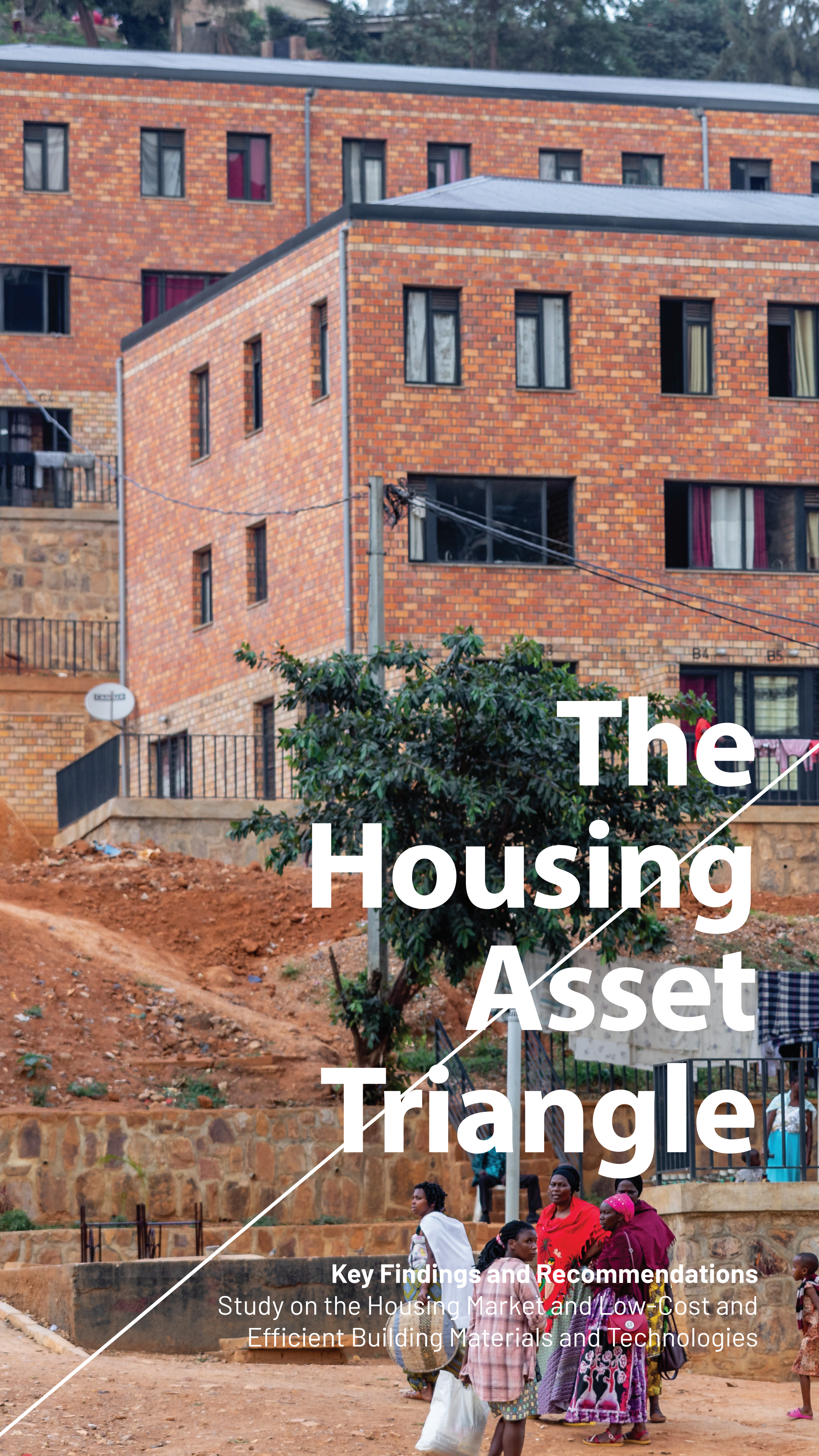


The Housing Asset Triangle

Key Findings and Recommendations

Study on the Housing Market and Low-Cost and Efficient Building Materials and Technologies

30 - 06 - 23

PUBLICATION DATE

MINISTRY OF INFRASTRUCTURE
RWANDA HOUSING AUTHORITY
DEVELOPMENT BANK OF RWANDA

Introduction

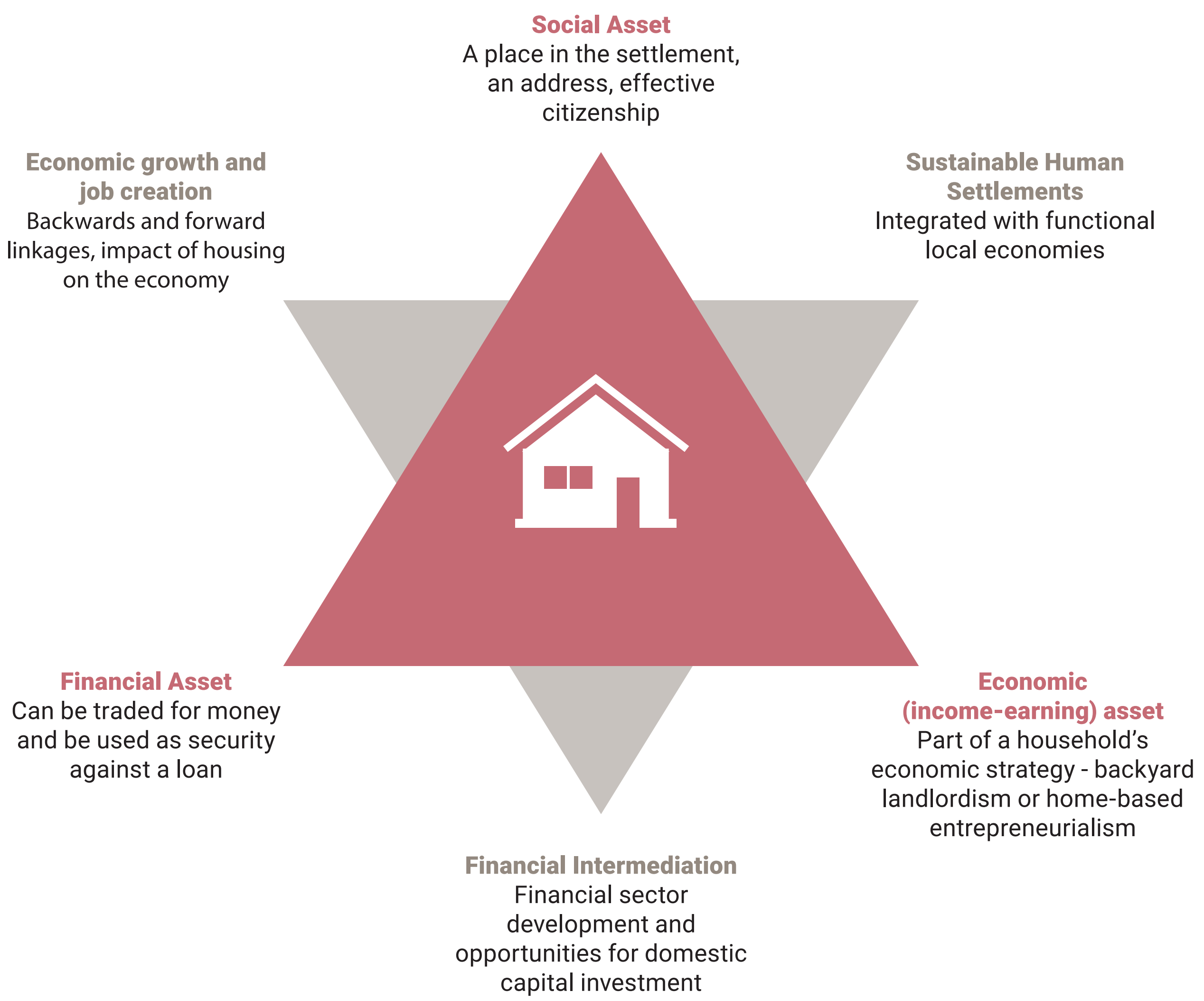
Residential property is the largest and most differentiated asset within any country, and a significant part of a nation's economy, especially insofar as it relates to household wealth, livelihoods, and the prospect of inclusive growth. As the property market grows and develops, housing can be an instrument of economic transformation, with property values growing faster than inflation and offering leapfrog opportunities to lower income households as they benefit from the appreciation of their housing asset. This creates demand for further housing services – home improvements, extensions, the construction of new housing – and in this, housing is significant as a growth sector for the economy. With this, further opportunities to leverage property with finance arise, supporting the development of small businesses, so important in the context of low employment. At the same time, this activity contributes to a growing revenue base for the government at the municipal level, and improves the city's ability to invest in further growth and deliver appropriate services to the breadth of its population.

The question of market performance – the value that housing realises for both the household and the nation – is important. Housing is an asset. For households, it is likely to be the most significant investment that they will make in their lifetimes. In Rwanda, given the public emphasis on affordable housing, it is also a significant investment for the State. By engaging at the level of the housing market, and not restricting focus simply to the delivery of housing, the state can leverage the virtuous cycles that arise from housing investment, whether by the state or the household. While households invest in their properties (whether formally or informally) they improve its performance particular to their social, financial and economic needs. At the same time, while the state invests in the growth and development of an affordable housing sector, it improves the overall performance of the housing sector, both to deliver good and affordable housing, while also to realise broader goals of economic growth and job creation, financial intermediation and the realisation of sustainable human settlements.

These two broad objectives: maximising the performance of the house as a private asset, and maximising the performance of the housing sector as a national asset, are illustrated on the following page.

This brief forms part of a collection of fact sheets on Rwanda's Affordable Housing Market commissioned by the Development Bank of Rwanda on behalf of the Ministry of Infrastructure and the Rwanda Housing Authority. The information is drawn from the Study on the Housing Market and Low-Cost and Efficient Materials and Technologies conducted by the joint venture of Lambert Lénack Architectes Urbanistes and 35 000 Holdings (trading as 71point4), in partnership with Fatou Dieye (project lead), Vincent Ngirabacu, Kigwa Consulting and James Setzler from GAC-R with advising from Kecia Rust of the Centre for Affordable Housing Finance in Africa (CAHF).

THE HOUSE AS A PRIVATE ASSET
THE HOUSING SECTOR AS A NATIONAL ASSET



The **Housing Asset Triangle** is one of the key concepts explored by the Centre for Affordable Housing Finance in Africa, an advisor to the research team responsible for the Study on the Rwandan Housing Market and Low-Cost and Efficient Building Materials and Construction. More information about the asset triangle is available on their website: *https://housingfinanceafrica.org*

The house as private asset

The house is a social asset for the people who live there. Providing shelter, access to services, and protection from the elements, good housing keeps families safe and secure. When titled, the housing unit also provides a municipal address, formally establishing the occupant's right to be there and locating the unit within a governance jurisdiction. This enables the city to bill for the services it delivers.

Second, the house also has a financial value. Housing is the most valuable asset that most households will ever own. Families often rely on this as a way of holding their collective wealth, which is then passed on as inheritance. With a financial value, it can be traded for money. In exchange for a bank loan, the borrower can give their house as security or collateral.

Finally, a house can also have economic value for private households. As an economic asset, the house can be the base through which the household can earn an income, perhaps running a home-based business or offering rooms for rent. Home-based enterprises diversify land uses in neighbourhoods, for example - a small convenience store in a residential neighbourhood. This creates more sustainable human settlements. Or a homeowner may rent out part of their home or a separate unit on the property, supporting labour market mobility by increasing the diversity of housing opportunities available. This is particularly significant in low-income communities – households otherwise not employed can use their home as a base from which to forge a livelihood. In this, the demand side becomes part of the supply side.

Households themselves enhance the performance of their housing asset by making home improvements – for example, extending the house to accommodate a growing family, or installing a ceiling so the interior is not so hot in summer, or cold in winter. They might also build an entirely separate unit on their property and offer this as rental accommodation. Their ability to do this is improved with access to finance, progressive zoning, and streamlined building approvals processes at the local level. Measures undertaken by the state can also enhance the performance of the house as a private asset. Investments in the quality of the neighbourhood, such as improved infrastructure services and transportation access, enhance the value of an area and through this, impact on the value of a property. It is on the role that the state plays in improving property values – through its administrative, development and capital investment levels – that the concept of land value capture has been explored in some jurisdictions.

The housing sector as a national asset

While housing and private property is in many ways the quintessential private good, the housing sector as a whole performs a vital role in an economy, and can therefore be thought of as a sort of "national asset".[1] All supply chains associated with products and services create jobs and contribute to the economy, and housing is no exception. But beyond this, housing impacts on the economy in some unique ways. By understanding what makes housing different from other products and services we can explore the critical role for the state in shaping housing markets, and the opportunities for enhancing their performance. There are three dimensions to this.

First, the construction, maintenance and transacting of housing (which includes both sales and leases) contributes substantially to economic growth and job creation. In 2018, the Centre for Affordable Housing Finance in Africa (CAHF) estimated that Rwanda's housing economy directly contributed 9.5 percent to Rwanda's GDP (RWF724 billion / US$ 841 billion). Approximately 40 percent of this amount was gross value added in the housing construction sector, and 60 percent comprised intermediate inputs into house construction (materials and services). Calculating the direct impact on employment was more difficult, as much of Rwanda's housing labourers are informally employed. Nevertheless, it was suggested that upwards of 157 000 jobs were tied to the housing sector in 2017. The importance of Rwanda's informal housing development sector (SMMEs and households themselves) was also identified as an important element for future growth.[2]

The reason for this contribution has to do with the economic activity that housing stimulates – upstream demand for building materials and labour is measured in the calculation above.[3] If we imagine that the Rwandan housing sector is currently not delivering as required – that is, if we imagine its expansion through targeted measures implemented by the state – we can consider an expanding role for the sector in overall economic growth, and an increase in the number of jobs available. As housing construction builds the fiscus, enabling further state investment, the jobs associated with the effort realise income for those individuals, who then find their affordability is improved, possibly for new housing. Consideration of labour-based construction methods, and appropriately targeted housing investment interventions, as well as supply chain efficiencies, will enhance this potential impact even further.

Second, housing constitutes a vital component of the financial system, and plays a critical role in financial intermediation, assisting the flow of money through the economy. This is because housing is a leverage-able asset that can be used as collateral for other loans, thereby enabling private investment. In many developed economies, housing underpins a sizeable proportion of the assets of the financial sector through the mortgage instrument. This in turn underpins the efficacy of the money transmission mechanism in the household sector, enabling monetary authorities to manage economic growth cycles. In addition, housing consumption is in most cases, together with transport, the largest share of household consumption, as well as a substantial source of savings. The house is then a fulcrum around which a household's financial and investment decisions are made, both influencing and enabling further financial activity.

Rwanda's mortgage market is still nascent. Although Rwanda's mortgage to GDP ratio (4,17% in 2022) is relatively high for the region, mortgage lending is concentrated at the upper end of the income pyramid; and while Rwanda's microfinance sector is an important source of finance for lower income segments of the market, the products and services of microfinance providers are not typically addressed towards housing. Improving the performance and accessibility of Rwanda's mortgage market is an important area of focus, while also addressing the need for non-mortgage finance interventions that both support financial access while intermediating funds towards productive assets.

It is worth noting too, that a functioning housing sector can ultimately also attract capital – that is, households who currently seek out credit for consumption purposes (clothing and other non-permanent goods and services) might shift their investment attention towards productive purposes – housing as a long term financial asset, or an income-producing economic asset. This is particularly useful in the contemplation of credit access and indebtedness, and the relative health of Rwanda's financial sector. Household choices in this regard are substantially influenced by their understanding that an investment in housing is a good one – and this, the state can facilitate by ensuring working residential property markets. In this context, housing consumers can also be housing producers, thereby growing further the productive capacity of the state.

Finally, the housing sector contributes to the sustainability of human settlements in several ways. Houses that are well built, adequately and sustainably serviced, and well-integrated in the local economy contribute to the sustainability of the neighbourhood and its ability to meet the social, economic, financial, and environmental needs of its residents. The municipal taxation of properties is another aspect to the sustainability of human settlements, realised through functioning residential property markets: as properties increase in value, through the combined investment efforts of households, businesses and the municipal government, this value is taxed, creating a revenue stream for the municipality, enabling further investment, which further supports growth. A city's ability to invest in long-term infrastructure, or to pursue other development goals, is fundamentally influenced by its ability to raise capital to finance the effort from its local tax base.

The interaction of homes and markets and government participation

While Rwanda's mortgage market is still growing, it only serves a minority of households. This is unsurprising given the very low incomes of the majority of Rwandans. The results of the Housing Market Study revealed that only 8% of urban households could feasibly afford a RwF 20m mortgage (assuming 11% interest over 20 years); for RwF 10m loan, the proportion of potentially eligible urban households increases to 26%, or 250 000 households. This means that the majority of urban Rwandans – an estimated 74% of urban households – access their housing differently. If they cannot afford to buy a whole house costing RwF10m or RwF20m, they need to realise their housing needs incrementally, through the progressive development of small units or rooms, financed in stages. However, over 50% of urban Rwandans are likely to afford a RwF 1m unsecured loan product (at 20% over five years). How can the state re-engineer its housing delivery approaches to respond to this potential?

A key point of focus for policy must be how the two asset triangles – housing as an individual asset and the housing sector as a "national asset"– interact, and the impact that the informal housing sector has on both, in realising adequate and affordable housing for all Rwandans. Thinking about the national asset that is the housing sector, policy needs to consider how to maximise economic growth and job creation, financial intermediation and the long term sustainability of cities, in ways that engage directly with affordability realities of the low income majority. At the same time, policy needs to consider how to leverage the housing delivery capacity of this target market itself as low income households seek to maximise the social, economic and financial performance of their housing. This will require implementing measures that support them in this effort – in terms of city zoning, bylaws and other administrative and regulatory practices; city investment in infrastructure; state support to a diverse housing supply sector that develops its products andservices appropriately to meet the payment capacity of the target market; and also finance and taxation frameworks that recognise this approach.

---

[1] See https://housingfinanceafrica.org/projects/housing-and-the-economy/ and http://housingfinanceafrica.org/documents/assessing-rwandas-affordable-housing-sector/ in particular.

[2] Gardner, D., K Lockwood and J Pienaar (2019) Assessing Rwanda's Affordable Housing Sector. Paper prepared for CAHF. See https://housingfinanceafrica.org/documents/assessing-rwandas-affordable-housing-sector/

[3] Additional to the CAHF calculation is the economic activity arising from downstream demand for furniture, home improvements, and other housing services. All of this economic activity also contributes towards employment.

Interventions to enhance market performance

The effective performance of the Rwandan housing sector will require state-wide engagement as summarized in the table below.

House as an individual asset

Social	• Functional deeds registry • Clear laws of intestate succession • Integrated settlement, with social, educational & economic amenities
Financial	• Working mortgage market • Access to mortgage and non-mortgage finance • Well-regulated construction industry & good consumer protection • Good urban management – clean roads, functional stormwater
Economic	• Progressive zoning • Good transportation networks • Enhanced infrastructure capacity

Housing Sector as a National Asset

Economic growth & job creation	• Domestic production of building materials • Strong supply chains • Good transportation networks • Labour-based construction methods • Functioning rental market
Financial Intermediation	• Working mortgage market • Capacitated mortgage lenders • Financial sector diversification with strong non-mortgage playerseconomic amenities • SACCOs and other savings schemes with links to housing
Sustainable Human Settlements	• Progressive planning frameworks • Conscious construction and life-cycle costing • Sustainable building and energy efficient services • Good urban governance • A strong taxation framework • Consistent infrastructure investment • Transparent land markets