

**RENTAL HOUSING:  
ADDRESSING THE CHALLENGES OF  
DELIVERY IN NIGERIA**

**AFRICAN UNION FOR HOUSING  
FINANCE**

**BEN OKUZU: PARTNER, BP PARTNERS**

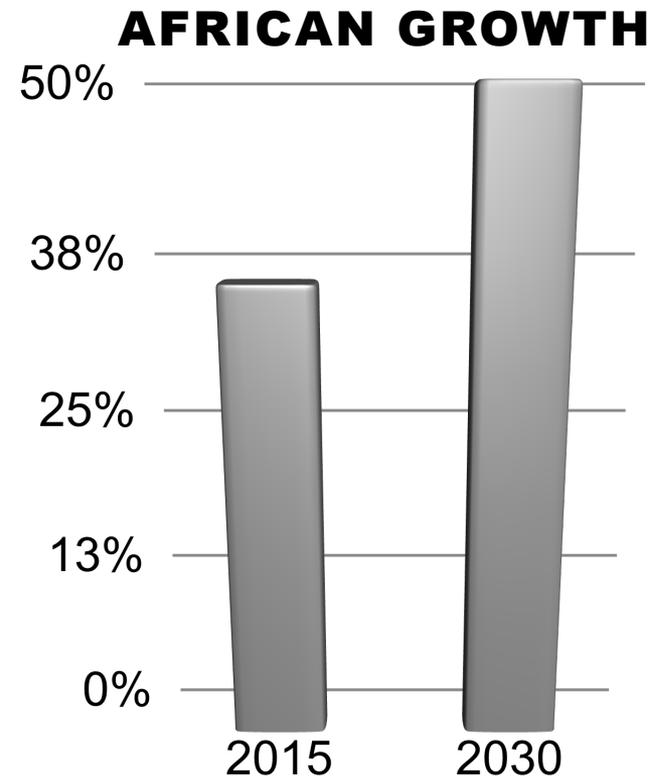
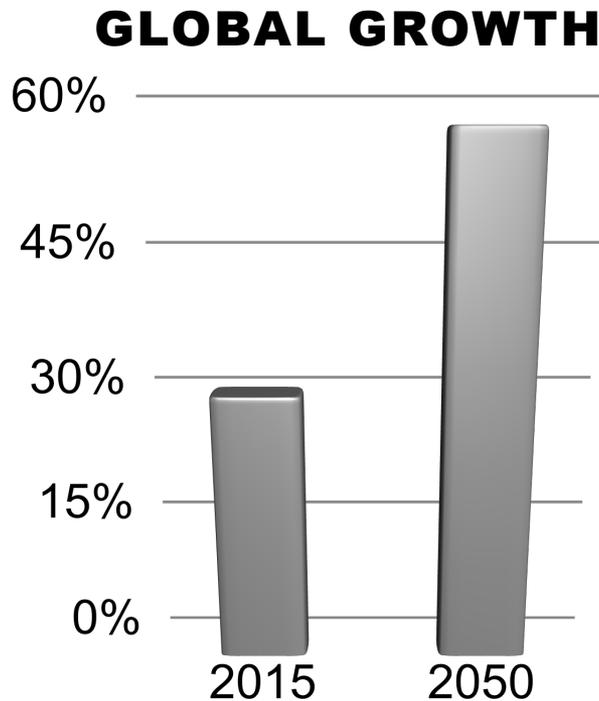
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# **INTRODUCTION**

- ◆ **Rental housing is often left out of housing conversation especially at policy level**
- ◆ **17 Million-unit deficit in Nigeria. Deficit is not all ownership driven, but policy narrative would suggest otherwise**
- ◆ **Lack of rental housing policy**
- ◆ **Rapid rate of urbanization resulting in severe housing shortage in urban centers**

## **URBANIZATION AND EFFECTS ON HOUSING**

Urban housing shortages are not unique to Africa. In fact, it is a problem that persists globally because of the rate at which the world is urbanizing.



Source: AfDB

# THE RENTAL HOUSING MARKET

- ◆ **Urban environments world wide have a high proportion of renters (NYC: 26% home ownership rate against a national average of 64%)**
- ◆ **46% of Nigerians live in urban centers and 85% are in rented accommodation**
- ◆ **UN Habitat:**
  - ❖ ***Tenants by Choice:*** Those who choose to rent for reasons of mobility or temporary residence
  - ❖ ***Tenants by Constraint:*** Those who do not have the means to own their home. This second category makes up the majority of urban dwellers.
- ◆ **High Demand For Rental Housing:**
  - ❖ The number of urban households seeking rental accommodation will continue to grow in the face of home prices increasingly out of the reach of the average Nigerian urban dweller.

# THE RENTAL HOUSING MARKET (CONT.)

With such high demand, why is the market not producing rental housing? The answer lies in understanding the dynamics of the housing market in Nigeria.

## THE SUPPLY METHOD:

- ◆ ***Formal delivery***
  - ❖ Structured to drive scale
- ◆ ***Informal delivery***
  - ❖ Haphazard
  - ❖ Supply in Nigeria is mostly informal.

# **THE RENTAL HOUSING MARKET (CONT.)**

## **MARKET FUNDAMENTALS**

- ◆ ***Prevailing Rents and Effects On Supply***
  - ❖ Rents are insufficient to drive widespread investment in rental property by individuals
- ◆ ***Financing***
  - ❖ High interest rates, short tenors, and the absence of multi-family mortgages
  - ❖ Banks reluctant to provide multi-family mortgages. Tend to favor transactions with short turnaround time
- ◆ ***Equity Investments***
  - ❖ Conventional financing in Nigeria requires equity investments that range from 30% to 50%

## **ADDRESSING THE ISSUES**

### **SUPPLY**

- ◆ **Shift from informal to formal methods of delivery**
- ◆ **Government support for alternative funding structures for market driven production for the middle income group**
- ◆ **Government subsidies for social housing for low income group**

# **ADDRESSING THE ISSUES**

## **(CONT.)**

### **FINANCING**

- ◆ **Banks should offer multi-family mortgages for rental developments**
- ◆ **Expand the role of Federal Mortgage Bank to include multi-family mortgages**
- ◆ **Pension capital (N5.4 trillion) can invest in revenue bonds to fund rental housing**

# **ADDRESSING THE ISSUES**

## **(CONT.)**

### **EQUITY INVESTMENTS**

- ◆ **Use Tax credits (Remission) to fund equity in rental development**
  - ❖ Enables government to leverage future tax collection
  - ❖ Used extensively in the US
  - ❖ Used for the first time in Nigeria on a recent PPP project. Government has indicated its willingness to consider similar arrangements

# **RENT-TO-OWN (RTO)**

- ◆ **RTO is being considered a gateway to home ownership**
- ◆ **Limited in its ability to address home ownership for 2 reasons:**
  1. Who bears the financing costs during the rental period?
  2. Are prevailing rents sufficient to support debt service?

# **CONCLUSION**

- ◆ **Market fundamentals are producing strong headwinds for rental housing production**
- ◆ **South Africa provides an example of successful rental housing delivery**
- ◆ **Housing, particularly rental housing should be classified as infrastructure.**

**Wikipedia provides an interesting definition of infrastructure as** *“The physical components of interrelated systems providing commodities and services essential to enable, sustain, or enhance societal living conditions.”*

**THANK YOU**