FINANCING HOUSING IN AFRICA

ISSUE 3: MARCH 2011

In this edition

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 auhf.kecia@iafrica.com

AFRICAN UNION FOR HOUSING FINANCE

The AUHF is an association of thirty 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

STRATEGIES TO DEVELOP KENYA'S MORTGAGE MARKET

Last month, Simon Walley, Senior Housing Finance Specialist at the World Bank, presented a paper entitled "Developing Kenya's Mortgage Market" at the Africa Banking and Finance Conference in Nairobi, Kenya.

Providing an overview, Mr Walley reported while Kenya's mortgage market was growing at an average of 30-40% annually, mortgage debt to GDP was still relatively low at 2.5% (as compared with 32.7% ratio in South Africa, 4.2% in Colombia and 6% in India). The top three lenders in Kenya represent over two-thirds of the market, while 35 banks have reported data for mortgage portfolios. He argued that this proved the existence of a capacity gap in Kenya, and substantial opportunity for growth in the mortgage market. As at 2010, the annual housing need was projected at 206,000 units annually, with an existing shortfall of 2m houses. The current supply is estimated at only about 50,000 units per annum, however, illustrating a severe delivery shortage. Still, affordability is very limited with only 11% of the population in urban areas (about 1 million people or 250 000 households) able to afford a mortgage product. Affordability levels in rural areas were insufficient for a mortgage market to develop. Mr Walley suggested the potential mortgage market in Kenya was about Ksh 800 billion, or US$13 billion.

Mr Walley summarized the challenges of the current gap in the market as a lack of effective demand (brought about by low and informal incomes, high interest rates, lack of long term funds, and inappropriate product design) and a lack of affordable supply (caused by limited availability of developer finance – both debt and equity - planning and building regulations, the cost of infrastructure, access to land and a cumbersome titling / registration system). He highlighted the disparity between the average mortgage in the country and a typical borrower's profile and argued that to grow markets, lenders would need to extend access to housing finance down-market and increase the effective demand for housing. He showed how mortgage affordability could double by halving the interest rate, and argued that in a high interest rate environment, extending the maturity of mortgages was not a workable option.

Given the particular challenges in mortgage markets such as Kenya's, innovative and responsive product design is particularly important. Mr Walley suggested that Kenya's lenders consider options such as a graduated payment mortgage (which he said could lead to a 10% improvement in affordability), or variable rate loans, linked to inflation. Other innovative solutions included the possibility of shared appreciation loans (used in London, for example), or incremental (housing microfinance) loans. Improvements in lender efficiency and risk management could also bring costs down and enhance effective demand. In the short term, Walley argued, Kenya should revisit its mortgage legislation, enable its credit ratings bureau to collect more performance data and organize a mortgage feasibility study. He advised that in the mid to long term, the government should review its pension-backed mortgages product design, modernize its titling registration system and develop a government-sponsored, low income housing programme.

A further area for innovation could be in the development of a mortgage liquidity facility, such as the World Bank has supported the development of in Tanzania. Mr Walley spoke about this in some detail, noting that while Kenya had a good pool of long term funds, smaller institutions still struggled to access affordable funding. Kenya currently has no specific vehicle for capital market funding. The benefits of a mortgage liquidity facility include the ability to reduce long term funding, create competition and enable small lenders to access capital markets.

Concluding his presentation, Mr Walley also argued for a broader approach to the market. Mortgage finance is only one component of a healthy housing sector. Rental systems needed to be developed in such a way that they protected both tenants and landlords; and housing microfinance to support incremental housing construction for lower income earners was important. The challenges with low housing supply also had to be addressed, including construction finance, the role of related government agencies and the government's housing policies and subsidies.

This presentation is available at www.worldbank.org/housingfinance

In the news

This month in African housing finance

Housing delivery

Public Private Partnership in Zambia plans a 4000-unit housing project.

With a consortium of government departments and the private sector, a plan to build 4000 housing units in Kazungula district in Lightstone, Zambia is underway. The ministries involved include the Ministry of Housing, National Planning, Local Government, Finance and Land. The first phase of work is to start in July this year, delivering about 250 houses by September. *Source:* *http://allafrica.com/stories/201103040803.html*

Report highlights the need for intervention funding in Nigeria's affordable housing sector.

A report by the International Finance Corporation (IFC) estimates that about N30 trillion (USD 192 billion) would be required to finance the country's current housing deficit, with 720,000 new houses required every year. The Central Bank of Nigeria (CBN) revealed that statistics obtained from 77 active primary mortgage institutions (PMIs) as at June 30, 2010 shows an aggregate shareholders fund of N54.8 billion (USD 350 million). This represents less than 0.2 percent of the N30 trillion required to finance the housing deficit

Source: *http://www.vanguardngr.com/2011/02/intervention-funding-a-must-for-affordable-housing-in-nigeria/#*

Nigerian gov't implements housing scheme for teachers

The Federal Government of Nigeria recently awarded the contract for the construction of 1000 housing units in Niger state in the Northern part of the country. The houses would be on an owner-occupier basis to be taken over by beneficiaries after retirement. Scheme is The federal government hopes to implement this in the other 35 states in the country. The housing scheme is part of the government incentive plan for teachers.

Source: *http://allafrica.com/stories/201103090563.html*

New prefab house factor to boost housing programme in Southern Angola

At the launch of a USD 8.69 million pre fabricated house factory, the secretary of state in charge of housing and urbanization stated that the project would boost the housing programme in the southern region of the country. The new facility will increase capacity in the region as it is projected to build 100 residences per month. *Source:* *http://www.portalangop.co.ao/motix/en_us/especiais/reconstrucao-nacional/2011/2/10/Prefab-house-factory-boost-housing-programme-southern-region,7a66a59f-81a8-4c72-af79-e70f8c4e52ff.html*

Housing Markets

Kenya plans on replicating South Africa's affordable housing model

As Kenya faces a shortage of houses especially in houses where the high cost of land and high interest rates prohibit middle to low income earners from acquiring homes, Kenyan housing practitioners have been looking at South Africa's housing subsidy scheme. In addition, there is discussion around the use of alternative construction materials which are cheaper but durable. This is seen as an intervention to reduce construction costs as building materials on average account for 40 per cent of the construction cost. *Source:* *http://www.businessdailyafrica.com/Corporate+News/Kenya+eyes+SA+model+for+affordable+housing/-/539550/1122128/-/qwrjgv/-/index.html*

Government official says housing in Botswana is too expensive

The minister in charge of Land and housing states that the houses provided by the government parastatal - Botswana Housing Corporation are too expensive. The minister states that by making use of alternative technologies, it could lead more affordable housing. He also stated that by eliminating unnecessary additions like finishes (tiling, painting, wall wardrobes, etc) which he believes should be left to occupants, the house prices would decrease. Source: *http://gazettebw.com/index.php?option=com_content&view=article&id=8745:bhc-houses-too-expensive-molefhi-&catid=18:headlines&Itemid=2*

Report shows that the middle income class still struggle to buy a house in Kenya

According to the Kenya National Bureau of Statistics, middle class households' incomes range between Sh23,671 (USD 279) and Sh119,999 (USD 1414). While a survey by the central bank states that the average repayment rate for properties available to the income class is about Sh90,000 (USD 1060) for 20 years at the prevailing interest rates. Thus, it highlights the fact that middle income households can hardly afford an average mortgage in the market. In response to this, the Kenyan mortgage industry has been urged to develop alternative financing models to cater for this market. Source:

http://www.businessdailyafrica.com/Cost+of+owning+a+house+still+too+high+for+middle+class+families/-/539546/1120196/-/uj2t0a/-/

Finance

Bank's investment sets to accelerate service delivery in South Africa

The European Investment Bank (EIB) recently awarded the National Housing Finance Corporation (NHFC) a government agency in South Africa an investment loan of 150 million Euros (USD 212 million). The main aim of the investment is to finance social housing initiatives in major cities in the country. It is also aimed at households earning from R3500 (USD 506) to R12800 (USD1840) a month. Eligible investments include planning, design and constructions as well as preparatory measures such as studies and site preparation. *Source:* http://www.sowetanlive.co.za/news/2011/03/08/a-home-in-the-city

$125 million Agri & Housing Investment in Lusaka, Zambia

A Saudi Arabian company, Manafea Holdings recently invested USD 125 million in Lusaka, Zambia to build a Zambian pineapple farm and housing units. The approved project is set to build 2000 homes in the country's capital. *Source:* http://www.bloomberg.com/news/2011-03-09/saudi-s-menafea-plans-125-million-zambia-investment-mail-says.html

Commercial Bank Promises to invest Rwf7 billion in the Rwandan housing sector.

The Kenya Commercial Bank in Rwanda recently announced its plan to invest Rwf7 billion (USD 11.7 million) into the country's housing sector. Report states that 20000 – 25000 residential houses are needed per year, however only 300 are delivered yearly. Stakeholders in the Rwanda housing sector believe this investment would help bridge the existing finance gap. *Source:* http://allafrica.com/stories/201103110020.html

Housing Microfinance Fund planned in Tanzania

The Minister of Land, Housing and Human Settlements in Tanzania recently announced the government's intention to start a housing microfinance fund in order to address the current housing deficit. The government states that more than 200,000 housing units are needed to be built yearly. The fund is hoped to ease the housing shortage that is reportedly a major national crisis. *Source:* http://microfinanceafrica.net/news/housing-finance-fund-plan-a-good-idea/

Housing Finance partnership strategy makes way for increased participation in the Kenyan housing market

The Banking Act in Kenya previously set a cap for the amount a financial institution can lend to a single borrower at 25 per cent. But through partnerships and agreements with the EADB, NSSF, British American Investment and Equity Bank, the Housing Finance has been able to bigger housing projects, where their focus is on building for sale rather than rental housing. The bank recently raised Sh7 billion (USD 82.5 million) from the bond market. *Source:* http://www.businessdailyafrica.com/Corporate+News/Housing+Finance+builds+pillars+for+mega+projects/-/539550/1114362/-/vcypwh/-/

Review: Access to housing finance in Africa – Exploring the Issues: No 10. Tanzania.

Since 2007, the FinMark Trust has been commissioning studies into the housing finance sectors of different African countries. This study, focusing on Tanzania's housing finance sector, was undertaken by Dr James Mutero of Matrix Development Consultants in Nairobi, Kenya. The report provides an overview of the Tanzanian macro economy, the financial landscape, policy and regulations pertaining to housing finance, and the practice of housing finance in the country.

Tanzania has a weak housing finance and property market. Nearly all of the urban housing stock has been built by individual households and not by established developers. This is due to the lack of access to formal finance for the vast majority of households – according to FinScope 2006, only 11% of the adult population has access to formal and semi formal finance. Households typically depend on savings and informal financial sources to pay for the land, building materials and labor they need for construction.

In line with other developing countries, Tanzania's housing policy initially placed government in the role of housing provider. Later, government policy shifted to an enabling role. The recent establishment of the Tanzania Mortgage Refinance Facility is part of a housing finance project supported by the World Bank, which seeks to refocus the housing finance sector.

The report provides examples of various activities by the stakeholders in the housing finance industry, highlighting the innovation that already exists in the market. These examples then explain various problems in the sector, some of which include limited institutional capacity, poor financial literacy among potential borrowers, and limited market knowledge of housing finance by financial institutions.

In general, this study provides a well balanced view of the Tanzanian housing finance sector. It provides an analysis of the current gap in the market and opportunities for innovations that exist in the market, ranging from product design to general operational strategies. This study could serve as a guide to potential stakeholders interested in the Tanzanian housing sector including private investors.

To access the report: http://www.tinyurl.com/3xbccft

AUHF Member Profile:

CBZ Bank Home Loans (formerly CBZ Building Society)

CBZ Bank is a financial services organization in Zimbabwe. It is a subsidiary of the CBZ Holdings Limited, which is a group of companies that covers a host of financial services including transactional banking, insurance, asset management, and mortgage finance and property investments. In 2010, CBZ Building Society and CBZ Bank were operationally integrated into a monolithic CBZ Bank brand, resulting in the creation of CBZ Home Loans.

CBZ Bank Home Loans is headed by the Managing Director, Mr. Colin Chimutsa and he represents the bank at the African Union for Housing Finance (AUHF) and the International Union for Housing Finance (IUHF). Mr Chimutsa is a member of the AUHF Executive Committee.

CBZ Bank is the largest commercial bank in Zimbabwe, as measured by the level of deposits and total assets, and commands a deposit market share in excess of 20% as at 31 December 2010. The Bank's vision is *"To be The Bank of Choice in Zimbabwe"* and the mission statement is *"To be a progressive, strong bank geared to satisfy the diverse needs of our customers through innovative financial solutions. This is achieved through efficient service delivery, competency and flexibility, whilst adhering to principles of integrity, transparency and fairness"*.

CBZ Bank Home Loans offers loans for buying and building residential or commercial properties, property investments, home improvements, property infrastructural development and refinancing. CBZ Bank Home Loans has four business units offering diversified products and services as follows:-

Private Home Loans: This unit advances mortgage finance to individuals for the purchase of existing properties, building finance, the purchase of residential stands, refinancing, and debt management consolidation. The loans are also available to Zimbabweans living and working abroad. In addition, bancassurance products such as mortgage protection policy and house owner's comprehensive insurance cover are offered for the benefit of clients.

Commercial Loans: Within this unit, various mortgage loans advanced to businesses and these can be linked to other banking products for the client's convenience.

Employer Assisted Housing schemes: CBZ Bank Home Loans partners with companies to offer various mortgage loans to company employees. The employers are able to motivate and retain staff through the housing schemes.

Strategic Alliances: CBZ Bank Home Loans enters into strategic alliances with reputable property developers, building material merchants, etc. These are aimed at providing housing products and services under one roof and includes the following:-

- Property Development
- Property Sales & Marketing
- Building material sales and marketing
- Home improvement sales and marketing

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Player in focus: FMO

The Netherlands Development Finance Company (*FMO*) is the international development bank of the Netherlands. FMO invests risk capital in companies and financial institutions in developing countries. With an investment portfolio of €3.4 billion (USD 4.7 billion), FMO is one of the largest bilateral development banks worldwide. Due in part to its relationship with the Dutch government, FMO is able to take risks which commercial financiers are not - or not yet - prepared to take. The organization's mission is to create flourishing enterprises, which can serve as engines of sustainable growth in their countries.

FMO adopts a pragmatic approach in seeking out viable projects. The organization looks for practical projects in countries where they already have an existing partner relationship, or where the environment is considered favorable. This approach enables the organization to deploy its high-risk appetite and catalytic strengths by attracting other investments.

FMO is actively working on projects across all income segments, but the organization has a focus on the population at the bottom of the 'pyramid'. The organisation offers a full range of financial products and services to meet the needs of businesses of all sizes and structures. The organisation often provides finance in local currency so as to mitigate currency risk for its clients. Since its strategy is long-term, the organisation aims to provide long-term finance, enabling its clients to create long-term impact. Its product offering includes equity, mezzanine, loans and syndicated loans

FMO's Housing Focus

FMO recognizes that one of the largest obstacles for emerging economies is the widening gap between demand and supply of both housing units and housing finance solutions. Thus, they make use of an integrated approach that links the demand and supply sides of the housing chain.

The organization aims is to have an early entry in each segment in the value chain. By providing tailored financial solutions, the organization works across the housing value chain, from land rights, infrastructure and construction to mortgage lending and renewable utilities. The organization's strategy across all its projects is to work through partnerships. Thus, through its housing focus, the organization's partners range from local banks and funds targeting developers and construction companies to lenders to SMEs and microfinance institutions that offer home improvement loans.

FMO ensures that sustainable social and environmental impact is integrated into its projects. Home ownership stimulates energy and other utility efficiencies, such as solar panels, water-saving installations and insulation. Employment is generated through construction, infrastructure, retail and many other industries relating to houses and their inhabitants. The organization also offers capacity development services to support housing-related organizations, especially those dealing with new projects and markets.

For more information, visit www.fmo.nl

FMO's footprint

Houses for Africa: FMO is financing Houses for Africa at the holding and project levels in Ghana and Nigeria. This will help Houses for Africa strengthen its holding, and implement an ambitious Environmental and Social Action Plan, addressing resettlement and HIV/Aids, and a general E&S policy and tool framework. Houses for Africa will be developing in Zambia, Ghana, Nigeria and Botswana and seeks projects across Africa.

Ghana Home Loans: GHL, a specialized mortgage provider in Ghana, received a USD 15.5million long term facility. This facility enables GHL to grow its residential mortgage lending portfolio and improve access to housing finance for Ghanaians. FMO's funding allows GHL to provide both Cedi and US Dollars based loans to Ghanaians to enable them to acquire, complete or improve their homes.

Bank of Africa – Kenya: A subsidiary of the Bank of Africa Group, the bank focuses on the high end as well as on the low end of the market. The FMO financing will provide long term funding for the bank's SME, consumer and mortgage lending activities. This will enable SMEs to grow, create employment and improve private individuals' living standards.

Real People: This South African company provides financial services to households with limited access to formal finance. It is also an important debt collection management company. FMO financing will be used to realize growth in South Africa and to expand to other African countries. FMO's backing in Real People currently amounts to €33 million (USD 47 million). In 2008, FMO also acquired additional shares in Real People in order to expand its initial stake holding to 5%.

National Urban Reconstruction and Housing Agency (NURCHA): NURCHA is a non profit organization that provides bridge and construction finance to smaller contractors in the low cost housing sector in South Africa. FMO works closely with NURCHA, most recently through a €5.7 million (USD 8 million) MASSIF loan to finance start up SMEs in the construction business that work exclusively at the very lowest end of the housing market.

Stanbic/Standard Bank Properties: FMO is providing USD 5 million in long term subordinated debt for the construction phase of a project in Zambia called the Liyali project. This project will make available 3,900 new homes with home ownership for low to medium income families in Lusaka. Stanbic/Standard Bank Properties acts as a financial and technical partner providing additional construction and bridge finance. The Overseas Private Investment Corporation also joined the project with a USD 43.5 million, 15-year local currency mortgage Financial finance.

Graph of the month

The following graph shows the level of urbanization in various African countries, drawing on data from UN Habitat in their 2005 book Financing Urban Shelter. The 2000 data reports the actual data as at that period, while the 2030 data is a projection based on growth rates. Sub-Saharan Africa is the fastest urbanizing region on the planet, and this is evident in the numbers. 2010 data from UN Habitat's State of the World's Cities 2010/2011 book shows tremendous city growth rates. Between 2010-2015, it is estimated that the population of cities in the DRC are growing at a rate just under 5% per annum; in Ghana, cities are growing at a rate just under 3% per annum; Nigerian cities around 3% p.a.; Nairobi, 3.73% p.a.; Kampala 4.72% p.a.; Dar es Salaam 3.56% p.a.. These growth rates are putting terrible pressure on urban infrastructure: roads, sewerage, power; not to mention the housing infrastructure. Kenya's housing need, for example, is projected at 210,000 new units annually, with an existing short fall of 5 million houses, while Nigeria needs 720,000 houses every year. With national formal delivery rates no where near these figures, backlogs rise and households meet their needs informally.

UN Habitat (2010) State of the World's Cities: Bridging the Urban Divide. / UN Habitat (2005) Global Report on Human Settlements: Financing Urban Shelter.

UPCOMING EVENTS

TRAINING / COURSES

Housing Finance Workshop in Sub Saharan Africa: International Experience and Lessons Learned. Sponsored by: World Bank, IFC, Wharton School (UPenn), FinMark Trust and AUHF. 11-16 April 2011, Nairobi, Kenya. For more information: www.worldbank.org/housingfinance

Housing Finance in a Changing Environment. 6-16 June 2011 Organised by: International Housing Finance Program, Wharton School of Business, University of Pennsylvania, Philadelphia, USA
For more information: www.ihfp.wharton.upenn.edu

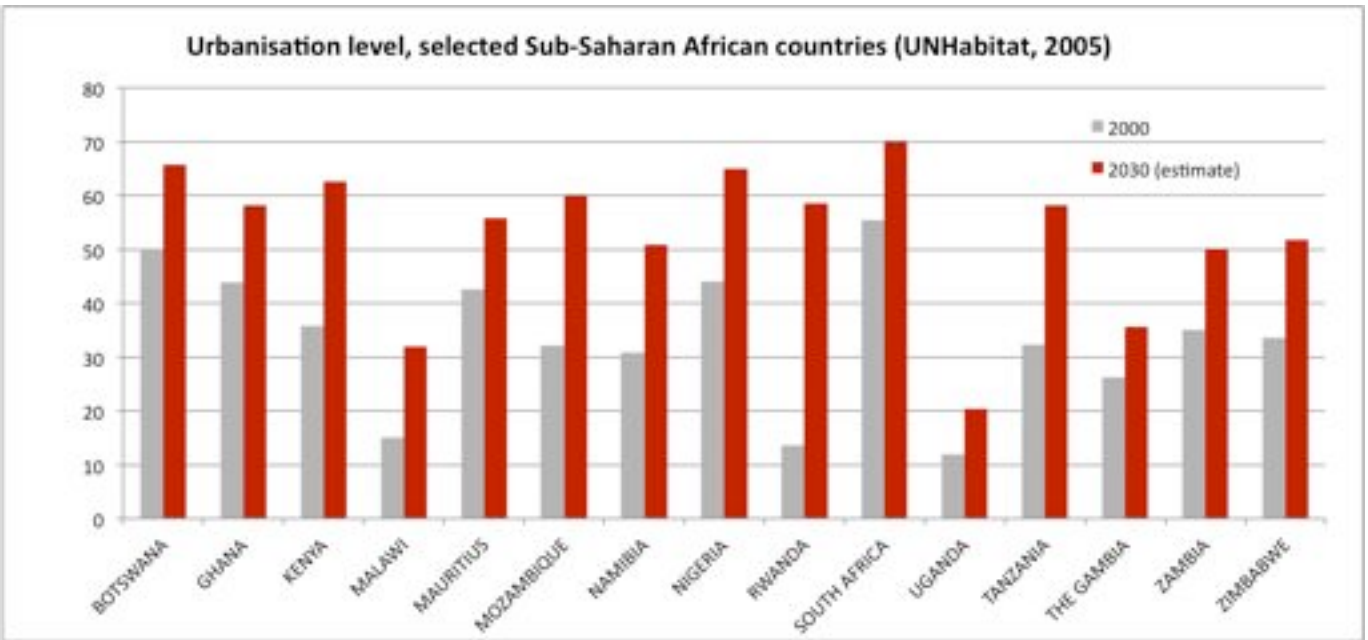
Making Markets Work. 17-29 July 2011, Glasgow, UK. For more information: www.springfieldcentre.com

CONFERENCES / WORKSHOPS

Financial & Private Sector Development Forum and Learning Week 2011. An initiative of Making Finance Work for Africa. 4-8 April 2011, Washington DC. For information on Making Finance Work for Africa, visit www.mfw4a.org

6th Annual Microfinance Investment Summit. 5-8 July 2011, Geneva, Switzerland For more information: www.microfinancesummit.com

Southern African Housing Foundation 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



Source: UNHabitat (2005) Financing Urban Shelter