

Tanzania's Housing Construction and Housing Rental Activities: Housing Economic Value Chain and Housing Cost Benchmarking analysis

Main Findings and Recommendations

Over the next five years, Tanzania is expected to experience an increase in urban households of 130 000 per annum. This rapid urbanisation and high population growth rate, coupled with a reducing average household size, will require consistently larger numbers of smaller, more affordable housing units to satisfy urban housing demand from rural-urban migrants and newly-formed families in urban areas. However, various fundamental issues face the housing sector, and impact on its ability to provide affordable accommodation while catalysing Tanzanian economic growth.

The Centre for Affordable Housing Finance in Africa (CAHF), with the support of FSD Africa and UK Aid, undertook an in-depth analysis of the Tanzanian housing sector in 2019. The report provides an overview of the structure of Tanzania's housing supply and demand, and estimates the contribution of housing construction and rental activities to Tanzania's

economy. Further, it provides a basis for comparing the costs of constructing housing in Tanzania in relation to housing costs in other African countries.

The report found that housing construction and rental, which already play a significant role in the Tanzanian economy, have great potential to enhance economic growth while stimulating the rise of the manufacturing and services sectors.

The analysis provides evidence to identify six core areas of strategic policy interventions for future development. These strategic areas, along with the main findings of the report, are explored in this document, which is aimed at assisting policymakers to identify and effect the necessary changes to build the housing sector and Tanzania's economy as a whole.

Overview of Tanzania's Housing Market

Population and urbanisation

- Tanzania has an estimated population of 59.7 million in 2020. With a growth rate of over 3 percent per year, the population is expected to exceed 79 million by 2030 and could breach 129 million by 2050.
- Tanzania had 12.3 million households in 2018 of which two-thirds reside in rural areas and one third (4.2 million) live in urban areas. Over the next five years, the number of households in rural areas will increase by 255 000 a year and urban households by 130 000 per year.

The African Union for Housing Finance (AUHF) was established as a member-based body of housing lenders in 1984. Today, the AUHF comprises of 46 members from 17 countries across the continent. Members include commercial and mortgage banks, building societies, microfinance banks/institutions, housing development corporations, and other institutions involved in the mobilisation of funds for shelter and housing. As an industry body, the AUHF promotes the development of effective housing finance markets, and delivery of affordable housing across Africa. <http://www.auhf.co.za/>

Economic and income trends

- Supported by an annual GDP growth rate of 5.2 percent, average incomes before taxes and transfers in Tanzania increased by 102 percent between 2005 and 2019 thus outpacing Uganda, Kenya, Nigeria and South Africa.
- The fastest growing sector in Tanzania over 2012 to 2018 was construction, which increased by 105 percent. Construction constituted 14.7 percent of the country's GVA in 2018.
- Unlike some African countries, national accounts data in Tanzania does not explicitly quantify the economic contribution of informal economic activity – either in the aggregate, or at sector level. However, it is estimated that around 52 percent of national income in Tanzania was earned from informal activity.

Housing tenure and affordability

- Of the 33 percent of Tanzania's households that live in urban areas, tenure is split into 49 percent home ownership, 43 percent rental, and 7 percent indicating they live 'for free'.
- In Dar es Salaam 54 percent of households rent. This figure is expected to increase given Tanzania's forecasted rapid urbanisation and the formal housing sector's constrained capacity to supply affordable housing.

Housing financing, demand and supply

- Assuming mortgage financing is available, only 6.8 percent of urban households could afford a house costing TZS27.9 million. Much of this segment of the market already have housing. In addition, most new and formally developed housing is targeted here.
- An estimated 3.1 million urban households (75 percent) earn less than TZS723 000 per month, implying that they can only afford housing costing TZS14 million or less—assuming they are able to access housing finance of some sort.
- Very few (just under 5 000 in total) Tanzanian houses are mortgage financed, with an average loan size of US\$36 649. This represents only 0.04 percent of all households, however it must be noted that the mortgage loan portfolio grew by around 20 percent year-on-year between 2018 and 2019.
- Currently, most of Tanzania's mortgages are for products costing above US\$40 000 which means that unless housing finance is made much more widely available in the future, 93 percent of all urban households are excluded from mortgaged housing.
- It is estimated that formal development of Nyumba (completed housing units) by developers and contractors does not exceed 5 000 units per annum, with a majority of these units costing over US\$40 000.
- It is clear that significantly larger numbers of houses are built informally (both Nyumba and Chumba units) mostly by households contracting with informal builders directly. Most households take multiple years of incremental saving and building to complete their houses.

Housing Cost Benchmarking

In order to compare housing costs across Africa, the report calculates the cost of building a standardised **55m² house in 2019 in five African countries**—this is a standardised two-bedroom Nyumba nzima style house in terms of design and specification.

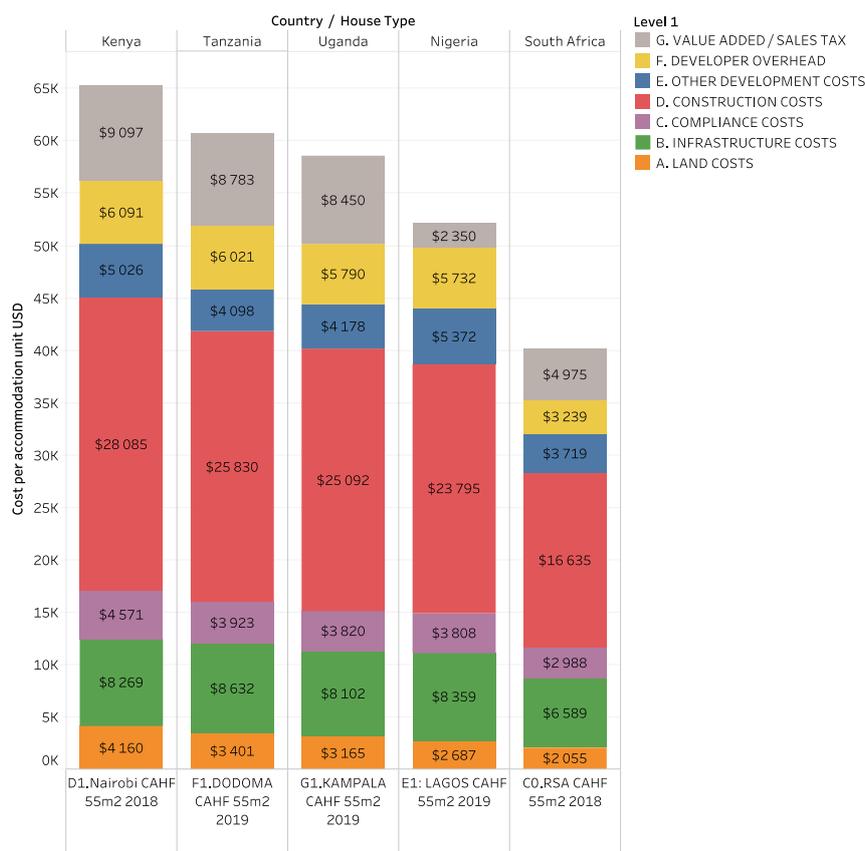
- This comparison shows that the cost of building a basic mortgageable house in Dodoma (US\$60 689) is the second-highest of the five countries included in the exercise, after Nairobi, Kenya.
- Building the standard house in Dodoma is therefore more expensive than in Pretoria (US\$40 199), Lagos (US\$52 103) and Kampala (US\$58 596).

About the research

This document summarises the facts, findings and recommendations contained within the full report, "**Tanzania's Housing Construction and Housing Rental Activities: Housing Economic Value Chain and Housing Cost Benchmarking analysis**", written by David Gardner, Keith Lockwood and Jacus Pienaar, consultants to the **Centre for Affordable Housing Finance in Africa (CAHF)** in June 2020. The report, which forms part of CAHF's Housing and the Economy project, aims at deepening the understanding of Tanzania's affordable housing market, and its impact on Tanzania's economy and growth prospects.

The report quantifies and analyses various facets of the housing sector, using costing and modelling methodologies developed by CAHF. The methodologies have also been applied in Rwanda, South Africa, Nigeria, Kenya and Uganda. To view the full report, go to: <http://housingfinanceafrica.org/documents/assessing-tanzanias-affordable-housing-market/>

The analysis underlines the relative expense of housing construction in Dodoma, Tanzania and the significant potential to reduce housing construction costs. The following figure breaks down and compares the component costs of building the standardised house in the five different countries:



- In Dodoma, the majority of the total cost is for construction-related inputs, comprising 43 percent (US\$25 830) of the house’s total cost, followed by: VAT at 15 percent (US\$8 783); infrastructure at 14 percent (US\$8 632); developer overhead, other development, compliance and land costs.
- Across the five countries, infrastructure costs were highest in Dodoma. Tanzania’s land costs, compliance costs, construction costs, developer overheads and VAT are all second highest in cost across the five benchmarked countries.
- Interventions aimed at reducing construction costs in Tanzania (materials and labour) are recommended, including a review of import tariffs on the relevant inputs, as well as stimulation of local manufacturing and services sectors that are responsible for the local production of building inputs.

About the methodology

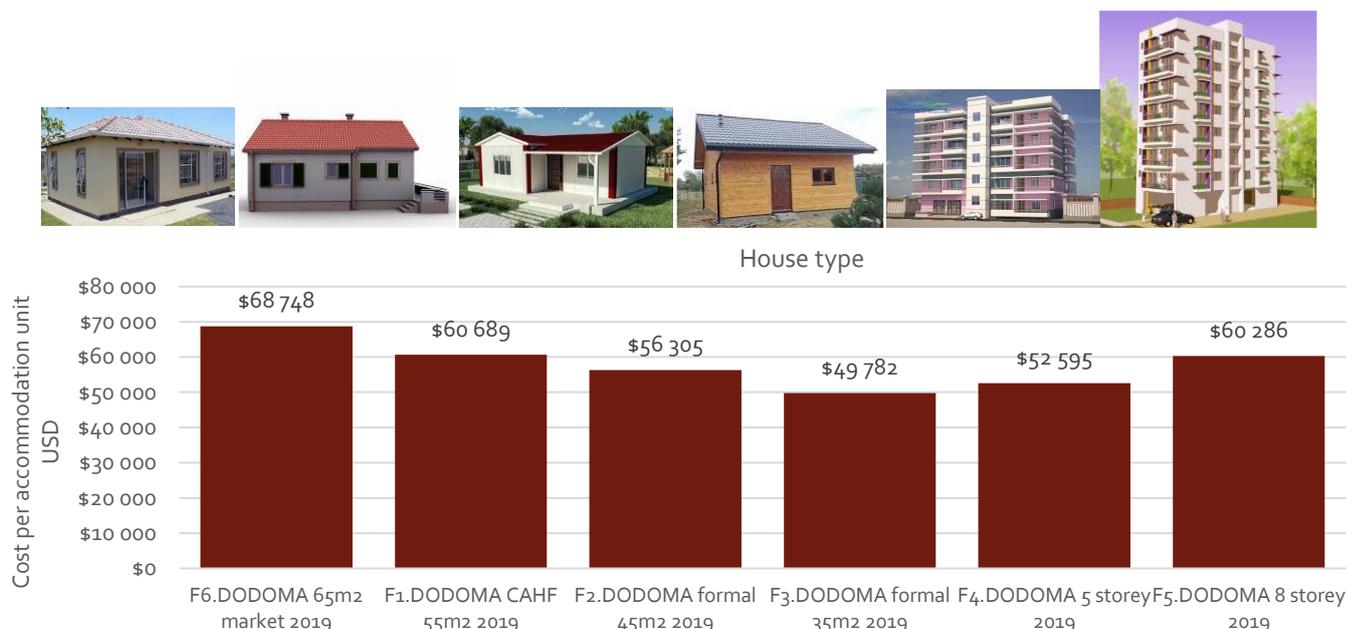
This research drew on the best available data from sources such as the Tanzanian National Bureau of Statistics to undertake four interlinked methods of analyses:

1. An overview of the housing market;
2. **Housing Economic Value Chain Analysis**, which quantifies the intermediate inputs and GVA in the housing sector;
3. CAHF’s **Housing Construction Cost Benchmarking**, which details and contrasts the cost compositions of housing in Dodoma, Tanzania with those of models in Pretoria, Lagos, Kampala and Nairobi. CAHF uses the “55m² CAHF house”, a 55m² house of the Nyumba Nzima (free-standing) typology, and;
4. A revealed competitiveness analysis of a basket of manufactured housing inputs, to determine which of Tanzania’s manufactured exports are competitive.

Complete details on the methodology and data sources are included in the full report:

<http://housingfinanceafrica.org/documents/assessing-tanzanias-affordable-housing-market/>

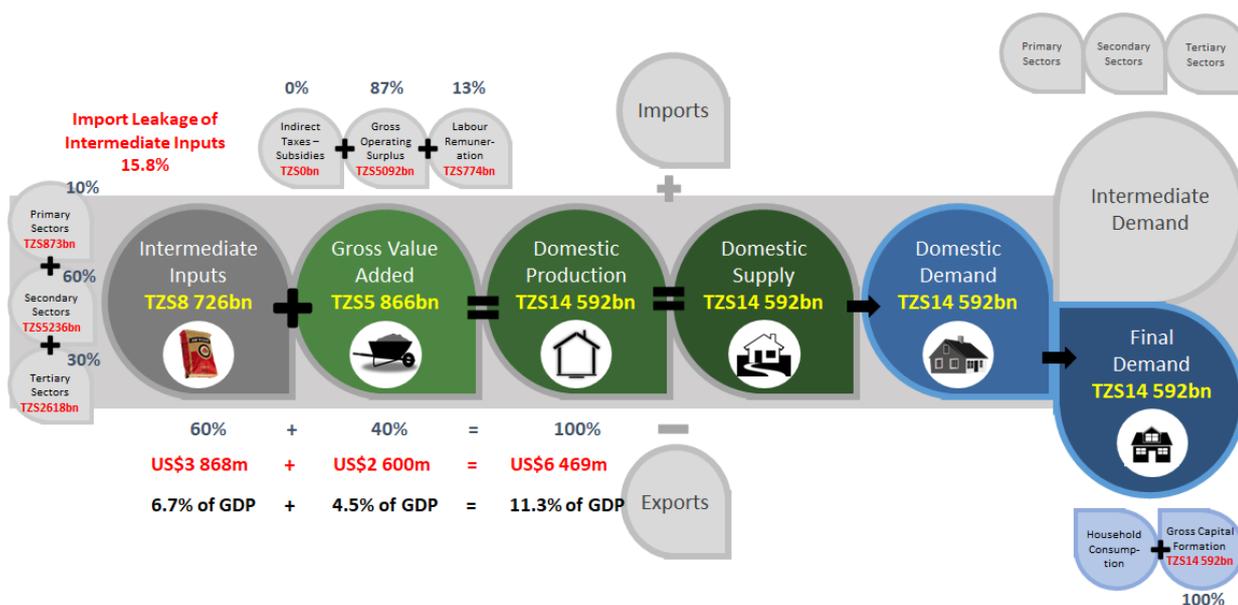
The graph below compares the **unit costs of six housing typologies** which were costed for Dodoma, Tanzania:¹



- The cost of the smallest unit (35m² bungalow) is US\$49 782 (TZS115 million), while the 45m² bungalow costs US\$6 523 more than this, implying a 13 percent cost increment for a 28 percent increase in house area. The formal 55m² bungalow costs 8 percent more than the smaller 45m² formal bungalow. This reveals that more affordable housing options may be offered by decreasing product size (and thus decreasing construction costs).
- Comparing the costs of the 40m² multi-storey apartments with the similar sized (45m²) bungalow shows that the eight-storey apartment only costs 7 percent more than the similar sized bungalow. This suggests that, while vertical developments increase average construction costs per unit, multi-storey developments have lower land and service costs per unit, and can also yield significant efficiency gains in city structure in the long term.

Housing Construction and Rental Value Chains for Tanzania

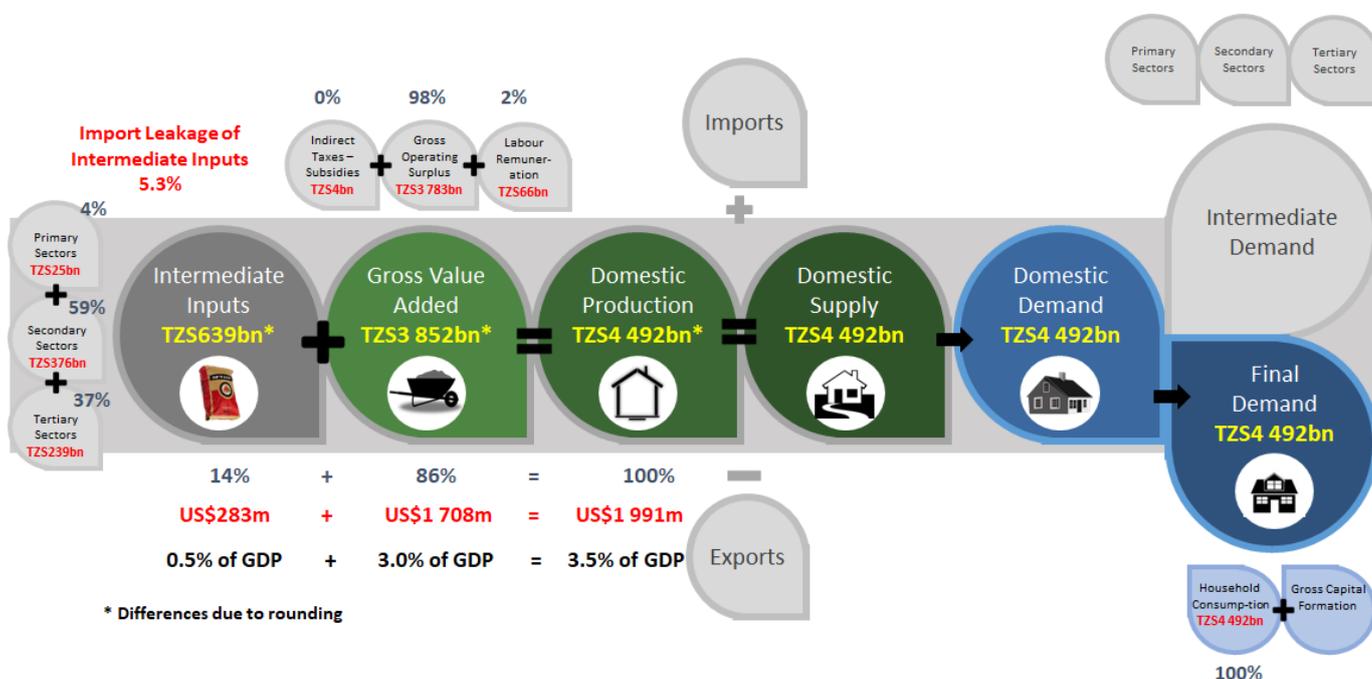
The following figure shows the **Tanzanian housing construction value chain** for 2018:



¹ Dodoma was chosen as the centre for cost benchmarking due to the renewed pressure from the current administration to move key political and administrative services to the capital, and away from Dar es Salaam.

- Overall, Tanzania invested around **TZ\$14.6 trillion (US\$6.5 billion)** in the construction of dwellings, in 2018, or **11.3 percent of its GDP**.
 - These impacts are substantially greater than in South Africa, where housing construction contributed 1.7 percent of GDP in 2018.
- Intermediate inputs into housing construction** were equivalent to a **very significant 6.7 percent of Tanzania's GDP** in 2018. Intermediate inputs were sourced from: the primary sector at 10 percent, the secondary sector at 60 percent, and the tertiary sector at 30 percent.
 - The report estimates that 15.8 percent of intermediate inputs into housing construction were imported. This constitutes a leakage from the Tanzanian economy, and reduces the direct output multiplier of housing construction.
- Gross value added (GVA) contributed 4.5 percent to GDP** in 2018.
 - Gross value added was ascribed to gross operating surplus at 87 percent and labour remuneration at 13 percent.
- If employment engaged in housing construction is estimated based on the estimated share of total construction GVA attributable to housing construction (as reflected in the value chain above), it implies that around 160 510 people were employed in the housing construction sector. However, this is a conservative estimate, with **the actual employment figure likely to be far higher, at around 260 000 jobs in the housing construction sector**.

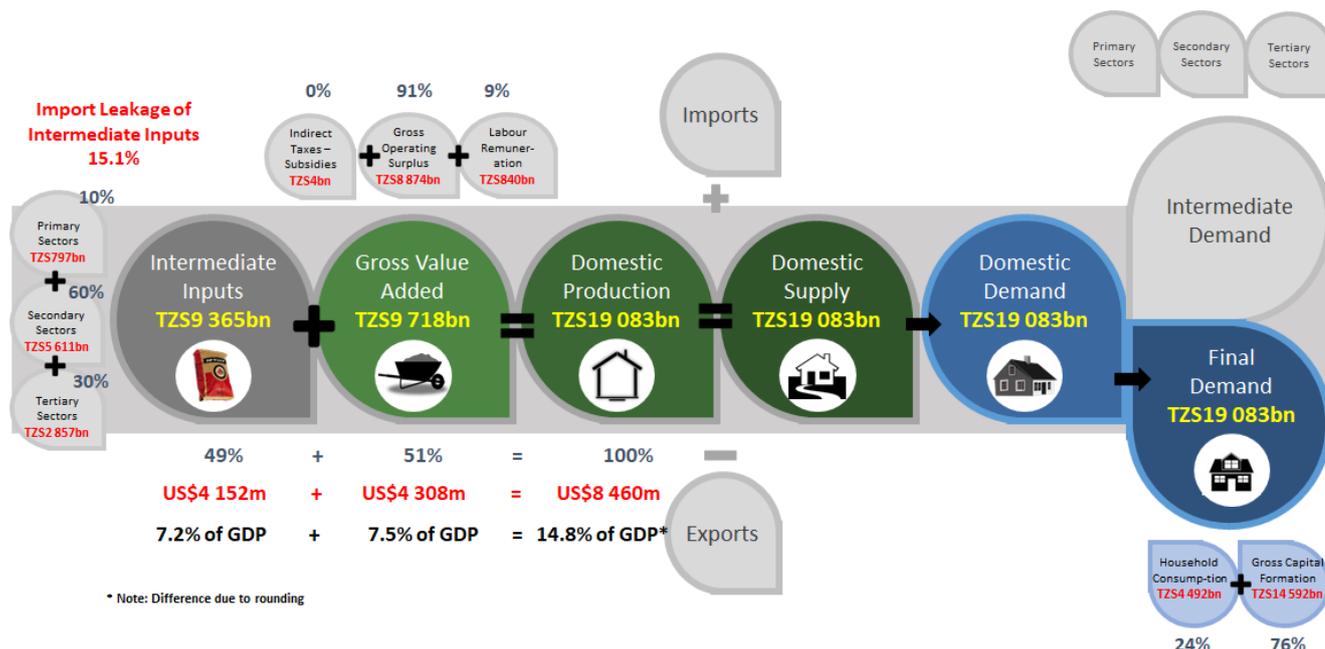
The following figure shows **the estimated value chain for Tanzania's housing rental activities** in 2018:



- Tanzanian rental activities contributed 3.5 percent, or TZ\$4 492 billion, to GDP in 2018.** Given the high contribution of housing construction to Tanzania's GDP, and the prevalence of rental arrangements in urban areas, the scale of the real estate sector as a whole, and of housing rental seems small, and suggests that there may be an undercount of the value of this activity in the national accounts. As rural-urban migration accelerates in coming years and decades, the importance of housing rental and the activities that accompany it are likely to increase.
- The **comparatively low level of intermediate inputs into residential rental (14 percent)** is consistent with a sector that is largely informal and still relatively unsophisticated. Intermediate inputs were sourced from the primary sector at 4 percent, the secondary sector at 59 percent, and the tertiary sector at 37 percent.
- GVA was 86 percent of residential rental, at TZ\$3 852 billion.**
 - 98 percent of this value is ascribed to gross operating surplus, with only 2 percent to labour remuneration.

- VAT accrued a negligible share of GVA. This is to be expected, as the market is largely informal, and lessors are thus not likely to be registered VAT vendors.

The following figure shows the **combined economic value chain for Tanzania’s housing construction and rental and related activities** for 2018:



- The output of the combined housing construction and rental value chains reached **TZS19 083 billion (US\$8 460 million)** in 2018. This contributed a **considerable 14.8 percent to GDP in 2018**.
 - **Almost half of the output (49 percent) comprised purchases from other sectors of the economy** (intermediate inputs), with the remaining 51 percent comprising value added by housing construction and housing rental and related processes.
- **Intermediate inputs contributed 7.2 percent to GDP** and were sourced from: the primary sector at 10 percent; the secondary sector at 60 percent, and the tertiary sector at 30 percent. The housing-related rental and construction value chains thus provide significant, and broad, direct stimulation of most other sectors of the economy.
- The combined direct impact multiplier is 1.96. **This means that for every TZS1 spent on housing rental and construction activities, TZS0.96 is generated in other sectors of the economy.**
- Given high levels of informality in both sectors, most of the incomes derived from housing rental and construction are categorised as business income/profits rather than wage income, making it difficult to estimate the true contribution of housing construction and rental-related activities to employment in Tanzania. However, according to the National Bureau of Statistics, the combined construction and real estate sectors employed under 430 000 people in 2014.

Conclusions

It is clear, foremost, that the housing sector can be employed as a lever in furthering Tanzania’s social development, economic growth, sectoral strengthening and employment creation. However—without urgent intervention—Tanzania’s housing sector is poised for a major disruption due to rapid population and urban growth and continued low levels of housing affordability from increasingly smaller urban households. The projected estimate of 130 000 new urban households per annum underlines the urgent need for intervention and stimulation in the affordable housing sector.

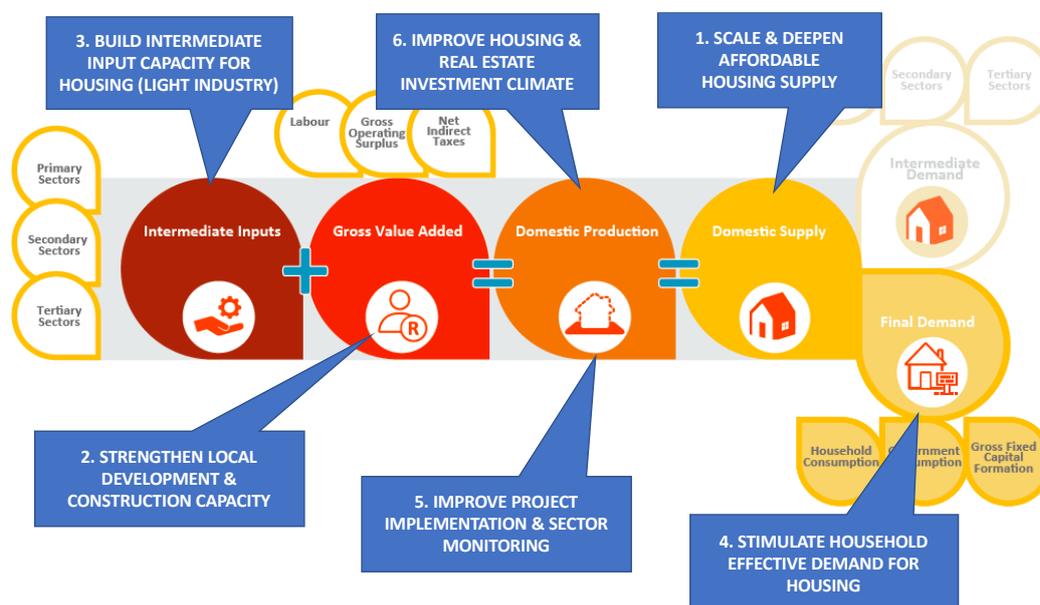
- **Most urban households either rent informally, or incrementally build their dwellings outside of the formal housing construction market – a phenomenon likely to persist in the future.** With only 5 000 formal

housing units supplied per annum, and 5 000 households currently mortgage-financed, small-scale (Chumba/single-room type) housing rental will continue to be the main form of housing provision.

- Tanzania’s housing sector faces key constraints that inhibit its future development, including limited access to land and generally low levels of service and standards of accommodation construction.
- A polarised housing landscape is emerging: on the one hand, housing supplied is informal and small, while on the other, it is large and formal. A lack of diverse housing and affordable housing options means that—typically—high income households enjoy the benefits of home ownership, while low-income households are forced into informal rental arrangements in peri-urban areas.
- However there is significant potential for housing construction and real estate market development and growth in Tanzania. The Housing Cost Benchmarking analysis revealed that cost reduction can be achieved by reducing the costs of intermediate inputs, such as land and infrastructure costs.
- The Tanzanian housing sector can promote the growth and diversification of the economy. The Housing Economic Value Chain analysis shows that housing construction and rental already have a significant economic impact (14.8 percent of GDP in 2018) and that Tanzania’s housing sector can be an even more significant contributor to economic growth and diversification in the future. The housing sector can play a critical role in developing local manufacturing services sectors, improving the country’s gross fixed capital, and building consumption expenditure on housing goods and services in its developing economy.
- The upshot of a well-functioning housing sector includes new benefits for government. VAT, permitting fees and demand for core infrastructure (such as water) act as a revenue inflow, and result from construction and rental sector activities.

Recommendations

Importantly, isolated reforms to the housing sector will not provide the change needed. A more fundamental housing and related sector reform is required, which draws on integrated strategies to provide a platform for economic growth and housing provision. The diagram below highlights six strategies for reform, along the housing economic value chain:



Strategy 1: Scale and deepen affordable housing supply.

- Greater numbers of more affordable housing options are required to meet the profile of Tanzania’s housing demand. It is critical that Tanzania’s households are afforded the opportunity to access **greater numbers of more diverse, typologically differentiated, smaller and more affordable housing products** in the future. Alternatives include the provision of basic housing units (in detached, attached or vertical format) as well as higher-density configurations.
- The focus must shift from fully-completed, formally constructed houses to intermediate housing products that improve primary access to housing and services. **Strategies should include basic access to land and services, incremental housing opportunities and**

investment in infrastructure that creates a better urban environment for private housing investment.

- **Initiatives to reduce the overall cost of housing construction** (both formally and informally constructed) are critical, including efforts to reduce the cost of key inputs into the housing construction process, as identified in the housing cost benchmarking.
- Government investment must be aimed at facilitating an environment in which producers and contractors can participate in the provision of affordable housing. **Private investment can be crowded into the affordable segment of the market** through interventions which focus on, amongst other things: secure tenure; land identification, planning, subdivision and sale to developers for development; access to basic infrastructure, and; improved housing financial market performance.

Strategy 2: Strengthen local development and construction capacity.

- Tanzania's housing construction sector is dominated by many informal contractors and a few formal companies, most of which are multinational companies. **The aim should be to facilitate the development, growth and efficient participation of local developers and contractors in the housing sector.** Tanzania must aim to grow the "massive small" movement through which small and intermediate level contractors participate in constructing new, more formal and better-quality housing.
- A majority of new urban housing will continue to be developed informally, both by informal landlords (households and small-scale developers themselves), or through contracted informal builders and contractors. **Policy support to facilitate the sustainable growth of this sector into a more robust delivery system is critical.** This must include appropriate and supportive planning, land use and permitting arrangements as well as improved access to land and services, skills and financing for informal builders in order to encourage greater efficiencies and productivity within this sector.

Strategy 3: Build intermediate input capacity feeding into the housing sector.

- **A vibrant and increasingly competitive local building materials manufacturing and supply market** will

reduce construction costs and improve local industry competitiveness and export potential.

- In addition, improved building materials capacity and price competitiveness will **grow Tanzania's existing competitive advantage in building materials export markets.** The core focus should be on improving the quality, price and availability of the major inputs to housing construction such as cement, steel, augmented cement products, plumbing and electrical supplies.
- Improved labour market performance will enhance the productivity of housing development and reduce housing costs. The skills and productivity levels of semi-skilled, skilled and professional labour inputs to construction can be improved **through targeted training and development programmes in the construction sector.** As the housing market matures, it is also critical that a larger cadre of skilled and experienced artisans and professionals are developed to support the housing economy.



Strategy 4: Stimulate household effective demand for housing.

- **Continued economic growth in Tanzania is the most important element of improved effective housing demand.** Tanzania's consistent economic growth trajectory over the last five years, if maintained, will continue to grow the number of households able to access housing, and improve levels of housing affordability.
- Tanzania's limited mortgage portfolio of just under 5 000 mortgaged units must continue to be expanded and deepened. However, since it is unlikely that mortgage finance will reach substantially down-market, **the availability of alternative housing financing products must increase.** This should include products provided by SACCOs, microfinance

institutions and other housing finance options being explored elsewhere on the continent such as rent-to-buy financing.

- Tanzania's rental value chain is relatively small at 3.5 percent of GDP given the proportion of households who rent, mainly due to the level of informality in the rental sector. **Programmes to improve the scale and level of sophistication of Chumba landlords to be able to improve the scale and quality of accommodation that they develop and manage** would add an important layer to the provision of rental stock in Tanzania.
- State support for basic housing access is important for ensuring equity across Tanzanian society. **Financial sector support should enable a range of housing finance types and broad access to housing finance**, such as interventions that improve both the amount and terms of finance applied to housing.

Strategy 5: Improve sector monitoring and data infrastructure.

- **Data on the housing sector which is of better quality and more consistent is critical for growing the Tanzanian housing sector.** Lack of credible, complete information inhibits the growth of housing sectors, making it more difficult to diagnose problems and arrive at accurate solutions.
- If the housing construction and rental's potential to contribute to Tanzania's economy is to be realised, then tracking their contributions to the economy over time should be a priority. This will require that published national accounts estimates of gross fixed capital formation include a breakdown by type of asset so that national expenditure on residential buildings is shown separately (currently residential and non-residential building construction is aggregated).

- It is also necessary to begin disaggregating the weight in the Consumer Price Index that currently aggregates housing, water, electricity, gas and other fuels so that actual and imputed rents are shown separately.
- Furthermore, regular updates to Tanzania's Supply and Use Table (SUT) and household income and expenditure surveys are desirable to strengthen analysis.

Strategy 6: Improve the housing and real estate investment climate.

- **Bolstering Tanzania's housing finance sector will strengthen the basis for the development and management of housing and real estate.** Financing injections in "financing moments" along the housing development process greatly speed up investment. Efforts by the Tanzania Mortgage Refinance Corporation (TMRC) to facilitate better availability and terms of finance available to financial institutions through refinancing of mortgages remain critical.
- Tanzania's housing finance sector must continue to be strengthened to provide a better basis for housing and real estate development and management. This includes informal financing (such as building materials credit), developer and contractor financing, small loans finance, mortgage loan finance and ultimately more sophisticated structured housing finance processes including equity and debt investments in housing and real estate, as well as more sophisticated instruments such as Real Estate Investment Trusts.
- Ultimately, macroeconomic fundamentals aimed at enhancing economic growth, reducing exchange rate fluctuations and providing a solid platform for local and foreign direct investment in real estate and housing development will be the most important contributors to the housing sector's ability to scale up its development and management of more, increasingly affordable housing.

The Centre for Affordable Housing Finance in Africa (CAHF) serves as the Secretariat of the African Union for Housing Finance (AHUF). CAHF has been operating as an independent think tank in South Africa since May 2014, pursuing its mission of making Africa's housing finance markets work. CAHF's work extends across the continent, and it is supported by and collaborates with a range of funders and partners. For more information, visit: www.housingfinanceafrica.org

 Centre for Affordable
Housing Finance
in Africa

 fsdafrica

 AFD