

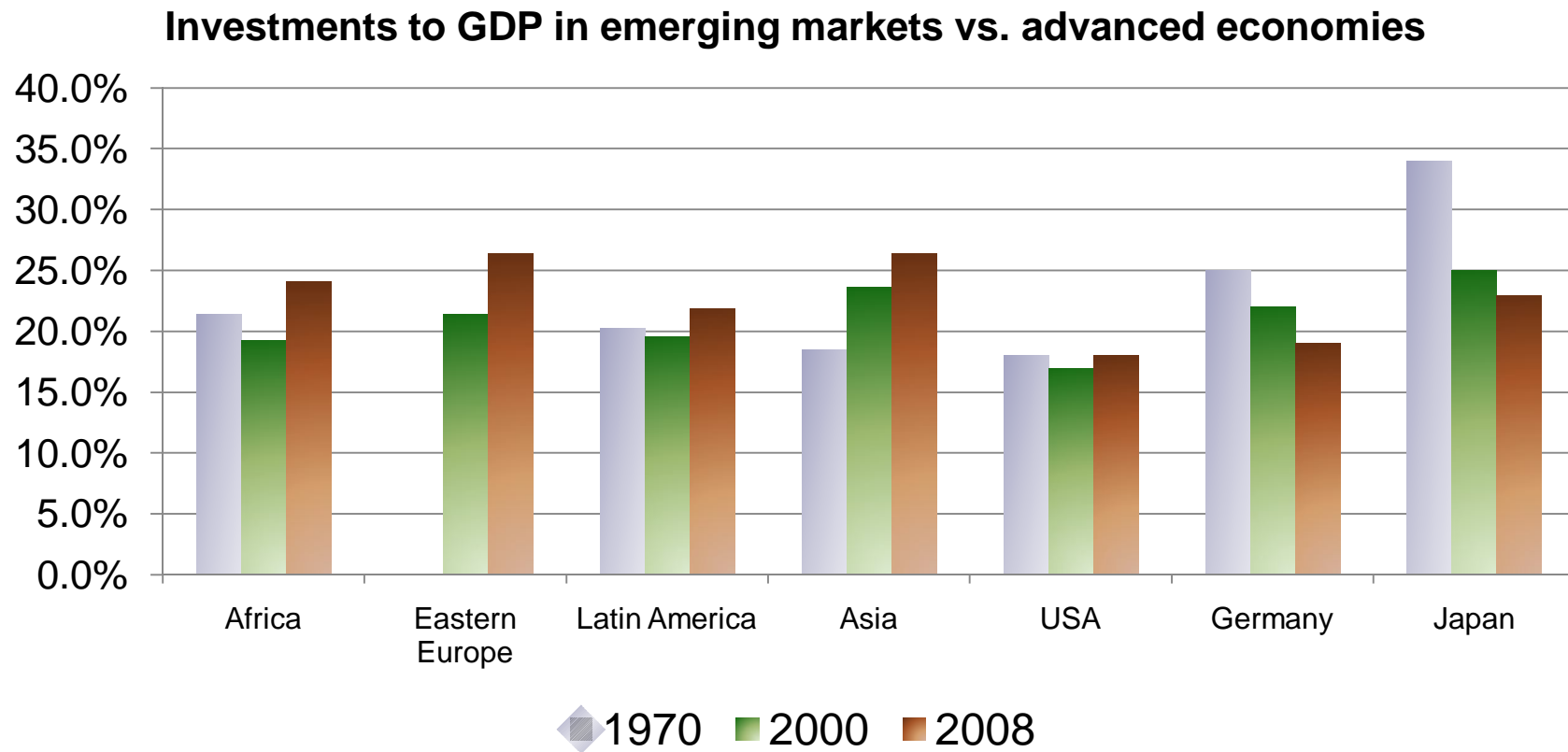
# Grasping Opportunities

The four “A’s” to advance housing  
and housing finance markets in  
Sub-Saharan Africa

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The World Bank  
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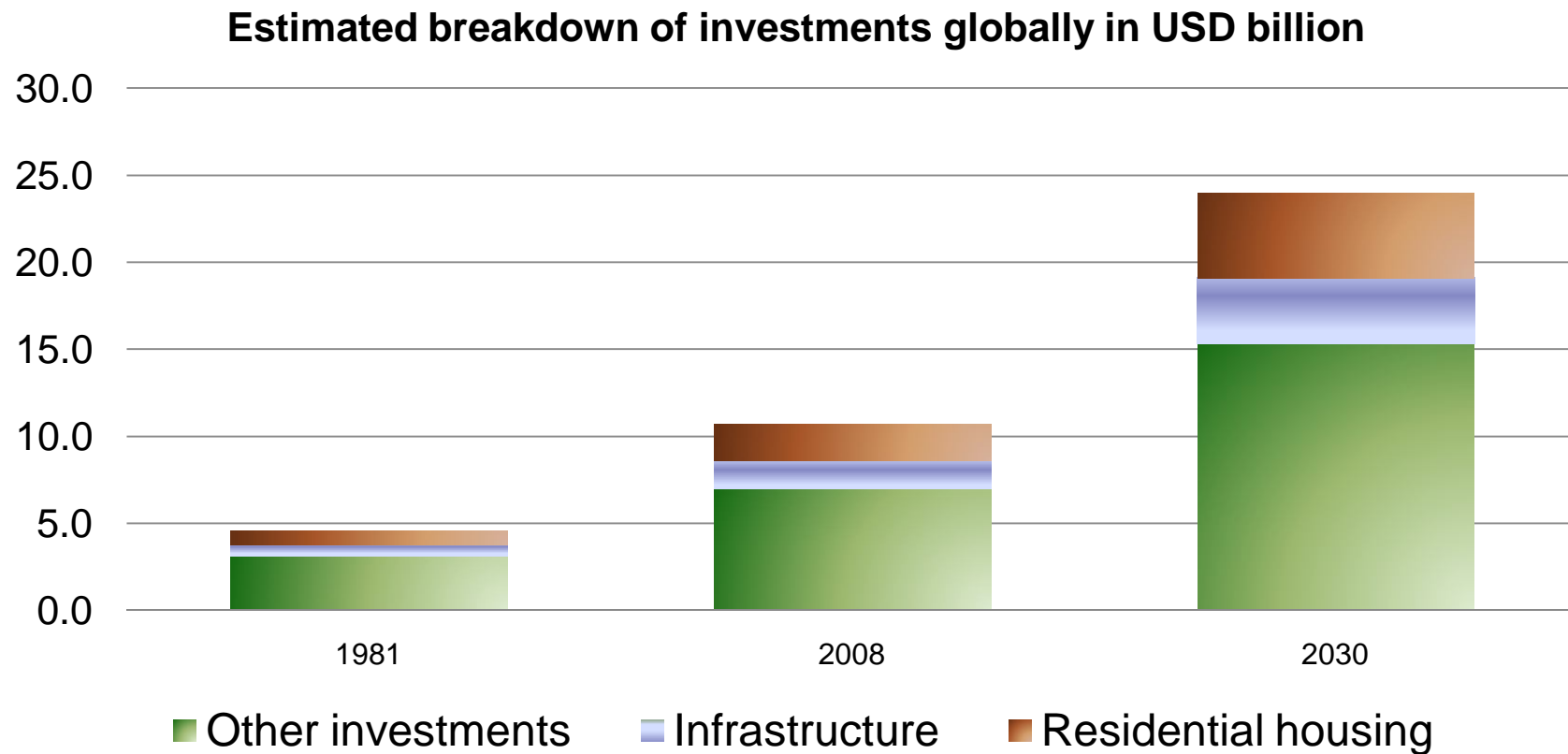
# Investment flows to emerging markets are increasing



Source: McKinsey Global Institute



# Major portion of investments will flow into residential real estate



Source: McKinsey Global Institute

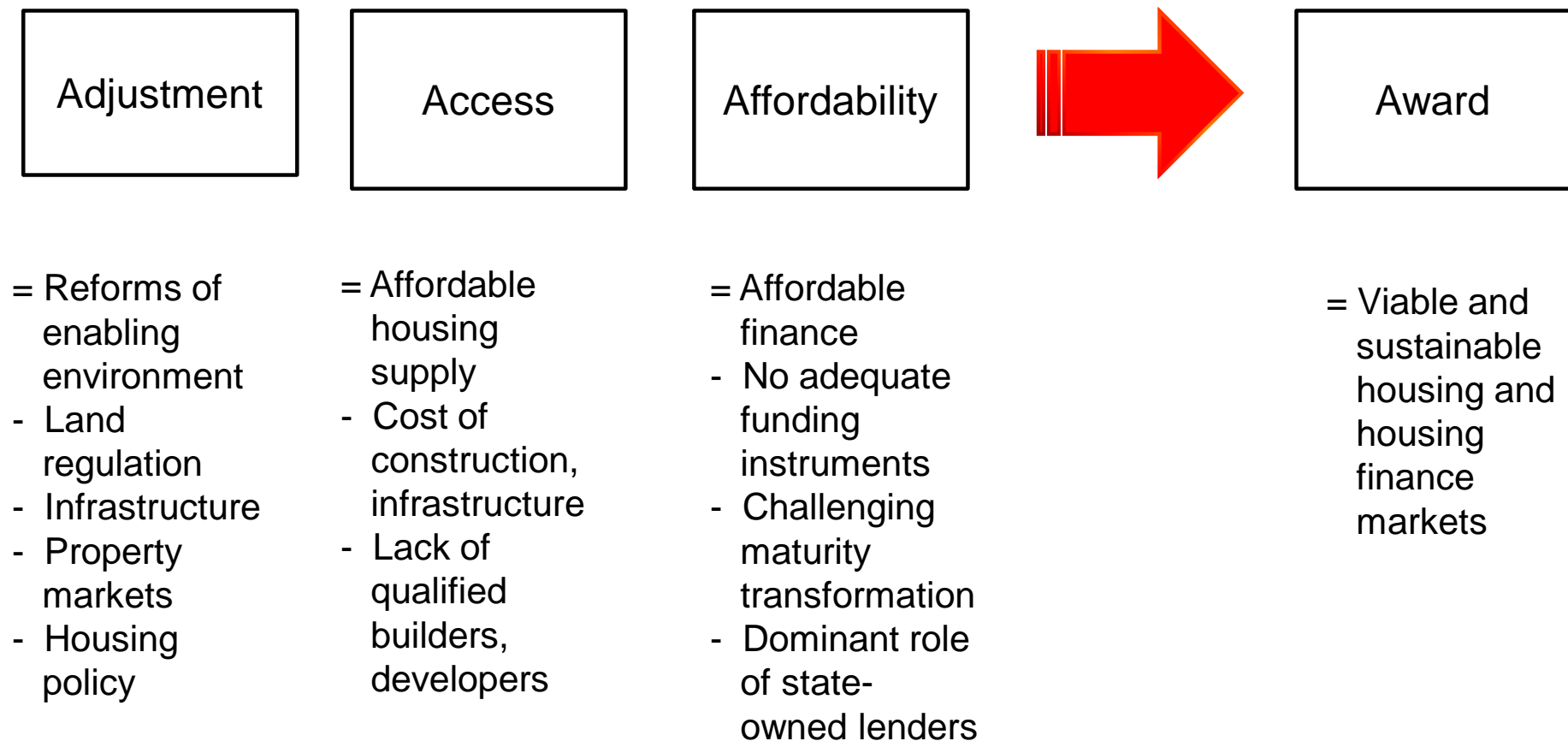


## What are the key drivers of housing investments in Sub-Saharan African (SSA) markets?

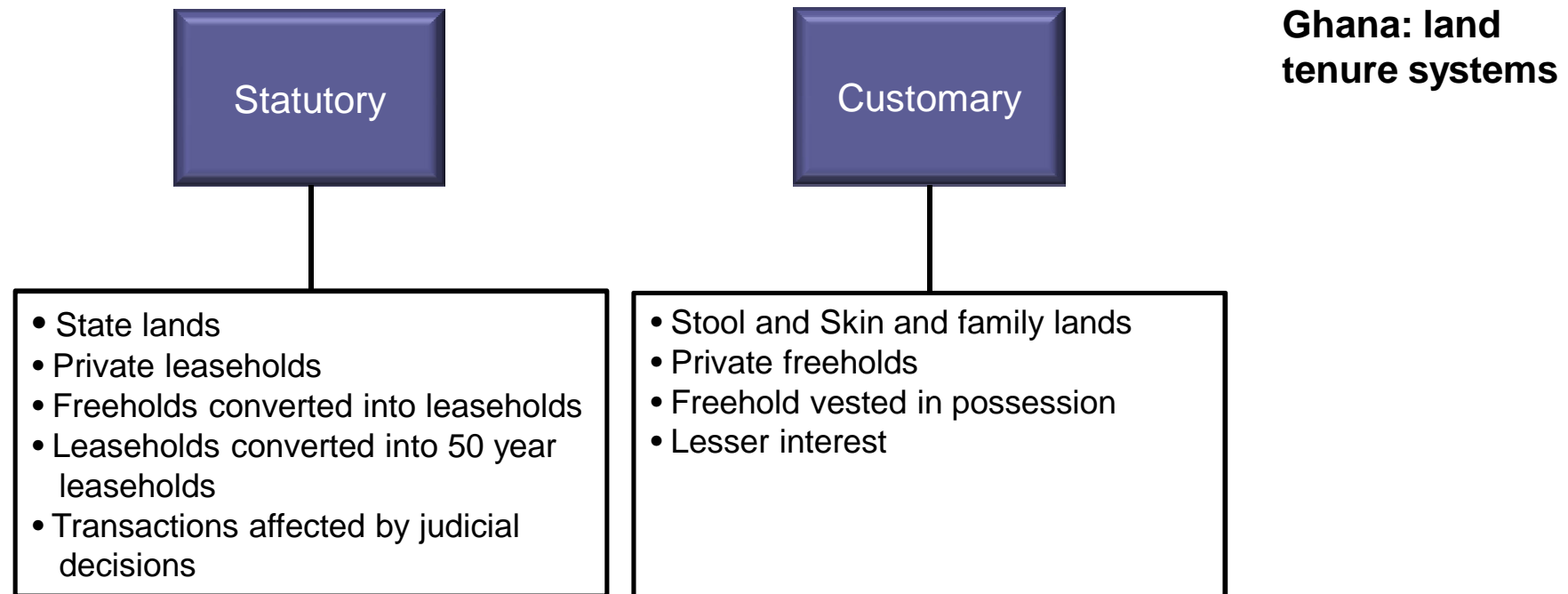
- Population growth rate
  - Growth rates vary from 2% to 4%, outgrowing other developing countries
  - Estimated housing gap: 4.4m units
- Urbanization
  - By 2030, region is expected to have urban majority
  - Process is a challenge for city planners
- Drivers offer unprecedented opportunities. How to realize them?



# The four “A’s” to advance housing and housing finance in Sub-Saharan African Countries



# Adjustments: land regulation and property markets



- Coexistence of overlapping legal system has impeded development of reliable land administration systems and clear identification of rights to property
- Lack of appropriate land zoning policies, building and property valuation standards and required infrastructure



## Adjustments: housing policy

- Competencies related to housing/housing finance often scattered within several ministries/institutions
- Most countries do not have housing policy strategy or have only recently starting formulating one
- On provincial/city level: lack of urban planning
- But: growing number of informal settlements pose additional challenges for urban planners



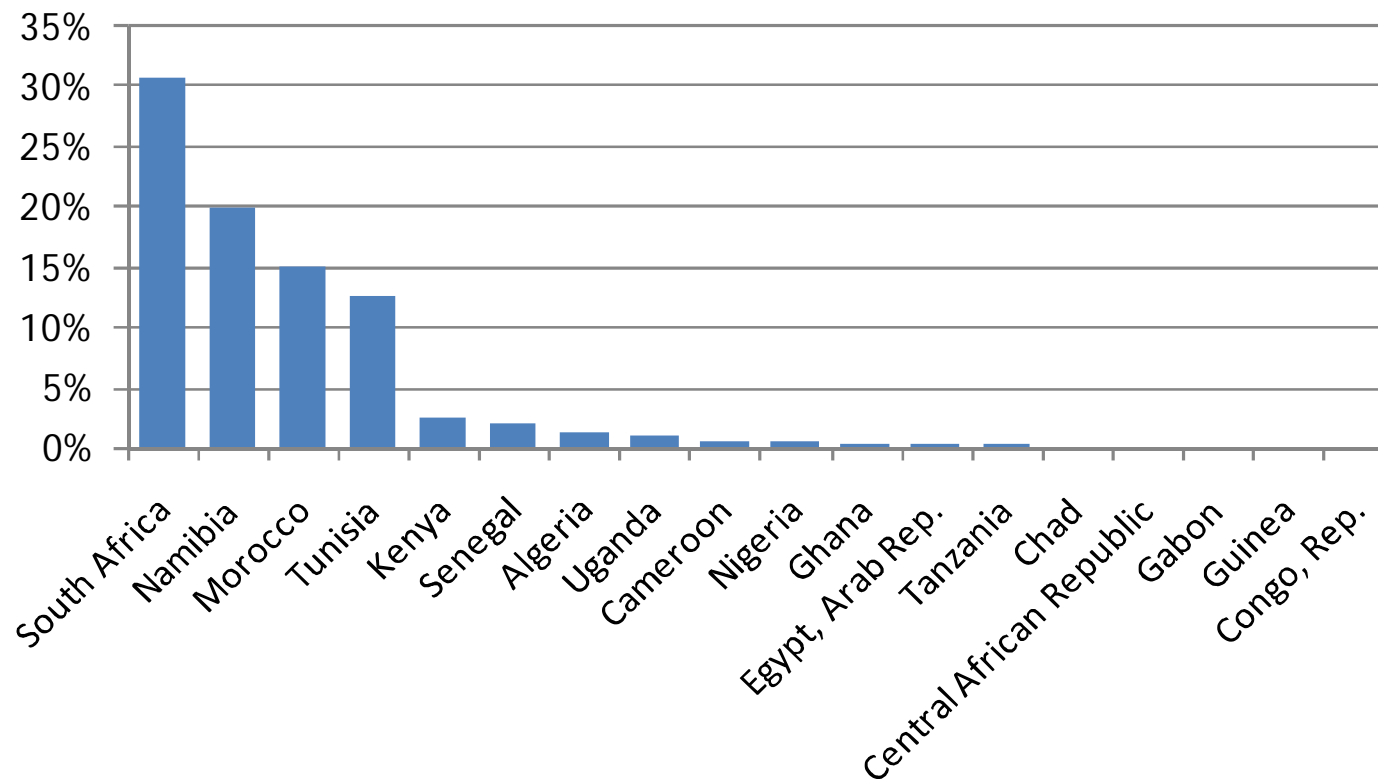
## Adjustments in regulatory and supervisory frameworks after global financial crisis (I)

- Property markets have not experienced bubble-like price rises
- Lenders apply prudent lending standards, no toxic sub-prime lending
- Loans are granted in domestic currency
- Mortgage loan portfolios of lenders are tiny
  - In relation to overall lending activity
  - No major concentration among individual lenders – systemic effects at present not expected



# Adjustments in regulatory and supervisory frameworks after global financial crisis (II)

## Mortgage debt outstanding to GDP (2010)



Source: Central Banks, World Bank mortgage database



## Adjustments in regulatory and supervisory frameworks after global financial crisis (III)

- Recommended adjustments to support mortgage lending
  - Enhance institutional capacities
  - Improve data quality
  - Continue to emphasize prudent lending standards
  - Improve understanding and awareness of consumers about housing finance products and related risks



## Access: cost of construction, infrastructure

- High cost of construction is due to:
  - Imports of construction material
  - Absence/diminished presence of local construction material industry
  - Construction materials need to be transported over long distances (especially to land-locked countries)
  - Developer is responsible for providing infrastructure (water, electricity, etc.)
  - Housing preferences of buyers
- Cheapest property available in formal sector: barely below USD 30,000

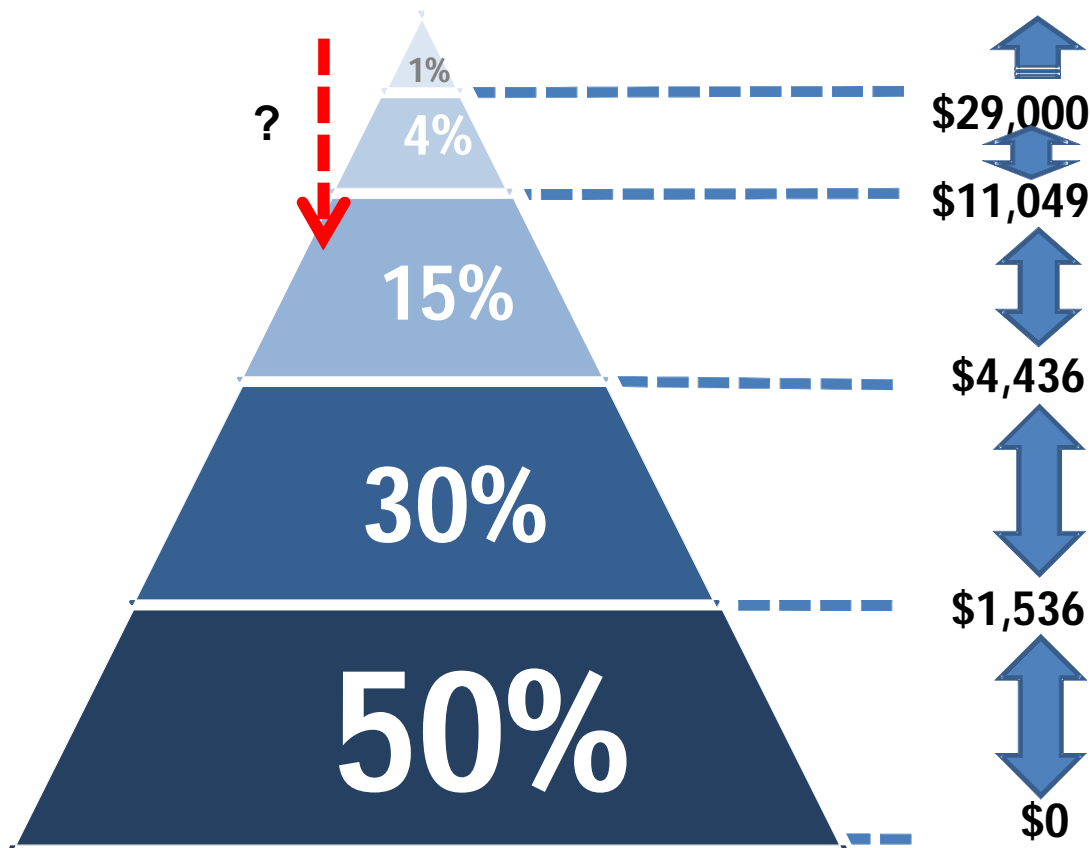


## **Access: skills in construction**

- Most countries do not have adequate legislation to manage construction process
- Developer industry is very fragmented
- Many developers do not have required skills to manage construction process
- Lenders have general aversion to financing housing construction due to lack of skills to assess implied risks



## Affordability: housing finance is expensive



### Housing income distribution in Africa

- 3% of the population has income level to qualify for a mortgage
- On average, interest rate is 15% for housing loan
- How could we move downward?

## **Affordability: why is housing finance so restricted?**

- No adequate funding instruments
  - Deposits are typically short term
  - Share of core deposits often not known
  - Capital market structure does not allow for issuance of covered mortgage bonds or securitization
- Provider of long-term funds are often social security funds
- Challenging maturity transformation, partly driven by conservative regulation policies
- Dominant role of state-owned lenders



## **Award: viable and sustainable housing finance systems**

- Most SSA countries benefit from benign macroeconomic conditions despite current global turmoil
- Key remains to improve the enabling environment
- Use of innovative building technologies, how can we achieve economies of scale?
- Promote residential rental markets
- Rising interest of lenders in entering housing finance: small scale financial products, rollover mortgage
- Support development of capital market instruments



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