL ESTATE FINANCE

Over last two decades, the financial market has observed essential innovations partly attributed to the dramatic changes in the institutional and regulatory settings in which investors function. As a consequence, real estate finance in 2000 differs from those in the 1980s (Clauretie et al, 2003; pp 100).

Opportunity funds originated as result of the crisis of S&L in the 1980s. This innovation in real estate finance has the specialty of identifying and purchasing problem properties at sizeable discount. Over extensive period, very high returns are generated through the combination of professional management and presence of right side of the real estate cycle. In the 1990s opportunities became difficult to come by in the U.S. as the cycle was smoothened, where opportunity funds started to be explored for investments in Europe and Asia (*ibid*).

Real estate investment trust (REIT) came into being gradually in the 1960s through the changes in tax code to allow small investors to enjoy the benefits of commercial real estate that were previously available only to wealthy individuals and large institutions. REIT had rapid growth in the mid1980s fueled by changes in tax laws, the growth of opportunity funds which could access real estate finance only in

´securitized´ form, and the indistinguishable market conditions that fascinated opportunity funds. Many REIT companies evolved from growth to value in the 1990s as a resultant of the market's competitiveness (*ibid*). According to Deloitte, in the 8th edition REIT Guide, Apartment and Retirement REITs are the least sensitive to economic cycles and as such the most stable. This report goes further to say that, there are no anchor tenants, the portfolio of tenants are the most stable, and portion of space occupied by tenants are relatively small (Deloitte, undated pp 8).

Another vital innovation is the commercial mortgage-backed securities (CMBS). Securitization tenders an opportunity to invest in a pool of debt, akin to REIT but, tenders opportunity to invest in a pool of equity (Clauretie et al, 2003; pp 100).

Furthermore, life insurance companies and commercial banks are conventional active lenders, have observed changes in their lending policies and competitive environments. Basic changes in the life insurance market and legislation that turn real estate more costly asset to hold in terms of reserve requirements, makes life insurance companies less engrossed to equity real estate. Many life insurance companies are full of zip in the CMBS at present. Commercial banks have stretched their lending activities from primarily construction loan to a jam-packed variety of real estate loans (*ibid*).

In addition, mature market for securitized residential loan is uncovered as an innovation in real estate finance. This market has stabilized credit for single-family homes through the impact cutback of changes in interest rates on liquidity of lenders and consequently on the credit availability for borrowers (*ibid*).

Traditionally, construction financing or even permanent financing is not able to cover always all development costs. A variety of equity structures such as partnership, syndications, private placement among others were used in the past to come up with capital to complete development. Mezzanine finance comes out as another innovation or a new source of funding real estate projects (Miles al et pp 404). Mezzanine financing is a hybrid of debt and equity financing used in a variety of ways. It is a subordinated and not collateralized, normally a debt capital with current repayment requirement but with the rights to convert to an ownership or equity interest in a company.

Basically, developers or equity holders in developments get this loan from mezzanine lenders in amounts ranging between 75% and 100% of the shortfall between construction lenders or permanent lenders loan and the total costs of development. For instance, if the cost of development is 20 million Crowns and 15 million crowns construction loan is secured, for the developer to raise 5 million crowns in equity, mezzanine financing could be used as an alternative for a substantial portion, and possibly all of the required equity investment (*ibid*).

Mezzanine lending is inherently riskier than conventional lending, which comes after equity. This character of mezzanine lending is seen in its higher borrowing costs that are in form of loan fees. Aside this, mezzanine lenders typically demand a share of profit thus participation interest´. This included first, a share of the profits available until the project is sold or the mezzanine loan is repaid and again, a portion of profits from the sale. Also to enhance development's completion on time and to reduce risk on the part of mezzanine lenders, participation interest increases with term of the loan. Being costlier than conventional development lending, mezzanine loan might be more palatable than equity alternatives comparatively (*ibid* pp 404-405).

A REIT can participate in development project through mezzanine financing arrangements that compasses an option to acquire an interest in the property once it is completed. This type of arrangement brings a REIT with earnings and cash flows in form of interest on the mezzanine debt to make distribution payments during the development period (Deloitte, undated; pp31)

2.6. VENTURE CAPITAL, AN OPTION

Venture capital (VC) can be described as an imperative intermediary in the financial markets, making capital available to firms that have difficulties of attracting finance. These firms are distinctively small and young, afflicted with high level of uncertainty and large information asymmetry problems for entrepreneurs and investors. In addition, these firms chiefly have few tangible assets and maneuvering in very rapid changing markets. Venture capital organization finance high-risk, latently high-rewarding projects, purchasing equity or equity-linked stakes nevertheless the firms are privately held (Gompers and Lerner, 2001 pp 145). Jungwirth and Moog (2004) described venture capitalists as intermediaries with advantages of financing risky investments. They continued that, venture capitalists specialize in controlling risk in a particular industry at lower cost compared to others in the market, stemming from their specific know-how, experiences, and access to network and information. However, there exists non-specialized venture capitalist (general V.C) in the market. Jungwirth *el al*, 2005; pp 105-106 is one of the literatures that hammer on the advantages of specialist VC. Continually Jungwirth shed light on heterogeneity of venture capitalists (Jungwirth *el al*, 2004; pp 105-108).

As already noted, VC has pretty diverse denotation around the globe. There are significant distinctions in the stages of investment (early-investment, late-investment or in-between the two) in which venture capital industry is engaged across countries, as well as their sources of finance (Mayer *et al* / Journal of Corporate Finance 11(2005) pp 588; Isaksson 2004). The article of Mayer, Schoos and Yefah (2004) shed light on the relationship between sources of finance and VC activities in Germany, Israel, Japan and the UK and their variations in sizes of funds, corporate form and type of investment, source of finance, and type of investment activities in terms of location, sector and investment stage. The article concluded that, the variations in financing and investment activities are related and therefore, banked-backed funds are more closely focused on late-stage investment, whereas early-investment is the hub of individuals, corporate- backed and these variations diverge in these country and not in line with simple financial systems (*ibid* pp 608).

The relationship between venture capitalists and their respective partners especially entrepreneurs and associated problems are pertinent issues to draw attention to. Cable and Shane developed a conceptual model based on the prisoner's dilemma to study the relationships between venture capitalist and entrepreneur at post investment stage (Cable and Shane, 1997 pp 142-176). In addition, Fluck, Garrison and Mayer developed a model to investigate how moral hazard, effort provision, information asymmetry and hold-up problems are handled by venture capitalists and entrepreneurs (Fluck et al, 2005).

2.7 SOME OWNERSHIP TYPES IN THE REAL ESTATE EQUITY MARKET

The table below depicts some equity types and their features. Previously, real estate capital mostly was raised in the private market. Through commercial brokers, developers

Table 1: Features of Selected Ownership Forms

Ownership Forms	Ease of Formation	Ability to Raise	Management	Personal Liability	Income Tax	Transfer of Ownership	Dissolution
Individual	Simple and inexpensive	Limited	Flexible, Independence, may lack	Unlimited	Single	Single and inexpensive	Excellent
Tenancy in common	Simple and inexpensive	Limited but Superior to Individual ownership	Depends on Owners, may be cumbersome	Unlimited	Single	Potential difficult	Potential Difficult
General Partners	Moderately Ease	Limited but Superior to Individual ownership	Generally by Designated Partner (s)	Unlimited	Single	Poor	Fairly simple
Limited Partnership	Moderately difficult and expensive	Limited but Superior to General partnership	Good, by general Partners or agents	Limited for Limited partners, unlimited for general	Single	Poor for general partners, fair for unlimited	May be time consuming and tie up invested capital
Ordinary Corporation (C corpora - tion)	Complex and expensive	No problem If closely held, if public, depends on investment	Continued and centralized	Limited	Double	superior	Simple process but Needs share-Holders approval
S. Corporation	Complex and expensive	Limited, unsuitable for income property	Determined by Relative share of ownership	Limited	Single	Impeded by ceiling on number of shareholde	Simple process but Needs share-Holders approval
Real Estate Investment Trust	Complex and expensive	Good	Centralized by Advisory group	Limited	Modified single	Superior	Complex

Source: Clauretie et al, 2003; pp70

sale equity interest in their projects, and take loans from banks, mortgage companies and life insurance companies. However, today the trend is changing toward raising capital relatively in the public market, where both equity and debt funds are generated through securitization, although the old model still predominates.

2.8 CONCLUSION

In a nutshell, this section outlines real estate development phases with risk, real estate finance cycle, innovations in real estate finance, venture capital and end with the forms of ownership in the real estate equity market based on U.S experience. Nevertheless, these studies were conducted in the developed world and they did not touch on issues pertaining to developing country like Ghana. This study on the other hand will be on Accra, and for that matter Ghana.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This study is an explorative study, questionnaire inquiries and interview were the approaches employed. The second issue discussed is on brief history of housing and housing finance in Ghana.

3.2. SAMPLING DESIGN

The general population, consisting of both lending bodies (Banks) and private (companies) estate developers, is diversifying in nature. To select respondents who epitomized the general population in Accra, the heterogeneity were considered. So, representatives from 3 banks and 4 private estate developers were selected based on explicitly known criteria such as location, size, history, products type and objectives.

3.3. SAMPLE TYPE

The sample type used was purposive sampling: Adhering to the objectives and the nature of this study, respondents who are experts (based on their number of years in service, and their educational background) and capable of answering the research questions were selected. This were adopted to give quick insight in lending to private estate developers in general and to have in-depth knowledge on ADC loans in Accra.

3.4. PRIMARY DATA ACQUISITION

14 top executives, two from each of the 3 selected Banks and the 4 selected private estate

developers were contacted through both telephone and face to face interviews as part of methods of collecting information for this work. This was done from December, 2010 to February 2011. This provided a broad view and in-depth understanding of lending to private estate developers in Accra. The aim is to have information that generally represent the region under study (Accra) and the subject area (Borrowing, ADC loans, Banks, private estate developer). A semi-structured questionnaire was utilized. The objective is to ensure flexibility and also yield more useful information.

3.5. USE OF SECONDARY DATA

The secondary data were sourced from the published annual reports, journals, articles and library text books. Access to the data was not a problem as these were published annually in the print and electronic media for public consumption. The researcher profited in so many ways from the use of this type of information for the study. First, this was less expensive to collect, in terms of time and money. It afforded the researcher the opportunity to collect high quality data which would not have been of the same quality if the researcher were to collect it in its primary form. Saunders et al, (2007) quote Stewart and Kamins (1993) as stating that secondary data are likely to be of higher-quality than could be obtained by collecting empirical data.

3.6. DATA ANALYSIS, DISCUSSION AND RECOMMENDATIONS

SWOT analysis of existing lending to private estate developers in Accra was the main tool for data analysis. This was an effective way of identifying the strengths and the weaknesses (internal factors) and examines the opportunities and threats (external factors) of private estate developers and the ADC lending situation in Accra. Practically, SWOT analysis is chosen to this bring out focus areas within which strengths and the greatest opportunities lie in lending from Banks and other fund sources.

Discussions were done by relating findings or results to the research problem, scope and limitations, theoretical framework and methodological approach. Conclusion, possible recommendations and future research were considered. Recommendations were developed to increase the strengths, to reduce the weaknesses, to take the greatest possible advantages of opportunities available, and to fight the threats of giving ADC loans by banks and other lending institutions to private estate developers in Accra.

3.7. LIMITATIONS

Officials of some financial institutions in Accra trading in housing finance were reluctant to reveal information, lack of time and financial constraints were the other complications encountered in the course of the research. However, none of these difficulties were sufficient to over-rid the significance of this research.

CHAPTER FOUR

OVERVIEW OF THE HOUSING MARKET AND FINANCE IN GHANA

4.1. INTRODUCTION

Generally speaking data available on housing in Ghana is inadequate. Based on the 2000 population census, the number of houses in Ghana amounted to 2.2 million with 3.88 million households. It also point to the fact that Ghana has about 34.1% of its housing stock situated in the urban areas and the rest in the rural areas. As depicted in Table2, Greater Accra and Ashanti regions have 13.2% and 15.1% of the total housing stock respectively. Currently the country observes about a 77% increase over the recorded housing stock in 1984 and Greater Accra recorded the highest increase of about 140% increase over the 1984 stock (HFC Bank Prospectus Supplement, pp 67, 2004). Also, an undated document from GIPC reveals that, the country's property market is spearheaded by the residential market with annual transactions estimated at about 85,000 for the past decade. The residential market has witnessed greatest demand of any property segment attributed to high population growth and urbanization pressure especially in the Accra-Tema metropolis (Ghana Investment Promotion Centre –GIPC, Accra).

Table 2: Regional Distribution of Stocks of Houses and Households (HH)

	2000 Population	No. of Houses	No. of HH	% Distribution of Housing Stock	Urban Share of Housing Stock	Pop. per House	Avg. HH size	HH per House
All Regions	18,912,079	2,181,975	3,701,241	100	34.1	8.7	5.1	1.7
Greater Accra	2,905,726	287,840	626,613	13.2	80.4	10.1	4.6	2.2
Ashanti	3,612,950	328,751	682,759	15.1	37.1	11	5.3	2.1
Western	1,924,577	259,874	410,142	11.9	27.1	7.4	4.7	1.6
Eastern	2,106,696	283,461	456,683	13	26.6	7.4	4.6	1.6
Volta	1,635,421	264,451	345,821	12	27	6.2	4.7	1.3
Northern	1,820,806	177,785	245,617	8.1	24.4	10.2	7.4	1.4
Brong Ahafo	1,815,408	216,275	342,808	9.9	28.9	8.4	5.3	1.6
Central	1,593,823	223,239	365,777	10.2	26.8	7.1	4.4	1.6
Upper East	920,089	88,401	144,386	4.1	14.6	10.4	6.4	1.6
Upper West	576,583	51,898	80,635	2.4	17.4	11.1	7.2	1.6

Source: Bank of Ghana research department, 2007; pp23

4.2. HOUSING DEMAND

Continuously, demand for housing surpasses its supply. Regardless of many interferences meant to rectify the acute housing shortage the country faces particularly in the urban centres, building of extra new housing units does not meet existing demand. Housing deficit figures have been projected to array between 35000 and 40000 annually (HFC Bank Prospectus Supplement, pp 67, 2004). (Ghana Investment Promotion Centre –GIPC, Accra).

A total of 38% and 24% of households live in one room and two rooms respectively, and only 38% of households live in three rooms or more. However, about 50% of the household have only one sleeping room based on the year 2000 census. Specified by the population growth rate of 2.7 per annum, it is estimated that population will balloon, with extra of above 5.77 million persons by 2010, hence a demand for extra 851,044 houses by the population would be realized (*ibid*). While official statistics are not available, it has been projected that demand for housing in the Accra-Tema metropolis will be 133,000 units between 2002 and 2008 (GIPC). The above picture observed against the idyllic condition of three rooms per household with 6 persons, reveals the degree of the housing crisis in Ghana. The estimated yearly housing requirement is depicted in Table 3.

Table 3: Estimated Housing Stock and Deficit

	Population	**Households**	**Estimated Housing Requirement**	**Yearly Requirement**
2001	19,422,705	3,808,374	2,240,220	58,896
2002	19,947,118	3,911,200	2,300,706	60,486
2003	20,485,690	4,016,802	2,362,825	62,119
2004	21,038,804	4,125,256	2,426,621	63,796
2005	21,606,852	4,236,638	2,492,140	65,519
2006	22,190,237	4,351,027	2,559,428	67,288
2007	22,789,373	4,468,505	2,628,532	69,105
2008	23,404,686	4,589,154	2,699,502	70,970
2009	24,036,613	4,713,061	2,772,389	72,887
2010	24,685,601	4,840,314	2,847,244	74,855

Source: Bank of Ghana research department, 2007; pp25

4.3. HOUSING SUPPLY

The lack of adequate housing is witnessed across the entire social strata of the country. Based on UN recommended occupancy rate, the Ministry of Work and Housing approximates that housing supply lags behind demand at a rate of about

70,000 units annually. It will take a lengthy time for the recent housing delivery in Ghana to absorb the shortage (HFC Bank Prospectus Supplement, pp 67, 2004). (Ghana Investment Promotion Centre –GIPC, Accra).

Housing supply in Ghana is by and large, dominated by the private sector, accounting for more than 90% of the total housing delivery. Presently, there are numerous real estate developers, who are principally members of the Ghana Real Estate Developers Association (GREDA), who members have made a considerable brunt on the housing sector. Distinguished among these developers are Manet Housing Limited, Parakou Estates, NTHC Properties Ltd, Regimanuel Gray ltd and Social Security and National Insurance Trust (SSNIT). These companies have on-going developments that have direct impact on supply of houses to diverse sectors of the populace (*ibid*, pp 68). Houses that are built by individual people, accounts for more than half of the housing supply by the private sector.

4.4. HOUSING FINANCE

Ghana’s housing finance industry has been undeveloped. This has been attributed to a number of factors, predominant amongst which have been high inflation and low incomes, resulting in economically unproductiveness of the greater part of schemes that have usually operated within the country. As a result, commercial banks are deterred from going into the housing finance industry. At the moment, HFC is the dominant mortgage operator in the industry which should have been dominated by many specialist agencies. The potential of this hefty market is still untapped. Thus, the other agencies and the commercial banks have as at yet not been capable to act in response to HFC´s lead. A small number of financial institutions offer mortgages, and those that do, do so to a limited capacity due to insufficiency of long-term funds and high interest rates, consequently low demand for their mortgage products –loans, which are exorbitant to most Ghanaians (*ibid*). An annual country report by IMF in 2003 reveals that most lenders have shied away from providing housing finance and that HFC´s dominates in the housing finance market. This report further revealed that, the reluctance of the banks and others lenders to engage in housing finance reflects the poor macroeconomic policy environment, a weak property title system and inefficient foreclosure processes, weak institutional arrangements and effective absence of dispute resolution bodies provided by the law, poor management by the government of the land it owns or manages as a fiduciary agent of customary owners (IMF, 2003 pp 16).

Again, it is noted that, through funds provided directly from investors, depositors cash resource as well as repayment of loans and the interest charged thereon conventionally form the capital funding for housing and mortgages in Ghana (HFC Bank Prospectus Supplement, 2004 pp 25). In the light of this, firstly, the establishment of the prudential requirement of the Bank of Ghana, which establish capital adequacy ratio; and secondly, the returns from mortgage funds which have not kept up with inflation, thus, exhausting the real value of loans to housing sector, which narrows the proportion of commercial bank funds channeled to real estate sector of the country (*ibid*). Employers in the country have turned out as hidden providers of housing. Housing as a basic needs of their employees, employers have been effectively using housing as a valuable incentive for their working-forces. Mortgages are usually provided at concessionary rates by employers mostly as a reward for long and fruitful service, which are non-commercial activities rendered as necessities by employers. So entrenched is this practice within the psychology of Ghanaians that there is substantial lack of enthusiasm to accept the operation of housing finance as a commercial enterprise –such as HFC´s ((HFC Bank Prospectus Supplement, 2004 pp 68).

Official information on risk particularly concerning loans to the real estate sector in Ghana are hard to come by, however in general, it was reported by the banks that it is risky to lend to this sector. Provision for bad and doubtful debts for HFC´s mortgages in years 2000 and 2001 were ¢1,791,756 and ¢3,933,371 respectively, which brought the balance at the end of these years to ¢186,513,841 and ¢155,869,261 (HFC Annual Report and Account 2001 pp 21). In addition, Ghana Commercial Bank's provision for bad and doubtful debts increased from ¢98,489,000 in 2003 to ¢112 815 000 (Ghana Commercial Bank Annual Report 2004 pp 29).

4.5. MARKET PARTICIPANTS

Currently, HFC is the main player in the housing finance market in the country. Other institutions like the banks such as Standard Chartered Bank Ltd, and the First Ghana Building Society are within the industry. The nature of funding of a good number of commercial banks are principally short term and as result, do not advance direct long-term mortgage loans. Non-bank financial institutions, a few rural banks and other commercial banks are potential institutions for housing loans (HFC Bank Prospectus Supplement, 2004 pp 68).

CHAPTER FIVE

DATA ANALYSIS AND DISCUSSION OF RESULTS

5.1. INTRODUCTION

In this section, the data gathered between December 2010 and February 2011, through personal and phone interviews, questionnaire enquiries, and e-mails are presented, analyzed using a SWOT analysis, and discussed.

The presentation comes in two folds; first the results from 6 top officials of 3 financial institutions in Accra and second, the results from 8 top officials from 4 real estate companies, all in Accra.

The second part sets out SWOT analysis of residential development companies and their financing in Accra based on results from this study and available literature and, the third part contains the discussions of results.

5.2. FINANCIAL INSTITUTIONS´ INTERVIEWS

The following financial institutions were contacted, namely Home Finance Company (HFC) Bank (Ghana Limited), Barclays Bank of Ghana Limited, and Ghana Commercial Bank Limited. As already stated this selection was based on explicitly known criteria such as location, size, history, products type and objectives.

Among these banks which offer traditional banking services of receiving deposits from customers, lending money, providing investment and credit facilities and portfolio and cash management, it is only HFC bank which has mortgage financing among its primary functions.

With regard to housing finance, Barclays Bank has neither objectives nor policies.

Ghana Commercial Bank (GCB) offers finance to real estate developers and also provides mortgage facilities to only its staff. However, HFC Bank has the objective of becoming the preferred source of mortgage finance and construction finance in the country. HFC Bank has the following policies; finance only legally registered real estate companies capable of delivering housing units of an acceptable standard and also applies strict credit evaluation techniques.

Table 4 summarizes the features of these banks

Table 4: Features of the Selected Banks

Banks	**Type**	**Housing Financing Objective**	**Sources of Funds**
Barclays	Commercial Bank	Not specified	Individual, corporate and governmental bodies
GCB	Commercial Bank	Only for its workers	Individual, corporate and governmental bodies
HFC	Mortgage/Construction	Yes	Individual, corporate and governmental bodies

Source: Author, 2010

Shareholders funds, profits ploughed back or retained earnings and the US dollar corporate bonds form the main sources of fund for HFC Bank. Barclays bank has its main source of fund from individuals, corporate bodies and government institutions. Ghana Commercial Bank main sources of fund are just like Barclays in addition to offshore funds.

Ordinary employees with verifiable income, corporate institutions and real estate companies are the typical borrowers of HFC Bank. Barclays and Ghana Commercial Bank have individuals, corporate bodies and government institutions and other banks (interbanking trading) as their typical borrowers.

Real estate firms or institutions are part of the typical borrowers of Ghana Commercial Bank that do not want to lend to household or individuals. Both ordinary people and real estate developers are typical borrowers of HFC Bank. All the banks do not want to lend to individuals with unverifiable incomes and corporate bodies with poor credit profile/history or with no proper records.

Housing loans are granted by HFC Bank with interest related to market rate, unrelated to Government bonds, and repayment period are up to applicants´ 60th birthday and up to maximum of 20 years for institutions with the bank maximum financing limit of 80% of the housing projects. Other requirements include title to the property being financed and borrowers´ minimum contribution of 20% of the property price.

Ghana Commercial Bank's interest on housing loans are bank based rates ranging between 1% and 5% and repayment period is structured to fit the development period. Loan share of a project ranges between 70% and 80%. The bank's other requirements from developers include collateral, track record in the industry, membership to Ghana Real Estate Developers Association (GREDA), 3 years financial performance and the management strength and experience.

All the 3 banks complained of loan repayment as being a big and rampant problem. Absence of long term funding, unwillingness of financial institutions to undertake housing finance and cultural aversion due to owning a home through mortgage finance are the general problems facing housing finance in the Ghana according to HFC Bank. Ghana Commercial bank believed that ownership and transfer of land difficulties, assets´ perfection of security and lack of adequate information on borrowers (no credit rating institution) are the general problems associated with housing finance in the country. Barclays bank though, believes that high interest rates and scarcity of long term deposits are the glitches with housing finance.

In the case of Barclays bank, it is general loan requirements or terms and not for housing per say. Their interest on loans are well above government bonds, repayment period do not exceed 5 years with loan shares ranging between 60% and 80%, and collateral is required. The interest rates, loan to equity ratio and the terms of loans are depicted in Table 5.

Table 5: Loan Features of the Selected Banks

Banks	**Interest Rates**	**L/E Ratio**	**Terms of Loans**
Barclays	Above Government Bond	60%-80%	≤ 5 years
GCB	1% to 5%	70%-80%	Adjustable to fit construction
HFC	Related to Market rates	≤ 80%	≤ 20 years

Source: Author, 2010

All the 3 banks confirmed that HFC Bank is the dominant bank engaged in housing finance in the country with Social Security and National Insurance Trust (SSNIT) and other commercial banks as meager competitors in the country. With respects to future plans for housing finance, Barclays bank is not considering mortgage financing to majority of the public but rather to only executives of some multi-national corporations, although there is a relative macroeconomic stability in the market. This is as a result of the challenge the institution face in raising long term deposit to match mortgage financing needs which is typically long term in nature. Ghana Commercial bank has future plans of establishing secondary mortgage finance. HFC bank is considering the establishment of representative offices abroad in future to attract money from Ghanaians living abroad.

5.3. REAL ESTATE COMPANIES´ INTERVIEWS

Based on location, size, history, products type and objectives and through GREDA, www.ghanaestates.com and www.ghanaweb.com, 4 real estate companies were contacted; namely Akuaba Estate Limited, Kenco, Devtraco Limited and Regimanuel Gray Limited, all located in Accra. The characteristics of these companies gathered are depicted in Table 1.

Table 6: Some Characteristics of Selected Real Estate Companies in Accra

Companies	Akuaba	Kenco	Devtraco	Regimanuel Gray
Number of Years in existence	38	21	16	17
Labour Force (person)	500	700	50	250
First year for Housing Development	1995	2000	2000	1991
Region of most operation in Ghana	South	South	South	South

Source: Author 2010

The various companies acquire and develop land to construct the properties and also the relevant infrastructure themselves at areas where they build.Table7 summarizes the actual and expected units of houses that each company produces and what they expect to produce annually.

Table 7: Annual Units of Houses Actually Produced and Expected To Produce

Companies	Akuaba	Kenco	Devtraco	Regimanuel Gray
Actual Units	30	20	55	150
Expected Units	50	30	40	Minimum 70

Source: Author, 2010

The kind of houses built by Akuaba, Kenco, Devtraco and Regimanuel Gray are dominated by middle to higher income, detached and semi-detached 3 bedrooms. All the companies build outright for sale, with their prime customers being middle to higher income Ghanaians living in the country, Ghanaians abroad, companies and Diplomatic missions.

The companies (Akuaba, Devtraco and Regimanuel) rely on consultants and subcontractors and none of them have problems of getting government permit. Akuaba, Kenco and Devtraco did not report any problem associated with qualities standard. Regimanuel Gray had such problems in its infant stages when they entered into the industry.

All the four companies have experienced construction delays before. With Kenco, the delays in construction were due to insufficient cash flow as well as alteration of original building plans. Litigation funding and personnel availability problems were the causes of construction delay, according to Akuaba. With regard to Regimanuel Gray and Devtraco, the construction delays were as a result of Shortage of building materials and natural condition like heavy long rainfall.

Bank loans, equity, retained earnings, and deposits of respective buyers form the main sources of finance for land acquisition, land development and construction in all the four companies. The bank loans are from HFC bank and other commercial banks in Ghana. Kenco limited comments that it has a slow release of funds from the respective buyers as the main problem with its finance. Devtraco, Regimanuel Gray and Akuaba mention high interest rates coupled with high inflation, difficulties in gathering flexible terms for loans or inadequacy of long term finance in Ghana as their main problems.

With regard to recommendations to ease the flow of funds to the real estate industry in

Ghana, they suggested the need for government subsidies, grants, tax rebates, more real estate focused financial institutions, and the development of the capital market to enhance developers' access to long term capital at competitive rates.

5.4. SWOT ANALYSIS FOR RESIDENTIAL FINANCE IN ACCRA

Housing finance is analyzed in terms of the strengths and weaknesses of Real estate development companies and their lenders, and opportunities and threats of the financial market in Accra. This is based on information gathered from contacted banks and real estate developers. The analysis is shown as follows;

5.4.1. STRENGTHS

- Residential market is the largest property market with high demand for housing in Accra-Tema metropolis -133, 000 -per annum till 2008.
- There is the presence of both specialized and diverse products by Real estate developers.
- Buyers give large deposits for real estate developers.
- There exists a high loan share of projects -60%-80% -from lenders.
- HFC bank has a long repayment period and commercial bank has flexible repayment periods to fit development.
- Active private sector exists, particularly the Ghana Real Estate Developers Association, accounting for 80% of total housing delivery.

5.4.2. WEAKNESSES

- There is low supply of housing (urban housing shortage) –deficit of 3500-4000 per annum. The absorbing time for shortage of housing is projected, and is too lengthy.

- The housing finance industry is underdeveloped with the dominance of HFC bank.
- There are insufficient long-term funds on the financial market, and the commercial fund channeled for the real estate sector is pretty narrow.
- Construction delay and substandard problems from some real estate developers are rampant.
- Housing finance is risky and high interest rate problems persist.
- Financial institutions´ policies and objectives exclude housing finance.
- Lenders have large number of bad and doubtful debts.

5.4.3. OPPORTUNITIES

- There is rapid urbanization and high population growth and substantial market potentials in Accra-Tema metropolis. Demand for extra 851,000 housing is projected by 2010 in Ghana, which is concentrated in this region.
- A number of employers are hidden producers of housing.
- A number of potentials of non-banking financial institution, venture capitalist, and rural banks exist in Accra.
- GREDA provides accessible and accurate information on GREDA members.
- Currently, many banks have the intentions of going into housing finance, due to the recent stability of both economic and political atmospheres in the country.
- Ghana’s current stable economic and political environment also serves as a good

ingredient for the growth of the financial market.

5.4.4. THREATS

- Generally, there exist low level of income in country, and it is underdeveloped.
- There is the problem of high inflation rates, and this brings about low returns from mortgage funds.
- Low demand for mortgage products and lack of enthusiasm to accept housing finance as a commercial enterprise psychologically persists in the country, thus there is a cultural aversion to own a house through mortgage finance in Ghana.
- Ghana is characterized by many poor macroeconomic policies.
- The country has weak property title system and inefficient foreclosure processes.
- There is the absence of dispute resolution bodies in Ghana.
- The Government has poor management of its lands and others.
- Difficulties of land ownership and its transfer exist, and bring in to focus the problems of assets´ perfection for security.
- There is the absence of credit rating institutions and inaccessibility of information on borrowers even when this information exists.
- The capital market is under-developed and the financial market is fragmented in the country.

5.5. DISCUSSION

In this section, results are related to the important aspects of the thesis problem, delimitation, theoretical framework and the methodology. Acquisition, Development and Construction loans (ADC) are the loans that cover the first three stages of real estate finance. They are non-permanent or short term loan. *Why major financial institutions and other lenders in Accra do not involve in giving ADC loans, and how to channel funds into housing* form the focal problems for this work.

This is as a result of the following:

- ADC loans are very risky in nature
- The land tenure problems in the economy makes it difficult to use the assets (land) as a collateral to secure ADC loans
- High inflation makes it difficult to grant ADC loans. Due to the high inflation, this loan is normally granted at a high interest rate.
- Lenders makes high provision for bad and doubtful debt due to the default rate on ADC loans

Also, it is pertinent to touch on certain key words before the main discussion. Real estate finance is a very broad category, which involves the study of the institutions, markets, instruments employed to reassign money and credit for the intention of acquiring or developing real property. In turn, real property is the right, power, and privileges associated with the use of real estate. Real estate denotes the land and all fixed and immovable improvement on it. This study fits into both real property and real estate.

The flow of funds in the Savings-Investment Cycle shows that, either directly or through financial intermediaries, there is stream of excess funds from the surplus income unit to the deficit income unit. Commercial banks and other lending institutions are part of the intermediaries. For instance, in the case of the US, commercial banks are the key players in giving ADC loans for residential real estate projects. However, the picture in Accra and in Ghana as whole is just the contrary. The weight of this thesis problem in the spheres of provision of shelter in Ghana by real estate private companies cannot be embellished. Nevertheless, this does not misinterpret the fact that individuals produce 100s of the housing stocks in Accra and in the country as a whole. This discussion is sub- titled as follows;

5.5.1 RISK AND ADC LOANS

There are several risks connected to ADC loans for both lenders and developers, however, and those from the lenders´ perspectives are touched on here. It is therefore important to note types and sources of risks as leveled against ADC loans from the results of this work.

Among the three banks contacted, Barclay bank has neither policy nor objective for housing finance, Ghana Commercial bank has very restricted housing finance policy and objectives for its workers only. HFC is the only bank with housing finance policy and objective. This picture is explained by the risky nature of the real estate finance and the market within which it operates.

The economy of Ghana is characterized by high inflation, sometimes being, hyper inflationary, but the real estate market of which residential property is a major part, is sensitive to inflation.

Financial institutions grant loans at high interest rates to offset this portion of inflation, left alone not to think about its swings. Inflationary economy also can bring about mismatch between the total value of ADC loan and the value of property used as security. There is a major risk associated with situation when amount due on ADC loan exceeds the value of collateral.

Supplementing the above information are the problems associated with the ownership and transfer of land in Accra and in Ghana as a whole. The customary ownership of land and its transfer deficiencies make it inappropriate to be used as an asset for securing ADC loans. Land litigation and registration problems are rampant in Accra. There is the poor security of land title due to large number of traditional owners of land operating in the market in Ghana especially in Accra.

Also, risk in general has two components, the market or systematic risk and unique or unsystematic risk. Individual characteristics of the real estate companies influence their respective unique or unsystematic risk and market features dictate the market risk. Although this work does not have data to discuss this, it could be inferred from the general characteristics of companies contacted that many of the real estate companies have high unique risks which prevent banks to lend them ADC loans or grant ADC loans only at a high interest rates.

Also housing sector is one of the most cyclical components of GDP. This cyclicality could be partly attributed to the sector's sensitivity to interest rates, and it is possible that construction lags create intrinsic cyclicality in this sector. This cyclicality can have impact on the market risk portion in the country, which might vary with time. Tracking this cycle, might be very tedious for lenders as result of lack of expertise to do that, hence ADC loan will be risky to give.

In addition, riskiness of ADC loans could be seen in terms of frequent construction delay. Construction delays were experienced by all the four real estate companies. One major concern of ADC lenders is the completion of project on time. A larger balance due on ADC loan at completion might be as a result of construction delay. In an inflationary economy like Ghana used to be, delay in construction which might be as result of bad weather, shortage of materials, or workers strikes account leads to larger amount due on ADC loans that usually exceed value of the property.

The risks associated with residential ADC lending are in line with the conclusion of Lusthl and Leidenberger (1997). Their study concluded that, in descending order of importance, the following factors are linked with residential construction lending risk: unavailable of materials, inflationary cost overruns, the experience of the borrower and the experience of lenders (Lusthl and Leidenberger, 1997; pp 244-252). However my work did not weigh or rated these factors.

It is as well worth mentioning that, ADC loans are risky, particularly both acquisition and development loans. This stems from the fact that, land development of which loans are meant for, involves several steps such as zoning, engineering and surveying, subdividing, physical work etc. in addition, site preparations make development loans expensive and risky just like the acquisition loans, as both do not create any cash flow. Although all these site preparation elements add value to the raw land acquired.

5.5.2 INFORMATION ASYMMETRY AND ADC LOANS

Information asymmetry occurs when one party to a transaction has more or better information than the other party. As a theory popularized by George Akerlof in the 1970s, it has been used in many disciplines. In the result section of this work, it is identified that there is lack of information on borrowers and non-existence of credit rating institution that could give information on borrower in Accra. These result in adverse selection and moral hazard in the financial market. Adverse selection in this field implies selection of bad borrower or lender giving loan to bad borrower due to information asymmetry in the market. Moral hazard also means borrowers acting irresponsibly with loan, because they did not fully or partly suffer the consequence or benefit of their acts.

Due to asymmetric information problems between lenders and developers, high agency cost, moral hazard, and adverse selection in the financial market, lenders are reluctant to grant ADC loans.

5.5.3. FUNDS AVAILABILITY AND ADC LOANS

It is imperative to acknowledge that Ghana is characterized generally by low income. This has a significant impact on saving and funds available in the economy. The contacted banks have their sources of funds mainly from individuals, corporate, and governmental bodies. Ghana being a developing country, information on income and savings are very hard to come by, incomplete and obsolete. A research conducted by the Ghana Centre for Democratic Development (CDD) in 2002, in all the 10 regions uncovered that 76% of Ghanaians households live on a combined monthly income of less than USD 56, and only 5% of Ghana families had income more than USD 100 per month. Also 66% of the household do not have regular income or salary and only 18% are able to save money regularly. As well, it was stated that 39% of the population live below the poverty line and it stressed that urban poverty should not be under-estimated since the costs of living in the urban area is considerably higher than those of the rural centres (*ibid*). From the above picture, the funds available from internal sources to lenders could be obviously small. In addition, meeting the equity requirement of the lenders by the developer is an immense predicament and this has link with the wide-ranging low levels of income in the country.

Another significant factor to consider here is inadequate existence of permanent loans for real estates. This deficiency affects lending of ADC loans stemming from the fact that, permanent loans are often the sources of funds for repayment of construction loan, and also serve as prerequisite for granting construction loans. Additionally, funds to lenders are pretty short-term as compare to permanent loans, which are long-term. So there is a mismatch between the time horizons for the funds available to lenders and those of permanent loans. Aside, there is a long-term finance deficiency in the financial market.

Again, it is pertinent to touch on the problem of securing equity on the part of developers as a prerequisite for obtaining loans from major lenders. It could be inferred from the interviews with both banks and developers that, it is a problem for developers to have these equity requirements. These requirements are normally pegged at 20% of the value of most projects to be financed. This deficiency has undeviating link with the general low level of income in the country.

5.5.4. GOVERNMENT POLICY INITIATIVES

Government's current efforts to avert the deficit in the housing stock in the country are reckoned. These are efforts which have direct or indirect impact on supply of housing stock. Since 2006 the government has introduced a mortgage market initiative to channel long-term local currency funds from institutional investors to the banking system for residential mortgage lending and in addition for estate-developers. The government has implemented the following measures:

- *Amendment to the tax code to enable deduction of mortgage interest for home owners; and*
- *Enactment of a Collateral Security Act to provide the appropriate legal framework for the creation, registration, perfection and enforcement of collateral.*

Also, the Government recognized the role of the capital market in resource mobilization for Private Sector Development and has been involved in an attempt to ease the development of capital markets in Ghana, hence the private sector can have access to long-term sources of finances. And to support capital market, the following infrastructures have been put in place:

- *The floatation of medium-term government securities- (two and three year fixed and floating rate bonds). These debt instruments will soon be listed on the Ghana Stock Exchange (GSE) to promote the development of the bond market.*
- *The passage by Parliament of the Long-Term Savings Act*
- *The setting up of the Venture Capital Fund*.

However, all these policies specifically did not stress on how to facilitate housing investment funds in the country such as mezzanine financing for developers and Residential REIT. As known in chapter 2, mezzanine financing is a hybrid of debt and equity financing. It is a subordinated and not collateralized, normally a debt capital with current repayment requirement but with the rights to convert to an ownership or equity interest in a company. Residential REITs are REITs focused on building residents and other residential properties normally leased to individuals. Examples of such funds are HFC Unit Trust and HFC Real Estate Investment Trust (Ghana Estates.com).

5.6 SUMMARY

This chapter outlined the results, analysis using SWOT analysis and discussions of results in relation to the thesis problem, methodology and scope of this work, other related work and relevant theories. This chapter sets the grounds for recommendations for channeling funds into housing finance generally in Accra and in particular for Acquisition, Development and Construction loans.

CHAPTER SIX

SUMMARY OF FINDINGS, CONCLUSION AND RECCOMMENDATIONS

6.1. INTRODUCTION

This chapter entails a recap of the research findings for the study. It further provides conclusions and recommendations to improve in general housing finance in Ghana and this is categorized into the following; the role of Government, more real estate financial institutions, and the development of the capital market.

6.2. SUMMARY OF FINDINGS

The findings are categorized in two folds that is, the financial institutions and real estate developers.

6.2.1. FINANCIAL INSTITUTIONS

The findings show that apart from the traditional banking services been rendered by the three banks, HFC bank is the only bank that has mortgage financing among its primary functions. Also, HFC bank has the objective of becoming the preferred source of mortgage and construction finance in the country. Whilst GCB offer finance to real estate developers and its staff, Barclay bank has neither policy nor objective.

Individual, corporate and governmental bodies are the sources of fund for the three banks. The borrowers from the banks consist of individuals, corporate bodies, government institutions and other banks.

There are variations in the interest rate determination among the three banks. Barclays usually fix the interest rate on housing loan above government bonds. For HFC bank, their interest rate is based on market rate whilst GCB's rate is ranging between 1% and 5%.

From the findings it was realized that all the banks have loan share of atmost 80% that is, they are willing to finance atmost 80% of the housing project. The variation noticed is the repayment period. HFC bank gives a maximum period of 20years whilst Barclays bank only gives 5years as repayment period. For GCB the repayment duration is structured to fit the development period.

Due to the challenge in raising long term deposit to match mortgage financing Barclay bank would like to focus on granting housing finance to Multi-national Corporations in future. Whereas HFC bank would like to set up representative offices abroad, GCB would like to establish secondary mortgage finance.

6.2.2. REAL ESTATE DEVELOPERS

The findings show that all the real estate companies have been in existence for atleast 16years and most of their operations are in the southern part of Ghana. They all acquire and develop land to construct the properties.

In terms of the annual units of houses produced, Regimanuel Gray had the highest that is, 150 units with Kenco producing the least (that is, 20 units). Regimanuel Gray exceeded the expected unit to produce by 80 units whilst Akuaba experienced a significant shortfall that is, 20 units from the expected.

The customers for the real estate developers are predominantly middle and higher income Ghanaians (both inside and outside), companies and diplomats. Their products are mostly detached and semi-detached.

The challenges they mostly encounter are; construction delay due to insufficient cash flow, alteration of original building plans, litigation funding, shortage of materials and natural conditions.

The reasons why financial institutions and other lenders do not give ADC loans to private estate developers were:

- The risk in nature as there is greater tendency for loan default
- Problems associated with the ownership and transfer of land
- Land litigation and registration problems
- Frequent construction delay
- Information asymmetry between lenders and developers
- Inadequate resources especially permanent loans for real estates
- Problem of providing equity on the part of developers as a prerequisite for obtaining loans from lenders
- Insufficient long term funds to channel to the real estate sector

6.3. CONCLUSION

This work has made an explorative study on housing finance, by showing why many banks and major lenders do not give ADC loans and by recommending, ways to channel funds to residential development in Accra-Ghana.

In doing this, SWOT analysis was conducted on the housing finance situation in the study region, Accra using 3 lenders (financial institutions) and 4 borrowers (private estate developers/companies). It however turn-out that, housing finance in Accra is characterized by problems associated with risk, information, fund availability and government's policies.

Housing finance industry in Accra-Ghana is infant dominated by HFC bank. There is no suspicion that, with the introduction of more real estate financial institutions, the development of the capital market to make long-term funds accessible at competitive rates and government's real estate oriented policies, will ease the flow of funds to residential development in Accra-Ghana.

In conclusion, even though time was a major constraint for this study, the findings as briefly summarized above shows that the objectives of the research were achieved. And also the study will be suitable for exchange of knowledge and experience between estate developers and lending bodies with similar characteristics.

6.4. RECOMMENDATIONS

6.4.1 THE ROLE OF GOVERNMENT IN HOUSING FINANCE

The state has very momentous roles to play in easing the flow of funds to the real estate industry in Ghana. Government of Ghana's subsidies which could come in different forms must be in place for housing finance. A supply side subsidy and grants from the Government is needed in support of housing production. One is to give direct investment subsidies for housing. This could be 10%-13% of every production cost based on established rules.

In addition, to a certain extent, Government should give credit guarantees to banks, if developers default. This could enhance flow of capital from lending institutions to housing developers by reduction in amount involved in developers default. Thus, risk could be reduced. In this way, housing could be increased in the country.

Tax rebate for developers is one of the ways through which Government must use to increase housing in the state. This could take the form of tax holidays for new developers to encourage more developers in the housing sector. Or a reasonable percentage of developers' tax should be refunded. For example 25% to 50% tax rebate for developers should be established in Ghana.

Furthermore developers interest cost must be subsidized in Ghana. High interest rate payments made by developer hinder their role in residential development. Consequently, housing would be boosted.

Legislations in Ghana should be sensitive to housing production. Real estate oriented legislations must be initiated to support of the above listed roles of Government. To safeguard the interest of lenders without disregarding the right of borrowers, Government must create adequate regulatory and legislative framework for housing finance system in the country. Thus, However, legislation is not the only answer, education is just important. Educating the population to cultivate the habit of saving in the banks and other financial institutions could release a lot of capital to these institutions for lending.

Government through equity participation, loans and credit lines, must assist primary mortgage market players. Also, for corporations to issue MBS at low interest rates, there must be a guaranteed deficit covered by the state to enhance homeownership in Ghana and this should be funded 100% by the Government as practiced in Korea.

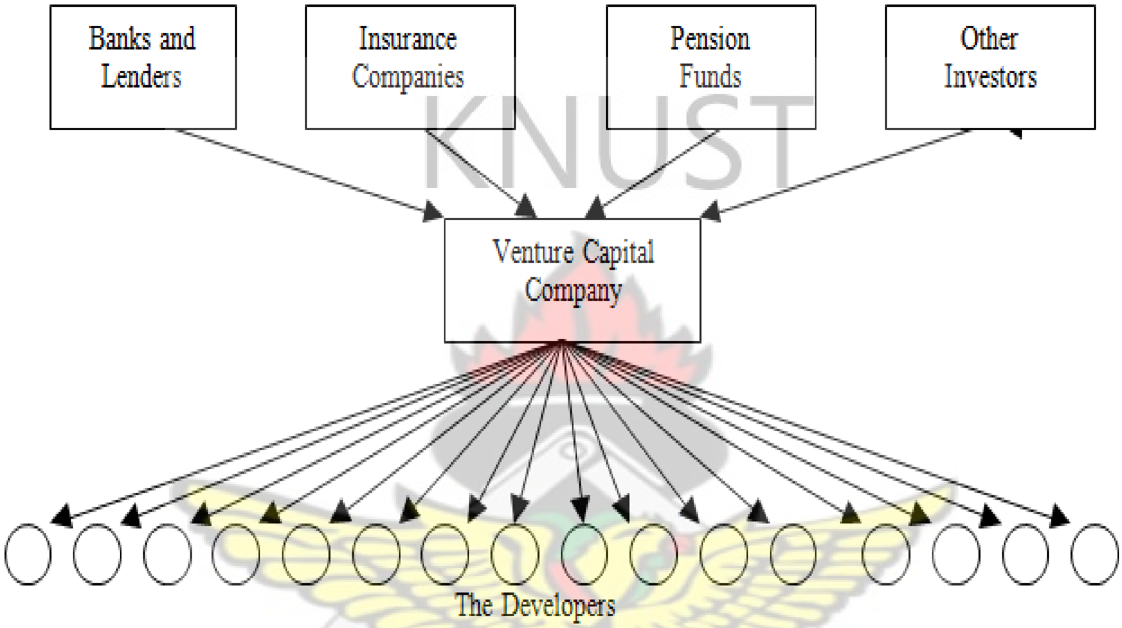
Also, since majority of the housing stocks are produced by individual, the state must take into account the affordability of each income strata of the country's population. In Korea, provision of home is done by offering the 1st income percentile a permanent rental housing units and 85% of the construction cost funded by the state. For the 2nd to 4th percentile of the income groups, 30-years rental housing units with 10-30% of construction cost covered by the state and for the 5th and 6th percentile income groups 5- year rental housing units financed at a low interest rate by her National Housing Fund. Ghana can adopt this example. The establishment of a national Housing Fund is highly recommended for Ghana for her lack of funds for housing.

On the international domains, international housing finance credit funds should be created by Ghana with multi-national entities. The developed world has the potential of providing guarantees for developing country like Ghana in securing credit from international financial institutions. This will lower the borrowing cost from the global financial institutions, hence reinforcing credit to Ghana. This could generate housing loans, about 15 to 30 times her equity. And this has benefits for both lenders and borrowers.

6.4.2 MORE REAL ESTATE FINANCIAL INSTITUTIONS

The establishment of more Real estate financial institutions must be done as used in other countries such as Sweden and U.S. Venture capital funds specifically for housing must be instituted in Ghana. Figure 3 below shows the structure of the venture capital (VC) company recommended to mobilize especially long term funds from the various surplus income units for developers. Such VC companies must be managed by skillful fund managers. In terms of ADC finance, both business cycles and real estate development cycles must be considered. Lending and repayment terms should be in line with these two cycles. Also, these companies will facilitate the flow of funds from the untapped surplus income unit to developers. As well this structure will release funds for more risky projects. VC Company could take the form of specialized one or non-specialized, thus the general type.

Figure 3: Venture Capital for Housing



Ghana needs the establishment of more Property development funds such as Real Estate Investment Trust–REITs tailored for housing. This would be prudent economically stemming from the fact that, the housing sector is the least sensitive to the business cycle as well, with portfolio of stable tenants and portion of space occupied by tenants are fairly small in contrast with other properties.

Ghana’s market for housing finance especially, in real estate finance environment must have many mezzanine funds. The establishment of such top-up funds for developers would enhance housing.

The following financing structure alternatives can be utilized by developers in accordance with above-listed recommendations;

- 70% bank loans, 20% VC, 10% developers own equity,
- 70% bank loan, 20% mezzanine finance, 10% developers own equity, and
- 50% bank loan and 50% Property development fund's equity

Ghana needs the creation of mortgage insurance and its other auxiliary services such as credit reporting, property valuation and evaluation.

6.4.3. DEVELOPMENT OF THE CAPITAL MARKET

To enhance developers' access to long term capital at competitive rates, there is need for strong and effective capital market of which a stable economic condition with low inflation and interest rate are pertinent. They foster housing finance systems; hence they are needed in Ghana. Government policies must be tailored for such targets.

In the Primary mortgage market, there is the need for policies on development of standardized and efficient credit underwriting, mortgage origination and servicing standards. In addition there should be in existence of advisory bodies for the utilization of technology to implement such standards. This will reduce the risk associated with housing finance.

For the Secondary mortgage market, the state can help entities in the secondary mortgage market through financial instructions such as equity investment and warehouse lines. Government must establish and enhance advisory entities for credit enhancement facilities and legislation/regulation considering Mortgage Back Securities –MBS assurance or investment. And the state should be updated with advices of such from the

World Bank. Multi-seller conduit vehicles should be established for issuing MBS and other bonds. Information on prices and other relevant information in the market must be made easily accessible to the general public to reduce risk. All bottlenecks in the market should be removed to ease flow of information which reinforces the confident of potential players.

6.5. FUTURE RESEARCH RECOMMENDATIONS

A major limitation in this study was time constraint which led to the use of case study approach (and a combination of secondary and primary data). Different methods of research could be used for study of the same topic or other related aspects of the topic with a broader scope.

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APPENDICES

Appendix A

QUESTIONAIRE FOR SELECTED FINANCIAL INASTITUTIONS IN ACCRA

1) Name of Institution …………………………………………………………………

2) Date for interview ……………………………………………………………………

3) Whatarethe primaryfunctionsofthisinstitution?

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4) With regards to Housing finance, what are the objectives of this institution?

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5) With regards to Housing finance, what are the policies of this institution?

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6) What are the sources of most fund of this institution?
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7) Whoarethetypicalborrowersofthis institution?

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8) With to regards to estate developers, who are your typical borrowers? Household Real Estate Firms/Institutions

9) What types of actors in the market that this institution does not want lend to?.
....

10) Under what term does your institution grant housing loan, with regards to: Interest on loan compared to government bonds: Repayment period:

Loan share of a project: Lender's requirement:

11) Do you have loan payment problems in this institution?

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12) State some of the general problems associated with Housing finance in the country

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13) Who are the main competitors in Housing finance in and out the country?

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14) Can l have some statistics or some general reports available to this institution?

15) Does this institution has any future plan to change its current Housing finance system?........., if yes, please describe it………………………………………………

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16) What are some of recent general policy changes in this institution?

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Appendix B

QUESTIONAIRE FOR SELECTED ESTATE DEVELOPERS/ COMPANIES

1) Name of firm……………………………………………………………………………

2) How old is this firm? ....

3) When did this firm start Housing development? ....

4) Which part of the country do you operate most? ……………………………………

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5) Do you develop land? ....

6) Who provide infrastructure in your built up area? ....

7) How many houses do you plan or expect to put up every year? ....

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8)How many houses do actually put up every year? ....

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9) What kind of houses do normally build? …………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

10) Do you build outright for sale or for rentals? …………………………………

11) Who are your prime tenants or customers of your buildings?

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12) What is the size of this firm's labour force? ....

13) Do you use consultants or have subcontracts in this firm? ....

If yes, please name them; Consultants:………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

Subcontractors…………………………………………………………………………

…………………………………………………………………………………

……………………………………………………………………………….....

14) Do you have problems in getting government permit? ……………………..

15) Have you ever had any problem associated with quality standard before?.…….

16) Have you ever experience construction delay before?.............................Please, give reason(s) for your response. …………………………………………….

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………………………………………………………………………………

17) How do you finance your projects (Land Acquisition, Land Development, and Construction)? ……………………………………………………………

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18) Do you use Bank loan? ....Name these banks…………

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19) Have you ever used loan or funds from non-financial institution (eg rich person)?

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20) Do you have problems with finance? ………………………if yes, please state the nature of the problems. ……………………………………..

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21) With regards to finance and in your own opinion, what can be done to increase easy flow of funds to real development sector in Ghana?...……………

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