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### AFRICAN UNION FOR HOUSING FINANCE

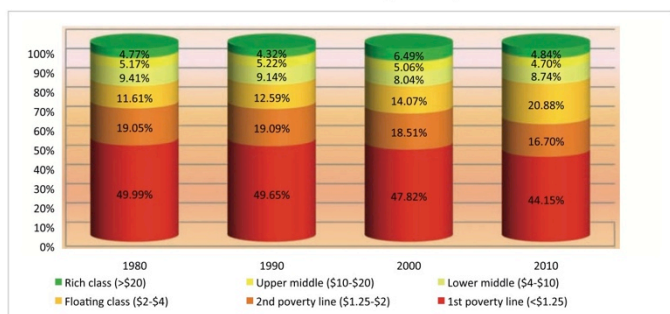
The AUHF is an association of thirty-one mortgage banks, building societies, housing corporations and other entities involved in the mobilization of finances for the development of shelter and housing on the African continent. The AUHF is a non-governmental association and has its presence in some fifteen countries across the continent of Africa. See [www.auhf.co.za](http://www.auhf.co.za)

## AFRICA’S MIDDLE CLASS

The African Development Bank recently released a report focusing on the dynamics of the middle class in Africa. Entitled “The Middle of the Pyramid: Dynamics of the Middle Class in Africa”, the report focused on the characteristics of the middle class as well as an examination of the factors driving the growth of this segment of the African market.

The middle class is broadly referred to as individuals and households that fall in between the 20<sup>th</sup> and 80<sup>th</sup> percentile of the consumption distribution or with a daily per capita expenditure of between \$2 and \$20.

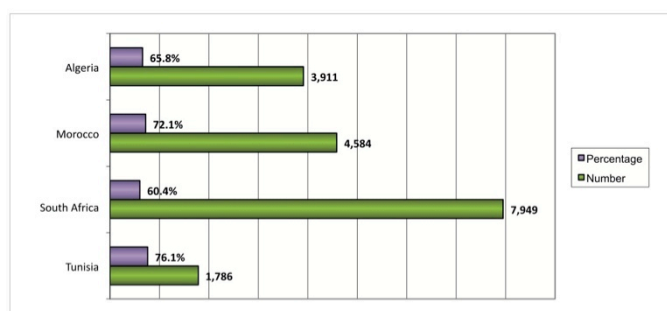
Chart 2: Distribution of the African Population by Subclasses



With the middle class in the continent estimated to comprise between 300 – 500 million people, the group has been recognized as critical towards the continent’s future economic development. Indeed, it is roughly the size of the middle class in India or China, and comprises about 34% of the African population. The AFDB study reveals that over the past two decades, as the continent experienced strong economic growth, the middle class in Africa not only increased in size but also increased in its purchasing power.

The AFDB study profiles the characteristics of middle class households. In terms of residence, they tend to reside in bigger and more permanent dwellings equipped with modern facilities. The middle class is more likely to own their homes.

Chart 6: Own occupier households 2008 (Number in thousands and percentage of total)



The group is also associated with widespread ownership of household durable goods. In South Africa for example, a study by Statistics South Africa profiles the middle class as residing in formal housing with following facilities: water tap in the residence, flush toilet, electricity or gas as main cooking source, telephone landline or cell phone.

As the middle class grows the demand for housing also increases. However, limitations in the necessary infrastructure, financial systems and political environment often hamper the needed supply. Mortgage markets in most African countries are relatively underdeveloped, though slowly growing. This highlights the vast opportunities in many of Africa’s housing markets.

Although the middle class is currently experiencing some growth, they also face a series of risks. The majority of the middle class in Africa is concentrated in the lower level, also known as the “floating class” with a per capita expenditure of \$2 – 4 per day. These households are in a vulnerable position and face the possibility of moving back into the low income class. Dropping back into the poor category could happen in the event of any exogenous shock or even when services for this middle income group are not provided.

There is still is a vast shortage of financial products, and particularly in the housing and housing finance sector. Thus, there is need for stakeholders in the industry to design more innovative products for the diverse middle class.

To download the AFDB report on Africa’s Middle Class, go to the AFDB’s website [www.afdb.org](http://www.afdb.org) or download directly from [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The%20Middle%20of%20the%20Pyramid\\_The%20Middle%20of%20the%20Pyramid.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The%20Middle%20of%20the%20Pyramid_The%20Middle%20of%20the%20Pyramid.pdf).



# In the news

This month in African housing finance

## Housing delivery

### 'Only long term fund can solve the dearth of housing in Nigeria'

Godwin Odah of Union Assurance Plc insists that the Nigeria's housing sector would continue to underperform until the insurance sector gets involved. Speaking at the annual lecture of the Nigerian Institute of Quantity Surveyors, he explained that insurance is a significant mobiliser of long term funds for infrastructure and housing development. He stated that the country's pension fund industry has within a short period generated about \$12.8 billion.

Source: [Vanguard](#)

### Rwanda Housing Authority to promote affordable housing

The Rwanda Housing Authority is targeting to create 40,000 rentable housing units in the affordable housing market by 2015 for medium and low-income consumers. In a recent report, the organization states that the cost of affordable housing is prohibitive especially among those unable to access mortgage loans from banks because of their income levels. The RHA also hopes to increase the distribution of affordable housing by relaxing building restrictions on low-cost housing. Source: [All Africa](#)

### Tanzania National Housing Authority to increase its budget tenfold

The National Housing Authority in Tanzania is set to increase its budget tenfold, thereby providing an opportunity for the organization to focus more on low-income housing. The budget is said to increase from \$23 million in the organization's last financial year to \$230 million for the 2011/2012 financial year. A major plan for the increased budget would be to assist the organization in reducing the country's housing shortage, estimated at three million housing units.

Source: [The East African](#)

## Rental Markets

### Nigerian government introduces new tenancy bill

The Tenancy Bill which was passed last month prohibits landlords from demanding more than a year's rent in advance from a new tenant. Currently, to rent a property in Lagos, tenants often have to fork out two to three years upfront payment as well as large annual fees for facilities and back-up services, making rentals expensive and unaffordable to a significant portion of the Nigerian population. Besides rentals, home ownership finance is inaccessible and unaffordable to about 80% of Nigerians. The Tenancy Bill is yet to be approved by the Lagos state governor.

Source: [How We Made it in Africa](#)

## Finance

### Uganda receives funding for housing developments

In a move to mobilize housing development in Uganda, Shelter Afrique recently reported that they would be providing to projects in the country at an interest below 10%. The agreed interest rate by Shelter Afrique is lower than the organization's previous lending rate of 15%. The reason behind this new rate is in response to complaints by African leaders of the high rate of borrowing to the construction sector in the continent. Source: [New Vision](#)

### Ghana to set up Housing Fund

The government announced that they will introduce a housing fund, which would provide financial support for real estate companies in Ghana. The fund will be part of the country's National Housing Policy, which will also provide the legal and regulatory framework for the housing sector in Ghana. It is believed that the introduction of this fund would be a way for the government to intensify its role as a facilitator in its housing sector. Source: [Joy Online](#)

### Shelter Afrique to list KES 2.5 billion housing bond

Shelter Afrique is set to list a KES 2.5 billion (\$27.6 million) housing bond on the Nairobi Stock Exchange (NSE), which is subject to approval from the Capital Market Authority. It has been reported that the bond issuance is a way to provide long term funding as Shelter Afrique increases its coverage in Kenya to meet the housing demand in the country. Source: [Kenya Broadcasting Corporation](#)

## BOOK REVIEW: The Financing of City Services in Southern African Cities

The South African Cities Network has recently published a report on the financing of city services in Southern Africa. The report arises out of a project undertaken by the SACN together with the World Bank Institute and the Public Private Infrastructure Advisory Facility (PPIAF), to support the emergence of a sustainable municipal finance market in Southern Africa. The project promoted more effective city financial planning and management, better credit ratings, and improved access to capital markets for infrastructure investment.

The publication examines the challenge of financing infrastructure in the Southern African region, looking at ten city governments: Dar es Salaam and Arusha in Tanzania; Port Louis in Mauritius; Lusaka and Ndola in Zambia; Windhoek in Namibia; Gaborone in Botswana; Maputo in Mozambique; and Lilongwe and Blantyre in Malawi. The report looks at various dimensions in the area of financing infrastructure, including an understanding of the financial health of municipalities. Four broad challenges emerge as issues that most of the city governments are facing: (1) limited city powers and functions, especially regarding the built environment; (2) limited city human resource capacity; (3) limited city decision-making and autonomy; and (4) limited revenue effort. These four challenges should be the target of any effort to address city finances.

This report provides an understanding of how the dynamics of municipalities could impact on the delivery of housing, where they experience in most cases, a lack of capacity, budget and limited autonomy to carry out their housing functions. The report also concludes with a series of propositions about financing cities services in general. To access the report, visit the SACN website on [www.sacn.org.za](http://www.sacn.org.za)



## AUHF Member Profile: Home Loan Guarantee Company

The Home Loan Guarantee Company (HLGC) is a not for gain, registered, and licensed specialist insurer, created in South Africa in 1989 under Section 21 of the Companies Act, to encourage the financial sector to lend to a perceived high-risk housing market.

The HLGC facilitates access to housing finance for lower income people through the mobilisation and management of guarantees to lenders that provide home loans to this market. Originally established with a combination of grant and loan funding, the Company has for many years had a sizeable free standing capital base. The HLGC holds an AA+ rating on a domestic scale from Fitch Ratings London, which it has had for some 11 years. The HLGC reinsures itself, through its subsidiary Home Finance Guarantors (Insurance) Limited in Guernsey, Channel Islands, and uses this vehicle for services external to South Africa.

### Guarantees for home loans secured by mortgages

Since its establishment, the HLGC has provided lenders in South Africa with commercial risk cover of last resort of up to 50% of the purchase price of the residential property. This cover is available where mortgage loans are granted to low-income people, with an emphasis on those earning less than R7 500 (about \$1100) per month. Between 2004 and 2008, when the Financial Sector Charter (FSC: an agreement by financial sector players to extend their products and services down market) was in place, the HLGC targeted its guarantees specifically at the FSC target market.

### Borrower education and training

One of the primary reasons for HLGC's success has been its risk management strategy. A key element of this has been the HLGC's emphasis on borrower education and training, which it delivered to borrowers covered by its guarantee. The training curriculum encompassed not only the rights, duties and obligations of borrowers and lenders alike, but also issues such as the benefits of home ownership, the benefit of keeping the asset in good condition, the importance of paying on time and every month, and what to do in the event of inability to meet instalments. Training also addresses issues such as rental tenancy, HIV/AIDS in relation to housing, and credit management.

The HLGC has been a leader in the delivery of such comprehensive education programmes, and its experience and success with this risk management methodology has fundamentally altered the South African lending environment. The promulgation of the National Credit Act in 2006, saw the responsibility for borrower education and training be fully entrenched as a responsibility of lenders. HLGC has developed a housing consumer education programme that is offered through the National Department of Human Settlements in South Africa. HLGC also offers train-the trainer courses to develop trainers who are able to deliver HLGC borrower education courses.

### Housing for HIV (H4H)

In 2006, the HLGC introduced a programme to manage its HIV and Aids risk. It has established Housing for HIV as a sister company, which manages the risk of default as a direct result of HIV and Aids through providing voluntary testing and counselling to borrowers at

their homes, and facilitating access to and funding appropriate treatment, where necessary.

The HLGC's priorities are to ensure that home loans are available to lower income people based on their affordability and not their HIV status; to ensure that lenders do not have non-performing loans, and that people who default as a direct result of HIV and Aids related illnesses and who are on treatment, retain their homes.

### Home Finance Guarantors Africa Reinsurance Limited

Over the years, the HLGC has been approached by many lenders to provide similar services in other countries. As the Company only operates in South Africa, it was not able to do so. Moreover, its capital was entirely committed to the South African market. Over time and with the South African lenders becoming more inclined to take risk on their own balance sheet, or through their own insurers, some of the Company's capital became available. It therefore agreed to grant some of its funds to its sister company, Housing for HIV (H4H), to enable it to expand into other parts of Africa.

In 2008, utilizing the HLGC grant, H4H established Home Finance Guarantors Africa Reinsurance Limited (HFGARE), with a view to providing reinsurance to insurers in other African countries, which in turn would accept some of the risk of lenders that provide home loans to lower and middle income people in their countries. HFGARE will utilize the proven skills of HLGC to promote risk management, introducing relevant borrower and lender housing finance education, through partnerships with local educationalists, and providing quality assurance and control. HLGC has the systems and operational capacity to assist and enable the local insurance and reinsurance markets to introduce and manage the product, so that in the not too distant future, its own participation will not be required.

HFGARE has had its guarantee product approved by the regulator in Rwanda, and is awaiting approval from the regulators in Uganda, Kenya and Ghana in the next three months. Proposals have been made also in Zambia and Tanzania.



Mrs Ethel Matenge-Sebesho is the Head of New Markets Africa at the HLGC, and is the HLGC's representative to the AUHF. Mrs Matenge-Sebesho is a member of the AUHF Exco.

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## Player in focus: International Housing Solutions



International Housing Solutions (IHS) is a private equity firm focused on the development of residential housing in South Africa, with the ability to expand its presence to other African countries. IHS partners with financial institutions, real estate developers, private capital groups and local government authorities, to provide equity finance for residential projects, primarily in the affordable housing market, and catering to the emerging middle class. IHS partners with developers by supplementing local debt with equity to make residential projects at scale and more profitable.

These are the millions of Africans who can afford to pay for a mortgage but who cannot find housing within the price range they can afford. In South Africa, where there is a housing subsidy targeted at the poor, they earn too much to qualify for a home built by the government, but not enough to be able to find a home they can afford in the existing market, which still caters predominantly to the middle-to-high income bracket.

IHS brings not only capital resources, but also research experience and risk assessment to local partners providing affordable housing to low-to-middle income families. It uniquely tailors every investment to the dynamics of the market and the specifics of the transaction. For institutional investors, IHS brings opportunities for excellent risk-adjusted returns in residential markets that may otherwise have been out of reach.

IHS has identified and taken advantage of the enormous need that exists for quality affordable housing, which in South Africa, annually sees demand for new houses grow by 70 000 per year, compounding the existing backlog of 650 000. **IHS's first fund, the \$240 million South Africa Workforce Housing Fund**, was launched in 2006, and has already financed 25 000 units in 17 deals in South Africa, with over \$800 million committed to date. The fund is expected to mature by 2018, with projected returns in excess of 20%. Current investors in the fund are primarily from North America. South African investors include the Development Bank of SA, the Public Investment Corporation on behalf of the Government Employees Pension Fund (GEPF) and Citi (SA).

Although the global recovery of the property market continues to be slow, there has been a notable increase in activity in the South African market during the first quarter of 2011. Commentators ascribe this in part to the opening up of the property market to people who could not previously afford to buy a house. This observation is confirmed in the latest Lightstone Review, which notes that the best growth in the South African property market this year has recorded in the affordable housing sector. IHS is uniquely positioned to deliver to this niche market and, by extension, investors in the market, because the company has developed a comfortable head start owing to the expert investment team it has assembled, and the solid partnerships it has built with local authorities, real estate developers and financial institutions.

The IHS footprint already covers the major urban centres in South Africa. It is now exploring opportunities in other African markets. IHS's investment strategy targets markets with rapid growth in housing demand that is not met by existing supply, accompanied by economic and political conditions supportive of development and private market investments. Their investment strategy is tailored to local market conditions, is formulated by extensive market research, and is shaped by the needs of their investor base. The investment approach includes the following characteristics:

- A commitment to partner with local companies and organizations to make best use of capacity while minimizing risk of investment
- A desire to establish viable communities and not simply generate housing product
- Diversification across geographies, partners, and tenures

For more information visit: [www.intlhousingsolutions.com](http://www.intlhousingsolutions.com) or email Soula Proxenos at [Soula.Proxenos@intlhousingsolutions.com](mailto:Soula.Proxenos@intlhousingsolutions.com) or Pamela Lamoreaux at [Pamela.lamoreaux@intlhousingsolutions.com](mailto:Pamela.lamoreaux@intlhousingsolutions.com)

## 3<sup>rd</sup> Annual IHS Affordable Housing Conference

SAVE THE DATE: **14 September 2011**

Each September, IHS hosts a 1-day conference that brings together over 200 hand-selected professionals from the public and private sector to discuss their pivotal role in the funding and delivery of affordable housing in South Africa. This is a unique opportunity to bring together all the relevant stakeholders that promote the development, construction, and financing for affordable housing in South Africa.

IHS is now finalizing the program and putting together the various panels and speakers for this year's conference. The conference will address current issues related to the construction/development of affordable housing for sale and rent, as well as explore the use of various products and sources of end-user finance. It is hoped that the programme will also showcase alternative and "green" technologies. This will be informative and timely, with opportunities for interactive discussions, networking and debate.

Like in previous years, this event will be by INVITATION ONLY. AUHF members are welcome to express their interest in attending. Please contact Pamela Lamoreaux at [Pamela.lamoreaux@intlhousingsolutions.com](mailto:Pamela.lamoreaux@intlhousingsolutions.com)

IHS invests in mortgage or bond lenders, real estate development firms, IT platforms, alternative construction technologies, renewable energy, and securitisation or other structured finance vehicles. Typically, IHS will take a significant minority interest and invest between US\$5m and US\$15m.



## Graph of the month

The following graph is drawn from statistics available on the Africa Economic Outlook website: [www.africaneconomicoutlook.org](http://www.africaneconomicoutlook.org). The data has just been updated to coincide with the release of the 10<sup>th</sup> edition of the African Economic Outlook 2011 in Lisbon. This graph shows the percent of urban populations in African countries with access to water and sanitation in 2006. While urban water coverage is fairly widespread (it only drops below 80% in a few countries, with Somali cities having the lowest coverage, at about 63%), access to sanitation in urban areas is much more limited. Few countries have more than 60% coverage in sanitation. This poses a particular challenge for the development of affordable housing.

The emerging practice in the delivery of affordable housing, therefore, is that developers are creating “islands of servicing”, delivering water, sanitation and electricity services just for their specific development. Of course, this will have an impact on city revenues, as residents in these developments will pay services directly to the development service provider and the opportunity for cross subsidisation across the municipality will be lost.

## UPCOMING EVENTS

### TRAINING / COURSES

**The Housing Finance Summer Academy 2011.** 24-29 July 2011, Frankfurt, Germany. For more information and to apply online, visit [www.frankfurt-school.de/summer\\_academy](http://www.frankfurt-school.de/summer_academy)

### CONFERENCES / WORKSHOPS

**Ingredients for growth: African housing finance markets in 2011.** 6-9 September 2011. Annual AUHF conference and AGM. For more information contact [auhf.kecia@iafrica.com](mailto:auhf.kecia@iafrica.com)

**International Housing and Construction Conference: Social housing – The Way Forward?** 11-14 September 2011, Southern Sun, Cape Town, South Africa. For more information: [www.sahf.org.za](http://www.sahf.org.za)

**Making Finance Work for Africa 2011 Partnership Forum.** 15-16 September 2011, Addis Ababa, Ethiopia [www.mfw4a.org](http://www.mfw4a.org)

**5<sup>th</sup> African Microfinance Conference** 19-22 September 2011, Addis Ababa, Ethiopia [www.aemfi-ethiopia.org](http://www.aemfi-ethiopia.org)

**Investment and Innovation in Microfinance in Africa.** 17-19 October 2011. Nairobi, Kenya. For more information: [www.microfinance-africa.com](http://www.microfinance-africa.com)

