

RENTAL HOUSING

Funding and Investment Opportunities

Presented by

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October 15th, 2014



- Huge housing deficit across Africa, running into tens of millions. It is estimated that informal (irrecoverable) housing accounts for more than 75% of total dwelling units in Africa;
- Sub-Saharan Africa has the highest proportion of slum dwellers at 61.7% in 2010 and the highest urban and slum growth rates of all the regions in the world.
There are serious human and institutional capacity shortages in dealing with the rapid pace of urbanization and the menace of slum growth;
- Most formal housing units are not affordable for the majority of Africans. Factors responsible for high house prices include:
 - land allocation costs
 - high cost of funding
 - high cost of building materials (cement, steel) & price fluctuation
 - high dependence on imported materials
 - prevalence of traditional building technology
 - logistical challenges and the dearth of skilled artisans
- Conventional housing finance in Africa is undeveloped and seldom serves low-income households.

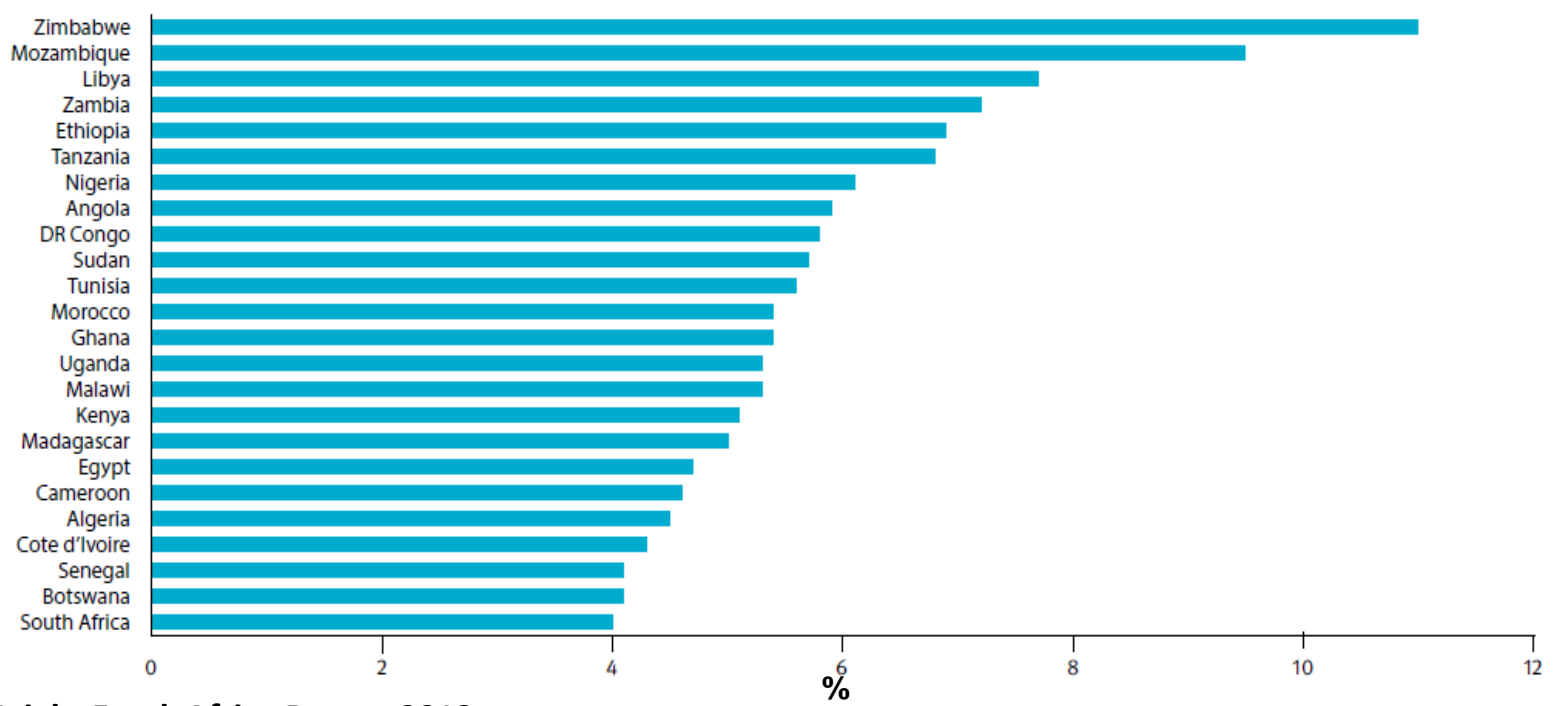
Economic Prospects for Sub-Saharan Africa

The return of macro-economic and political stability to many countries in Africa has made the overall climate for a rapid increase in housing production more favorable;

Growth in sub-Saharan Africa was 5% in 2013 while the regional GDP grew at a rate of 5.1% last year, and is projected to grow at 6.1% in 2014. The growth trend is expected to be sustained;

Africa's economic growth and emerging consumer markets should continue to attract rising numbers of investors to the continent;

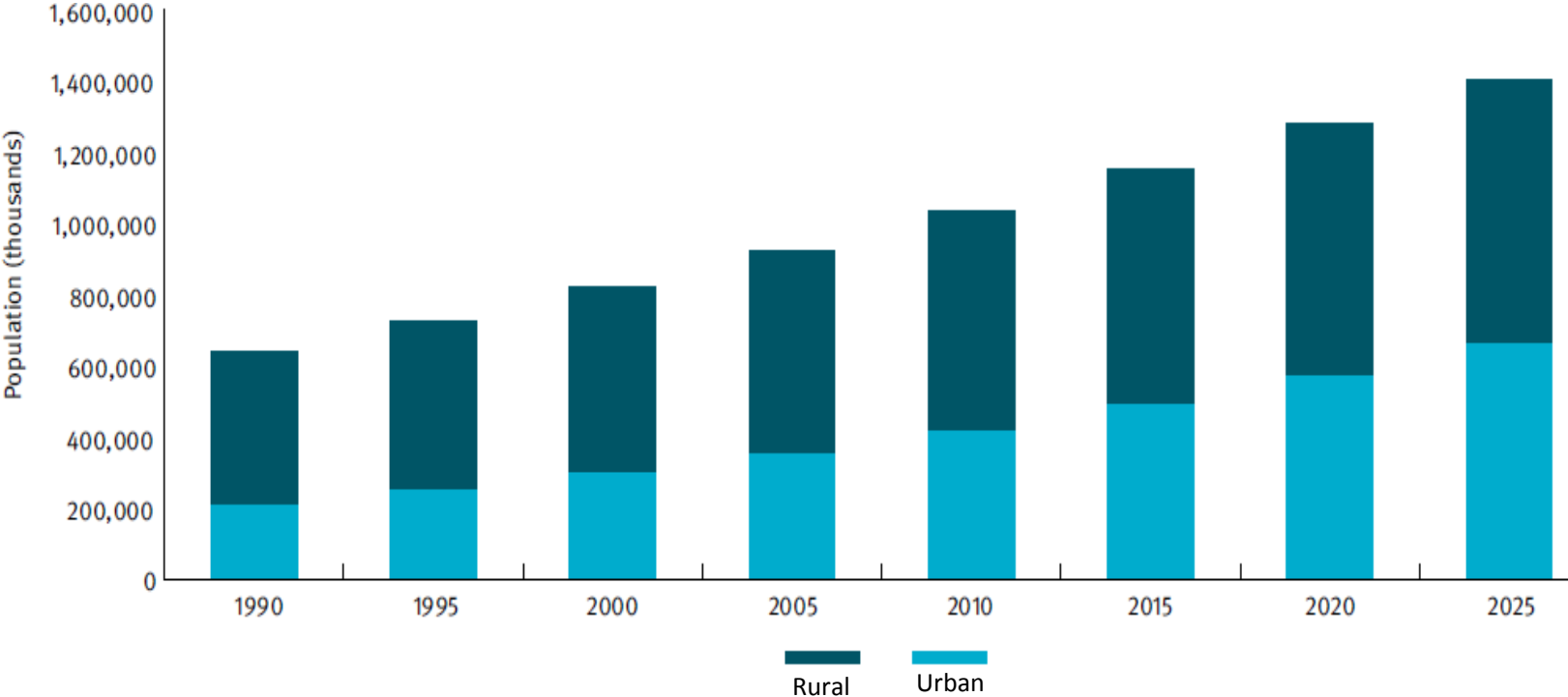
Growth forecasts, 2013-17, average growth pa



Source: Knight Frank Africa Report 2013

Market for Rental Housing

- Africa has a large and growing, young and increasingly wealthy population, a demographic advantage that few other parts of the world will be able to match over the coming decades;
- In Nigeria for example it is estimated that 85% of Nigeria's urban populace live in rented apartments
- In Africa, the significant portion of housing deficit is in the urban areas. As depicted below the, population of urban areas continues to rise faster than the rural areas



Source: Knight Frank Africa Report 2013

Residential Rental Yield in Sub-Saharan Africa vs Other Parts of the world

Sub-Saharan Africa		
S/No	Country	Average Rental Yield
1.	Johannesburg, South Africa	5%
2.	Nairobi, Kenya	6%
3.	Luanda, Angola	7%
4.	Kigali, Rwanda	7%
5.	Abuja, Nigeria	8%
6.	Windhoek, Namibia	8%
7.	Lagos, Nigeria	9%
8.	Accra, Ghana	10%

Others		
S/No	Country	Average Rental Yield
1.	London	3.06%
2.	Spain	3.86%
3.	New York	4%
4.	Germany	4%
5.	Sao Paulo	5.69%

Source: Knight Frank Africa Report 2013 & Global Property Guide

Funding Sources & Structure

Traditional Funding Sources

- Equity Contributions by Developers
- Construction Finance by Banks
- Savings by Rental Property owner
- Deposits by Tenants

Emerging Alternative Funding Sources

- Insurance Companies
- Private Equity Firms
- Trust Schemes
- Pension Fund
- Islamic Finance
- DFIs

Real Estate Investment Instruments & Structure

- JV Structure
- REITS
- Bonds
- Equity Stocks
- MBS/ABS
- Rent to Own Schemes
- Etc.

Role of Domestic Financial Sector

- Fund Mobilisation: Mobilizing of fund into the housing finance subsector for the development of rental housing
- Conduit for Govt Subsidy: Serve as a conduit for channeling government subsidies (housing related) to the masses
- Secondary Market: Help create a secondary market for rental housing funding (REITS etc.)
- Project Risk Sharing: Players in the domestic financial sector are usually willing to share project risks with Real Estate Firms
- Project Management: Local finance providers are sometimes more efficient and effective in establishing project management functions that help supervise benefiting developers and projects
- Creativity in Product Roll Out: Leveraging on their understanding of the local market such entities could be more creative in product development and roll out

Role of International DFIs & International FIs

- International Fund Mobilisation: Mobilizing of fund from the international market into the housing finance subsector for the development of rental housing
- Govt Engagement: Champion engagement with the Govt towards formulation of rental housing friendly policies
- Secondary Market: Work with other stakeholders to develop an active secondary market independent of the Government
- Best Practice: Act as a force for standardization in the market, pushing Member banks to adhere to best practice
- Knowledge Transfer
- Long Term Funding: Act to deepen the financial market more by providing long term funding to institutions
- Subsidy: Provision of subsidies in form of grants, loans at subsidized rate and infrastructure
- Tenant Friendly Practices: Lobby implementation of tenant friendly practices such as:
 - ✓ Raised standards on the condition of rented properties
 - ✓ No hidden or frivolous rental charges

Attractiveness of Rental Housing to Private Capital

- ▶ High Rental Yields
- ▶ Portfolio diversification
- ▶ Transparent tax
- ▶ Potential for value appreciation
- ▶ Opportunity created by the market deficit
- ▶ Stability of rental income
- ▶ Longer term revenue source

Critical Success Factors for Rental Housing Investment in Africa

Rental Housing Act

- Enact a Rental Housing Law to regulate rental housing (housing quality, tenancy duration, rent increases and agency fees).

Land Registration & Building Permits

- Ease Land Registration processes to bring down high cost of land and cost of perfecting titles.
- Review process for obtaining building permits and approvals, which can be very challenging and expensive particularly in high density areas.

Funding

- The current financial structure, comprising banks and the capital markets, is inefficient and cannot accommodate the complexities of housing finance.

Different sub-sectors of the real estate market require different operational approaches. The following options need to be incorporated in order to achieve the goal of affordable housing for Africa:

- Real Estate Investment Trusts (REITS)
- Mortgage Backed Securities (MBS)
- Pension Funds
- Equity Funds

THANK YOU