



# Housing and Housing Finance in Africa Challenges and Opportunities

# Africa's chronic housing crisis: challenges and opportunities

## Growing demand from countries and commitments for reform

### Low & informal incomes

**70%** live on less than \$2 per day

### High construction costs

**\$700** per m<sup>2</sup> of affordable housing in SSA, vs. \$350/m<sup>2</sup> in India, \$250/m<sup>2</sup> in China

### Rapid urbanization

**25** countries in SSA will double their urban populations in less than 20 years

### Growing slum population

**62%** of SSA urban residents live in slums, and growing

### Tenure Insecurity

**70%** of urban land in Cameroon is held without title

### Large impact on employment and growth

**5** jobs created per housing unit built

### Growing middle class

**2x** number of people consuming \$4 to \$20 per day, from 1980 to 2010  
128 million households by 2020

### Ample room to improve access to finance

**94%** with no access to formal housing finance products

### Housing contributes to wealth

**50%** of all tangible assets in housing

# Dynamics in housing sector create opportunities but also face challenges

## Growing demand from countries and commitments for reform

### Growing slum population

**863 million** urban residents live in slums, and growing

### Growth of Cities

**1,393** cities of 500k+ population in 2030  
*564 cities in 1990*

### Growing middle class

**3 billion** consumers expected to join global middle class by 2030 bringing it to 5 billion

### Housing Needs

**96,150** housing units per day required through 2030

### Contribution to wealth

**50%** of tangible assets in housing

### Large impact on growth and employment

**5** jobs created per housing unit built

### Low & informal incomes

**74%** in low-income countries live on less than \$2 per day

### Ample room to improve access to finance

**93%** of adults have no access to formal housing finance

### Tenure Insecurity

**70%** of land in emerging economies unregistered

### High GHG impact

**19%** of the world's greenhouse gas emissions from buildings.  
*Housing represents 3/4 of all new buildings*

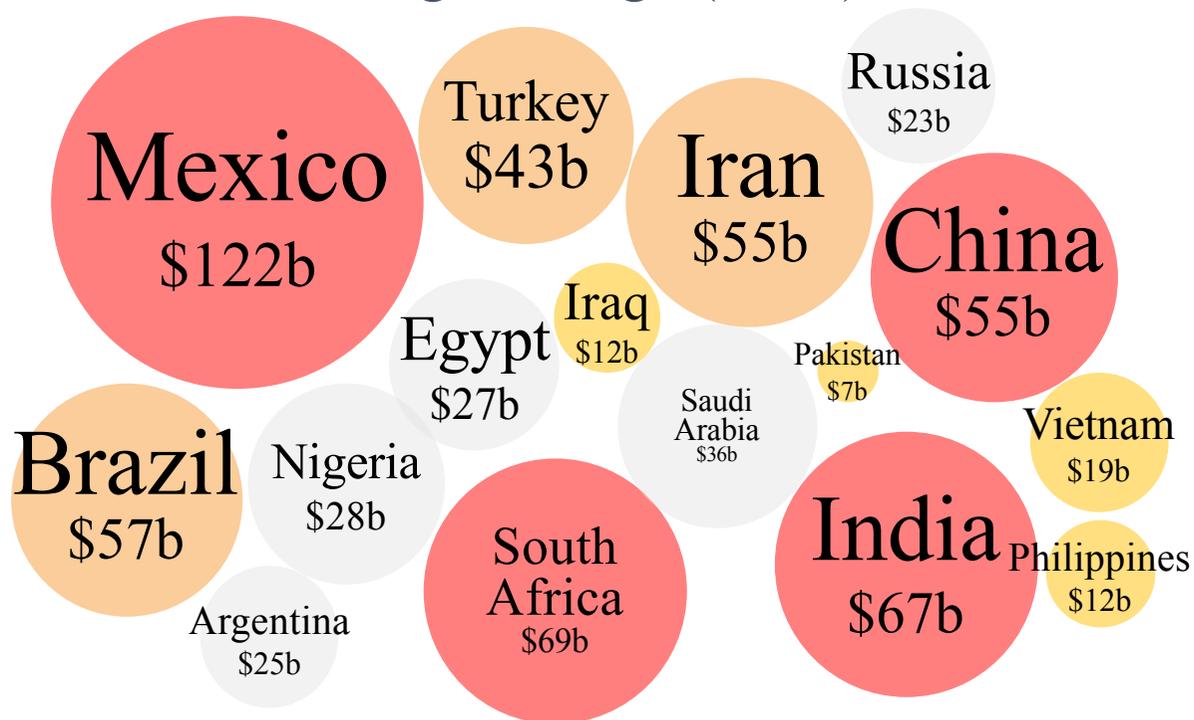
# Affordable Housing is a Global Economic Opportunity



Source: McKinsey Analysis

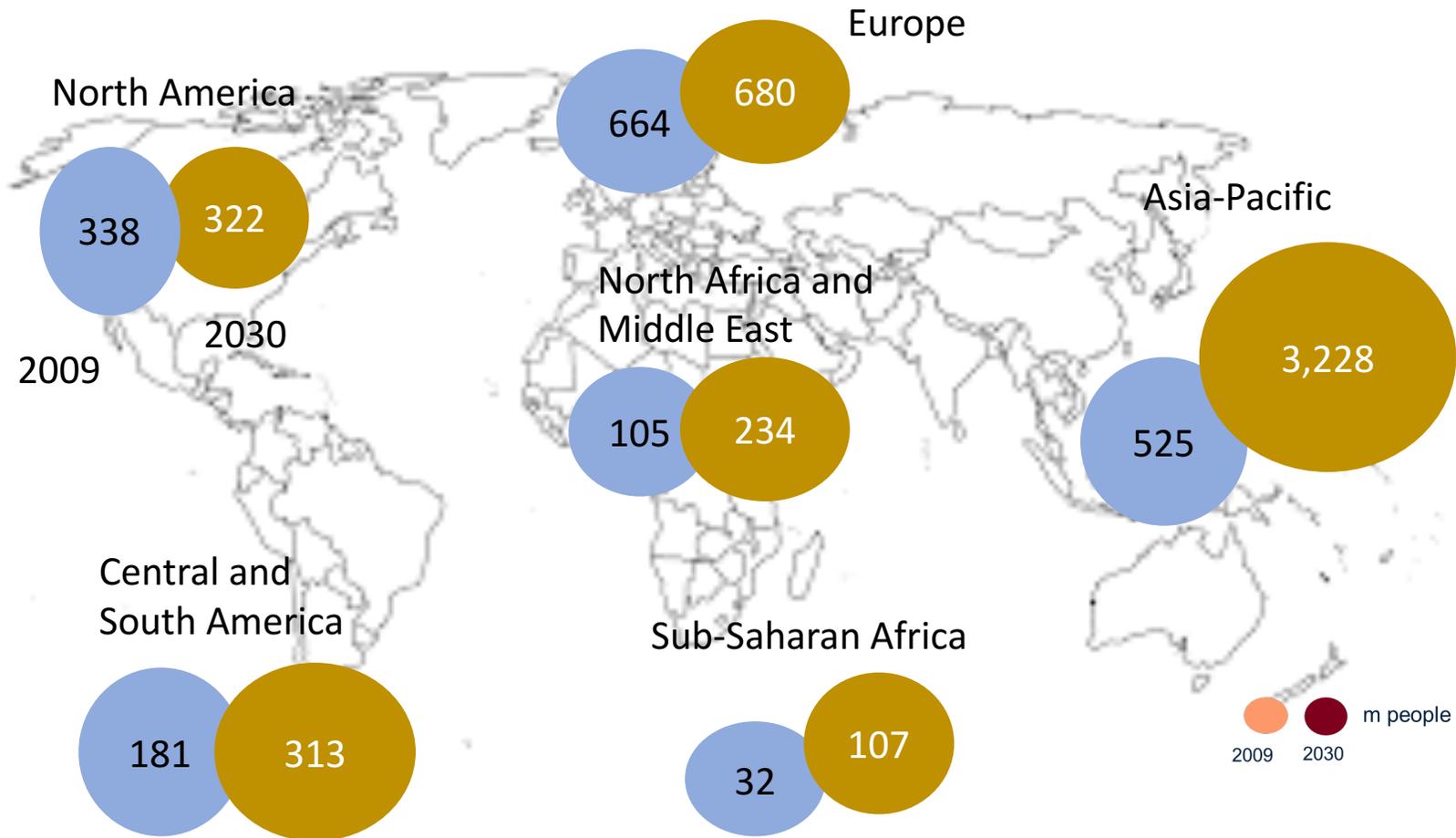
## Affordable housing: challenges and opportunities

### Value of accumulated affordable housing shortage (2012)



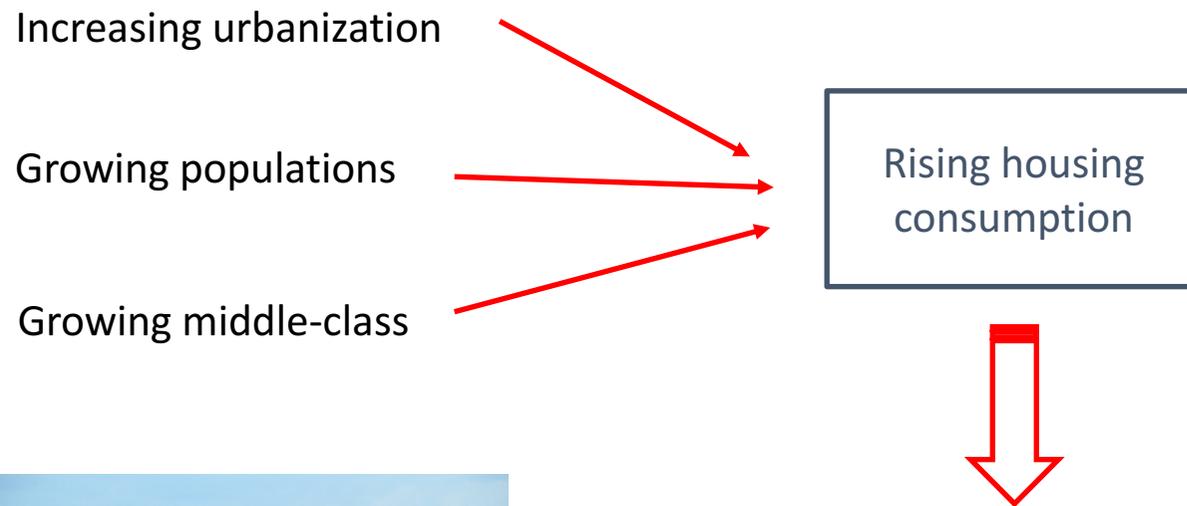
Top 16 markets account for ~35 million units, representing an effective and realizable formal market of \$600-700 billion

## Background – estimated growth of middle class, in mio. people (from 2009 to 2030)



Source: UN, World Bank, Brookings Institutions, FT

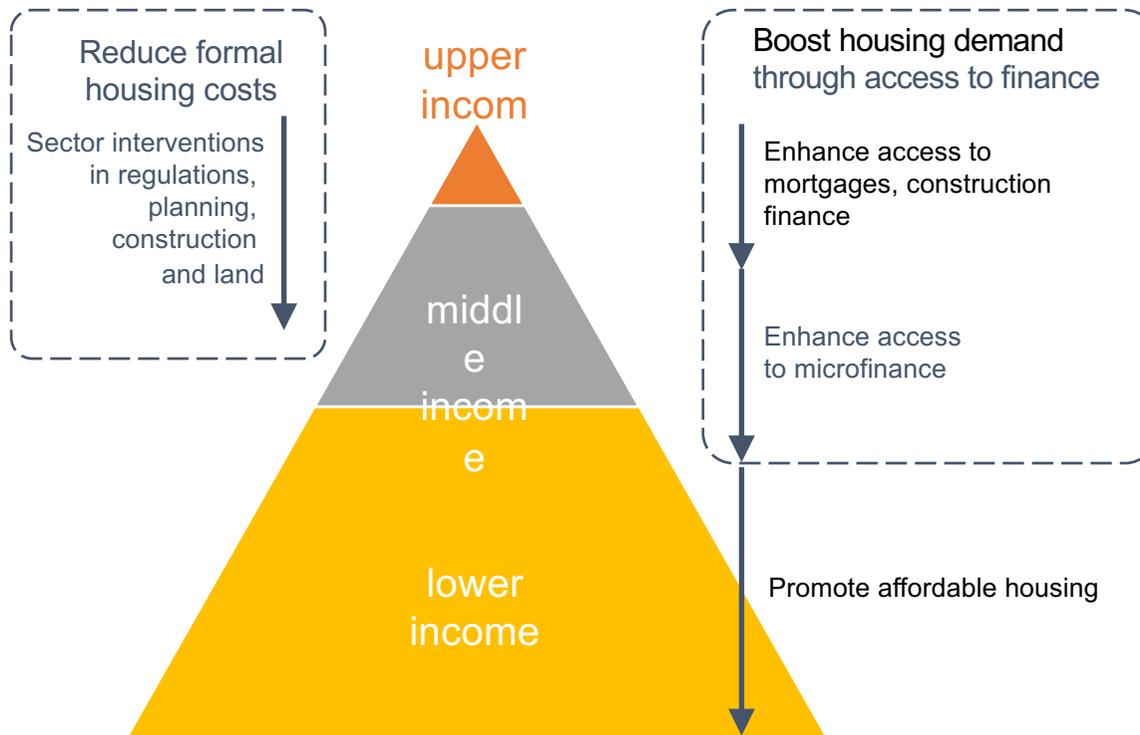
## The opportunity – current trends in housing finance



- More pollution and congestion in cities
- More green house gas emissions
- More disasters
- Rise in informal settlements

# The overall approach: reform and invest across housing value chain

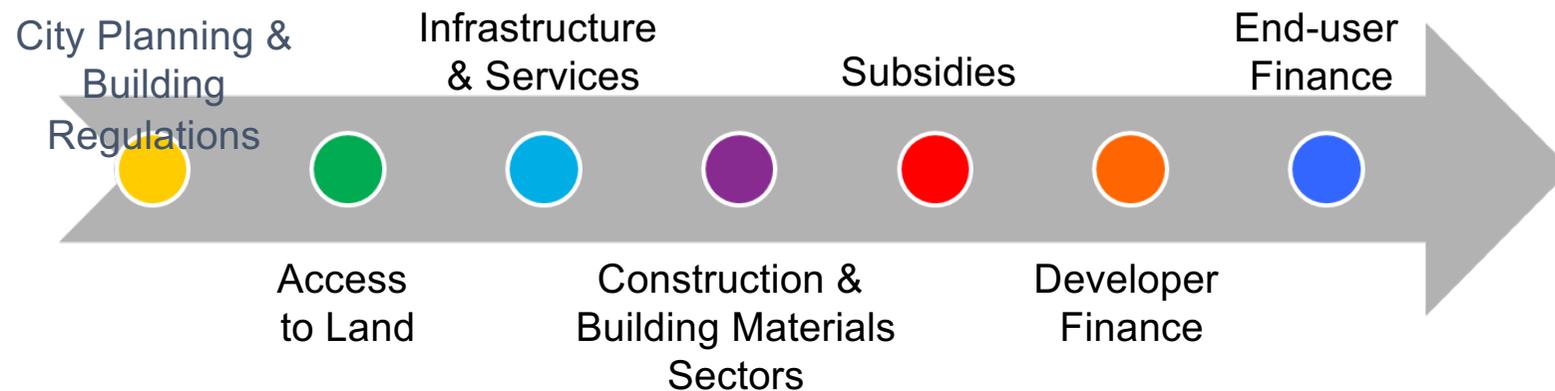
Vital to reform structures and catalyze markets to achieve goals



## Menu of WBG interventions

- 1 Improve city planning, building regulations, and access to land
- 2 Invest in basic pro-poor infrastructure and slum upgrading
- 3 Strengthen residential rental markets
- 4 Strengthen local construction & building materials sectors; support private housing development
- 5 Expand access to housing finance

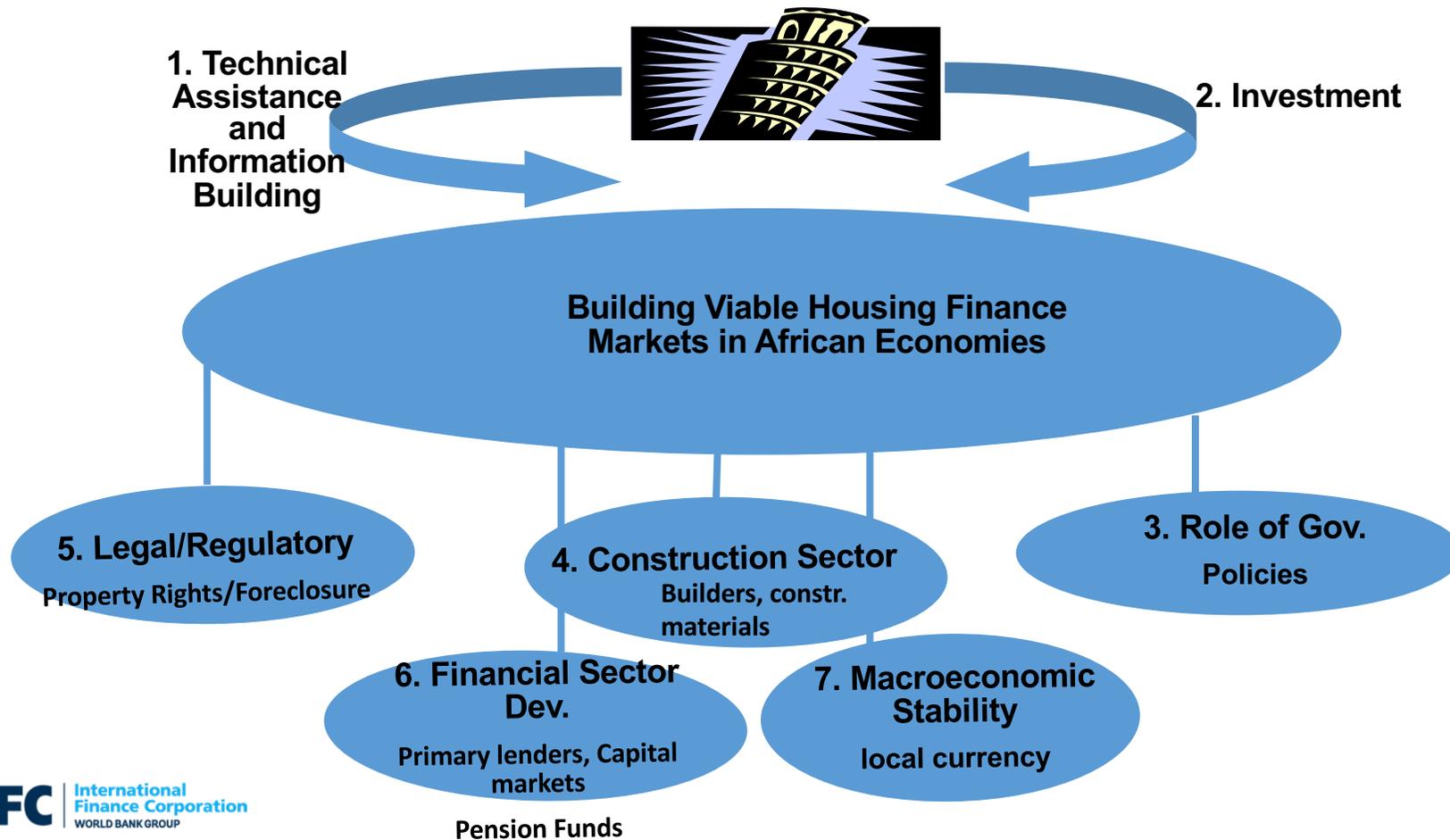
## A comprehensive value-chain approach



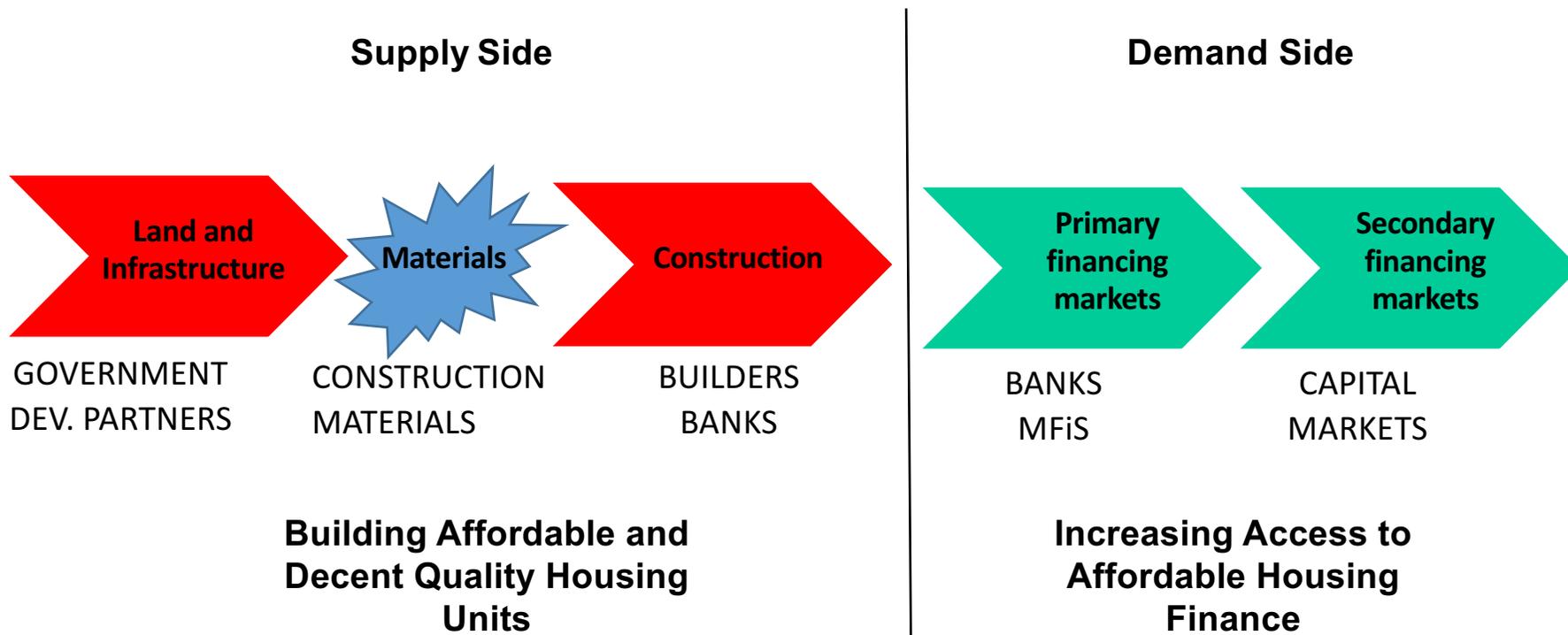
The WBG is uniquely positioned to reach across the value chain



# Housing Finance Programmatic Strategy Approach



# The Housing Value Chain



# COUNTRY HOUSING MARKET ASSESSMENT FRAMEWORK

# Supply and Demand analysis

## Housing Supply analysis

- Current housing production modes
- Current Housing volumes
- Cost Structure
- Construction material partners – Which countries is Lafarge working in?
- Market situation
- Near to medium term opportunities

# Supply and Demand analysis

## Housing Demand analysis

- Affordability - Household income data
  - How many households can make payment on a \$25k or \$35k unit
  - How many households can make payment on a micro loan for \$500 to \$3,500
  - Rental market data analysis
- Informal Construction market – Evaluate incremental construction market
  - Production modes & volumes
  - Cost Structure
  - Market Situation
  - Near to medium term opportunities

# Legal environment and Financing

- Housing legal environment
  - Analysis of title & mortgage registration: existence and adequacy
    - Doing business tables/updates
    - Local analyst reports
  - Assessment of Contract enforcement practices: courts
- Financing Capabilities and options
  - Map lenders: Active/Pipeline/Interested
  - Potential employers/development sponsors
  - Map MFIs with capital, larger client base, already doing Housing Microfinance
  - Assess potential pipeline investments (Equity, Debt)

# REMOVE HOUSING MARKET CONSTRAINTS

**Legal and Regulatory reforms**

**Market Structure Support**

**Financial Market Assistance**

# REMOVE HOUSING MARKET CONSTRAINTS

## Legal and Regulatory reforms

- Rationalizing the formalization process of customary rights to facilitate access to land
- Enhancing the capacity of the land administration, starting with the support of its computerization. In exchange for this assistance, registration charges could be lowered
- Enhancing title & mortgage registration processes: tenure, property and pledge registries automation and transparency
- Training the judiciary, and particularly the new commercial courts, to create awareness of the importance of a well-functioning mortgage enforcement mechanism.
- Enacting a Condominium and sectional title law to encourage multi-family homes
- Strengthen debt recovery and enforcement laws (foreclosure and eviction regulations on loans secured by real estate)

# REMOVE HOUSING MARKET CONSTRAINTS

## **Market Structure Support**

- Strengthen the developers' industry, including land developers
- Support the construction materials industry
- Organize Real Estate Agents around a federation
- Reinforce Appraisers valuation capabilities and standards
- Provide and publish databases of house sales prices, and valuations

# REMOVE HOUSING MARKET CONSTRAINTS

## **Financial Market Assistance**

- Structure guarantee schemes for the informal sector households
- Strengthen and encourage MFIs to enter the housing finance space
- Leverage regional bond issuance to build a yield curve to price against
- Work with the Central Bank to monitor the effective implementation of Basel1, and progress towards Basel2
- Support the reduction of capital requirements for mortgages
- Reinforce Banks' asset/liability management (ALM)
- Create enabling regulations for secondary markets

# Invest in construction, building materials & private housing development

- Lower the cost and price of affordable housing
- Scale up local industries, improve techniques
  - Builders in Nigeria and Kenya construct up to 350 units at time, compared to 2,000 to 5,000 in China, India, Mexico
  - Industrial production methods are faster, cheaper, higher quality
  - Invest in local builders, projects, team them with efficient international firms
  - **Climate change:** invest in low energy building materials & methods
- Support private developers and large scale housing projects
  - As scale increases, builders better able to move down market
- Reduce the cost of materials
  - Material costs are very high in Africa compared to China, India, Turkey or CIS: 35% premium on structural steel, up to 400% on cement
  - Invest in local producers to reduce supply & demand gaps, improve efficiency of local production
  - Huge impact for low income incremental self-builders



## Current IFC Partners



中信建设有限责任公司  
CITIC CONSTRUCTION CO., LTD.



**SHELTER AFRIQUE**  
Financing Affordable Housing for Africa



# Expand Access to Housing Finance

## ■ Make mortgage markets affordable

- WB improves the legal & regulatory framework
- IFC provides refinancing to banks (Kenya, Rwanda, Uganda)
- IFC invests equity in new lenders
- Advisory services (ex: IFC mortgage toolkit)
- Climate change: financing for energy efficiency housing (EDGE)

## ■ Expand Housing Microfinance

- Small loans for home improvement and self-construction: potential scaling up through MFIs, savings cooperatives
- IFC investments, Advisory Services (e.g., MoU with Lafarge)
- WB support to HMF Funds, regulatory reforms

## ■ Expand capital markets

- WB supports liquidity facilities which issue bonds (Nigeria, Tanz.)
- IFC Treasury supports bond markets with local currency issues
- Future: risk-sharing guarantees, enhancement to private bonds

## ■ Other solutions for informal/lower income HH

- Rental finance, credit risk sharing, contractual savings, rent-to-buy

## ■ Refocus government interventions

- Restructure failing housing banks / funds / agencies
- Consolidate a few successes (BHS Senegal, NHC Tanzania)
- Support appropriate and targeted subsidy policies

## Current WBG Partners



## Examples of how IFC helped lenders to grow in sustainable and profitable manner



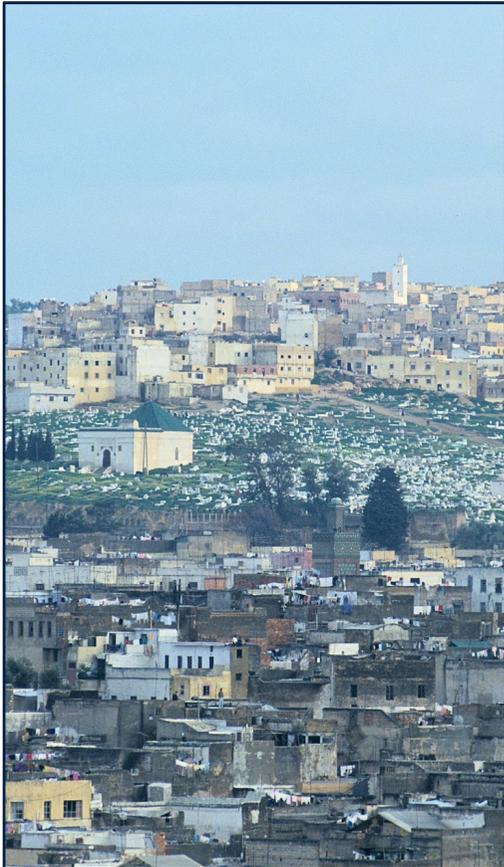
- Afghanistan
- Morocco
- India
- Albania

## First Microfinance Bank of Afghanistan – features of housing loan product

- **Loan Amount:** \$200 - \$4000
- **Loan Duration:** 6 to 24 Months
- **Interest Rate:** 2.08% per month, declining
- **Product Eligibility:**
  - Businessman/women – employees



## Morocco: another example of successful WBG interventions



- ✓ Released public **land**
- ✓ Unified building code, relaxed planning **regulations**
- ✓ Modernized **rental** law (to reduce vacancies)
- ✓ **Incentivized private developers** into affordable housing
- ✓ **Boosted retail mortgage markets:** competitive, affordable
- ✓ **Public guarantee fund:** >100,000 informal income households have accessed residential mortgage finance
- ✓ **Micro-finance** institutions authorized to lend for housing
- ✓ **Slum upgrading** program (VSB), financed with a tax on cement, including cost sharing and city contracts

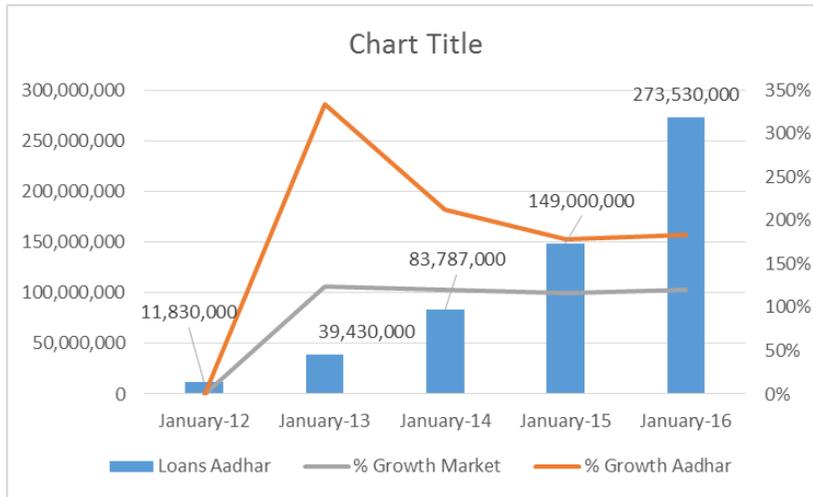
## Aadhar Housing Finance Company, India. A leader in advancing access of affordable segment to housing



Source: Aadhar

- Aadhar Housing Finance Ltd. is specialized housing finance lender
- Focus on customers with low salaries or self-employed with informal incomes
- Focus on business operations in poorer states of India

**Aadhar has outperformed market since start of its business operations in 2010 due to specialization on affordable segment and rigorous underwriting and servicing process**



	Aadhar	Market
CAGR	184%	120%
ROE	15%	21%
Gross NPA	0.50%	0.73%

Performance comparison FY 2016

- Aadhar operates in 13 states and serves about 29,000 customers
- Loan portfolio outstanding (03/2016): \$273.5m
- Average loan size is \$13,380
- Customers earn between \$900 - \$3,600 annually.

## IFC initiated market for energy efficiency (EE) loans in Albania

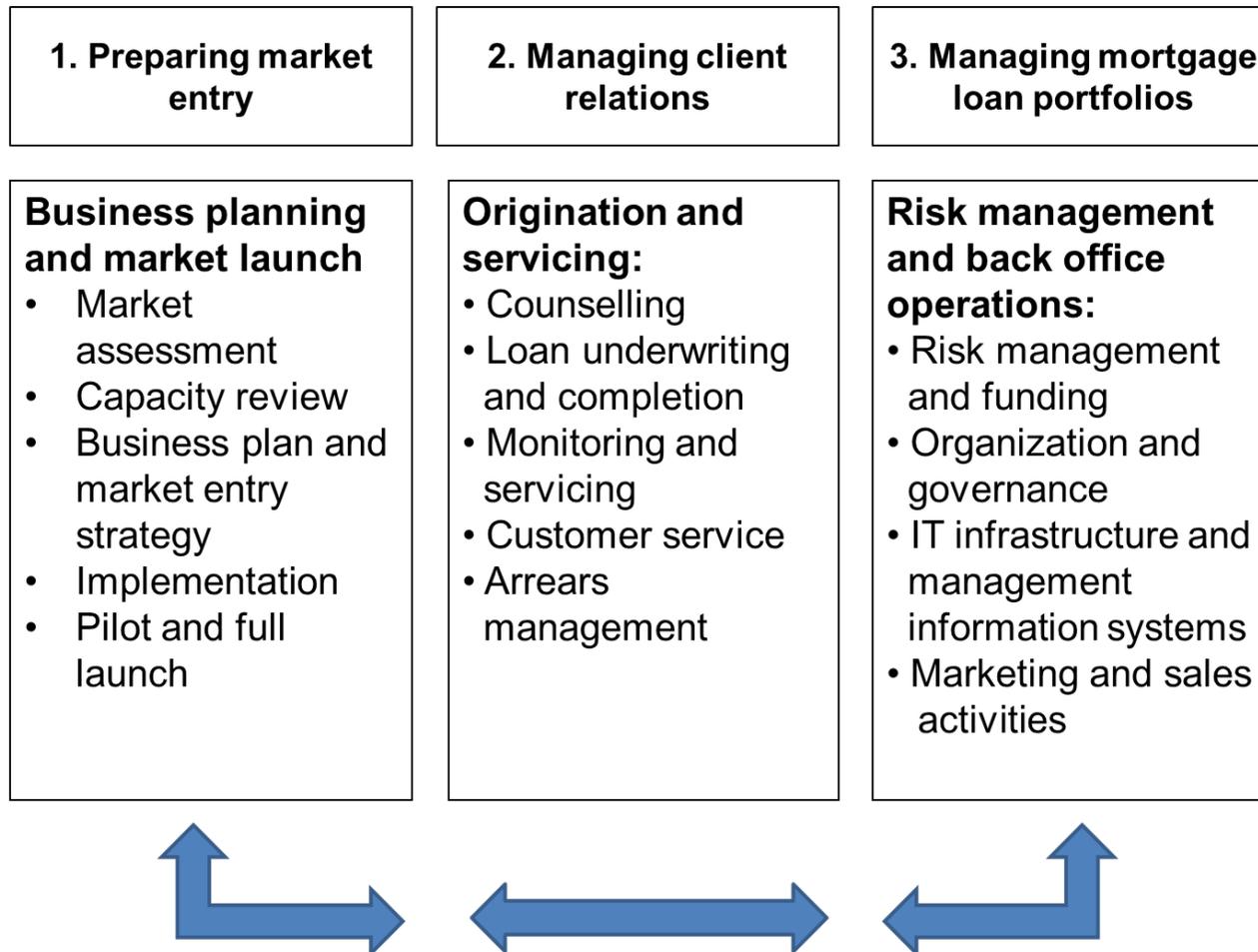
- 2 Microfinance Institutions and 2 banks joined the program
- Continuous adherence to loan standards has contributed to low non-performing loan ratios (NPL): 1.6% for EE loans versus 8% for consumer loans
- Surge in demand for EE loans: 4,900 loans worth \$20m (June 2015)



## Annex – Tools IFC Advisory Services



## IFC's Global Mortgage Toolkit: focus on all areas of the value lending chain in housing finance



## IFC's Housing Microfinance (HMF) Toolkit – guide for product development and operations



### Structure of HMF Toolkit:

- Market assessment plan
- Strategy formulation and business plan preparation
- Product (including shariah-compliant HMF products)
- Sales and outreach
- Processing and servicing of HMF loans
- Construction technical assistance program
- Risk management and funding
- Training programs for staff and managers

## Conclusion: Housing and Housing Finance in Africa offers numerous opportunities for investment



Source: Charlottine's Pics

- Current conditions in many emerging markets create unrivalled opportunities
- This is good for households, construction industry, financial sector and economy
- Housing finance is long-term commitment & enabling environment is key
- Critical is mix of investment and advisory services to achieve sustainable operations and increase affordability

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