



Growing Housing Opportunities in Africa

Encouraging Investment – Growing the Market

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Content

- 1. Affordable Housing – A Global Opportunity**
- 2. Reaching Down to Lower Income**

Importance of Housing Finance

To create jobs



- Investments in HF directly generate thousands of jobs
- Indirect jobs and economic output created through linkages to land markets, construction and building materials industries

To respond to urbanisation & demographics



- Meet the growing housing demand (more than 50% of SSA population will be urban by 2025)
- Prevent slum proliferation and promote orderly urban development: “cities are built the way they are financed” (B. Renaud)

To deepen financial sector



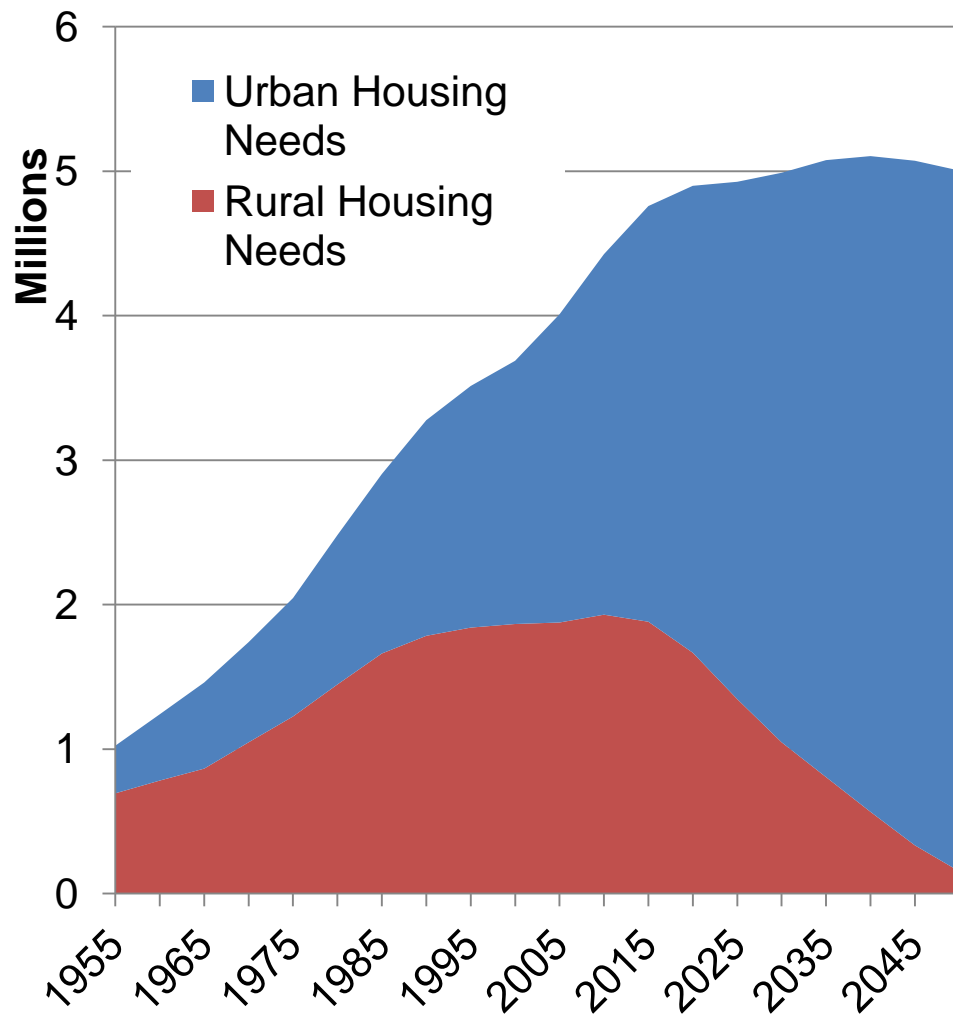
- Develop and deepen regional capital market (diversify investment opportunities, extend yield curve)
- Leverage assets from institutional investors (pension funds, insurance) towards housing investment needs
- Improve access and cost

To improve affordability



- Increase range of products for low income groups
- Make sector more efficient through capacity building and competition
- Bring down interest rates through better risk management and greater efficiency

Meeting Africa's Housing Needs



- Housing need currently around 4m houses a year
- Over 60% needed in urban areas
- Housing need will rise to 5 million a year, almost entirely in cities.
- This reflects, new housing needs and not existing back-log or stock depreciation

Affordable Housing is a Global Economic Opportunity

Value of affordable housing shortage, 2012
\$ Billions

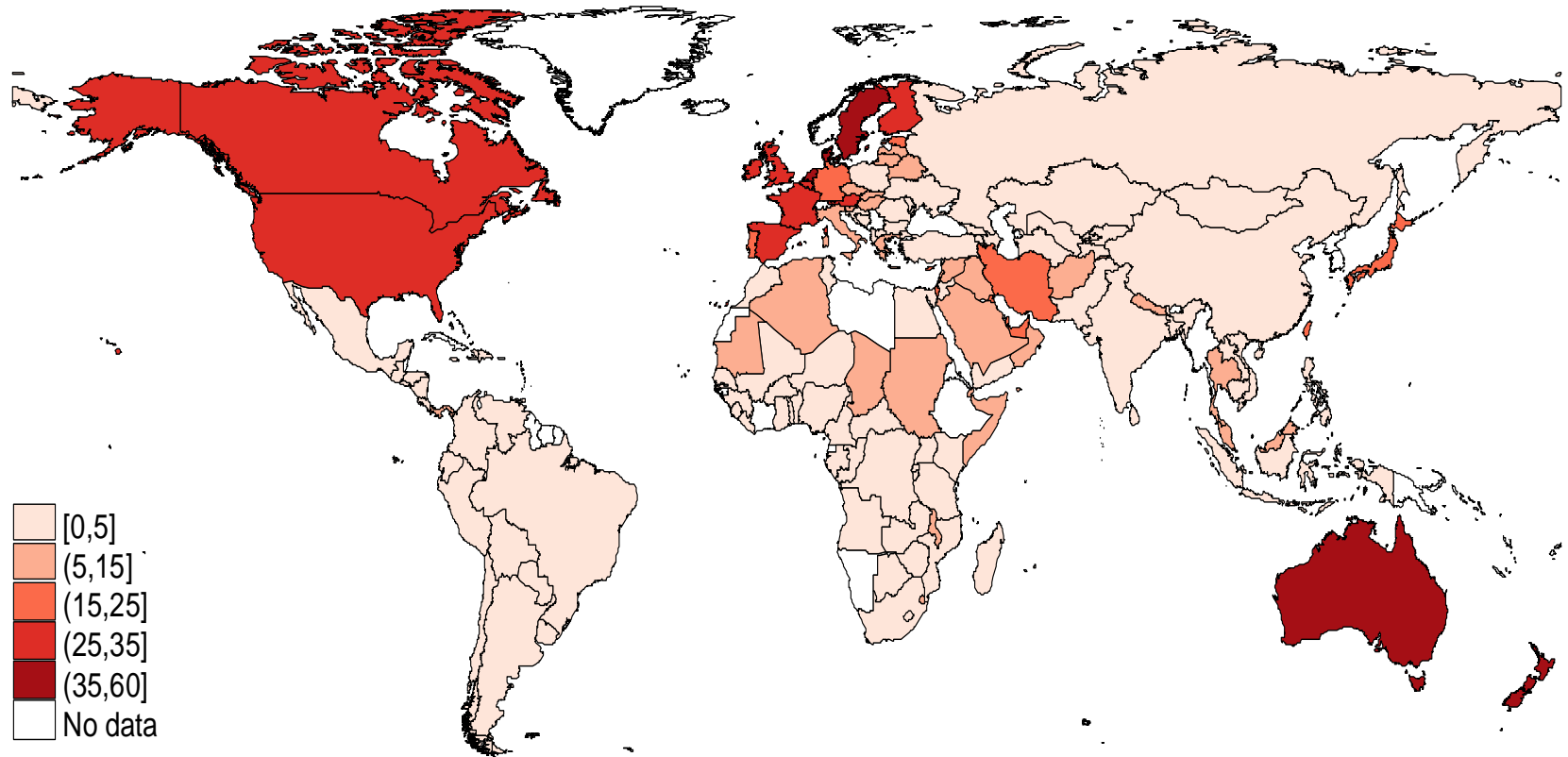
- High Shortage and market attractiveness
- Developed market, redevelopment opportunity
- Other emerging market opportunity



Source: McKinsey Analysis

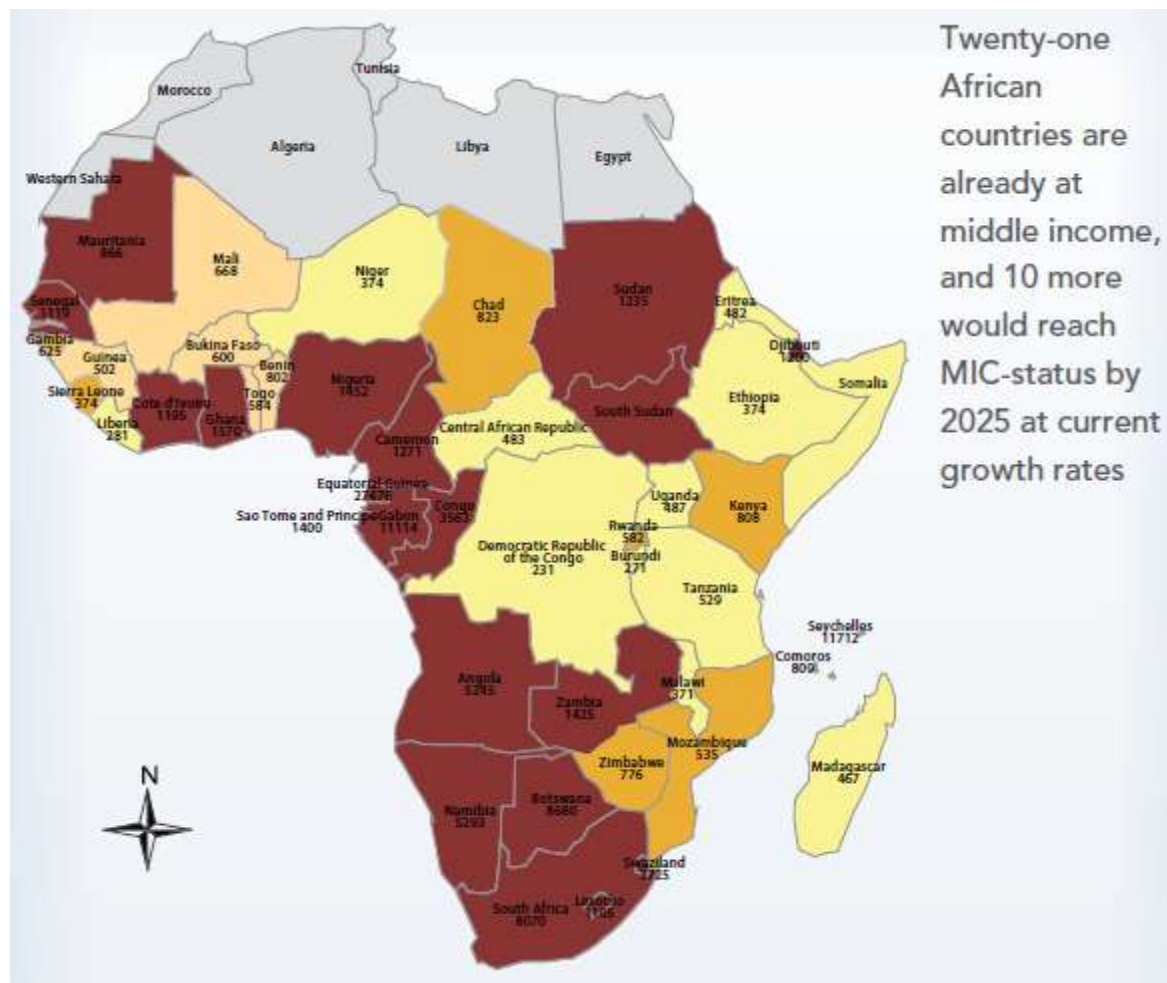
Housing Finance Global Penetration Levels – A Financial Opportunity

Has a Loan to Purchase Home/Apartment (% adults)



Source: *The Global Findex Financial Inclusion Survey 2012*

Africa's Rise to Middle Income – A Financial Opportunity



Source: Africa's Pulse, World Bank, October 2012

Affordable Housing - an Cross Sector Opportunity

Impact of Construction of 2 million affordable homes in India

Employment



- Direct employment for 3 million people
- Indirect employment for 24¹ million people leading to an income increase of \$ 25 billion (equivalent to ~ 2% nominal GDP)

Cement



- Creates a demand for 16 million tons (9% over current demand)

Steel



- Creates a demand for 6 million tons (10% of current demand)

Miscellaneous goods and services



- Plumbing demand of \$1.1 billion
- Electrical equipment demand of \$0.7 billion
- Paint demand of \$0.5 billion
- Wood demand of \$0.2 billion

Credit off take

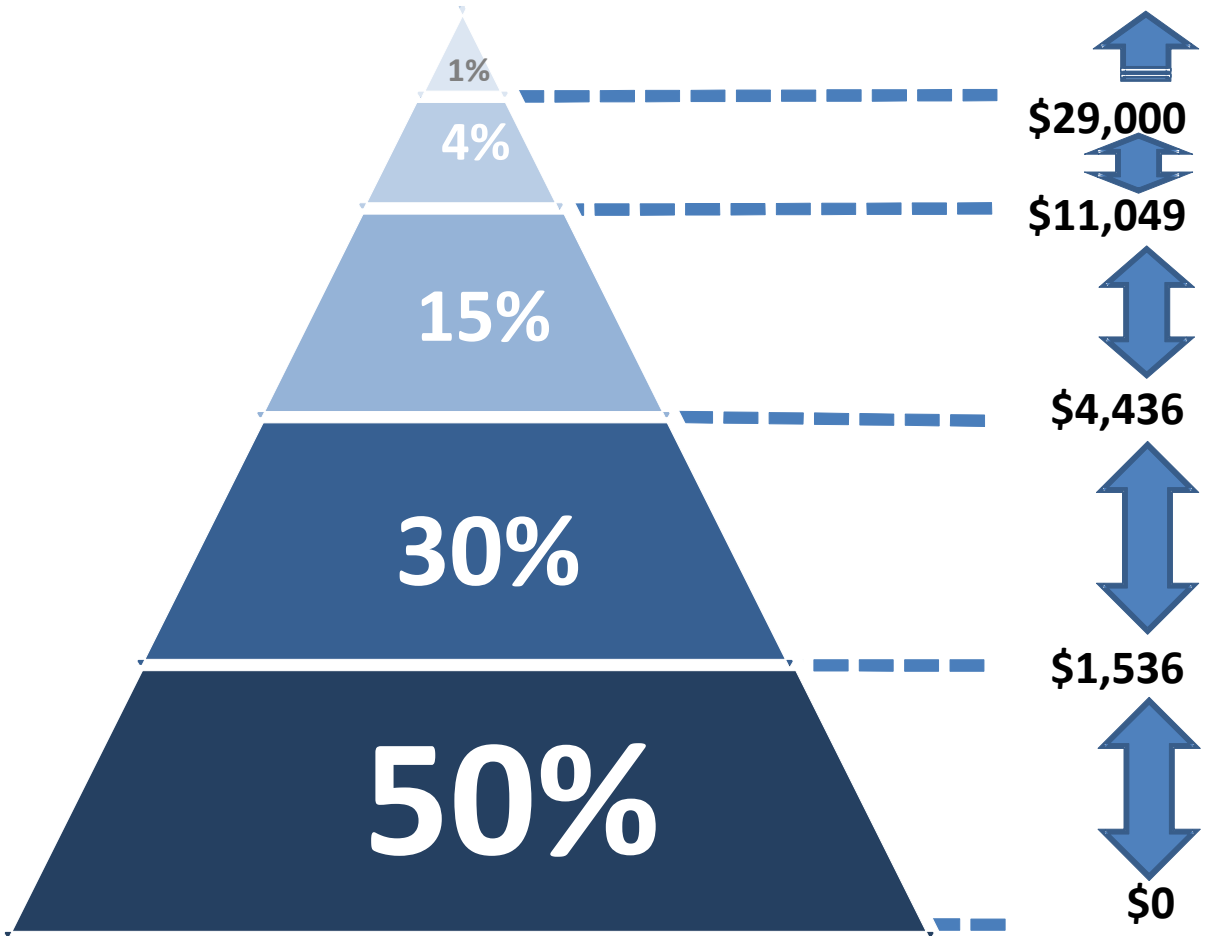


- \$17 billion in loans (15% of annual disbursements)

¹ Using a multiplier of 8 sourced from Press Information Bureau release on National Conference of Ministers of Housing/Urban development, dated Jan 19, 2009

Source: McKinsey Analysis

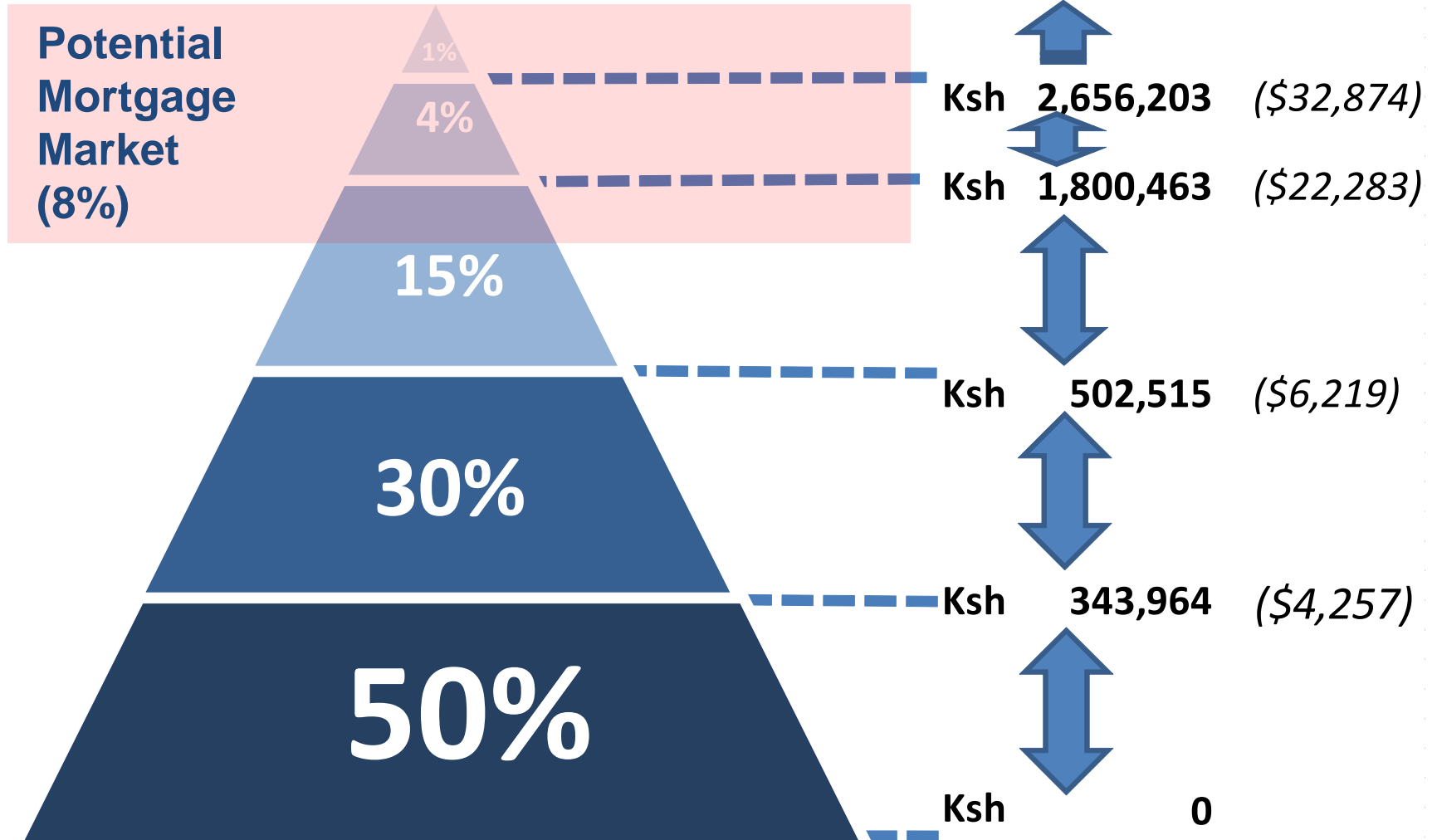
Lack of HF options – Access to housing finance in Sub-Saharan Africa



Housing income distribution in Africa

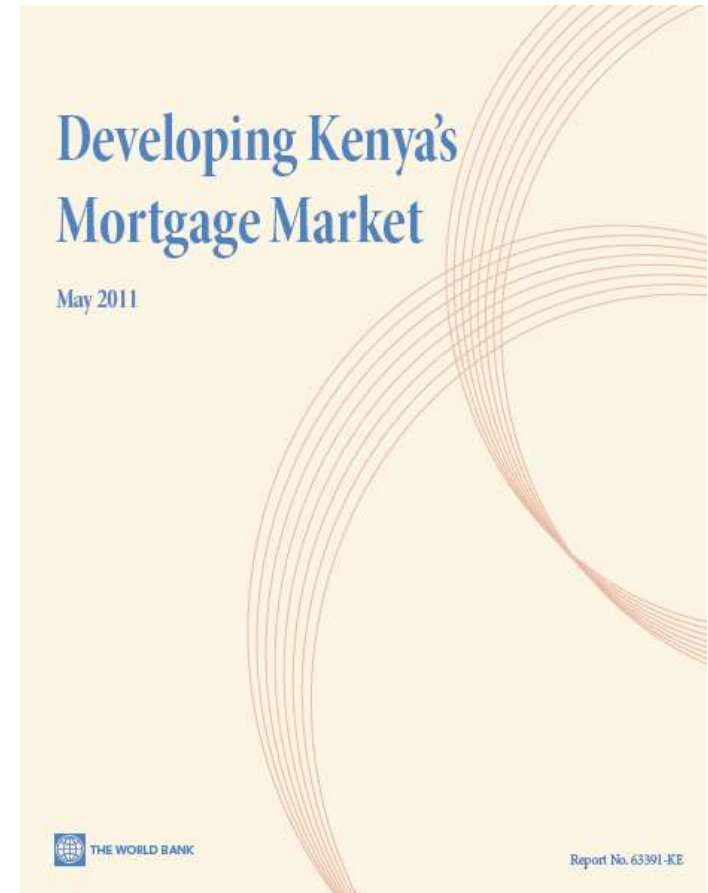
- 3% of the population has income level to qualify for a mortgage
- Typically, interest rate is 15% for housing loan
- How could we move downward?

Affordability – Kenyan Urban Income Distribution



Financial Sector Opportunity – Kenyan Example

- In Urban areas just 8% of the population could afford a mortgage product.
- Represents around 1.4 million people or 250,000 households
- Potential mortgage market therefore around Ksh 800 billion or \$9.9billion



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World Bank Housing Finance Strategic Objectives

Building Housing Finance Markets

- To create the necessary conditions for the development of a sustainable, secure, efficient and market based housing finance system.

Funding for Housing Finance

- To create mechanisms allowing lenders to raise long term resources to promote the development of term lending in local currency with the ability to manage funding risks.

Housing Finance for the Poor

- To help create the products, systems and institutions necessary to support increased access to housing finance.

Affordable Housing Supply

- To create the enabling environment for more affordable housing to be produced by tackling barriers to the construction of housing accessible to lower income groups.

Housing Finance Crisis Response

- To limit the long term economic and social damage by advising on policy solutions addressing the needs of governments, households and the financial sector.

Tanzania Housing Finance Project

To expand access to affordable housing finance under market based conditions for the purchase, construction or upgrading of housing.

OBJECTIVE

To improve access to long-term housing mortgage finance, progressively mobilized through the domestic capital market

To develop access to medium-term housing micro-finance

To expand the supply of affordable housing by private developers

PROJECT COMPONENTS



1 - Development of the Mortgage Market



2 - Development of Housing Microfinance



3 - Expansion of affordable housing supply

Indexation

- **Major issues with CPI indexation/Dual Index Mortgages,**

- riskier loan products for lenders
- Consumer Protection issues
- Implementation issues

- **Consider Graduated Payment Mortgage**

- Gradually rising payments (2% per annum)
- Avoid negative amortization
- Can lead to 10%+ improvement in affordability

Other ways of tackling High Interest Rates

- **Greater Efficiency – economies of scale**
- **Blend cheap deposits with longer term funds**
- **Use Saving for Housing Product to increase deposit → Lower risk**
- **Design products with some bullet repayments based around bonuses**
- **Don't put it all on the bankers -**
 - Also need cheaper affordable housing
 - Smaller units/multi storey units

Other ways to assist lower income households

- **Housing Microfinance**
 - **For home improvement**
 - **Home ownership (Equity Bank in Kenya)**
 - **For Landlords**
- **Islamic products – eg Ijara can bypass whole process of registering mortgage (Trust Deed in Brazil)**
- **Rental Housing**
- **Subsidy schemes which work with market**

Housing Finance for the Poor (HF4P)

Creating Opportunity

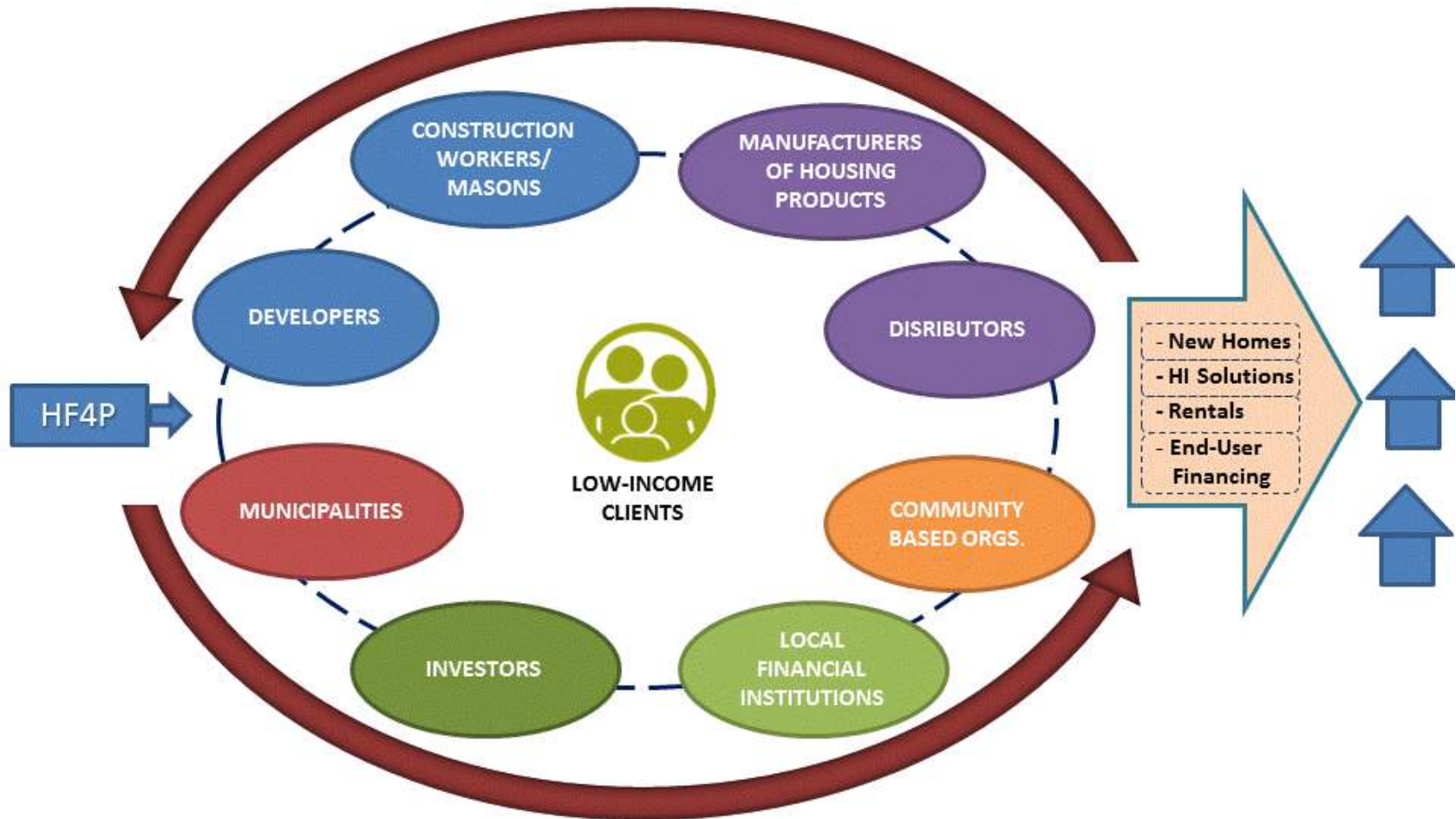
Objective

The aim of HF4P is to **expand the current housing production and finance frontier of market-based housing solutions down the income distribution in emerging economies**

Concept

- The HF4P is envisioned as a multi-donor fund of USD30- 35M targeting middle and low-income households in LICs and MICs, providing a level of funding going beyond the current limited trust fund intervention but smaller than a typical World Bank investment loan
- Longer term than current available Trust Fund resources – 3-5 years
- Mix of Technical Assistance, Capacity Building Policy work and implementation
- Focused on innovative and sustainable pilot projects that demonstrate scale-up potential
- Bridges the gap between financial sector and the housing sector by bringing together real estate developers, financial institutions and local/national government.

How HF4P Catalyzes Stakeholders and Affordable Housing Markets

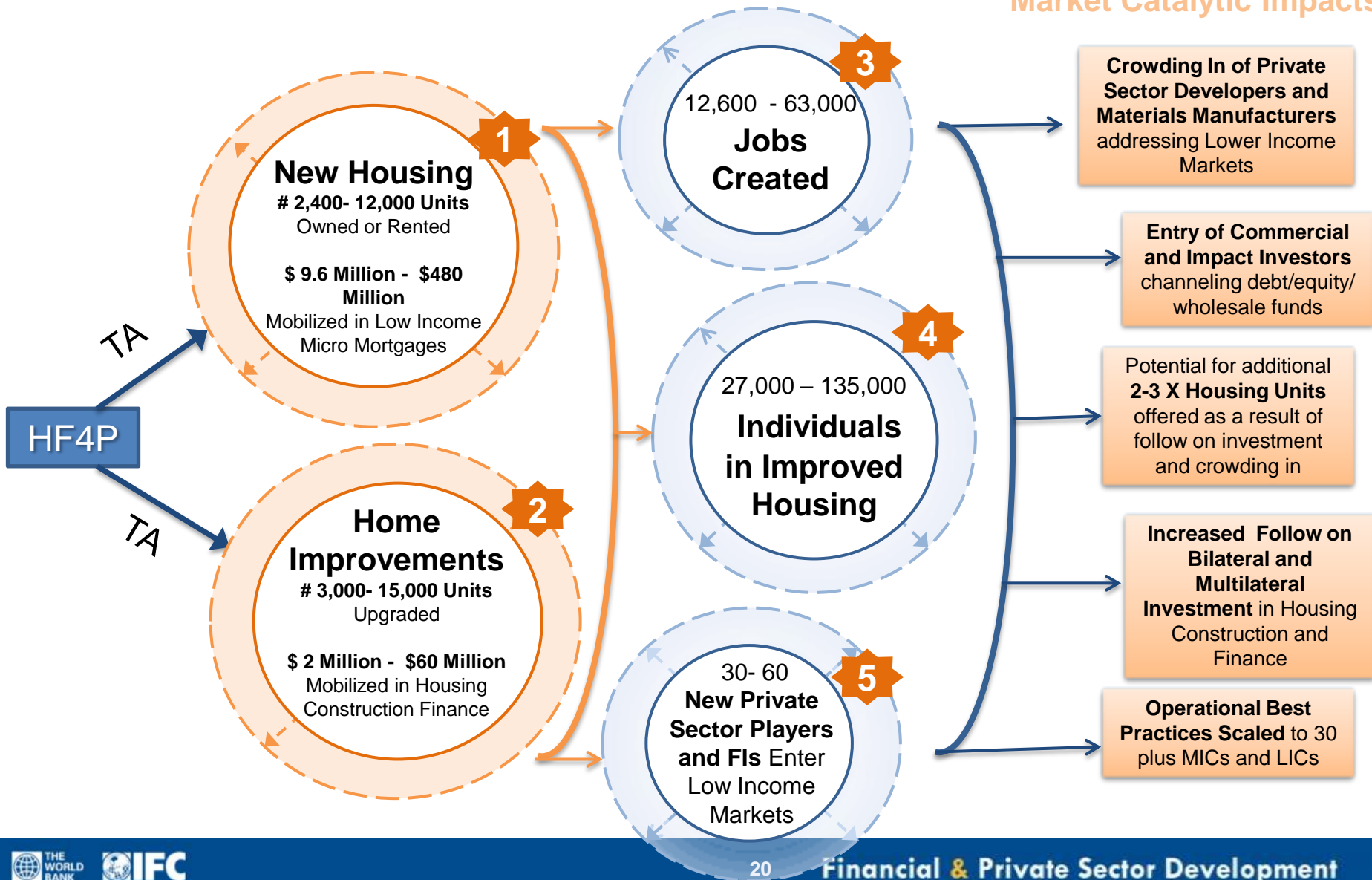


Projected Impacts: Conservative Impact Projections for a 30-35 Million Fund

Housing Units and Financing

Community Impacts

Follow-On Market Catalytic Impacts



Conclusions

- Seize Opportunity
- Consider how to move down income distribution safely
- Develop long term funding tools
- Scale up
- Affordable housing supply

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