

# THE AFRICAN RENTAL HOUSING CONFERENCE

**FORMAL RENTAL HOUSING  
IN SUB SAHARA-AFRICA:**  
OPPORTUNITIES FOR PROVIDING  
AFFORDABLE HOUSING FOR ALL

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*A WHITE PAPER FOR POLICY-MAKERS,  
PRACTITIONERS AND ACADEMICS*



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*This **White Paper** is a consequence of the African Rental Housing Conference, organized by Shelter Afrique in partnership with the French Development Agency to discuss relevant issues regarding the development of a formal rental housing sector in sub-Saharan Africa. The conference, which brought together over 200 participants from various nationalities, was a unique and timely opportunity for policy-makers, practitioners and academics to discuss and debate the opportunities and challenges of the often ignored rental housing sector in Africa. This White Paper not only summarizes proceedings of the conference but also draws together a number of recommendations that emerged during the conference.*



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## ABOUT SHELTER AFRIQUE

Shelter Afrique is the only pan-African finance institution that exclusively supports the development of the housing sector in Africa. Therefore our work has a direct and positive impact on the lives of many of our people.

Being a creation of 44 African Governments, the African Development Bank (AfDB) and the Africa Reinsurance Company, Shelter Afrique builds strategic partnerships and offers a host of products and services to support the efficient delivery of affordable housing and related infrastructure. These include project finance, institutional lending, equity investments and joint ventures, trade finance and social housing. We also offer practical advice and technical assistance to a wide range of industry stakeholders.

### CONTACTS:

-  Facebook : **[theshelterafrique](https://www.facebook.com/theshelterafrique)**
-  Twitter : **[@shelterafrique](https://twitter.com/shelterafrique)**
-  LinkedIn : **[shelter-afrique](https://www.linkedin.com/company/shelter-afrique)**
-  Website: **[www.shelterafrique.org](http://www.shelterafrique.org)**



## ACKNOWLEDGEMENT

We owe our immense gratitude to our key partner Agence Française de Développement (AFD) without whom this unique event would not have become a reality. We also thank our valued sponsors i.e. ASO Savings & Loans (Nigeria), African Reinsurance Corporation (Africa Re), GuarantCo, the European Investment Bank (EIB), the International Finance Corporation (IFC), CITIC Construction and Savannah Cement, for their interest and strong support of the rental housing cause.

Finally, we are very much grateful for the engagement of the participants and the participation of all the speakers whose rich expertise and professional experiences have been instrumental to the success of this conference.



## FOREWORD

Access to housing is one of the most daunting challenges of the 21<sup>st</sup> Century in most African countries. The rapid urbanization of our continent is exacerbating the already pressing demand for affordable and decent housing while supply direly remains inadequate. Within this context, it is rather amazing that rental housing seems to have been forgotten in many housing policies. Indeed, the residential rental sector remains relatively underdeveloped in sub-Saharan Africa - with the exception of South Africa - whereas homeownership has been the object of all attention by policy-makers and the private sector. With about 90% of Africa's population unable to buy a house or even qualify for a mortgage, there is a justified need for a shift towards formal rental housing as a critical option to solve the housing crisis in Africa.

In sub-Saharan Africa, the general lack of rental housing policies has contributed to increasingly more people living in poor, informal and undignified conditions; indeed, most of the rental housing units are privately owned by retail or individual investors, who provide inadequate maintenance and management of the same, and are unable to leverage any form of external finance beyond their own equity. Therefore the formal rental sector deserves greater attention and expertise, as properly developed rental markets can play a formidable role in promoting affordable and decent housing in Africa, especially for the low-income earners of our peoples.

As a true advocate of rental housing in Africa, Shelter Afrique is eager to actively engage on and promote this segment of the housing market, with both public and private sector stakeholders in its constituencies, as a feasible and sustainable solution to address the countries' housing crisis. At the end we want people to know that it is OK to rent and we want to encourage our member states, partners and customers to make this work. That is why we hosted in October 2014 a conference themed "*Formal Rental Housing in Africa: A Critical Option in the Challenge of Providing Affordable for all*".

This White Paper therefore summarizes the conference proceedings and outlines the recommendations derived therefrom. It is our hope that this will offer some useful insights and guidance as well as steer governments / policy-makers as well as private sector stakeholders to take a more active role in the development of a formal the rental housing market in our countries by (a) formulating the required policies to create an enabling environment and (b) contributing the necessary investments for this sector to thrive.

**James Mugerwa**  
Managing Director  
Shelter Afrique



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## INTRODUCTION AND CONFERENCE OVERVIEW

From Monday 13<sup>th</sup> to Wednesday 15<sup>th</sup> October, Shelter Afrique hosted - in partnership with AFD – at Safari Park Hotel in Nairobi, an international conference entitled **“Formal rental housing in sub-Saharan Africa: opportunities to provide affordable housing for all”**. This conference - which we are calling ‘The African Rental Housing Conference’- provided an opportunity for a unique and timely discussion and debate around the impediments and opportunities to best develop a vibrant formal rental housing sector in sub-Saharan Africa.

The African Rental Housing brought together local, national and international speakers. It was attended by over 200 delegates - comprising primarily private sector developers and building professionals, parastatals and government officials (from housing ministries and ambassadors), private equity firms, financial institutions and international development finance agencies.

The participants heard from three keynote addresses, followed by three plenary sessions covering: policy

issues, experiences from developed and emerging markets, tenets of sustainable legal, regulatory and funding frameworks for a formal rental housing sector. Expert panels then went on discussing key areas of intervention by and collaboration between governments and the private sector in scaling up the supply and financing of formal rental housing stock. On its last day, the conference showcased specific rental housing business initiatives/approaches. The conference closed with a session “The case for rental housing” summarizing the connecting themes that emerged. A video of the African Rental Housing Conference highlights can be viewed at <https://www.youtube.com/watch?v=pWk0khEtlp8>.

This White Paper sets out 10 themes and outlines key outcomes of the conference. It is being submitted to all housing ministries in Shelter Afrique's 44 African member states and (together with all the conference's statements and presentations) is also to be shared with the general public at: [www.rentalhousingconference.com](http://www.rentalhousingconference.com).

## CONNECTING THEMES

Throughout the course of the conference, many themes emerged that had varying levels of interconnections. We have distilled ten key themes from the speakers and the discussions as follows:

### RENTAL HOUSING IN AFRICA: OPPORTUNITIES AND CHALLENGES

Urbanization and slum formation are intertwined in a context of mal-functioning housing sector and increasing demand for decent housing. Rental housing is thus an important component that cannot be ignored in finding a solution to housing in Africa.

Over 2 billion new urban residents are created annually and there is an annual increment of 35.1 million households. This points to a very crucial implication for housing supply and policies. The right to adequate housing centers around the following criteria: Security of tenure (and protection from forced eviction!), Availability of services, Materials, Facilities and infrastructure, Location, Habitability, Affordability, Accessibility, Cultural adequacy. With over 40% of Africa's population living in the urban area and over 51% of urban dwellers living in the

slum, there is an urgent need for housing policy intervention which can only be realized through good governance systems with the rule of law and clear housing regulations.

In understanding the housing market in general, it is important to note that the supply and demand and the behavior of sellers, buyers, producers, consumers and government policies will determine prices. While supply is affected by availability of land, infrastructure, building materials, organization, building industry, skilled & productive labor, self-reliance BM production and urban planning, demand is affected by demographic conditions, rate of urbanization, rate of new household formation, property rights regime, housing finance, fiscal policies, subsidies, macro-economic conditions. It is therefore imperative for governments to:





1. Promote the full and progressive realization of the right to adequate housing as defined in the Habitat Agenda and international instruments;
2. Note that adequate housing for all and cities free of slums can only be achieved if housing reforms are carried out and housing policies are synchronized with urban policies to bring solutions to scale in a planned urbanization, delivering a wide range of affordable housing opportunities in size, standard, typology, price, location and tenure modalities;
3. Develop policies which must address critical bottlenecks hindering the housing sector to perform its role in economic development & poverty reduction with well-informed and evidence-based housing policies, and
4. Establish mechanisms and apply instruments to monitor housing sector performance and housing policy outcomes in order to get the best out of housing.

In Africa, the housing sector faces serious bottlenecks in terms of availability of affordable finance, scarcity of serviced land and high price-to-income ratios. Due to scarcity of affordable housing in Africa, people resort to informal settlements, informal rental accommodation propelling practices of subletting and overcrowding.

Other key constraints facing the housing sector in Africa include: inadequate information/market data, lack of evidence-based policies, legal and regulatory frameworks, poor documentation and registration of property rights, subsidies and macro-economic policies, shortage of land for housing, shortcomings in infrastructure provision, high construction costs and poor institutional and human resources capacity to manage the housing sector and allow for policy intervention.

**Sustainable homeownership for all is neither financially and fiscally possible, nor desirable for all household groups and life-cycle stages.** Thus for the future, rental housing offers a window for housing affordability and a place in the equation of improving housing conditions for urban Africans. To realize this goal, different types of incentives need to be developed for providers and consumers (for e.g. combining land supply, income-related support,

financing models). Institutional management solutions for proper management and maintenance of the rental stock also need great attention.

**This calls for cooperation between the government and the private sector in developing concrete guidelines that would promote the rental housing market in the continent.**

## MAKING RENTAL HOUSING WORK

### THE EXPERIENCE OF DEVELOPED MARKETS

Rental housing in developed economies is linked to culture, history, availability of credit and other housing policy issues, rather than wealth as most people often assume. The rental sector in Europe is generally characterized by both individual and institutional investors working under a common regulatory and legal framework, albeit with varying intricacies by country. Thus, security of tenure differs from one country to another – for e.g. in some countries, the court has to make the decision on tenure arrangements.

Due to the challenges surrounding rent control between owners and tenants, rental markets in Europe and North America have attempted various rent control methods:

1. **Hard rent control** for instance, which was introduced in Western Europe during World War I and in the USA during World War II, froze rent rates with an upward adjustment. This almost led to the disappearance of the private rental sector in the United Kingdom, while in France the sector suffered from lack of maintenance and underinvestment.
2. **Soft rent control** has different aspects – e.g.: new dwelling-free rent, new tenancy-reasonable rent, renewed lease-same tenant or indexation during the lease-indexation or no increase.

In France, there are mostly private landlords and rent is set based on the 2012 the New Tenant Act which is limited to the rise in the reference rent index. Rent can increase only if it is far below market level or in case of improvement works done on the building. In the 1970s, low returns and high management costs discouraged investment among institutions, while poor tenant-landlord relations, rent control and high taxes caused landlords to sell off their properties.



In England, privately rented housing currently accounts for some 17% of the housing stock, down from over 50% immediately after World War II, but up from 9% at its minimum in the late 1980s. Landlords retain the right of repossession at the end of the lease term. In 1997 “short hold tenancy” became the default form of tenancy in England. Currently, there is an increasing deregulation of the English system. The standard lease is a six month or one-year contract after which the landlord can reclaim the property with two months’ notice; rents and rent increases are freely set by owners with notification to tenants. This has made the private rental sector more attractive as rent increase guarantees collateral for mortgage loans since lenders are almost certain to be able to sell an untenanted property in case of repossession.

In Germany, many citizens prefer to be tenants for their whole life even if they could afford a home of their own. The First Housing Law (1950) made available direct subsidies, loan guarantees and accelerated depreciation to all investors. Rent regulations have been stable in Germany since 1971. Rents are set based on the local reference rent (which is the average rents for similar units, limited to rents agreed upon or raised in the last four years or rent data available in the bigger cities). No increase is allowed as long as the rent is higher than the reference; and no increase by more than 20% can be made within three years.

In the U.S. 54% of rental housing is owned by individuals, 24% is owned in partnerships, 13% by corporations (including REITs), 5% by cooperatives and non-profit organizations, and 4% is owned by others. The rental housing sector is regulated mainly by state and local governments, with enforcement done mainly by both state and local courts. The Legal framework is defined mainly by common law as interpreted by courts. Most U.S. markets have no common rent controls, with the exception of New York, Washington D.C. and Los Angeles. Most common lease duration is one year, sometimes month to month, or two or three years with commonly deposit of a month's rent in advance. The low income housing tax credit provides incentives for private sector production of low income housing (1986 Tax Reform Act). It also provides “resent value” tax credit of 70% of the cost of new construction with only 9% annually for over a 10 year period or over 30% of the cost of acquisition of existing low income housing with only 4% annually. This has left developers with two options: they either charge 20% of units rented to households with income less than 50% of the country median income, or 40% of the units rented to households with income less than 60% of the country median income. This flexibility has greatly attracted investors into the local rental market.

#### THE EXPERIENCE OF EMERGING ECONOMIES

In Latin American countries (LAC), rental is higher compared to ownership due to the preeminence of informal rental housing. In South America, the key issues that burden the rental housing sector include: bias of public housing policies towards buying rather than renting and the risk that tenants will not pay rent coupled with weak regulatory provisions to protect landlord interests. All this has resulted to lack of mortgage lending for rental investment.

In Brazil, the current legal framework for rental housing is the 1991 law amended in 2009. It regulates contracts for residential and non-residential rents. All contracts must be in accordance with the rental law and with the new Civil Code of 2008. Both the Municipality and States follow national regulations but remain relatively autonomous to develop their own local regulations. Some of the main features of the rental law in Brazil include:

- Contract term is 30 months subject to extension or interruption, with a penalty for either the owner or tenant who interrupts;
- A guarantee is required which can either be in cash or assets deposits or warranty by a third party (a person who can show proof of income and owns property in the same city). Without such a guarantee, delayed payment or failure to pay attracts an eviction lawsuit with a window of 15 days to pay or be evicted;
- Initial rent is freely agreed between the landlord and the tenant. Readjustment must occur annually, based on an index stipulated in the contract and cannot exceed the official rates. If the contract is silent about the rate, or in case of disagreement, both owner and tenant can ask judicially for its revision based on the fair market price, after minimum three years.

In Mexico, the rental housing sector is relatively smaller: 14% of the population are tenants while 72% own houses. There is a strong cultural bias for home-ownership. Rental housing had been ignored by the government over the years thus rental is mostly informal with individual landlords due to lack of formalized rental agreements. Currently, INFONAVIT savings can be used as a rental guarantee and can deduct rent from payroll. However this makes very little impact since landlords have to “formalize” their rental contracts which most often entails a high legal cost and can delay and eviction procedures in the case of a tenant not paying rent. In addition, there are no equity capitals or long term debt for residential rental development and no formal property management systems in the country.

In Morocco, there was a huge decrease in urban rental housing stock from 42% in 1982 to 22% in 2012, with over 90% being individual owners. This is as a result of unfavorable tax rate, lengthy administrative

procedures and the fact that there can be no rent increase without improvement of the unit. The first move by the government was only made in 2006 when the first draft of the law was done by the ministry of Justice. This allowed for rent increase by 8% in 3 years for residential and 10% for non-residential. The law equally allowed for arbitration and mediation introduced in the Code of Civil Procedure to facilitate settlement of conflicts between natural or legal persons. The second move of the government (2007-2009) offered a more comprehensive law with 75 articles prepared by the Ministries of Justice & Housing and was finally voted by Parliament in August 2013 and was applicable as from February 2014. Some of the provisions of the law stipulated that the rental contract should be in written form, minimum housing standards must be met, “ordinary maintenance works and simple repairs” to be paid by tenants and procedure for non-payment or recovery of abandoned property is to be accelerated. These regulatory and legal frameworks have greatly attracted investors into the rental market in the Morocco.

In 1981, rental value in Egypt was set at 7% of the land and buildings value combined and the tenant was required to pay a share of the maintenance cost. Landlords were exempted from property and income taxes. In 1996 the law liberated the rental market for newly-built and vacant units, and in 2001-2006, 80% of new units accessed were through rental. Nevertheless, 42% of the housing stock in greater Cairo remains frozen under rent control: 3.7 million housing units are unused, vacant or closed. Rent control remains a major challenge affecting the rental market in Egypt.

**Henceforth, it appears that the focus for Sub-Saharan African countries should be more on the development of legal and regulatory framework that will be conducive for both private and institutional sectors to invest in the rental market.**





## THE CONCEPTUAL FRAMEWORK FOR DEVELOPING A SUSTAINABLE FORMAL RENTAL HOUSING MARKET IN SUB-SAHARAN AFRICA (SSA)

In SSA, access to homeownership is very much limited but despite the challenges of homeownership, most Africans still prefer to own land and build homes incrementally by themselves. However, evidence suggests that homeownership reduces mobility, produces lower densities and larger urban sprawls. Even if interest rates are low (or subsidized), households with low or irregular income just cannot afford loans from financial institutions or do not even have access to credit. Other obstacles to homeownership also include absence of clear property rights or efficient registration system. Hence rental housing is very much needed for starters and households with low or irregular income (which represent more than 75% of our populations across the continent).

The market readily provides rental housing stock for high and middle income earners. However scaling up rental housing for that market segment using still requires well **formalized balanced rights for**

**tenants and landlords, accommodation built to high standard of construction, attractive rental yields and professionalized rental property management services to offer better service to tenants.**

For low-income earners, offering longer tenancies (perhaps with an index linked rent) combined with a low rent (with some subsidies from governments) would address the affordability issue, while minimum quality standards shall be required and tenants will need more protection from the landlords.

Governments could and should develop a rental legal framework defining the type of rented homes (*main residence/unfurnished, etc.*); it would also include the duration and termination of a rental contract (*fixed term/renewal/termination*); initial rent setting and rent increase regulations; required documentation (*contract/inventory/notice to pay, to quit*) and clear guidelines of processes for solving conflicts between owners and tenants (*mediation, conciliation, arbitration*). **A well developed, enforceable and stable regulatory framework would make the rental market more attractive to both institutional and private investors.**



There is also the need for a fair tax regulatory framework. A good tax model should include main expenses deductible, economic depreciation and losses offsetting taxes on other income and/or carried forward for a few years. There should be insurance products covering the risks of default and damages to the property as well as public guarantees for social housing finance. Giving direct subsidies to tenants has proven to be most effective. However, this entails a concrete fiscal commitment, regular update of information on beneficiaries.

Subsidies to investors may be given in several forms, including tax rebates, grants, soft loans, free or discounted land, and guarantees. This is an efficient way governments can intervene to increase the supply of housing and can act as a counter-cyclical instrument to boost economy.

Finally, it was noted that there is definitely a shortage of expertise and experience in all aspects of the rental housing sector – henceforth the urgency of building capacity as uncertainty and lack of experience will cause potentially viable schemes to stumble and stall.

## THE ROLE OF GOVERNMENT IN RENTAL HOUSING

The consensus was that governments should provide a conducive environment for rental housing to develop in SSA. It is indeed a segment of housing that has been ignored and it is critical governments provide leadership in that area. All the more that some officials felt that leaving rental housing to the interplay of the market forces could become chaotic, hence their advocacy for some form of control by governments over the rental housing sector, which would also enhance its attractiveness to investors according to them.

Furthermore, governments should provide policy framework and must also pay special attention to the urban settlement to upgrade housing standards for all. **It would be important to look into the possibility of inter governmental partnerships for rental housing in Africa.**

The government must come in to protect both the rich and the poor. There is indeed a need for balance among all stakeholders (government, tenants and landlords/property owners) through consultation and adequate policy formulation. It was noted that mediation and arbitration are quite common in

resolving housing issues in Africa owing to the lack of collaboration between stakeholders, therefore there is a role for governments in regulating relationships between the rental market players.

**Discipline must be instilled as Africans collectively strive to solve African problems.** There must be improvement in land acquisition policies. There are various ways in which the government can intervene in controlling rents without necessarily setting/fixing the rates. There is a need to look at the regulatory framework on rent rate increase and timing/frequency thereof. Governments should hear everyone must come up with strategies that will be beneficial to all sector stakeholders.

The question of subsidies was also discussed and the panelists stressed that, where governments are indeed to provide subsidies (especially for social housing), it should be done in controlled, well supervised and transparent environments, some even allude to rent control under such scenario. Subsidies must be hinged on responsibility, so there must be a medium of paying back. In giving subsidies, contributing governments must be careful to ensure that the end goal is indeed achieved i.e. providing and/or upgrading housing for the under-privileged.

## THE ROLE OF THE PRIVATE SECTOR IN RENTAL HOUSING

The private rented sector has the potential to engage a broad range of developers. We heard from private residential landlords and developers, from international construction companies and to a lesser extent from housebuilders, all of whom were very enthusiastic and did show real interest in the potential build to let market in Sub-Saharan Africa.

**A strong case was made that large-scale developments specifically designed for private rent (or with a substantial private rented element) could deliver real benefits for communities and for tenants, and could also be an attractive investment proposition.** Owing to its ability to leverage capital and financing and better efficiency, the private sector can significantly contribute to increasing the supply of affordable housing across Africa, and complement the efforts of the governments.

The private rental sector offers a flexible form of tenure and meets a wide range of housing needs. It contributes to greater labour market mobility and is

increasingly the tenure of choice for young people, a target market left behind by the scarcity of new developments and the cost of finance. In some areas a component of private rental can significantly help to unlock stalled sites, taking account of current demand for private rental rather than home ownership.

A large number of people raised concerns about the planning system and availability of land. Some of the issues were common to all housebuilding – there was however a strong feeling, for example, that : (a) public land was not being brought to market quickly enough; (b) that there was too much government interference; (c) that authorities generally do not distinguish between demand for rented accommodation and demand for home ownership, henceforth **governments need to give a clear lead to local planning authorities to encourage them to recognise the role of private renting, and the different economics of developing homes for rent, within the context of a full understanding of local needs.**

## THE RENTAL HOUSING BUSINESS MODEL

Housing is a product and as such, its price, location, functionality, size and services are key elements that must be considered in delivering that product.

There are risks involved in delivering housing as a product. Some of the major issues to consider include: yield, debt cover ratio, loan to value, debt asset ratio. It should be stressed that, like any other business, **price is vital in the rental business, there must be a positive cash flow from day one**, and return on investment (ROI) must always exceed debt interest.

**A feasibility study is always a must, patient capital or long-term view in financing availability is required** and the government administration procedures may be at times (and even often) slow, cumbersome and discriminatory.

Whilst individual private rented schemes have been a feature of the market in a small way in most African countries, the extent of activity in those markets has not generated a steady flow of schemes or the emergence of a generally accepted body of practice or market benchmarks. Henceforth, it is important to note that after all is set and done, rental housing remains a risky (albeit potentially lucrative) business, so most investors still seem reluctant to be the first mover in an expansion of the rental sector in sub-saharan Africa. **So taking the risk is the first step!**

## RENTAL HOUSING MANAGEMENT

In South Africa, the Rental Housing Act protects and regulates the relationship between landlords and tenants and has helped in speeding up landlord and tenant mediation and arbitration services as well as in building quality legislation and regulation. Although it was said that there is no need for rent control, government intervention remains very important for the development of a vibrant formal rental market. **It was also mentioned the important role of housing associations as key players in the development of bespoke rented schemes.**

Government assistance to formal rental housing can be through sponsoring social housing programs and community residential units. **Social housing institutions in collaboration with the government and private sector can facilitate the development of appropriate stock, to ensure the right products get to market and at affordable cost in the long-term.** Other key functions of social housing institutions include: offering effective, efficient and responsive services to tenants; community and neighborhood development through not creating but strengthening the legal landlord-tenant relationship and stabilizing neighborhoods as well as improving socio-economic opportunities for tenants; providing housing opportunities for people with special needs.

Some of the key management components required for a well functioning rental sector would include: **the careful screening of tenants who are coming on board, which would minimize the risk of defaulting payment and other management-related challenges; rent collection and arrears management.** A proper rental contract should be clear on issues of maintenance, to include cleaning, caretaking, and security, complaints in case of damages by tenants or natural damage and notification of any sort.

In managing rental housing, the choice of location of the property is critical, especially in terms of commercial risk and proper planning for financing the project; poor location leads to inadequate market for the investor. It was also noted that financing (particularly loan financing) for rental schemes is becoming more and more a challenge. Therefore governments need to put in place regulatory frameworks that will be more attractive to investors into the formal rental housing space.

On the other hand, **political expectations and interference were highlighted as key challenges, especially in the context of poor policy structures and procedures. Management of rental returns over project life period also remains a big challenge.** Stakeholders must therefore professionalize rental housing management as governments' intervention regulates the rental market to the benefit of both owners and tenants.

## RENTAL HOUSING FUNDING AND INVESTMENT OPPORTUNITIES

The panelists underlined the potential attractiveness to investors of large scale developments of rented homes. Many investors drew comparisons with commercial property, but challenged the "traditional" view that residential investment was a less attractive proposition. Some of the key factors are set out below:

- ✓ The underlying fundamentals are strong: there is indeed significant pent up demand for rented housing in the years up to 2020, at least!
- ✓ There are strong synergies with liabilities: Rents do have the tendency to rise over time, this is therefore widely seen as an excellent match for

liabilities arising in pension funds.

- ✓ There is potential for diversification: for e.g. overseas investors see the rental sector as an inflation and currency hedge. The rented sector also offers the advantage of multiple exit strategies, including break-up, aggregation, flotation, REIT status or sale to other investors.
- ✓ Yields should meet investors' requirements: The evidence received challenged the perception that yields in the sector would be insufficient to attract investment, particularly when compared to commercial property. Thus for instance, International Housing Solutions (IHS) as well as TUHF, South African private equity investors, highlighted their rather strong total return performance of residential rental over the past 10 years.
- ✓ Investors are attracted by the stability of the regulatory framework: indeed, alongside stable returns, investors on this panel also drew our attention to the importance of the stability of the regulatory framework for renting. Equally, they warned of the dangers to the attractiveness of the sector were that stability to be undermined.





However, despite significant interest for several years, this potential has not translated into large-scale investment. The strength of the owner-occupier market, the lack of developments of scale, and the challenges to net yields have constrained the range of opportunities available to investors to invest in rental schemes.

Henceforth **linking institutions with the development pipeline is vital to boosting supply**, perhaps through guaranteed take-outs – that is developments which are fully built out and let - allowing developers to accept a lower return for de-risking their output.

At the same time, investors are concerned about a perceived shallowness of the pool of management expertise in residential investment, which has implications both for the delivery of economies of scale and for reputational risk. Hence the **need for bolstering the technical and financial capacity of this sector**. Some investors indicated that it was not uncommon for them to eventually walk away from an investment because it was taking too long to put together.

Finally, key international development institutions such as the French Development Agency (AFD), the European Investment Bank (EIB), the international finance corporation (IFC) and Guarantco, as well as local financial institutions such as ASO Savings Nigeria, did indicate their clear interest in financing affordable rental housing schemes. They would like to receive viable project proposals!

## RENTAL HOUSING INNOVATIVE APPROACHES

This session presented the cases of two rental housing initiatives led by private sector :

*From South Africa:* AFHCO, a leading investor, developer, and manager of affordable housing in the Johannesburg inner-city, established in 1996, presented its business model whereby the Group delivered over 5500 affordable housing units in the Johannesburg inner-city and has been instrumental in upgrading and converting derelict high rise buildings. Thus AFHCO is not only a profitable business as a private entity but it is also the leader in community development and regeneration through the creation of improvement districts within the inner-city, by addressing social issues and by lobbying Council to assist with public space upgrades and service delivery.

*From the USA:* Africa Integras, a private equity firm, presented its public-private partnership strategy as it partners with universities and other education institutions across sub-Saharan Africa to help them achieve a financially sustainable structure to address their infrastructure expansion needs - including academic classrooms, student hostels, faculty housing and related commercial and leisure facilities. Africa Integras targets commercial returns using a BOT investment structure to ensure each project meets the highest affordability for the education institutions.

## THE CASE FOR RENTAL HOUSING

This concluding session recognized the **critical role that the rental housing sector in Africa could play both in meeting people's housing needs, and in supporting economic growth**. Indeed, housebuilding is a major contributor to economic growth. Housing construction, repairs and maintenance have a direct impact on economic output - an average 3% of GDP by international standards. Housing construction also supports more jobs than investment in many other sectors of the economy due to related activity.

It was however noted that informal rental is the norm in Africa whereas much of the more formal rental housing supply has been driven by individual landlords with small portfolios, therefore, critically, growth in the rented sector has generally not contributed to the supply of new housing in adequate or desirable scale.

The huge and increasing imbalances between supply and demand for housing in sub-Saharan Africa make it critical to develop new models - models in which housebuilding does not rely solely on demand from owner-occupiers, and which offer a greater variety of options for the majority number of households who are renting their home.

This conference has established the significant potential for institutional and private investment in rented homes, but governments must be held accountable and step in to (a) promote rental housing and (b) issue formal rental housing policies that would provide required incentives to enable the formal rental housing sector to finally develop.





## CONCLUSIONS AND RECOMMENDATIONS

It is clear that, on the demand side, there is real potential for investment in large scale developments of purpose built rented housing to grow and to be viable. This type of development can bring in new money, give a boost to housing supply, and provide more choice for tenants, particularly those who may be renting long term (i.e. our low-income people).

It is also widely accepted that the conditions now are more favorable to this kind of development than they have been in recent years (e.g. improved political stability and growing economies on the continent). However the challenge right now is to secure a step change on a faster timescale – a significant boost to housebuilding now, to meet existing and growing demand for rented homes. Delivering that step change will require some goodwill and more importantly some real action from governments – to address the structural gap that currently separates developers/housebuilders, investors and local authorities, and to give confidence to investors.

The recommendations below aim to deliver that step change:

### RECOMMENDATION ONE:

Governments must clearly signal the importance they attach to the expansion of the “build to let” market. We believe the Government should further give tangible form to this for e.g. by:

- ✓ Specifically recognizing the role of the rented sector when assessing housing demand and planning for housing; in fact governments should include in a strong steer to specify rental needs as part of their strategic housing market assessments;
- ✓ Encouraging local authorities to include more flexibilities in their planning system to plan for and enable developments of rental housing schemes, where they can meet local needs;
- ✓ Establishing a national policy for rental housing that would include all necessary incentives (fiscal and otherwise) necessary to attract private capital into this sector while enforcing desirability of affordable housing.

Where member states lack experience in developing policy proposals for rent, they are encouraged to engage with multi-lateral institutions such as UN-Habitat, Shelter Afrique and the World Bank, to seek some help on policy dialog.

### RECOMMENDATION TWO:

Governments must commit to release public sector land with capacity for 10,000 homes per year and make it then available to developers on the basis of a pre-determined volume of build-to-let. The concept is for:

- ✓ governments to identify, in partnership with local authorities (e.g. city councils) public land sites in locations where there is a good demand for rental housing (this should be ideally demonstrated by an independent feasibility study);
- ✓ Investors (for e.g. led by Shelter Afrique) to raise the necessary cash;
- ✓ Then procure a developer and a managing agent to develop a market-driven mixed-tenure development across those sites which returns a blend of sales and rental income over a period of time. The income derived from the investment shall be sufficient to provide a level of return to both the investors and the governments, with the cash investors taking a priority return and the governments recovering its land values as a second priority.

Thus, in line with the above proposal and as one of the key highlights of the conference, Uganda signed a Memorandum of Understanding (MoU) with Shelter Afrique for building of over 600,000 houses in collaboration with government and private sector professionals in Uganda.

### RECOMMENDATION THREE:

As there is a need to speed up the emergence of schemes which better reflect both the product and the scale that investors are looking for and there is also the need to demonstrate how these schemes can deliver the yields and benefits that are attractive enough for private capital, it is recommended that governments provide carefully targeted incentives to stimulate the rapid development of new business models, from a range of promoters – public sector landowners, registered providers, or/and private sector housebuilders.

Governments should consult further on the detailed form and scale of incentives but the most effective interventions are likely to be as follows:

- ✓ Recognizing that private investors' interest is likely to be mainly focused on the take-out of completed and stabilized developments, government should also consider seeding institutional funds in order to leverage in other private capital. This funding should be on the same terms as private investment, without any element of subsidy, and should be





seen as a demonstration, through the power of example, of the governments' determination to trigger a significant expansion of institutional investors' interest in the sector. In order to align its interests with those of other investors, any such funding should only represent a minority interest in the fund and should have no special rights or protections.

- ✓ Alternatively, governments may wish to consider how they can share investment risk - for e.g. by providing government guarantees of different descriptions (rent, capital, refinancing and voids) as a way of stimulating the market.

Thus another key highlight of the conference was the Government of Niger offering its guarantee to the consortium led by Shelter Afrique and Africa Integras to develop a student housing programme for some of the country's universities.

#### RECOMMENDATION FOUR:

In order to provide some of the expertise and support to overcome the barriers around the unfamiliarity of the proposed schemes, the lack of an established body of best practice, norms and market benchmarks, governments should establish a dedicated Task Force focused on rental housing to act as an enabler. The Task Force would be composed of a range of officials and private sector specialists (including developers, lenders, investors, valuers and lawyers) and work closely with the Ministries of housing, under the leadership of a private sector (or multilateral agency) Chief Executive. Its role could be:

- ✓ **to act as the focal point for rental** schemes across the public sector and to co-ordinate with interested parties in the private sector, including developers, local and overseas financial institutions etc;
- ✓ to promote a standardization of the process - including a statement of expected standards - and of forms of contract;
- ✓ to identify and scope the pilot projects that the governments could undertake;
- ✓ to raise awareness / promote rental housing to the public and to ensure that the private sector is fully aware of all opportunities regarding public land development; and
- ✓ to provide transactional support (e.g. as regards viability studies, scoping and contract negotiation) to the public sector, especially for smaller authorities that may not have the experience or resources.

Shelter Afrique is hereby reaffirming to all its member states its willingness and capacity to participate in any such Task Force upon their express request.

#### RECOMMENDATION FIVE:

In the short-term, Shelter Afrique shall publish within a year, a Rental Housing Development Manual with contributions from key experts on *inter alia*: rental housing transaction structure, financial modeling, management, design standards, model leases etc.

Furthermore, within the next two years, Shelter Afrique shall undertake two medium scale pilot Rental Housing Projects in partnership with local and international partners to demonstrate best practice.



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#### RECOMMENDATION SIX:

Finally, as requested by participants, the African Rental Housing Conference (ARHC) shall be an annual event to keep alive the pan-African policy dialog on rental housing while stakeholders keep abreast of progress made on this important topic across the continent.

Thus, Shelter Afrique has agreed to re-conduct the conference next year, so that to keep monitoring progress made on the rental housing agenda while continuing to actively engage stakeholders to deliver on their respective duties.





**Our mailing address is:**



Shelter Afrique  
Longonot Road, Upper Hill  
P.O.Box 41479 Nairobi 00100 Kenya

For more info contact  
**[Ndefo@shelterafrique.org](mailto:Ndefo@shelterafrique.org)** and  
**[boyateru@shelterafrique.org](mailto:boyateru@shelterafrique.org)**