“OVERVIEW AND PROSPECTS OF REAL ESTATE MARKET IN GHANA”

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Abstract

The real estate market in Ghana has opened up considerably over recent years and there is increasing policy interest in the role of the sector in supporting the achievement of economic regeneration, poverty alleviation, modernisation and the decent housing agenda. To a certain extent, this recent growth can be interpreted as the emergence of economic regeneration. Studies into real estate in Ghana have focused on the residential sector because of the precarious housing needs and its concomitant problems. But there are concerns about under-investment in commercial properties and supply shortages have resulted in the conversion of residential properties for commercial use. The Royal Institute of Chartered Surveyors in the UK has commissioned a research to establish the prospects of Ghana’s real estate market. This paper forms part of the research in progress and summarises the preliminary output of the investigation. The paper provides an overview of the sector, the way current property and infrastructural development have emerged and how it may contribute to the economy. It then describes the land acquisition and development process and constraints that characterise the Ghana real estate market.
THE NEED FOR A BETTER UNDERSTANDING OF THE REAL ESTATE MARKET IN GHANA

The need for data and adequate information on the state of real estate market and its contribution to economies is ever pressing. Information is key to understanding modern market development including the real estate market. But one of the biggest problems facing the real estate market in sub-Saharan African countries such as Ghana is the paucity of market data. However, currently, there is an increasing trend in new property development, finance and investment activities in many parts of sub-Saharan Africa fuelled by buoyant economies and a relatively stable political climate enjoyed by many of these countries in the past couple of decades.

The African continent, particularly sub-Saharan Africa, is characterised by the enormous disparity in the economies of South Africa on the one hand and the rest of the continent on the other. This is evident in the real estate market, which is well developed in South Africa but less so in most other parts of Africa, with the exception of few such as Ghana where there is a developing mortgage market. Other parts of Africa are still developing policies and mechanisms for housing delivery but not much is known about these developments and their contribution to the economies.

The real estate market in Ghana has opened up considerably over recent years and there is increasing policy interest in the role of the sector in supporting the achievement of economic regeneration, poverty alleviation, modernisation and the decent housing agenda. To a certain extent, this recent growth can be interpreted as the emergence of economic regeneration. Property and infrastructural development has emerged as significant leg in an overall strategy for economic regeneration, poverty alleviation and city modernisation. According to the Government of Ghana National Poverty Alleviation Strategy document (GoG, 2000), commitment of all stakeholders to a major programme of property and infrastructure development is perceived as an opportunity to regenerate the economy, alleviate urban poverty and modernise the local economy. The argument goes as follows: agents of property production like construction, structural metal, electrical and hardware, wood and other related firms create employment opportunities for both skilled artisans and unskilled labour. Currently, the real estate sector employs a large number of people, especially in the construction sector. While actual numbers are not available, according to Atieku (2002), the Ghana Real Estate Developers Association (GREDA) estimates suggest that employment figures for most members have more than tripled over the past decade. The multiplier effect of these employment and other economic activities cannot be overemphasised.

During the early 1980s many aspects of the Ghana’s economy were liberalised with the assistance of the IMF and the World Bank under the structural adjustment programme (SAP). Since then numerous foreign based companies became interested in the country’s economic prospects. Interest in the commodity market of gold, diamond and agricultural products of cocoa and timber attracted foreign investors. Also of significance is the country’s political stability that attracted investors and encouraged Ghanaians Africans in the Diaspora to return home. In addition to these factors, government promoted inward
investment particularly venture capital investment through various fiscal and monetary measures including tax incentives, price and exchange rate stabilisation and the state readiness to insure or provide collateral for certain private direct foreign investment loans.

These measures acted as powerful incentives for investment in Ghana and stimulated growth in businesses. The types of businesses that span off included mining, manufacturing, banking, shipping, construction, insurance, retailing, management consulting, tourism etc. and many used residential properties as business premises, which they are not suitable for. While existing businesses needed larger spaces, new firms also required office spaces. In addition there was an increase in demand for housing to accommodate local and expatriate employees as well as hotels required for the fast growing tourism sector. The increased demand for purpose built commercial properties and decent residential accommodation attracted developers and investors into the real estate market. While the exact space requirements and availability is not known, recent real estate research in Ghana (Antwi, 2002; Karley 2002; Asare and Whitehead, 2006; and Mahama and Dixon, 2006) has focused on residential property development and finance. Akomea (2005) and Debrah et al. 2002 also examined the way that restricted access to credit and land creates structural disadvantage for the poorest household. However, there are concerns about under-investment in commercial properties (Atieku, 2002). The commercial sector is apparently growing fast and contributing immensely to the economy but has to date, received no systematic attention from researchers.

THE CONSTITUENTS OF THE REAL ESTATE MARKET

Traditionally, the property market is segmented into three main overlapping sub-sectors namely, the occupation/use sector; investment sector; and development sector. This is due to the existence of different rights and interests. Within each sector, demand and supply flows determine the exchange price of interests. The price of property in the letting sector is demand led and as occupiers require commercial property as inputs, the amount they need is determined by their scale of output, which in turn is driven by conditions in the economy. The formal residential sector in Ghana was dominated by the state during the 1970s when the government provided estate houses for employees (most later sold to sitting tenants). But since the mid 1980s private real estate developers entered into the residential property sector. Notable among them are Manet Company Limited, Regimanuel Company Limited, Trasaco and a host of others which act as investors and acquired large plots of land and developed residential buildings as in Figure 1, targeting wealthy individuals, particularly those who live abroad. They also engaged in developing offices as depicted in Figure 2 and other commercial properties.
Figure 1: A Private residential property in Accra, Ghana

Figure 2: A suite of modern Office space at Tema, Ghana
The Ghana Social Security and National Insurance Trust (SSNIT) also invested in the residential sector by developing properties for sale to its members and for letting. SSNIT is also a major investor in the fast growing commercial sector. This quango has invested in office accommodations either on its own or and/or in co-operation with other financial institutions such as the Home Finance Company (HFC) (now a bank, HFB) mainly for letting and with venture firms, they have invested into hotels and other commercial properties. Figures 3 and 4 are examples of SSNIT’s residential property and modern office developments respectively.

Figure 3: SSNIT residential property in Cantonments, Accra Ghana

Figure 4: SSNIT modern office development: Silver Star Tower in Accra, Ghana
Other notable investors and/or developers include the Accra Metropolitan Assembly (AMA), Tema Metropolitan Assembly (TMA), and some private local and foreign companies and individuals. Occupiers of commercial properties include multinational companies (MNC), financial institutions, like banks and insurance companies, and the airline industry (offices). Demand for retail spaces come from a host of local and foreign firms including Woolworth retailers etc.

ANALYSIS OF THE REAL ESTATE MARKET
A common phenomenon observed in the property market in Ghana is the use of residential buildings for commercial uses, which result in displacement and drives rental values in all sectors. This is primarily due to unresponsiveness of supply to changes in demand for commercial property. Volatility in demand and price changes generates cyclical movement in development activity, which in turn drives the volatility in prices. The volatility of property income and capital values has significant influences on the performance of property investments, and subsequently investors’ behaviour. These cycles are driven by the nature and operation of the property industry, which is directly related to the development cycle. The continued economic expansion in Ghana without corresponding increase in property supply led to a shortage of property space and fuelled a rise in rental values. Under normal circumstances, the rise in rental values and expected future rents influences capital values in the investment sector and the rise in capital values relative to development costs triggers new development. But the volume of new developments that will be initiated depends on the amount of capital available to finance projects. In situations where banks and credit providers are keen to increase their exposure to property developments, there will be a huge rise in new initiated projects. But this is not the case in Ghana as banks are limited to the extent of their commercial property investment. Although government policies back banks participation in the housing sector they are reluctant to lend to the residential sector because as portfolio lenders, their general objectives do not fit well into residential lending as they have short term funding and are unable to lend on a medium or long-term basis.

Generally, the property development process in Ghana is quite lengthy and could be described as indeterminate in certain circumstances (Gambra 2002). As it takes time to gain planning permission and to complete developments as described in the next section, the quantity of new supply in both residential and commercial property market will reflect the stagnant conditions of the market. In a growing market like Ghana, as new supply trickles onto the market, further economic growth will worsen the supply shortage and the rental growth. But eventually, demand will weaken or fall in recessionary conditions. However, if developments initiated during the height of the previous phase enter the market that will lead to a rise in new supply on to the market. But these falling demand and rise in supply could result in a fall in rents and values and thus discouraging developments in the pipeline.
PROPERTY DEVELOPMENT AND REGULATORY FRAMEWORK IN GHANA

The nature of Ghana’s property market is a direct reflection of the state of this West African country in the sense that the market is emerging and developing. But it has immense potential, which however, is restricted by various fundamental issues relating to poor land title registration, lack of transparency and inadequate local finance. The planning and development of property have fallen generally within the ambit of the Town and Country Planning Department (Ministry of Local Government), the Ministry of Works and Housing and the various Metropolitan & District Assemblies. By virtue of their administrative responsibilities these entities are directly responsible for ensuring appropriate standards in the Ghanaian public built environment are maintained. The Department of Physical Planning of the Local Government is made up of the Town & Country Planning and Parks and Gardens. The Town & Country department is responsible for the harmonious spatial development and the formulation of overall goals and standards for the integration of social, economic and physical development of the district, and the design of plans and administration of controls to guide settlement growth and development. The Town and Country Planning Department has recently been decentralised and integrated into the Assembly and responsible for general planning administration; development and redevelopment planning; development control; land surveying; research and public education.

**Land holding institutions**

Land title holding in Ghana emanates from three main sources, namely; stools, families and government. Land grants are made using common law principles but there could be customary grants by stools and families. Article 258 (1) of the 1992 Constitution establishes a Lands Commission which in co-ordination with the relevant public agencies and governmental bodies, performs the following functions on behalf of the Government:

- (a) Manage public lands vested in the President or by any other law or any lands vested in the Commission;
- (b) Advise the Government, local authorities on the policy framework for the development of particular areas of Ghana to ensure that the development of individual pieces of land is coordinated with the relevant development plan for the area concerned;
- (c) Formulate and submit to Government recommendations on national policy with respect to land use and capability; and
- (d) Advise on, and assist in execution of, a comprehensive programme for the registration of title to land throughout Ghana.

The Land Title Registry, established under the Land Title Registration Law, 1986 (PNDCL 152) is responsible for the registration of title to interests in land in a parcel based registration system. The Chief Registrar heads the Land Title Registry; a Land Title Registration Advisory Board advises the Registrar. The headquarters of the Land Title Registry is in Accra and there are branch offices in two other cities: Kumasi and Tema. For a property investor, developer or buyer, the claim to land title is paramount. However, a major setback in the real estate industry is that of land litigation. Presently, there are over 80,000 land disputes pending in the law courts of Ghana.
Planning and building Permits

Any new construction must meet local zoning bylaws that prescribe property use (residential, commercial etc.), setbacks, density (number of dwellings) and height restrictions. The major statute regulating buildings in Ghana is the National Building Regulations, (LI 1630). The approval for licenses for building in Ghana is the responsibility of the local government, whose approval depends on fragmented institutions such as Survey Department, Lands Commission, the Town and Country Planning, Environmental Protection Agency, Ghana National Fire Service and other subsidiary agencies like the courts and the Internal Revenue Service. Typically, the process for building permit starts when one has acquired a legal title of land from the Lands Commission. A copy of the lease and three copies of the building plans are sent to the Local Authority where the land is situated for a building permit. The Chief Civil Engineer of the Metropolitan, Municipal or District Assembly, works with a team which includes architects, medical officers, environmental officers, Fire Service officers, surveyors, quantity surveyors and planners to screen all proposed architectural plans presented by prospective builders. The activities of these technocrats are governed by the National Building Regulations of Ghana (LI 1630). There are no very stringent specifications except the mandatory 30 feet distance that should be left between a road and the structure as well as 15 feet between a fence wall and the structure. Apart from these apparent specifications, the structural specifications are vetted by technocrats at the Local Authority.

Securing a building permit is an uphill task especially if one is applying for the first time. It has long been known for being time-consuming and the waiting period is too long – it routinely takes six months to a year to secure a permit. It is perceived that the procedure is complicated and it is not easy to discover what information is needed to apply for a permit. Land acquisition starts with a search of legal ownership in the nearest Lands Commission office. In addition to that, one needs to find out from the Town and Country Planning office if there are Zoning proposals in the area. Then finally, one has to conduct a social search towards the vendor’s title as well as the root of title. It is only when the searches yield satisfactory findings that the potential investor/developer may go ahead with development of the land. Building permit is in conformity with the existing building regulations and development control guidelines as stipulated by the Town and Country Department/ Lands Commission / Land Registry. Application for a building permit is open to any person or organization with a legal title to land and intends to build it. Categories of building permits issued include schools, hotels/ restaurant, places of worship, offices, factories, hospitals, hostels, residential buildings, super markets or shopping malls, car parks, amusement parks amongst others. But the construction of complex buildings such as multi storey structures might require the submission of further reports such as structural, geological and traffic management reports.
CONCLUDING REMARKS
The real estate property sector in generally in sub-Sahara Africa is in its infancy (with the exception of few countries such as South Africa). However, Ghana is among the few countries in the region with an emerging real estate market. The preliminary assessment of the market shows that Ghana’s property industry is characterised by several constraints. It is characterised by a backlog in the provision of purpose built formal housing and commercial properties that drives property prices and generates urban sprawl. The lack of land with adequate infrastructure suitably located for property development results in urban sprawl and the creation of properties in unsuitable locations. These are also attributed to the lack of adequate financing, higher lending rate, inherent difficulties in the acquisition of land and high land and building material costs. But in the main, the problem derives from legal complexity of land development legislation, lengthy procedures and slow decision making.

It is important to determine the magnitude of the problem by seeking information about the state of the property market in Ghana. The current study seeks to fill this gap in establishing the scale of the real estate sector and its possible impacts on the economy. It is anticipated that a good understanding of the way which this market contributes to various economic structures at the local, national and international levels will be gained. The study will provide an opportunity to bring together, in a systematic way, what is known about the role of real estate development, finance and investment in relation to demand and supply and how this affect the Ghana economy directly (through contributions to GDP and employment) and indirectly (through a broad range of factors from the economic multipliers that spill over from direct employment to other spending and evidence of gains to the broader urban community). This could provide a framework for a further study into the real estate market particularly in other Sub-Saharan African countries and generally in the developing world.
References


