

Housing Finance in Africa: Analysis of Housing Finance Sector Studies

Growing Sustainable Housing Microfinance Options in sub-Saharan Africa
Giraffe Ocean View Hotel, Dar Es Salaam, Tanzania

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Outline



- Introduction
 - Housing Finance Sector Studies
 - Zambia, Botswana, South Africa, Kenya, Rwanda, Mozambique, Uganda, Namibia

- Country overviews
 - Overview
 - Access to financial services
 - Macro economy
 - Housing affordability
 - Housing supply
 - Picture of housing finance

- Key opportunities & challenges
 - Relevance
 - Scale

Introduction

- Housing finance sector studies
- Zambia, Botswana, South Africa, Kenya, Rwanda, Mozambique, Uganda, Namibia



Housing finance sector studies



- Commissioned by FinMark Trust with support from Habitat for Humanity
- Key question:



- Completed
 - Zambia
 - Botswana
 - Kenya
- To be published soon
 - Uganda
 - Rwanda
 - Mozambique *(with support from the World Bank)*
- In progress
 - Namibia
 - Ethiopia
 - Housing microfinance in SA *(with support from the Hivos Foundation)*
- Future plans
 - Ghana
 - Tanzania
 - Egypt
 - Angola
 - ... other
- Long term goal: effective comparisons to facilitate focused, scale engagement
- Identification of possible regional opportunities

Country overviews

- Overview
- Access to financial services
- National economic position
- Housing affordability & finance
- Housing supply



- High income earners formally house themselves (own resources)
- The middle class must finance own construction (over time, often in unplanned areas)
- Minimal amounts of finance (quasi-mortgage) available to high-net worth clients through a handful of banks
- Move to revive, extend or introduce mortgage lending in a handful of countries (Botswana, Ghana, Tanzania, Zambia, Uganda, Kenya)
- Financial Sector Reform Programmes have a new housing focus as key to economic growth

■ Key challenges facing mortgage lenders

- Access to capital (in part due to limited mortgage sector infrastructure – flexible underwriting, credit bureaus, secondary markets, etc.)
- Significant demand side constraints
 - Affordability for loans
 - Informal incomes
 - Tenure insecurity

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Source: Mary Tomlinson (2007) A literature review on housing finance developments in sub-Saharan Africa. Commissioned by the FinMark Trust.

	Level of urbanisation %		Improved water %		Improved sanitation %		House connections %		Poverty	
	2000	2030	1990	2002	1990	2002	1990	2002	% < \$1	% < \$2
Africa	37.1	53.5	78.7	83.4	55.3	57.8	42.5	43.3	40.3	75.7
E Africa	24.4	41.0	85.2	84.5	51.1	53.8	42.9	42.3	37.5	74.5
Middle Africa	35.2	54.4	67.9	74.9	46.0	43.2	30.0	30.8	43.5	76.0
S Africa	52.4	67.0	94.0	94.2	68.8	69.6	62.0	63.6	30.7	54.7
W Africa	40.1	58.9	95.6	81.6	46.2	57.0	27.8	32.8	49.4	77.4

- By 2030, most countries will be > 50% urbanised. Urban populations in Africa are growing by 3.5% pa
- Sanitation and electricity are the most significant urban services challenges
- Poverty is significant : 75% of the population earning less than \$2 per day
- Southern Africa leads in access to services and has lower poverty figures. It is already more than 50% urbanised.
- Demand for housing is clear
- Access to urban services and poverty levels suggest incremental housing processes will dominate
- Poverty levels suggest limited affordability for large scale loans
- **Wild card:** access to secure tenure

Source: Global Report on Human Settlements 2005: Financing Urban Shelter

National economic position

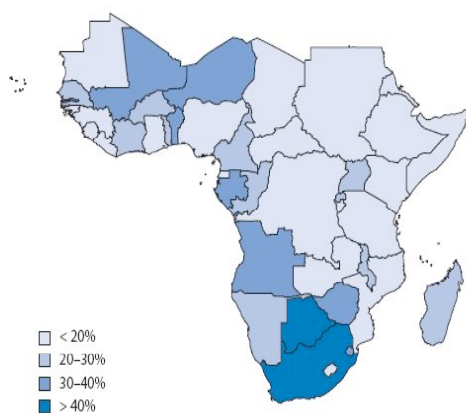
Zambia	<ul style="list-style-type: none"> Independence in 1991; completed 5th yr Highly Indebted Poor Country programme 4.6% avg GDP growth annually over past 7 years Declining inflation (15.9% in 2005, down from a high of 30% in 2002)
Botswana	<ul style="list-style-type: none"> 6.5% avg GDP growth annually over past 10 years Gradually rising inflation (7.2 % in February 2007)
South Africa	<ul style="list-style-type: none"> Economic reforms since 1994: growth focused strategy 3-5% avg GDP growth annually over past 10 years Increasing inflation (currently at 8.8%)
Kenya	<ul style="list-style-type: none"> Independence in 1963; economic reforms in 2002 From 1.4% annual GDP growth in 1997-2002, to 5-6% growth in recent years Increasing inflation (14.5% in 2006)
Rwanda	<ul style="list-style-type: none"> War and genocide ended early 1990's 6% avg GDP growth annually over past 10 years Increasing inflation (currently above 10%)
Mozambique	<ul style="list-style-type: none"> Wars 1969-74 and 1979-92 7.72% avg GDP growth annually 2002-2006 Double-digit inflation (14.9% in April 2008)
Uganda	<ul style="list-style-type: none"> Economic reforms since 1987 6.5% avg GDP growth annually over past 10 years Rising inflation (7.7% in 2006/7)
Namibia	<ul style="list-style-type: none"> 4.3% avg GDP growth annually over last 11 years Increasing inflation

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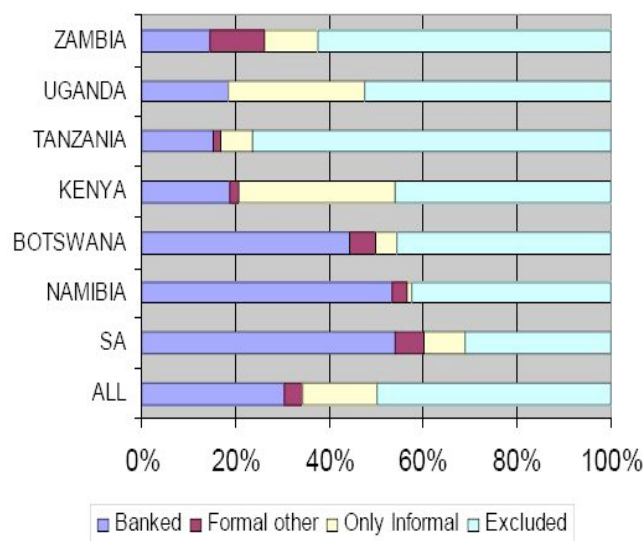
Access to financial services

MAP 24

Access to Finance by Households



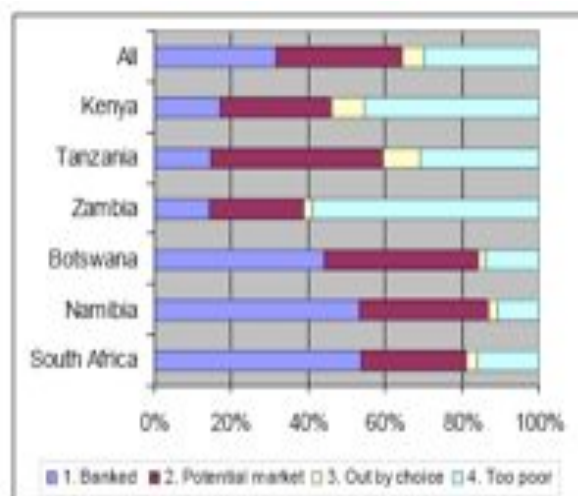
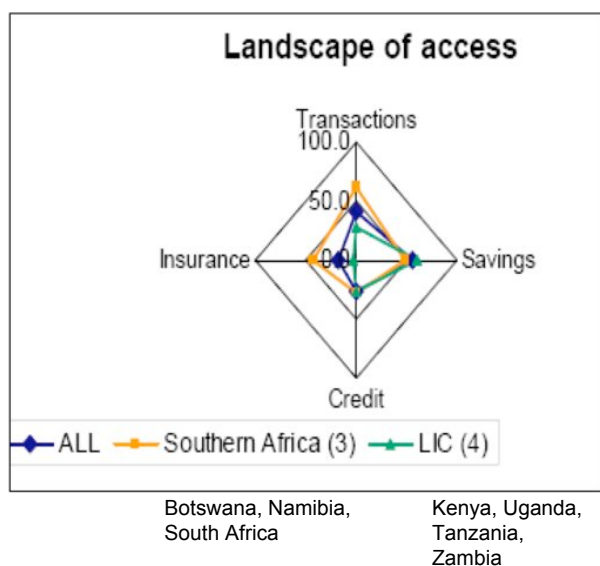
Sources: Honohan 2006, with additional data obtained for Guinea Bissau from Banque Centrale des Etats de l'Afrique and World Bank staff estimates for Chad, Equatorial Guinea, and Somalia.



Sources:

Honohan (2007) Access to Finance in Africa

Bankable Frontier Associates (2007) Financial service access and usage in Southern and East Africa: What doFinscope™ surveys tell us?



Source: Bankable Frontier Associates (2007) Financial service access and usage in Southern and East Africa: What doFinscope™ surveys tell us?

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Housing affordability & finance

- Less than 30% of households in most emerging countries can afford a mortgage to purchase the least expensive developer-built unit because of:
 - House prices are high
 - High real interest rates of 10%+ amortised over years creates high monthly repayments that low income earners often cannot afford
 - Unavailability of long-term funding, which creates interest-rate risk and limits the supply of mortgage credit
 - Costly formal-sector systems for property rights, land use development, property transfer taxes etc., push families into the informal sector, and contribute to limit the demand for mortgage money
 - Instability of household income makes long-term debt risky to lenders and unattractive for many families
- Zambia (Gardner, 2007):
 - “Few self-employed people earn sufficient to qualify for a home loan. This leaves the 16% of all Zambians that are formally employed (2.2-million) as the potential market for housing finance. However, of these, 40% are currently un-banked.”
- Botswana (von Rudloff, 2007)
 - “Few self-employed people earn sufficient to qualify for a home loan. This leaves the 17,3% of all Botswana that are formally employed (281,915) as the potential market for conventional housing finance.”

- Kenya (Alder and Mutero, 2007)
 - “only a small proportion of urban households – estimated to be less than 10% -- have traditionally qualified for mortgage loans from HFIs, with the majority ruled out by their low incomes. Borrowers generally consist of high net worth individuals. Even with the fall in interest rates since the 1990s, and the recent extension of lending terms to 25 years by some HFIs, the impact of mortgage lending is still very limited.”

- South Africa (Rust, 2007)
 - “within South Africa’s population of about 12.7 million households, only about 2 million can afford to participate freely and comfortably to the extent of their needs in the housing market.”

- Uganda (Kalema, *forthcoming*)
 - Out of 5.2 million households in the country, only 0.68% can access mortgage loans through commercial banks, 19.95% can access housing micro-finance loans through Micro-finance Deposit taking Institutions, 7.2% can access loans from Micro Finance Institutions and Savings and Credit Cooperatives, 10.3% can only access loans through Savings and Credit Cooperatives only and 62.3% have no access to financial services.

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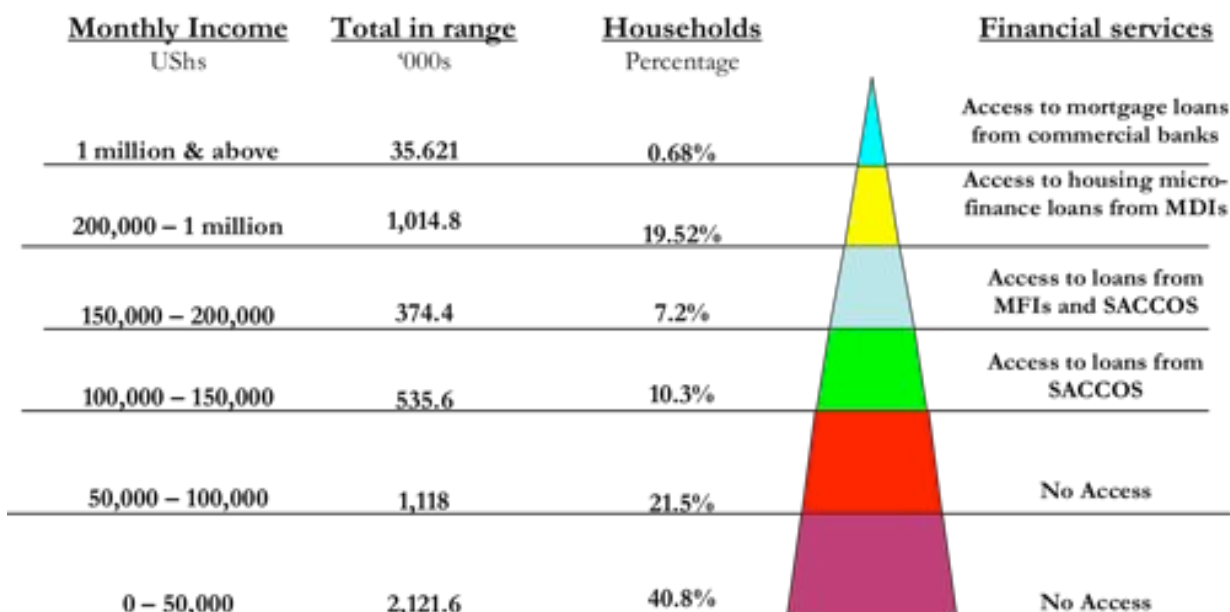
- Rwanda (Oyier, Ketley & Davis, *forthcoming*)
 - “The CSR (Social Security Fund) shows that of the 270 000 formally employed, only around 50 000 people earn above RWF1.2 million (US\$2000) per month. As will be discussed later this means that the income of the bulk of the population will fall below the level where they can secure mortgage financing in the formal market.”

- Mozambique (Allen and Johnsen, *forthcoming*)
 - “On the basis of an interest rate of 18%, using a debt service ratio of 30% and a 20% deposit, a household would require a monthly net salary of 48 000 MT (\$1 900) to borrow \$40 000 over a 20 year period to purchase a small apartment in the less attractive areas of the cement city of Maputo. ... This is more than the net basic salaries of a couple senior doctors working for the national health system.”

- Namibia (Kalili et al, *forthcoming*)
 - “In Namibia only 14% (74,000 households) of the households can afford to or have already purchased formal housing using a mortgage bond. In addition, the fact that the large parts of Namibia are designated as communal land, complicates access to conventional (on-balance sheet) housing finance.”

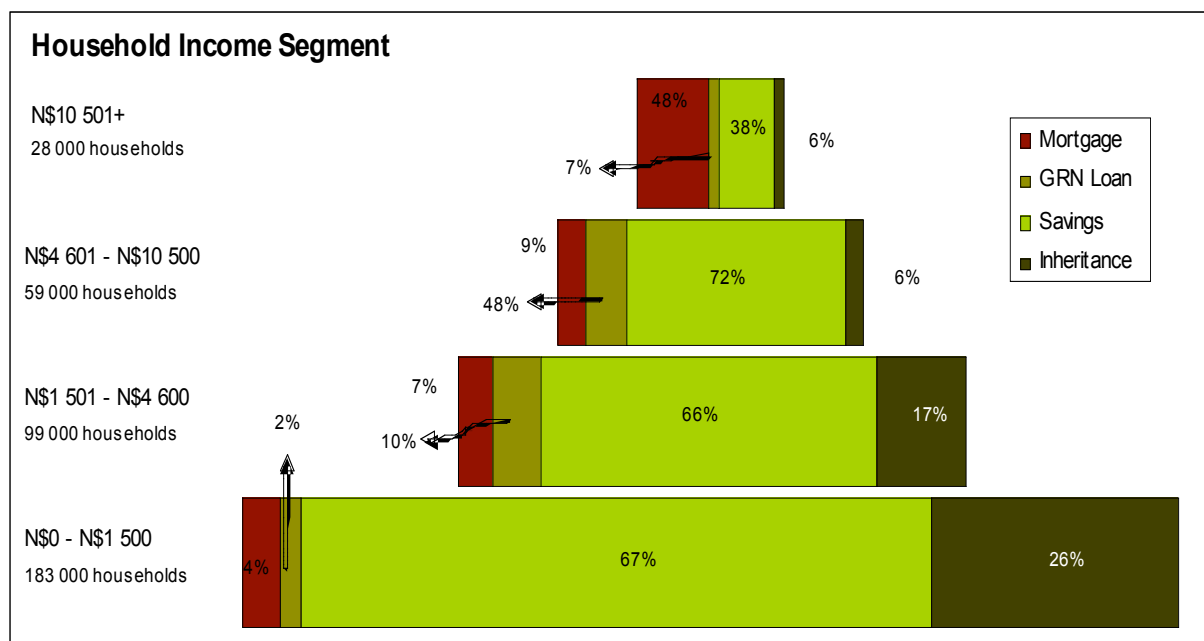
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Housing affordability & finance : Uganda

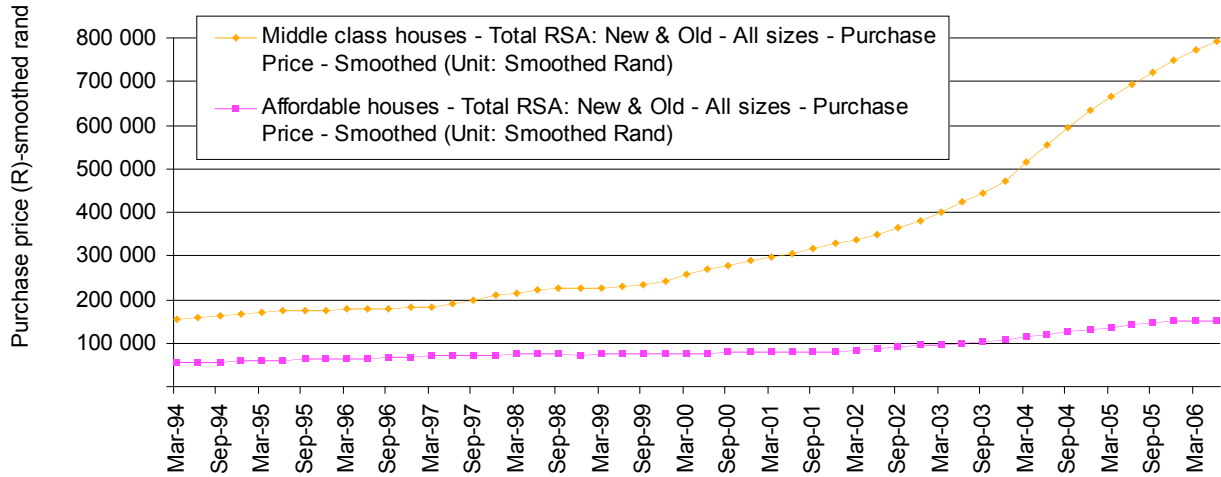


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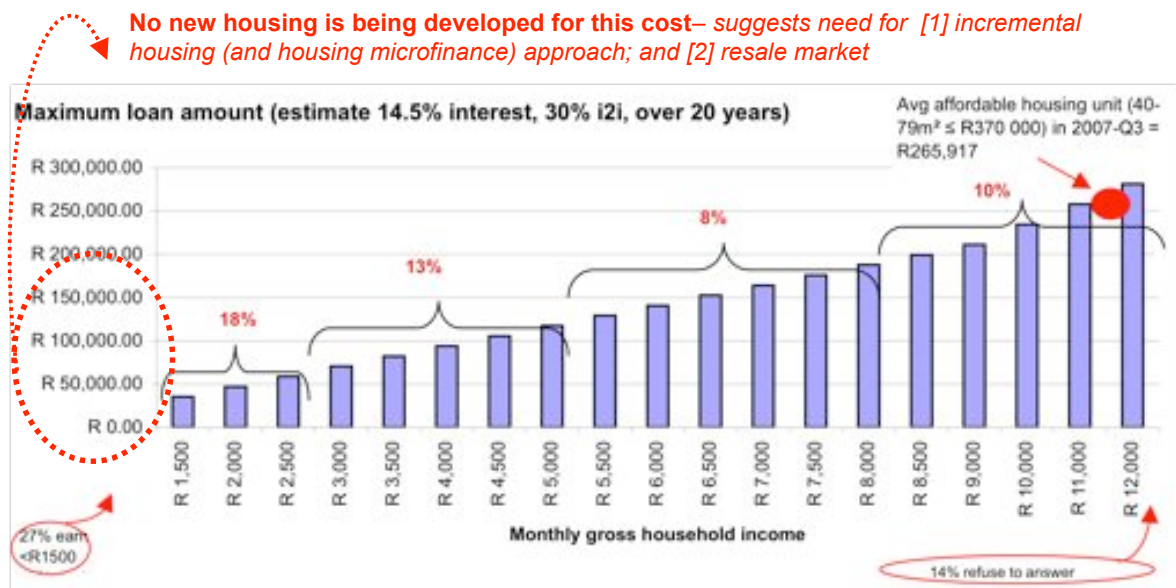
Housing affordability & finance : Namibia



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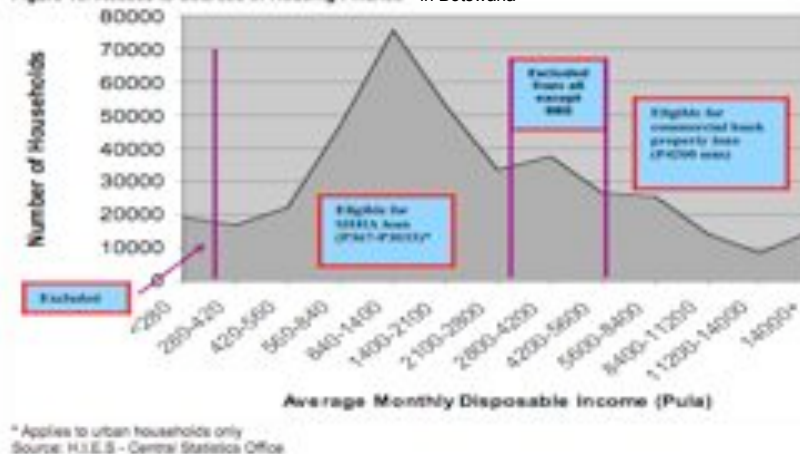


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- Affordability gap includes, and is sometimes specific to, lower-middle income households

- South Africa
- Botswana
- Namibia

Figure 15: Access to Sources of Housing Finance in Botswana



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- **New build**
 - Subsidised housing: South Africa, Namibia, Kenya, Rwanda
 - All delivery hopelessly inadequate
 - SA - subsidy waiting list is 7 years; in affordable market, less than 20 000 annually vs 132 000 demand
 - Kenya - growing slowly since 2002, but only 3243 in 2005/06
 - Estate-style developments (Zambia; South Africa)
 - Foreign investors (USA, Dubai)
- **Resale**
 - Thin market: families hold on to their housing
 - No evidence of housing ladder other than in South Africa (limited)
- **Land**
 - Incomplete data and poor cadastral systems (Mozambique, Rwanda)
 - No mechanism for individual purchase (SA)

Informal sector
dominates

- Informal trade of plots, shacks and houses (SA, Mozambique)
- Overcrowding (SA, Zambia, Namibia)
- Slum landlordism (Kenya)

Key opportunities and challenges

- The time is ripe for housing microfinance
- Housing delivery and financing systems are inappropriate



The time is ripe for HMF



BUT delivery systems inappropriate

Demand:

- Rapid urbanisation and population growth
- Over 75% of Africa's population cannot access a mortgage

Supply:

- Investors are looking for targets
 - Sub-prime fallout
 - Emerging markets interest
 - Bottom of the pyramid hypothesis

- Access to land difficult
- Government opinion of incremental processes is tentative
- Construction costs are high
- Poor people aren't necessarily good builders by nature
- HMF a new concept: lenders are few and far between
- Most HMFs are small and informal
- Large scale MFIs lack housing focus
- Governments are focusing on mortgage lending

Extent of housing microfinance

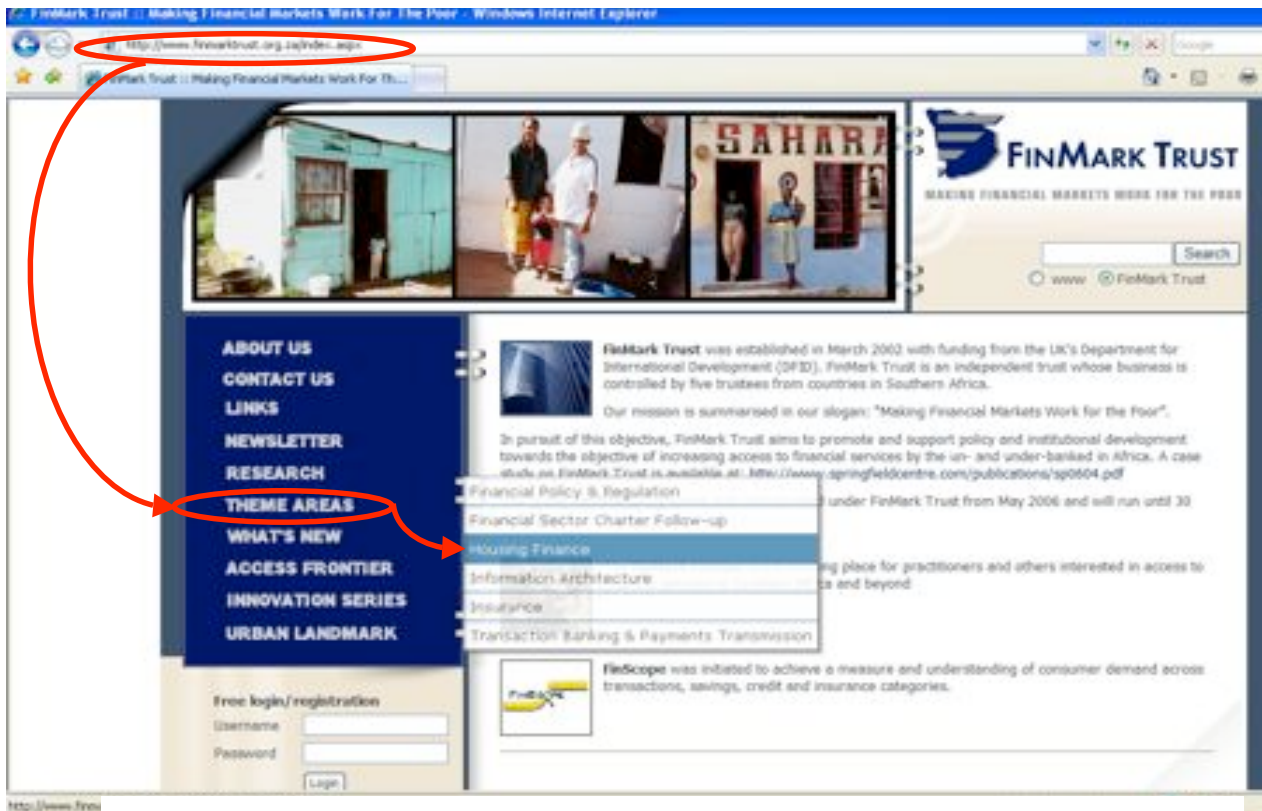
Category	Description / examples	County
Informal, locally established (susu, umpato)	Savings based, locally defined. Approach and use of funds defined by group: individual or collective loans	All countries – lessons?
Community based shelter funds	Usually donor supported (i.e. Slum Dwellers International) largely collective loans, targeted at most poor	Angola, Namibia, Tanzania, Kenya, Uganda, Mozambique, South Africa, ?
Cooperatives and credit unions (Saccos)	Individual loans for housing often a coincidental focus	Namibia, Tanzania, Zambia, Kenya, Uganda, Rwanda ?
Non-bank micro lenders (credit-only)	Origins in microcredit for SMMEs; housing the next progression. Individual loans for those with secure tenure	Angola, Ghana, Namibia, Tanzania, Zambia, Rwanda, South Africa, ?
Microfinance banks (deposit taking and lending to members and sometimes non-members)	Usually, when micro lenders convert to banks to access capital – a focus on housing loans usually comes later	Ghana, Tanzania, Zambia, South Africa, Rwanda ?
State owned banks offering microloans	Trend is now moving away from these as many sustained losses.	Ghana, Guinea, Uganda, ?
Commercial banks offering micro loans	SA banks have offered unsecured loans for some time. The National Credit Regulator estimates that 10-30% of these are used for housing.	South Africa, Namibia, Uganda, Tanzania, ? 23

Way forward

- A growing consensus that alternatives must be found to mortgage lending in Africa
- BUT: what to do?
- Poor data
- Insufficient information
- Limited analysis
- ‘Sector’ embryonic

So:

- Housing finance sector country studies
- Follow-up with country- or region-specific studies or initiatives
 - Zambia in process
- HMF workshop towards sector development
- Housing Finance in Africa web page
 - Forthcoming: open source, hosted and moderated by FinMark Trust
- Executive African Housing Finance Programme
 - October 2008 at Wits Business School
 - In partnership with the Wharton School at the University of Pennsylvania



Thank you!

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