AFRICAN UNION FOR HOUSING FINANCE

FINANCING HOUSING IN AFRICA

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SPECIAL EDITION:

Zambia Seminar Report

FINANCING HOUSING in Africa is a monthly publication of the African Union for Housing Finance for its members. Please submit material for inclusion to Kecia Rust, at kecia@housingfinanceafrica.org or Lorraine Nzimande at lorraine@housingfinanceafrica.org .

AFRICAN UNION FOR HOUSING FINANCE

The AUHF is an association of thirty-seven 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 sixteen countries across the continent of Africa. See www.auhf.co.za

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SAVE THE DATE!

Mobilising Capital for Housing Finance

AUHF Annual Conference and AGM 11-13 September 2013, @Sugar Beach Hotel, Mauritius. More details soon!

Zambia Housing Finance Seminar

Earlier this month, the FinMark Trust held a seminar in Lusaka, Zambia, to launch its recently completed research on the state of housing finance in Zambia. Mrs Juliet Munro, FinMark Trust's Zambia Coordinator, was the Master of Ceremonies for the day. She introduced FinMark Trust and welcomed everyone to the meeting. A total of 54 delegates were in attendance, representing the private sector, including microfinance institutions, banks and developers; as well as non-governmental organisations; and government, including the national ministry and the Lusaka municipality, to discuss the state of Zambia's housing sector.

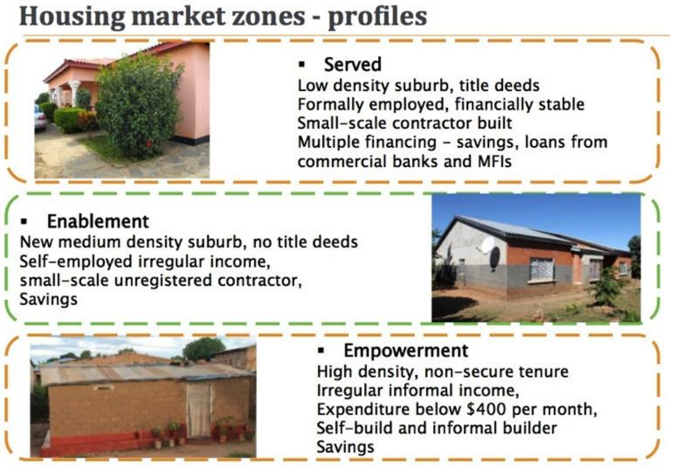
The main item on the seminar agenda was the presentation of work that FinMark Trust had recently commissioned on the state of Zambia's housing finance sector. The research was undertaken by Knight Frank Zambia, in partnership with the Peoples Process on Housing and Poverty in Zambia (a local NGO), and Planet Finance. Mr Russell Drummond, the lead consultant, made the presentation. The study segmented the market into three zones:

- ***Served Zone:*** this comprised approximately 3% of the population (about 80 000 households) who had access to mortgage finance. With incomes greater than about US$1 000 per month, they would be able to borrow upwards of US$16 000 over five years. Mortgages in this category, however, were very expensive – prevailing rates among building societies are as high as 24% and the lowest rate offered by a bank was 15%. As a result, loan tenors were generally about five years.

- ***Enablement Zone***: this comprised approximately 6% of the population (about 150 000 households) with a monthly income of about US$400 – US$1 000, who could possibly afford a loan of about US$7 000, assuming 35% interest over two years. While they had access to financial products, this access was limited to the more expensive products. The segment included formal sector employees, as well as some informal sector workers.

- ***Empowerment Zone:*** this comprised the remaining 91% of the population (about 2.6 million households), who had a monthly income of less than $400. This group is largely excluded from access to the products offered by most service providers in the housing finance value chain.

Where finance was available, it was through credit unions and community based support groups.



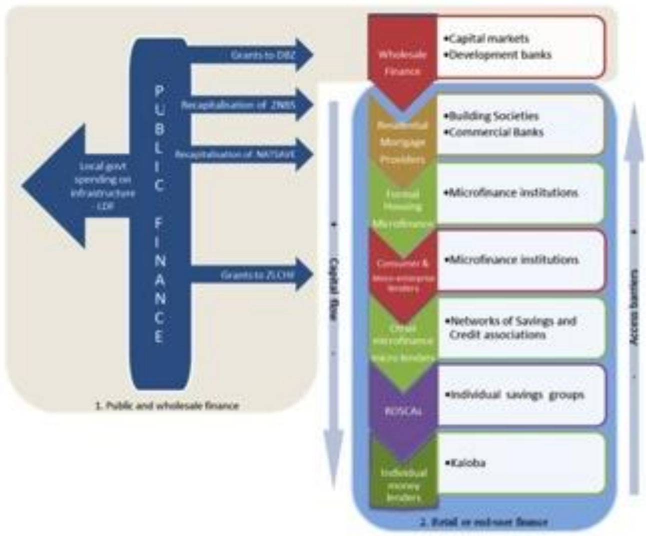
Across all three zones, the dominant form of construction was self-build with multiple financial products sourced from banks and MFIs (served zone), employers, family and friends (enablement zone) and credit unions and community based support groups mobilising savings (empowerment zone). Limited access to housing finance undermined the housing supply sector, whose low delivery rates in turn undermined the growth of the housing finance sector. The study found that there was considerable room for expansion of the housing finance market in Zambia across all three zones. Macro financial sector reforms and the creation of a more enabling environment were highlighted as necessary to reduce interest costs, and increase credit by lenders to long-term credit lines. At a more micro level, the providers of housing finance needed to invest in product innovation to tailor their products to specific market segments and price more accurately for risk. At the same time, interventions to stimulate the supply of affordable housing were also necessary. Mr Drummond set out a series of recommendations for addressing housing and land markets and improving the flow of finance.

Following the presentation, a panel discussion of respondents was invited to give their perspectives on the research. Mrs Jane Mwila, Head of Home Loans at FNB in Zambia, offered a lender's perspective; Mr Chris Jannou of Smart Homes, offered a developer's perspective, and Mr Musapenda Phiri , Coordinator of the Financial Sector Development Plan (FSDP) at the Bank of Zambia, offered a public policy perspective.

Mrs Mwila congratulated the team on the research and expressed her satisfaction that data and information was now becoming available in the market. Such reports were very helpful to lenders and made it easier to price appropriately for risk. She stressed that a critical barrier to affordability was the actual cost of the housing unit itself. Ways to bring down building costs, therefore, had to be explored.

Mr Jannou agreed with Mrs Mwila, and said that part of the reason why houses were so expensive was that the housing delivery process was very complex, so developers sought higher value markets where there was more price elasticity to absorb the market and development uncertainties. That said, the very limited banking presence in mortgage finance in Zambia was a key motivation for Smart Homes to promote developer finance.

Mr Phiri then offered a brief overview of Zambia's Financial Sector Development Plan in which government sought to build a dynamic and inclusive financial sector that supported all aspects of the economy. He noted that housing finance was not affordable, and that the sector needed attention. He said that the Central Bank had been reviewing the legislative framework. The Building Societies Act needed to be modernised and harmonised with other financial sector laws.



In the discussion that followed, delegates echoed the issues raised in the presentation and by the panel. A key area of discussion was the nature and quality of housing in the Zambian context and how this could be achieved affordably for even very low-income earners. Mr Daniel Phiri urged practitioners to consider the need for student housing. He said that Copperbelt University had 11 000 students but bedspace for only about 2000 students. Mr David Tembo, a representative from the Ministry of Local Government and Housing, noted that the Ministry had developed a policy to address the breadth of Zambia's housing issues. However, budgetary constraints limited what the government was able to do. Dr Caleb Fundanga, President of the Institute for Finance and Economics made the point that policy should address the reality of informal housing and self build. He stressed that housing was important not only for the shelter it provided, but also for the wider impact it had on economic growth and the household asset base.

Mrs Abha Chaturvedi, CEO of Finance Building Society, highlighted the issues raised in the report, and said that a key issue constraining the growth of the mortgage market was the need for long term finance and the fact that investors could achieve 14.5% when investing in government bonds. This meant that any long-term money that lenders could secure would be expensive- a cost that would then be passed on to the borrower. Because building societies were registered as non-bank financial institutions, they couldn't access pension or insurance fund investments. She concurred with the representative from the Central Bank that the building societies and financial services legislation in Zambia was out-dated and needed to be modernised. Lastly, the backlog in titling undermined the possibility of mortgage lending.

Mrs Kecia Rust, FinMark Trust's housing finance theme coordinator then gave a presentation on extending the reach of housing finance in Africa. Her presentation covered various innovations currently underway across the continent, including the mortgage liquidity facilities being established in Egypt, Tanzania and Nigeria; the FOGARIM mortgage guarantee fund operating in Morocco which extended access to housing finance for low income and seasonal workers; the collateral replacement guarantee offered by Home Finance Guarantors Africa Reinsurance Limited in a number of countries; and the housing microlending activity of Kixi Credito in Angola. The opportunities for rental housing to address demand while supporting job creation and sustainable livelihoods was also covered in her presentation.

In the discussion that followed, a number of delegates sought to explore the potential for housing microfinance in the Zambian context. Vision Fund, BancABC and Madison Finance all expressed interest in housing microfinance, and the representative from Lafarge Cement outlined their pilot programme. The lenders had observed their clients directing their loans to housing purposes, and had therefore decided to develop an explicit housing microfinance loan. Madison Finance explained that they were developing an HMF product, as a way of enabling clients to generate rental income, thereby supporting their repayment capacity.

The last presentation of the day was given by the Chairperson of the AUHF, Mr Colin Chimutsa. He described the history of the AUHF and outlined its current activities and priorities. He noted that the AUHF did not have a Zambian member and urged delegates to consider joining the AUHF so that they could participate in its continental reach. He invited delegates to join the AUHF at their annual conference, which was taking place from 11-13 September in Mauritius.

As the meeting concluded, the Mr David Tembo from the Zambian Ministry of Local Government and Housing urged delegates to engage with government. He said he was keen to receive the final report of the study so that the findings could be written into government policy. Mrs Munro thanked delegates for coming and hoped that the group would reconvene in the future to further the interests of Zambia's housing sector.

Affordability & Access matrix

Provider	Products	Access barriers		Interest rates	Average term
		Security	Income level		
Residential mortgage providers	•Mortgages	•Title, terminal benefits, pension	•ZMW6,000+	•19% (banks) 21% (building societies)	•5 years
	•Home improvement Loans, (HILs)	•Terminal benefits, pension	•< ZMW6,000	•35% (2.5% per month)	•2 years
MFIs	•Home improvement loans (HILs),	•Payroll deduction, capital pledge, 3rd party guarantee, group pressure	•ZMW2,000 to ZMW10,000	•35% - 80%	•2 years
	•Payroll/ consumer loans	•Payroll deduction, capital pledge, 3rd party guarantee, group pressure	•<ZMW6,000	•50% to 100%	•0.5 years
	•Micro-enterprise loans	•Capital pledge, 3rd party guarantee, group pressure •Household goods	•ZMW2,000 to ZMW5,000	•50% to 100%	•0.5 years
•Intermediary money lenders - SACCOS ROSCAS	•Housing microloans, microloans, rotating savings	•None - group pressure	•Any	•10 - 13 % pa (housing microloans), up to 30% regular microloans	•8 years (housing) •1 month regular loan
Individual informal money lenders - Shylocks	•Emergency loans	•Collateral (real estate, motor vehicles and household goods).	•Any	•100%+	•From 1 week

The seminar presentations can be downloaded from the following links:
http://www.housingfinanceafrica.org/document/overview-of-housing-finance-sector-in-zambia/
http://www.housingfinanceafrica.org/document/extending-the-reach-of-housing-finance-in-africa/

http://www.finmark.org.za/publication/african-union-for-housing-finance-overview/

A copy of the full report on Zambia's housing finance sector is available from Juliet Munro, julietmunro@iconnect.zm

In the news

This month in African housing & finance

West Africa's new provider of affordable homes: Ecobuild Nigeria

Ecobuild Nigeria has a vision to become the leading provider of Green affordable housing in Sub-Saharan Africa. The company is currently looking for seed capital for a smooth take off. The company secured an exclusive license to use the Ecobeam building system, invented by a South African engineer Mike Teemer, in Nigeria, Ghana and Senegal. The company's founders believed the system was ideal for solving the affordable housing issues in Nigeria. Ecobuild Nigeria aims to build at least 600 affordable houses in Nigeria. Their products are targeted at households that earn a minimum total household income of approximately $500 to $550 per month. The Ecobeam system allows for the company to deliver housing at a cost of up to 40% less than it would cost, using sandcrete blocks and cement mortar. Source (25 April 2013): VC4Africa.

Rise in Construction Costs in Uganda threaten low cost housing

The Ugandan government is seeking alternatives for low cost housing in response to the 30% rise in construction costs. The country has a reported housing deficit of 1.6 million units, and this is likely to increase as the population grows at an estimated 3.5% annually, 5.6% in urban centres. The government is therefore searching for ways of providing cheap, adequate housing for the low income population. The price of a low cost, one bedroom house in Uganda is approximately US$19 489 and reports indicate that very few low income people can afford that. According to developers the low cost housing sector is not profitable. They quote the increasing cost of building materials, the high cost of land, the lack of infrastructure and high levels of poverty as the major issues in this market. The Ugandan government claims, it is committed to investing in housing programs for low income earners amidst the problems they experience. Habitat for Humanity and the Mastercard Foundation are investing in Uganda to expand access to housing microfinance. Source (20 April 2013): The Independent.

Supply of affordable Housing Grows in South Africa

The affordable housing market in South Africa is gaining the attention of government and the private sector. Big Banks such as Standard Bank have set aside funding, for affordable housing developments. Basil Read, a JSE listed construction group, in partnership with Old Mutual has a R1.85bn affordable housing project, for the Gauteng local government, housing department and the City of Johannesburg, underway. The development is located in Southern Johannesburg and will house more than 5500 families. Basil Read, says, this development is potentially the largest private affordable urban lifestyle development of its kind in South Africa. According to the Banks, the major issue in the affordable housing segment has been the lack of housing stock that people can afford. As developers are now responding to this need, the constraint will now move from housing supply to the end-user financing. Source (16 April 2013): BusinessDay.

Namibia: Housing Project stuck in starting blocks

The Namibia-Angola Housing Initiative (NAAHI) project is planned to include the construction of an industrial park, a truck port, cattle auction house and a meat packaging plant, in Gobabis, at more than N$800 million (about US$86 023 942). The project, which was advertised about a year ago, is yet to begin as the formalization of standing agreements are yet to reach a conclusion. The Gobabis Municipality is expected to provide land for the initiative, and this has not yet taken effect. Divided opinions and mixed feelings about the project at the municipal level have delayed the formalization of the agreements. This project is expected to provide employment to a large number of Omaheke residents, whose unemployment rate stands at 34.1%. NAAHI is a partner of a multi-million dollar business and an industrial park of the South Africa Angola Housing Initiative (SAAHI), which plans to construct over 1.2 million houses in Angola. Source (17 April 2013): AllAfrica.

Kenya's Housing Finance seeks more funding

Housing Finance, which controls 35 percent of Kenya's mortgage market, is looking to raise more funding. The company's chief executive, Frank Ireri, has indicated that they will raise the funding locally or offshore. The company seeks a bigger share of Kenya's booming housing market and entry into other regional countries. Frank Ireri, says the company would use different strategies in other east Africa markets, because their financial sectors are small. Housing Finance Kenya is also planning to list real estate investment trusts (REITs) on the Nairobi bourse. Source (11 April 2013): Reuters.

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AUHF Member Profile:
Botswana Building Society

The Botswana Building Society was established in 1976 under the Building Society's Act, with a vision to be the premier provider of property finance and attractive investment returns in Botswana. The Society's mission is to provide affordable property finance and attractive investment returns for its stakeholders. It is owned by a number of investors; individuals and institutions such as the Botswana Government and fund managers. It is one of the few indigenous institutions that provide property finance in Botswana.

Upon establishment, its assets consisted of government stock of P200 000 (about US$ 24,173.74 at today's rates), advances of P2 505 000 (about US$ 302 776.15) and cash and investments amounting to P1 264 800 (US$152 874.76). The advances comprised 488 mortgages taken over from the United Building Society of SA. The Society grew significantly and its reserves increased from only P2, 100 (US$250) in March 1977 to just under P14 289 000 (US$1 702 697) in March 2012. It currently has 9 branches across Botswana.

During the first years in operation, the society was restricted by law to lend only against the security of immovable urban property. Consequently this excluded the rural areas. As a matter of policy, the society also restricted its lending only to residential properties. In 1986 the Act was amended and permitted lending in rural areas, in the same year the society also began its venture into commercial lending. The commercial undertakings now represent 34% of the Society's mortgage book in terms of value.

Mortgage Loans

The Botswana Building Society offers a range of Mortgage Loans at interest rates of 10.8% for the variable rate mortgage and 11.35% for the floating rate mortgage. The maximum repayment period for individual borrowers is 15 years on the Variable Mortgage Bond and 30 years on the Floating Rate Mortgage. The floating rate mortgage is a loan where the interest rate is fixed for the agreed initial term, after this term the loan takes on the prevailing market interest. The maximum repayment period for companies is 15 years. Borrowers may choose to repay the mortgage in a shorter period, depending on their ability to do so. In the case of individual borrowers, it is required that the loan should be fully repaid by the time the individual reaches the age of 65.

The maximum loan any borrower may qualify for, depends on the borrowers gross income, the assessed value of the property to be purchased or developed, and the age of the applicant. The Society requires that the borrower's monthly repayments should not exceed one quarter of their monthly gross income.

BBS offers the following types of loans: ordinary loan, building loan, commercial loan, industrial loan and, equity further advance.

Ordinary Loan: An ordinary mortgage loan is a loan for the purchase an existing house from any seller; it bonds an existing property to the Society. The requirements for an ordinary loan are:

- A letter of offer from the seller.
- Payment of valuation fees.
- Completion and submission of BBS' standard application form.
- Proof of current income from employment. (If self-employed income should be verifiable or substantiated).

Building Loan: This is loan offered for the development or extension of an existing property. The borrower is required to submit along with their application, proof of income, proof of ownership of the plot to be developed, approved plans and at least three quotations from preferred contractors. The Society independently carries minimum inspections on all Building Loans and therefore costs for a building loan are increased by approximately US$159. Borrowers are, however, also urged to engage architects, clerks or building inspectors to supervise the construction process, at their own costs. When the borrower builds on a plot that they already own, the value of the plot is taken into account in determining the loan amount.

Commercial Loan: A commercial loan is offered to borrowers who want to purchase or develop a commercial property.
The requirements for commercial loans are:

- Completion and submission of BBS' standard application form.
- Project memo, including cash flow projections.
- Tenders, approved plans and/or letter of offer.
- Past financial statements (if the application is in respect of an existing company).
- Payment of valuation fees.

Industrial Loan: An Industrial loan is provided for the development or acquisition of industrial property. Requirements for industrial loans are the same as those for commercial loans.

Equity Further Advance: Further advance/Equity Loans are provided for the extension of an existing bond for purposes of property development. The requirements for a further advance application vary, depending on the purpose for which the loan is sought.

Rural Mortgage Lending

The Society also lends against the security of properties in rural areas. In this case, borrowers are required to convert their plots from customary rights to common law by obtaining a Tribal lease of the property, and a land survey by registered land surveyors. The Society lends to both citizens and non-citizens. For non-citizens, the Society can only lend a maximum amount of 75% of the securing property's open market value. For citizens, the normal maximum loan is also 75% of the securing property's open market, however, as result of an agreement between the Society and Government, this loan can be increased to 90% for citizen borrowers initial loan.

Botswana Building Society
Mr Pius Molefe is the AUHF representative
Tel: 267 397 1396
Web: www.bbs.co.bw

Player in focus

Smart Homes Africa is a subsidiary of Smart Homes International, a U.S and Africa-based real estate and development company focused on affordable housing. In Africa, the company currently operates out of Lusaka, the Zambian Copper Belt, and Nairobi. The group was founded in 2010 by American, Christopher Jannou in response to the need for 'international-class' affordable housing throughout the world. Working with public and private sector partners, SmartHomes develops and finances in each of its market segments, including middle-income and affordable housing, workforce housing and student housing.

SmartHomes promotes it's innovative rapid building systems which it says allow it to outperform conventional brick and mortar methods in price, quality, building speed and sustainability. SmartHomes houses are made of high specification concrete using form and panel systems readily in use in the United States. SmartHomes are among the most energy efficient and sustainable houses on the market today. Current clients include publicly listed mineral and energy companies, development banks, governments and the private sector. SmartHomes offers clients a 'turnkey' housing solution- from concept to delivery. SmartHomes houses meet all international building codes to deliver world-class assets for the African housing sector at the lowest prices in the market.

SmartHomes developments include amenities which are international-style kitchens, fixture packages and interior furnishing options. Smart Homes Africa's latest development is Waterford Village, at Lilayi Heights located in Lusaka, Zambia. The development offers residences in two, three and four bedroom configurations and ranging from US$40,000 to US$110,000 for 47m^2 to 90m^2 units on.

The three residences are offered in this development:

The Knightsbridge: The Knightsbridge model is a starter home on a 400m^2 that consists of 47m^2 units that with 2 bedrooms and one bathroom and an 8m^2 terrace per unit. These units cost US$ 37 600.

The Kensington: The Kensington model offers 68.9m^2 units with 3 bedrooms, one bathroom and an 8m^2 terrace. This model is on a 500m^2 plot and it costs US$ 53 600.

The Mayfair: The Mayfair model is the biggest. It offers 90m^2 units with a 12m^2 terrace per unit on 600m^2 plots The units have 3 bedrooms and one bathroom, and are selling for US$72 000.

Smart Loans

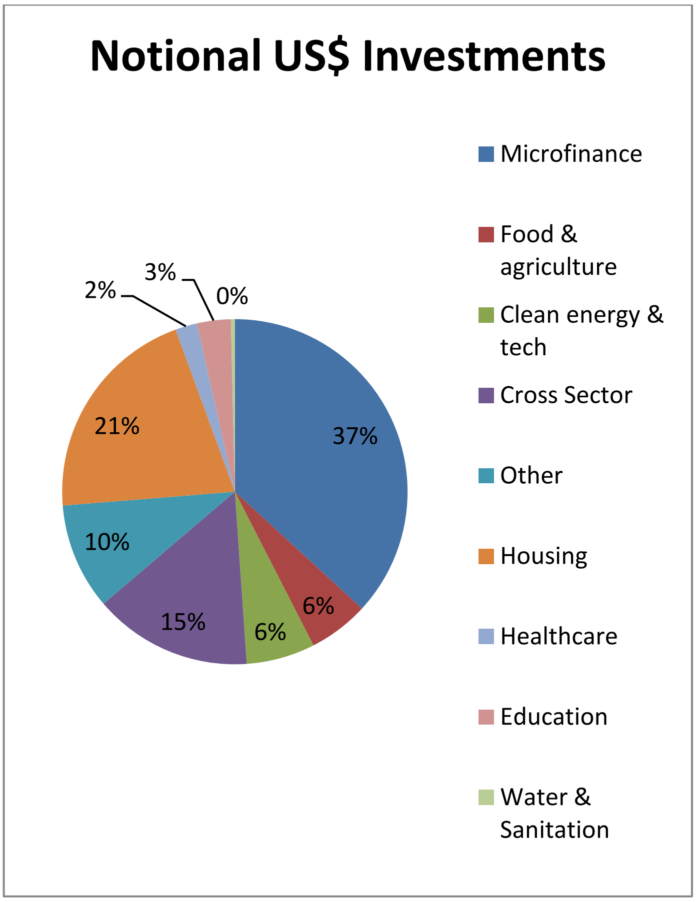
Smart Loans is the SmartHomes financing product, developed to facilitate end-buyer financing for SmartHomes customers. Smart Loans works with local institutions and development banks to create a streamlined, onsite loan application process that is efficient and effective. SmartLoans offer conventional mortgages and lease to purchase options for its customers.

Buyers can reserve homes on choice of plot with a 5% reservation fee and upon receipt of a 20% down payment, Smart Homes commences with the construction process. For cash buyers, 20% is payable as down payment, 50% payable upon closure, 20% at completion and the remaining 10% on delivery.

Smart Homes Africa www.smarthomesafrica.com

Graph of the Month: Impact Investment Focus

More investors are now interested and engaged in impact investing. As can be seen in the diagram below, the number of impact investments almost doubled in just one year, from $2,481 million in 2010 to $4,377 million in 2011. A survey by the Global Impact Investing Network (GIIN) and J.P Morgan, of about 2200 impact investments across the Global North and Global South worth nearly $4.4 billion, found that 75% of these investments took the form of debt instruments, especially private debt. This study further revealed that in terms of sectoral targeting, these investments were concentrated in microfinance, housing and cross sectoral projects. This is depicted in the graph below.



Source: GIIN, J.P Morgan

UPCOMING EVENTS

CONFERENCES / WORKSHOPS / COURSES

2013

***Visit www.auhf.co.za for event details ***

MAY

29-31 **Mixed Use Developments.** Johannesburg, South Africa.

JUNE

5- 7 **INTERNATIONAL UNION FOR HOUSING FINANCE WORLD CONGRESS**. **Sound Housing Finance Around the World.** Vienna, Austria. ***E200 discount for AUHF members!***

JULY

7-12 **Micro & SME Banking Summer Academy.** Frankfurt am Main, Germany.

14-19 **Sustainable Energy Finance Summer Academy.** Frankfurt am Main, Germany.

21-26 **Housing Finance Summer Academy.** Frankfurt am Main, Germany. ***EUR 300 DISCOUNT for AUHF members!***

AUGUST

13- 15 **6th African Microfinance Conference.** Durban, South Africa.

SEPTEMBER

11-13 **AUHF Annual Conference & AGM: Moblising Capital for Housing Finance, Sun Beach Hotel, Mauritius.**

OCTOBER

6-11 **Housing Finance Programme for Sub-Saharan Africa 2013.** University of Cape Town, South Africa. ***DISCOUNT for AUHF members!***