Addressing the Challenges of Housing Finance in Africa

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Seminar on housing finance in Mozambique

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VIP Grand Hotel, Maputo
If cities are built the way they are financed (Renaud, 1984) then Africa’s cities are set to change.
Five stories characterise Africa’s housing finance markets in 2015

1. Innovation in financing
2. Growing awareness of the opportunity in residential
3. The identification of niche markets and an appreciation of the affordability challenge
4. Policy & regulatory evolution to match investor interest
5. Growing experience and investor interest

1. Innovation in financing

**Real Estate Investment Trusts**
- Internationally accepted investment structure
- Aggregators: enabling big money to meet small projects
- Assists investors diversify their targets
- In Kenya, Tanzania, South Africa, Zimbabwe: different versions of Development REITs and Investment REITs

**Mortgage liquidity facilities**
- Shareholders are government, investors & mortgage lenders – lenders have ‘skin in the game’
- Increase the availability of long-term funding, so lenders are confident to lend over longer terms, and builders confident to build
- Reduces cost of funding, so reduced lending rate, making housing loans more affordable
- Reduces barriers to entry for smaller mortgage players
- Standardises the mortgage market, making it easier for investors to understand risk & engage with all the players
Most countries offer mortgages at rates above 10%, and for less than 20 years, highlighting very real macro-economic issues that challenge housing affordability. In Malawi, one might as well buy a house with a credit card.
African mortgage markets are tiny (and data is limited). Lower interest rates seem to correlate with larger mortgage markets.
2. Growing awareness of the opportunity of residential growth.

Africa: The Growth Continent

The rapidly growing economies of Africa are catching the attention of increased numbers of property investors and corporate occupiers. Africa is no longer viewed as a region of long-term economic distress, but is increasingly seen as a continent of opportunity.

Kenya was recently upgraded to middle-income status, by World Bank definitions, following a recalculcation of its GDP.
3. An appreciation of the affordability challenge: income distribution in Mozambique

There is a disconnect between the price of formal, developer-built housing and the affordability of the population. The vast majority of the population across the continent live in houses they built themselves, with various degrees of success and quality. Can developers & investors shift their emphasis to meet the needs of the majority?

The cheapest newly built house built by a private developer in Mozambique, 2015, was US$30 000. Even this is only affordable to about 1.7% of the urban population. The income required to buy this house is eight times the average annual household income in urban areas.

Source: C-GIDD (Canback Global Income Distribution Database [www.cgidd.com]). Data accessed in August 2015.
The US $30000 house is hardly affordable to anyone, across Africa.

If we reduced the cost of the house to US$10,000, then 10% of urban Mozambicans could be served – still not enough, but a good start.

Affordability for a $10,000 house with the mortgage is limited across Africa
- Kenya: 20%
- Zambia: 26%
- Nigeria: 55%
- Ethiopia: 3%
- Zimbabwe: 50%
- Ghana: 11%
- Tanzania: 2.4%
- South Africa: 65%

So where are the opportunities?

3. An identification of niche markets & 4. policy / regulatory change

1. Increase scale delivery of lower-priced housing.
2. Deconstruct the housing delivery process to accommodate smaller loans, and **build housing incrementally, but at scale**.
3. Resolve macro-economic issues to address finance costs
5. Growing experience and investor sophistication

Housing Finance Kenya’s funding mix

5. Growing experience and investor sophistication

<table>
<thead>
<tr>
<th>Investor / Financier</th>
<th>Type of financier</th>
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<tbody>
<tr>
<td><strong>FUNDERS OF KUYASA FUND, SOUTH AFRICA</strong></td>
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<tr>
<td>Ubutyebi Trust</td>
<td>Public benefit organisation operating in the Nelson Mandela Bay municipality with the intent of enabling affordable finance for housing</td>
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<td>Kovacs Investment</td>
<td>Local investment company</td>
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<tr>
<td>Cadiz Life Limited, South Africa</td>
<td>Local investment fund</td>
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<tr>
<td>NHFC</td>
<td>Government owned development finance institution</td>
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<tr>
<td>South African Municipal Workers Union</td>
<td>Municipal workers union pension fund</td>
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<tr>
<td>Rural Housing Loan Fund</td>
<td>Government owned development finance institution</td>
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<tr>
<td><strong>South African Micro Finance Apex Fund</strong></td>
<td>A government organisation established in 2006 and tasked with wholesale funding for MFIs.</td>
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<td>Dutch International Guarantee for Housing</td>
<td>In cooperation with Dutch housing corporations and municipalities, DIGH loans are used to fund social housing projects across the world.</td>
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<tr>
<td>Oikocredit</td>
<td>One of the largest funders of microfinance worldwide with wide ranging investors from USA, Canada, UK and both individual and institutional.</td>
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<td><strong>FUNDERS OF NACHU, KENYA</strong></td>
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<tr>
<td>Rooftops Canada</td>
<td>International development programme of Canada’s cooperative and social housing sector, which works with Canadian and international partners to improve housing conditions</td>
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<td>NBBL</td>
<td>Cooperative housing Federation of Norway representing 57 cooperative housing associations and 9300 affiliated housing cooperatives.</td>
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<tr>
<td>Homeless International/Cliff</td>
<td>UK based charity</td>
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<tr>
<td>Swedish Cooperative</td>
<td>Swedish Cooperative Centre established by the Swedish Cooperative movement to equip poor people with the ability to fight poverty.</td>
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<tr>
<td>Cooperative Bank of Kenya</td>
<td>Commercial bank. NACHU has borrowed from it using a guarantee from Rooftops Canada.</td>
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**MicroBuild Fund**: $50m fund established by Habitat for Humanity International, providing debt capital and technical assistance to MFIs to grow HMF

**CLIFF (Community Led Infrastructure Finance Facility)**: established by Homeless International, in multiple countries in Africa

New funds see promise in housing microfinance products and approaches: **big challenge is the development of sound capital structures** – space for DFIs to offer advisory services

Homeless International rebrands as **REALL** (Real Equity for All)
Thank you!

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The Housing Finance in Africa 2015 Yearbook can be downloaded from