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MAKING HOUSING FINANCE MARKETS WORK IN AFRICA

FUNDING CHALLENGES AND POTENTIAL

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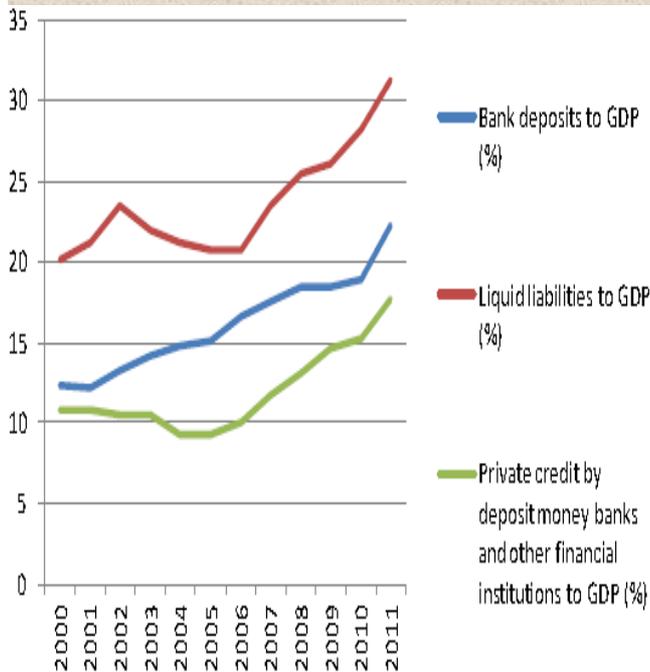
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Long term Finance is of the Essence for Housing Investment

- On the demand side:
 - well known affordability impact of long tenors– repayment of a 20 year , 13% mortgage equivalent to a 7 year ,0% loan
 - But assets/liabilities issues
 - Especially for fixed rate lending, more appropriate for households with not enough income to cushion interest rate hikes
- On the supply side: similar needs and affordability impact, but often overlooked
 - Conducting land acquisition, legal regularization of property rights and creation of infrastructure only at the time of housing developments = land speculation, legal uncertainty, infrastructure cost charged to buyers
 - → need to anticipate urban expansion by a few years
 - Strongly constrained capacity if only funded on public budgets
 - Rental sector: leverage needed, but short term debt results in unaffordable rents

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A Widespread Situation in SSA Banking: Large Liquidity Small Credit



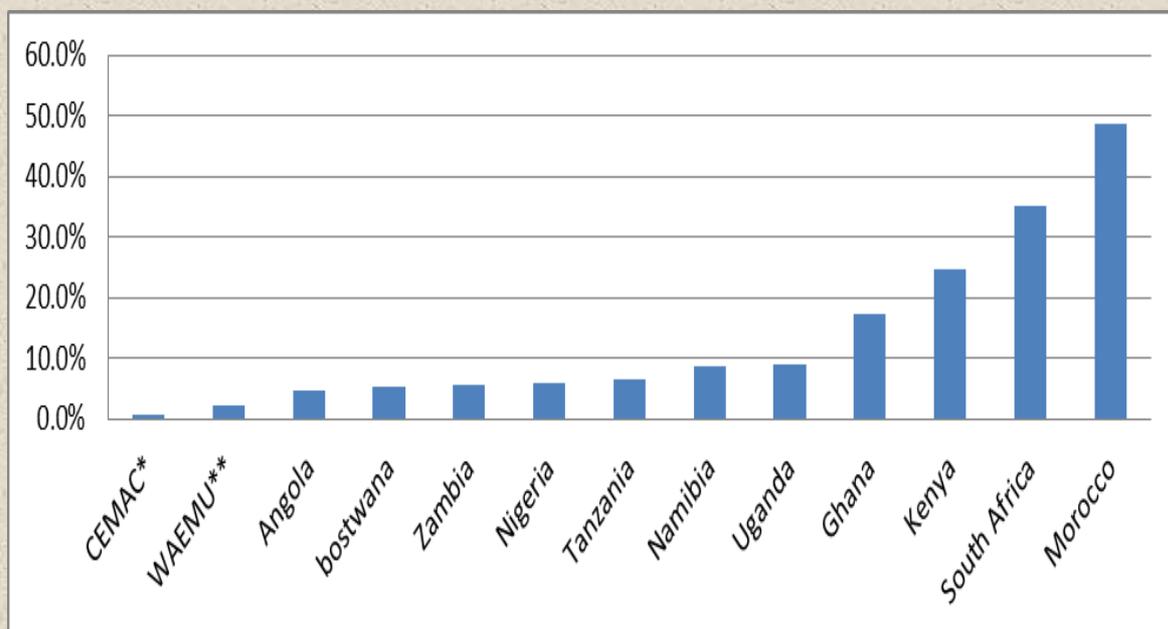
- over 17 million depositors in 2010 hardly more than 5 million borrowers .
- credit to the private sector remains shallow: around 30% of GDP in 2013
- loans-to-deposit ratios are low (below 80%) in many countries .
- Long term lending is often very limited – e.g. around 4% of bank credit in the WAEMU and CEMAC Sub-regions

Source : WB Development Indicators, Financial Sector Development in Africa (2013)

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Bond Markets, an indirect or direct finance source, are still little developed

Bond Markets as % of GDP - Sources: African Market Initiative, * CONSUMAF **CREPMEF



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Options to consider / intervention opportunities

- If strong enough bond market:
 - Mortgage refinancing facilities (see WAEMU, Tanzania, Egypt, Nigeria)
 - At a higher development level: direct funding instruments. Securitization - RSA (little use since 2009)-, limited experience in Morocco and Tunisia-, emergence of covered bonds (Morocco, RSA)
- If not: consider dedicated liquidity management schemes to comfort deposit based funding
- Consider developing secured Infrastructure (revenue) bonds
 - Conditions: transparency, credibility and credit enhancement
 - May attract foreign investors if stable context and donors' support
- State sponsored institutions to finance urban infrastructure while alleviating public budgets burden
 - infrastructure banks in Nigeria and RSA
 - Spreading Caisses des Dépôts model – largest FI in Morocco, too early to assess impact of more recent cases (Senegal, Tunisia, Gabon, Mauritania)
- Financing rental remains a challenge
 - Need of balance legal framework, tax incentives
 - Little success of REITs for residential properties

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Long Term Debt does not cover all the Needs

2 high impact potential developments

- Demand side: develop microfinance for housing
 - Main option for large population segments (very low income, informal households, rural areas)
 - MFH little developed in comparison with other regions (South-East Asia, Latin America)
 - Strong potential: partnerships with formal FIs, cooperatives, local builders
- Supply side: develop equity instruments
 - Correlation high prices and small sizes of developers (weak developer industry) / of developments
 - Lack of equity =a major roadblock , both for developers and projects
 - Strong prerequisites (e.g. legal, expertise, transparency)

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