Centre for Affordable Housing Finance in Africa

Housing Investment Landscapes
Zimbabwe

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by

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1 Background

This country report forms part of The Centre for Affordable Housing Finance's Investor Programme which aims to reduce key information asymmetries on who, why and how investments are made in the African housing sector. With the intention of identifying and championing increased investment in affordable housing, the report includes insights into and analysis of the depth and breadth of investment in Zimbabwe's housing and housing finance sector. The overall goal of this project is to quantify investment activity on housing and housing finance across Africa, and to establish a mechanism to track this on an ongoing basis. This project has collected data and highlights gaps and opportunities in the investment landscape. To stimulate greater investment in affordable housing and connect investors with potential investments, the report profiles investors and investment instruments with the greatest impact on the housing finance market within the Southern Africa Development Community (SADC).

Growing financial sector experience and increasingly sophisticated financial instruments are driving Investor interest in African real estate. This includes new market opportunities related to a rising urban middle class, an increasingly localised construction material industry and innovations in housing finance such the emergence of Real Estate Investment Trusts (REITs) and mortgage liquidity facilities across Africa.

However, the chronic lack of rigorous data on housing sector financing infrastructure presents a key barrier to this growth. This is particularly true for the housing sector, as stimulating targeted investments relies on highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in under-served markets (segmenting and quantifying the demand side, and scoping, understanding and tracking the supply side) we can support a better policy environment and increased private sector activity in affordable housing markets. In this way, we catalyse scale interventions.

Without this data, targeted interventions become challenging and result in unresponsive housing finance packages, the high occurrence of non-performing loans (NPLs) and poor uptake of new residential developments.

2 Executive Summary

The political and economic instability of recent years in Zimbabwe has led to infrastructure and regulatory deficiencies, and the housing backlog is estimated to be 1.3 million units[1] and growing. Although the financial sector remains well developed in comparison to some regional peers, the access to credit is still poor, with less than 3 percent of the working age population having an outstanding home loan, compared to the broader SADC average of 5.7 percent.[2]

Foreign investment in the country is low, likely reflecting the uncertain economic outlook and perceived investment risk. A large portion of the foreign inflows have come from the US, UK, or from the African Development Bank. Of the small fraction of investments allocated to the housing sector, investors prefer to invest in equity or debt of the banks and building societies for financing mortgage lending. The new government has spoken of plans to alleviate the demand-side and supply-side obstacles to the provision of affordable housing, but international investors are likely to wait until there is clear evidence of improvements to the investment environment.

[1] Property Reporter (2018). 'Housing backlog needs up to 20 years to clear'. The Herald.
[2] Global Findex Database 2017.

The stark funding gap for housing projects, estimated by the Infrastructure Development Bank of Zimbabwe (IDBZ), highlights the urgent need for institutional investment in the housing sector.

Table 1: Funding Requirements for Identified 2017 Infrastructure Projects

Sector	Funding Requirement (US$ million)	Budget Allocation (US$ million)	Funding Gap (US$ million)
Energy and Power Supply	346.2	5.0	341.2
Transport	1 187.7	29.4	1 158.3
Water and Sanitation	84.2	42.6	41.6
ICT	145.2	19.3	125.9
Housing	1 800.0	39.4	1 760.6
Total	**3 563.3**	**135.7**	**3 427.6**

Source: MoFED, 2017 National Budget

3 Profiles of investors

The investment landscape in Zimbabwe constitutes both local and foreign institutional investors. Below is a description of the two categories of investors, including their institutional type, sources of capital, and other parameters that define their investment models.

3.1 Local institutional investors

Capital markets

The Zimbabwe Stock Exchange (ZSE) lists 62 equities, and its principal role is facilitating long-term capital raising for companies, government and quasi-government institutions.[3] However, trading has been extremely thin in recent years, reaching a low in 2016, with annual market turnover of just US$194 million. This improved significantly in 2017 to US$695 million, the highest level post-dollarisation. In 2017, the ZSE re-introduced listing of debt securities for the first time in 20 years. Five banks are listed on the exchange – Barclays Zimbabwe, CBZ Holdings, FBC Holdings, NMBZ Holdings, and ZB Financial Holdings – as well as microfinance lender GetBucks.

Pension Funds

Pension funds play a significant role in Zimbabwe as a source of financing for the economy through long-term investments. Unfortunately, the pension schemes in Zimbabwe are not significantly invested in the affordable housing sector. The National Pension Scheme, operated by the National Social Security Authority (NSSA), has a large number of investment properties,[4] but almost all of these are commercial properties. Further, the residential properties that are in the portfolio are luxury high-end accommodation, such as Ballantyne Park in North Harare. The NSSA holds equity stakes in two of the three biggest mortgage lenders in the country, a US$47 million holding in FBC Bank and an US$11 million (16 percent) holding in the country's largest bank by assets, CBZ Bank. The government also has a 16 percent stake in CBZ Bank.

[3] Zimbabwe Stock Exchange website (n.d.)
[4] NSSA (2016). Annual report, p.58.

Creation of the National Building Society

In an encouraging sign, the NSSA set up the National Building Society in May 2016, to "facilitate and contribute to housing delivery, to provide affordable housing finance to the general public", among other aims. It was established through a shareholding of the NSSA Pension & Other Benefits Scheme (60 percent) and the NSSA Accident Prevention & Workers Compensation Scheme (40 percent). It had grown its mortgage book to US$40 million by December 2017, more than doubling the end-2016 figure. The National Building Society aims to reduce the estimated 1.3 million housing backlog (0.5 million of which is in Harare) by providing 100 000 new housing units over the 5-year period to 2021.

Sources: http://www.reiz.ac.zw/ and National Building Society 2017 annual report

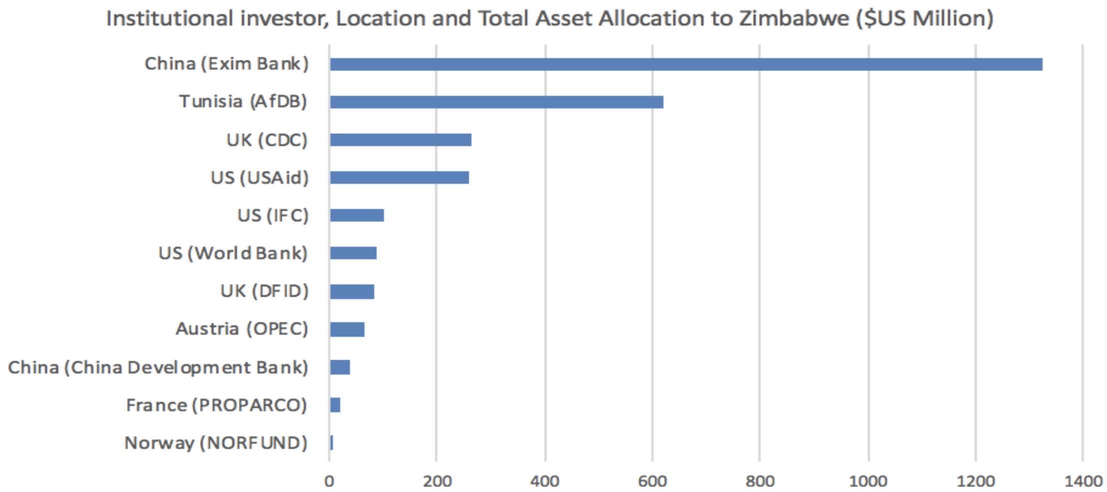
3.2 Foreign Institutional Investors

DFI Investment

In general, Zimbabwe has received little investment from overseas in recent years, perhaps because of political instability and the recent currency debasement. Exceptions are the large inflows from China, whose companies[5] have invested US$8.5 billion in Zimbabwe since 2012.[6] However, all of this has come in the commercial sector, with 95 percent allocated to the energy and transport sectors.

Most investments in the financial sector have been in the form of providing finance to the local banks. The largest single investment has been a US$75 million loan to FBC Bank by Afrieximbank, a multilateral lending institution headquartered in Egypt and funded largely by African governments and African private and institutional investors. Beyond this, there have been investments by DFIs in Tunisia (US$36 million by Shelter Afrique), the USA (US$20 million by OPIC), and the Netherlands (US$18 million by FMO).

Figure 1: Institutional investor asset allocation



Source: CAHF Research

[5] The largest investments have come from Power Construction Corp (US$2.43 billion), China Railway Construction (US$1.93 billion), State Construction Engineering (US$1.1 billion), Sinosteel (US$780 million)
[6] AEI China Global Investment Tracker – data compiled by The American Enterprise Institute and The Heritage Foundation.

4 Investment Activity in Housing

4.1 Investment Portfolio

Table 2 summarises investment portfolio, investment activity/tool, and date of investment committed by institutional investors in Zimbabwe's housing and housing finance sectors.

Table 2: Institutional investor activity

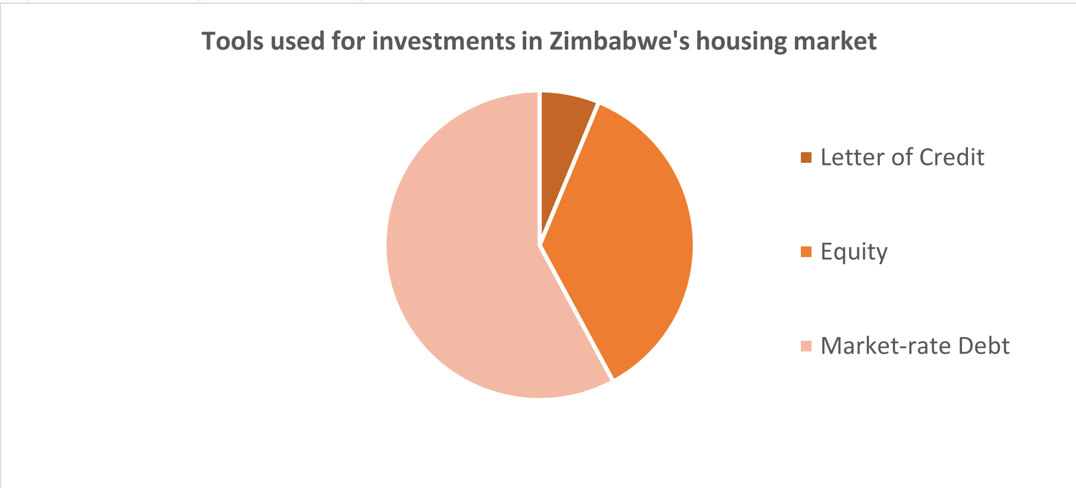
Name of Investor	Allocation to Housing (millions USD)	Investment Activity	Year of investment
Afrieximbank	75.0	Wholesale debt at LIBOR+4.5% to support FBC Bank's lending activities	2016
National Social Security Authority	47.2	Equity investment in FBC Bank to support lending activities	2017
OPIC	19.5	Funding to African Mortgage Company to fund mortgage loan production	2016
Shelter Afrique	12.0	Funding to BancABC to finance lending for property development	2011
Shelter Afrique	11.5	Financing mortgage lending for Central African Building Society (Zimbabwe)	2016
Government of Zimbabwe	11.0	Long-term equity investment in CBZ Bank	2017
National Social Security Authority	11.0	Long-term equity investment in CBZ Bank	2017
FMO	10.0	Wholesale debt to support NMB Bank's SME lending	2015
Shorecap II Ltd	9.8	Long-term equity investment in FBC Bank	2017
Libyan Foreign Bank	9.7	§	2017
PTA Bank	8.3	Funding to Central African Building Society to support mortgage lending	2016
Shelter Afrique	7.5	Funding to CBZ Bank's Nehosho Housing Scheme	2014

Source: Institutional Investors' Annual Reports

4.2 Top Performing Investment Tools

The figure below shows that institutional investors have used both equity and debt instruments to invest in the Zimbabwean housing market. As shown in Table 2, these investments have typically been in domestic banks rather than directly investing in property development.

Figure 2: Leading investment products



Source: CAHF Research

5 Current Investment Environment

Housing investment is largely dependent on the regulatory and environmental factors affecting all investment classes and typologies. This includes the status of secondary (bond and capital) markets, the macroeconomic policy framework and whether this supports or limits long-term and patient capital, the existing interbank lending rate and other conditions for investment, as well as perceptions of risk and return in the sector.

5.1 Government Policies

The vision of the Zimbabwe Investment Authority is "to be a competitive and preferred investment promotion agency in the region by the year 2020". In 2016, it passed an Act to introduce Special Economic Zones, giving various regions across the country access to investment. However, the housing sector is not emphasised. Prioritised sectors include agriculture, tourism, mining, services and manufacturing.[7]

The Investor Protection Fund was set up by the SECZ in 2009 to compensate investors for losses suffered as a direct result of a licensed player becoming insolvent, though pay outs appear to have been quite limited[8]. The new government is also thought to be looking at steps to reform some of the policies that have discouraged international investors, such as the Indigenisation and Economic Empowerment Act and the expropriation of commercial land without compensation.

A further issue is that international private investors are being offered housing investment opportunities incongruent with solving the affordable housing problem in Zimbabwe. The estate agent Knight Frank LLP is advertising luxury residential properties in Harare, for example, that offer rents of US$2 000 a month for a "4-bedroom executive house – prime location".[9] Given the average household income was PPPUS$9 735 in 2016,[10] this US$24 000 a year rent is clearly unaffordable for all but the wealthiest in the population.

6 The Breadth and Depth of Housing and Housing Finance Products

6.1 Mortgage Sector Overview

The leading mortgage providers have been Central African Building Society, CBZ Bank, FBC Bank, and ZB Building Society, with a combined mortgage book of US$366 million[11] in 2016. This is roughly one tenth of the country's total loans. This figure compares to US$167 million[12] in 2011, showing an annual growth rate of 17 percent over five years. National Building Society, set up in 2016, has become a significant player as well, leapfrogging ZB's mortgage book in 2017. The Reserve Bank of Zimbabwe has predicted US$356 million of gross mortgage advances in 2018, funding 11 700 units. Despite this optimism, the two largest mortgage lenders saw disappointing net mortgage advances in 2017: Central African Building Society's housing book grew just 3 percent from US$194 million in 2016 to US$199 million in 2017, while CBZ's mortgage book shrunk -22 percent from US$107 million in 2016 to US$83 million in 2017.

6.2 Access to Mortgage Finance

The reach of these mortgages remains restricted to a small portion of the population. Only 2.9 percent of the population aged 15 or above had an outstanding home loan in 2017. There are, however, some

[7] Zimbabwe Investment Authority, 2018
[8] SECZ Annual Report 2016
[9] Knight Frank LLP
[10] Canback global income distribution database (C-GIDD) website (n.d.)
[11] US$194 million, US$107 million, US$48 million, US$17 million respectively from Central African Building Society, CBZ Bank, FBC Bank, and ZB Building Society. Data taken from respective annual reports.
[12] US$74 million, US$55 million, US$33 million, US$5 million respectively from Central African Building Society, CBZ Bank, FBC Bank, and ZB Building Society.

encouraging signs, as this figure has almost doubled since 2014 when it was just 1.5 percent.[13] As a point of reference, the equivalent 2017 figure for the SADC region as a whole was 5.7 percent.[14] Of the poorest 40 percent of the population in Zimbabwe, only 0.3 percent have an outstanding home loan (SADC average: 3.5 percent). This disparity does not obviously seem to be an issue of financial access, as the percentage of the population aged 15 or above with a bank account in Zimbabwe is actually higher, at 55 percent, than the 50 percent figure across the SADC.[15]

6.3 Typical Mortgage Products

In May 2016, as part of its drive for more affordable financing, the Reserve Bank of Zimbabwe issued guidelines to banking institutions that the all-inclusive lending interest rate charged should not exceed 15 percent. In 2017 it lowered this to 12 percent for "productive lending," which includes mortgages.[16] Despite this guideline, banks have maintained all-inclusive rates above this, once default interest rates and other supplementary levies are included: the average effective lending rate in December 2016 was 16.44 percent. The most competitive headline mortgage rates, before fees, fell by over 2 percentage points in 2016, to below 10 percent in some cases.[17]

The newly-established National Building Society offers four distinct products: a traditional outright purchase mortgage; a building loan for the purchase of a serviced stand and the subsequent building of a habitable structure; home extensions; and mortgage finance for employer-assisted group housing schemes, which tend to be at "significantly favourable conditions". Its mortgage facility typically offers interest rates of between 9.5 percent and 11.5 percent.[18]

In response to the restricted access to funding, the Cash-Plus Housing Savings Account was introduced by CBZ in 2012, wherein potential borrowers save with CBZ for 12 months, after which the client qualifies for mortgage finance of between 2 to 10 years, matching the savings accumulated.

6.4 Microfinance

As in many SADC countries, the microfinance sector in Zimbabwe plays a crucial role in providing finance to individuals who cannot access credit from the traditional banking sector. The sector grew quickly in 2017, with the total microfinance loan portfolio at September 2017 standing at US$238.6 million, 19 percent higher than the year before.[19] This growth has come despite the central bank introducing an interest rate ceiling of 10 percent, effective January 2017. The quality of the loan book has also improved, with Portfolio at Risk falling from over 25 percent in 2012 to below 8 percent in 2017.

Funding has come from the Reserve Bank of Zimbabwe's US$10 million Microfinance Revolving Loan Facility and developmental partners, such as Zimbabwe Microfinance Fund (ZMF) and Zimbabwe Development Trust. While the product offering has typically been salary-based loans, the RBZ has noted that over 2017 some microfinance institutions introduced housing loans for buying land for development, or for refurbishing existing structures.

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[13] Global Findex Database (2017).
[14] Unweighted average. Data only available for 12 of the member states.
[15] Global Findex Database (2017)
[16] Reserve Bank of Zimbabwe (2016). Bank Supervision Annual Report.
[17] Chronicle (2017). 'Zim registers decline in mortgage interest rates'
[18] Nyoni, M (2017). NBS to construct 14 000 housing units in Harare, Bulawayo. NewsDay.
[19] RBZ (2017). Microfinance Quarterly Industry Report.

ZMF offers a micro-housing wholesale loan for activities such as land acquisition, home improvement, and incremental construction. The targeted institutions are MFIs and microfinance banks. The minimum loan size is US$100 000, with a tenure of up to 36 months and monthly or quarterly repayments. ZMF's lending is roughly two-thirds funded by shareholder equity, with the remainder of its funding provided by long-term debt from the Food & Agriculture Organisation (FAO), a UN agency, at 3.5 percent per annum.[20] The funding structure of GetBucks, a top 3 microlender, is similar. It has US$1.5 billion of customer deposits, mainly from SMEs, and US$5.5 million of outstanding debt to NMB Bank, on which it pays 14 percent interest per annum.

7 Housing Output

Reducing the national housing backlog, estimated to be 1.3 million and growing, is urgent. With foreign investors showing reluctance to commit to long-term investments, it has been the local banks that have made the most concerted efforts to construct affordable housing. The National Building Society announced in 2017 its intention to construct more than 14 600 low-cost houses in Bulawayo and Harare.[21] These projects include developments in Derbyshire, Harare (1 010 units); Caledonia, Harare (8 000 units); Emganwini, Bulawayo (800 units); and National University of Science and Technology Student Accommodation (4 800 units). The first low-cost housing scheme was launched in April 2017 in Chihonyi in northern Zimbabwe, consisting of 723 units.

In 2013, Central African Building Society (Zimbabwe) partnered with the Harare City Council to construct 2 800 housing units in the Budiriro housing project. However only 500 had been sold by 2015, prompting a significant easing of the borrowing requirements in 2015, and again in 2017.[22] Initially potential buyers were expected to pay a 25 percent deposit on houses costing US$22 000 or US$27 000, for two-room and four-room houses respectively. On top of this the interest rate was set at 25 percent. The lack of uptake demonstrated that these terms were prohibitive, and consequently in 2015 the deposit size was reduced to 10 percent, mortgage tenor increased from 20 years to 25 years, and the mortgage interest rate lowered to 10 percent.

A range of schemes have also been launched by CBZ Holdings; these are detailed below.

CBZ Holdings low-cost housing projects

Low-cost housing projects have been completed in various locations, including Chikanga (Mutare), Nehosho (Gweru), Bulawayo, and Mbizo (Kwekwe). CBZ has channelled more than US$70 million towards such projects.

Nehosho Housing Scheme

One of the Shelter Afrique-funded projects is CBZ Bank's US$7.5 million Nehosho Housing Scheme, just outside the central city of Gweru, with advertised selling prices of between US$17 449 for a 2-roomed unit and US$27 637 for a 4-roomed unit. This scheme consists of 1 095 undeveloped low-cost residential stands. In some cases, CBZ is offering 100 percent mortgages (no deposit required) with monthly repayments of US$320 for a 10-year mortgage on a 2-roomed unit. This would equate to a total repayment of 220 percent of the original loan, implying an interest rate of 18.5 percent. CBZ are also selling housing stands, to be developed, and offering various mortgage products for customers at similar rates of interest.

Victoria Falls Housing Scheme

[20] ZMF (2016). Annual Report.
[21] Nyoni, M (2017). NBS to construct 14 000 housing units in Harare, Bulawayo. NewsDay.
[22] The Herald (2017). CABS relaxes Budiriro housing terms

In 2016, CBZ announced it would service 1 174 stands: 1 008 for high-density housing and the remaining 166 for medium-density housing.

Bulawayo Housing Scheme

In 2017, the Bulawayo City Council partnered with CBZ to service 670 housing stands in the Mahatsula East suburb in a US$7 million project. Specifically, the project delivers medium-density stands measuring 600m^2, each serviced with water, sewage and tarred roads. However, the city backlog still stands at 115 000, according to the City Council.

Sources: https://www.cbz.co.zw/news/cbz-bank-launches-nehosho-housing-scheme/

In 2017, the IDBZ delivered 357 high-density and medium-density residential stands with the New Marimba Housing Project in Harare, and 704 low-density residential stands through the Clipsham Views Housing Project in Masvingo. The IDBZ has issued five-year Housing Bonds to mobilise capital for its latest housing projects, with the US$14.9 million Kariba Housing Bond fully subscribed, as well as interest in the US$12.2 million Sumben Housing Bond, which is a five-year variable rate bond paying an 8.5 percent coupon in the first two years and 9.5 percent for the remaining three years.[23]

8 Challenges and Opportunities

Zimbabwe's capital markets are weak, while political instability and macroeconomic uncertainty has contributed to limited investment inflows from foreign institutional investors. The new government will have to show that it is a welcoming place for investors. Establishing an investor-friendly environment is crucial. Appealing to international Development Finance Institutions (DFIs) under the new regime could be the first step to attracting greater foreign investment flows into the housing sector.

So far, the little investment that there has been into the housing sector has come indirectly, through bank financing. While the last five years have seen an average 17 percent a year growth in mortgage lending, the most recent data suggests that the rate of growth is decelerating. RBZ data[24] shows that 2016 total building society loan growth slowed to 4 percent from averaging 30 percent a year for the period 2011-2015. This is despite the entry of the National Building Society midway through 2016. Even with "deliberate consented effort from the public and private sector, a 15 to 20-year period would be required"[25] to clear the substantial housing backlog.

Affordability remains a key issue, though there have been some small improvements on this front in recent years. For most banks, low income earners (US$750 a month or above) would qualify for mortgages on housing units of between US$15 000 and US$20 000.[26] Lending institutions such as CBZ and the Central African Building Society (CABS) are being encouraged to build more houses in this affordability range, and some progress is being made, as highlighted in the Housing Output section. One of the key challenges is to provide incentives for foreign and domestic institutional investors to enter the housing sector, while keeping the house prices and borrowing costs at affordable levels.

[23] Musarurwa, T (2017). IDBZ gets mixed uptake on bond issues. Sunday Mail
[24] Reserve Bank of Zimbabwe (2016). Bank Supervision Annual Report.
[25] Property Reporter (2018). 'Housing backlog needs up to 20 years to clear'. The Herald.
[26] CAHF (2017). Yearbook