



Centre for Affordable
Housing Finance
in Africa

Building Africa's Housing & Housing Finance Market: Addressing both affordability and accessibility

Kecia Rust





African cities are crowded, but not economically dense — investments in infrastructure, industrial and commercial structures have not kept pace with the concentration of people, **nor have investments in affordable formal housing**. Where do people live?





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- 60% of Africa's urban population is packed into slums — vs. 34% elsewhere
- housing investment lags urbanisation by 9 years (Dasgupta, Lall, & Lozano-Gracia 2014)
- Despite apparent demand, > 30% of land within 5km of CBDs remains unbuilt
- The majority of urban housing is built by households, one-by-one
- Most housing bought with cash
- Housing is expensive so even the income-earning live rough
- **Informal housing is even more expensive, but easier to manage day-to-day**
- Urban living costs are higher in SSA than elsewhere, relative to GDP/capita

**Lack of effort
towards scale**

Good housing is crucial for economic development in African cities:

- **Labour market mobility**
- **Firm productivity and competitiveness**
- **Agglomeration economies: productive urban form and municipal services**
- **Household asset wealth: home based enterprises; productive investment**
- **Investor confidence / place desirability**

**Finance makes
scale possible**

So, what does
the residential
property
investment
opportunity
look like?

Rural



Government built



Slums



Self-build



Google residential real estate in africa

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A grid of 18 images showcasing various modern residential real estate projects, including houses, apartments, and villas, often featuring swimming pools and landscaped gardens.

A disconnect is evident. Is this because of investor expectations?



Kilamba, in Angola, is another example



Rwanda: Developer Slashes Prices for Vision City Homes

Tagged: Central Africa • East Africa • Rwanda • Urban Issues

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By Jean d'Amour Mbonyinshuti

Developers of upscale housing estate, Vision City, has slashed unit price as a way to attract more buyers in the Gacuriro-based estate.

The development was announced yesterday by Ultimate Developers Ltd (UTL), the owners of the housing estate, who attributed the reduction to incentives that were offered by Government, including roads, drainage and electricity, which drove down the cost of production.

The reduction will first be applied to over 500 housing units whose construction works are in the final stages and later to other units that will be constructed in other phases, according to Lilian Mupende, the chief executive of UTL.

Over 30 per cent of the housing units are occupied and owners have already made an initial deposit while another 60 per cent are booked.

"We want to communicate to the public and to the stakeholders that we are now able to translate government incentives to our buyers in an effort to make it much easier for them to acquire homes in the Vision City," Mupende said.

Vision City is a development by the Rwanda Pension Fund. Initial prices between \$100k - \$500k

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STARTING WITH THE HOUSE PRICE, WHAT MUST I EARN?

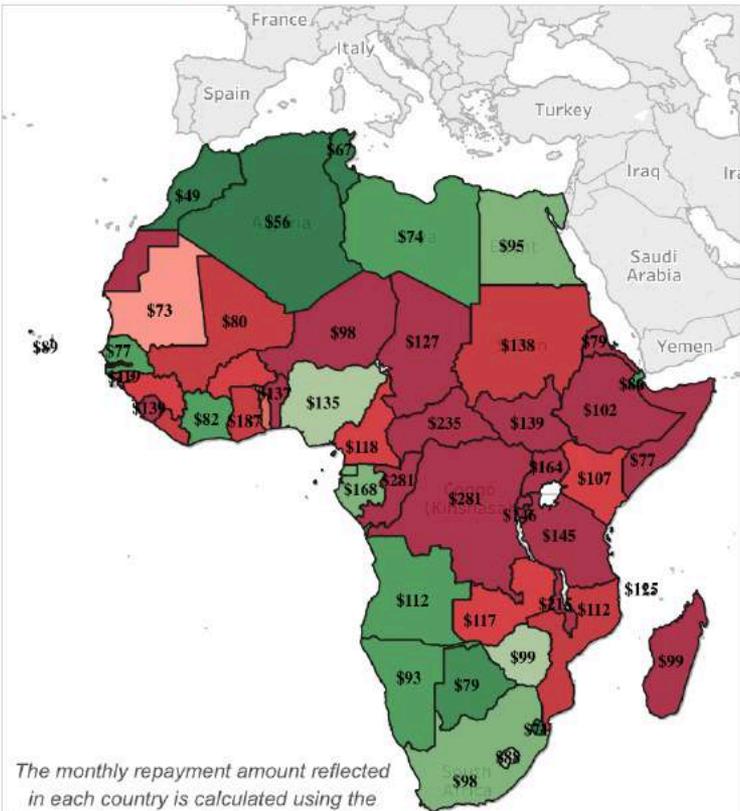
How much would it cost in this country per month, at current mortgage rates to repay a loan for a \$10,000 house?
 What proportion of urban residents can afford such property at current mortgage rates?

House Price (USD)

\$10,000

Enter your estimated house price in the box to the left to compare housing affordability across Africa. Click on the map to see country specific data to the right.

What is the monthly mortgage repayment for this house?



The monthly repayment amount reflected in each country is calculated using the house price you provide together with the nationally prevalent mortgage interest rates and terms.

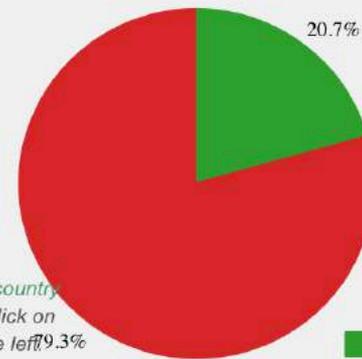
% Urban who can afford



Data: CAHF survey, 2015

© OpenStreetMap contributors

How many urban households can afford this house in Kenya?



To change the country of this graph, click on the map to the left.

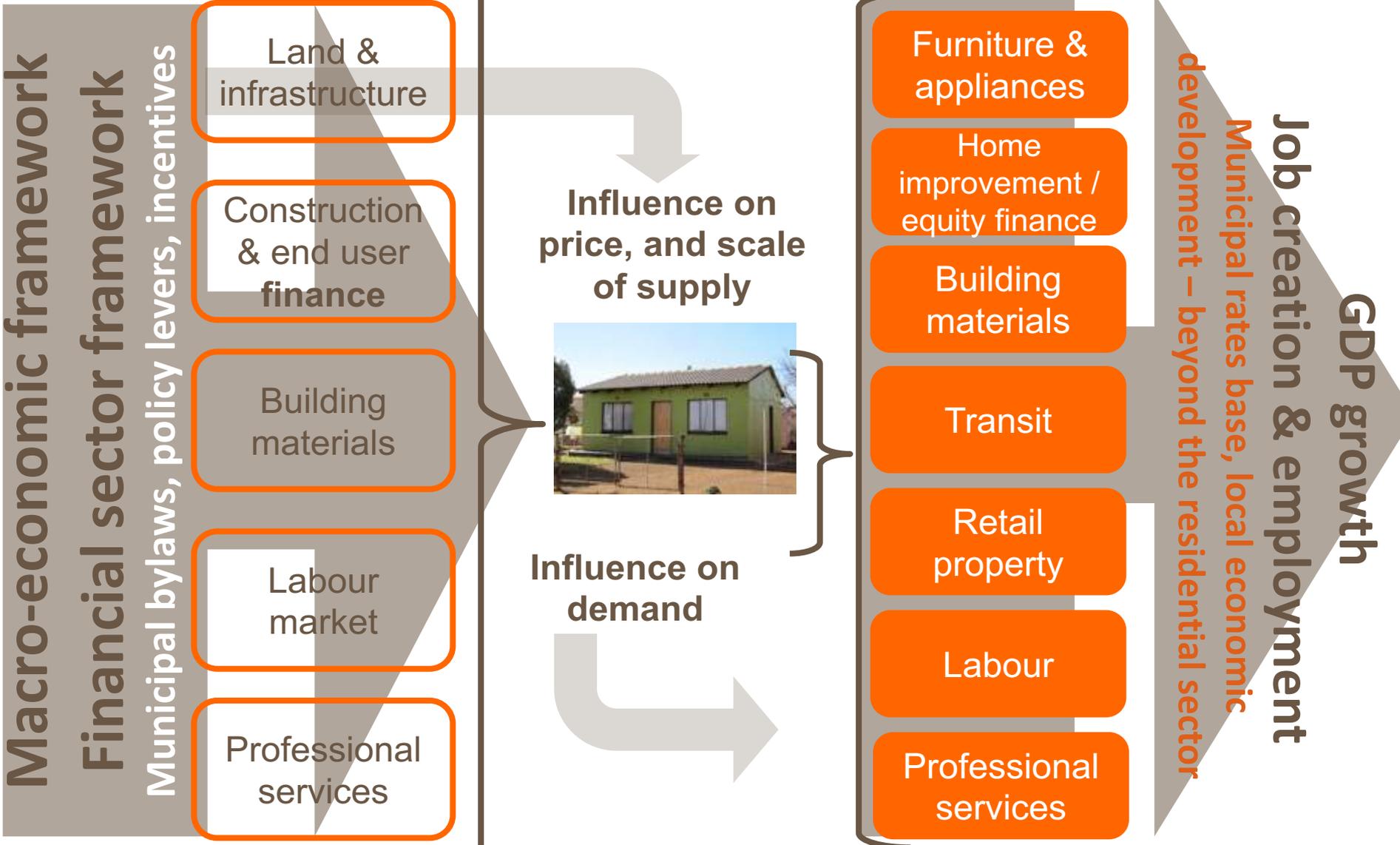
could afford
cannot afford

The gap between what “affordable” housing would cost to finance, and what the average household can afford to pay, is simply too large. In most countries, even \$10 000 is too much for the average household.

Housing has a significant impact on the economy



What would it look like for Nigeria to build 100 000 units at N2,4m per annum, doubling the current rate of delivery?



Macro-economic framework
Financial sector framework

Municipal bylaws, policy levers, incentives

- Land & infrastructure
- Construction & end user finance
- Building materials
- Labour market
- Professional services

Influence on price, and scale of supply



Influence on demand

Job creation & employment
Municipal rates base, local economic development – beyond the residential sector

GDP growth

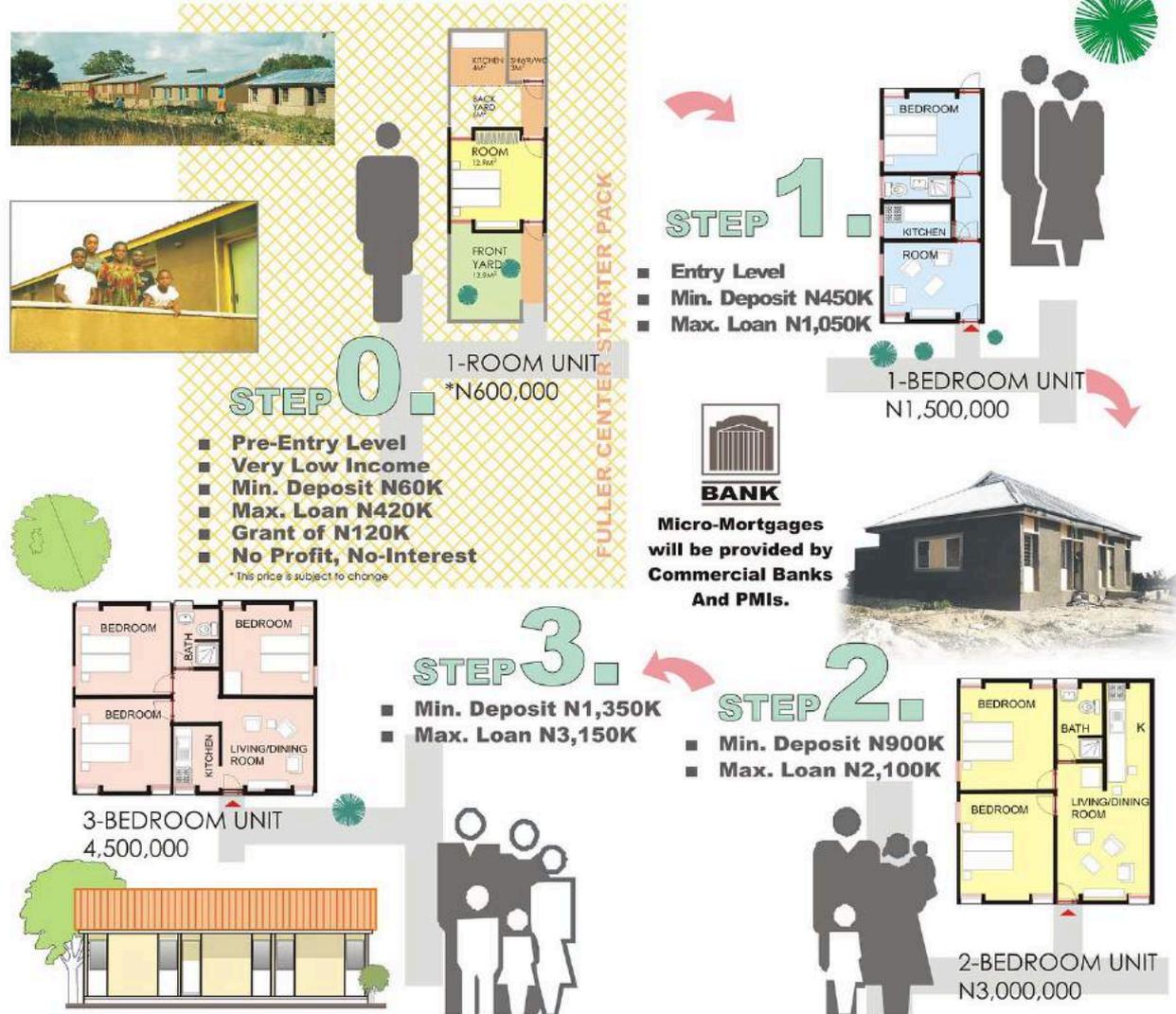
- Furniture & appliances
- Home improvement / equity finance
- Building materials
- Transit
- Retail property
- Labour
- Professional services



The challenge is the N2,4m house...

How do we make this look less like a small scale, ad hoc intervention and more like a viable approach towards housing the nation?

FULLER INCREMENTAL HOUSING





Investors need access to scale, while household affordability needs costs to be broken down: three approaches towards aggregation of the opportunity ⁹

Real Estate Investment Trusts

Investment vehicle that aggregates investments and investors into realisable deals

Co-operatives and SACCOs

Savings vehicles that aggregate household affordability into a viable proposition

Rental

Housing supply approach that aggregates the management & ownership function

Residential Real Estate Investment Trusts in Africa



Africa's housing finance markets are developing and investors have struggled to find targets in the residential real estate space that are sufficiently substantial and/or accessible to warrant their attention. Consequently, the majority of housing investment in most African countries comes from government debt or domestic savings rather than from international capital markets and domestic institutional investment markets, as is the case in developed economies. This contributes to limited financial resources being channelled towards Africa's housing developers. A key challenge for policy makers is thus to improve housing delivery value chains – specifically, in a way that broadens access to finance for housing developers, and, in doing so, expands access to adequate housing for individuals.

The introduction of Real Estate Investment Trusts (REITs) is one innovative approach that policy makers, property developers and real estate investors in certain African countries are promoting in an attempt to address finance constraints in real estate markets. CAHF wanted to explore this model further and commissioned a study that outlined the general context of REITs and specifically residential REITs globally and more specifically in Africa, through case studies of REITs in Nigeria, Ghana, South Africa, Kenya, Rwanda, Tanzania and Morocco.

REIT Webinar

Making Finance Work for Africa (MFW4A) and the Centre for Affordable Housing Finance in Africa hosted a Webinar on REITs in Affordable Housing: Challenges & Opportunities, which took place on 13 July 2017.

The video recording can be accessed [here](#) and the corresponding Powerpoint presentation [here](#). Please note that you can send us comments on twitter using @mfw4a and @CAHF_Africa citing #MFW4ACAHFHousing, #REITs, and #Affordablehousing, #Africa.

Thank you!

Kecia Rust

kecia@housingfinanceafrica.org

www.housingfinanceafrica.org

+2783 785 4964

<https://www.facebook.com/HousingFinanceAfrica?ref=hl>

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CAHF is the Secretariat to the:





Questions to the panel

1. Each from your own contexts: what investment opportunities have you identified as you consider affordable housing in Africa?
2. We've seen an increasing interest in various niche markets: rental housing, employer housing, student housing. Is this where the growth should be focused or might these niches offer insights into wider opportunities?
3. If you could make three interventions that would improve the affordable housing investment opportunity in Africa, what would they be?
 - **CDC:** as you've scoped out opportunities to invest in affordable housing in Africa, what have been the main constraints? what would it take for you to shift more of your investment capital towards affordable housing?
 - **McKinsey:** Are PPPs realistic? How can PPPs be made to really address affordable housing?
 - **Mota-Engil:** Is the \$10,000 house achievable at scale? How?
 - **Lagos State Government:** What is the Lagos State Government doing to address the backlog and who are your partners in this work?



Real Estate Investment Trusts (REITs) offer a critical opportunity for financial intermediation – can this extend to affordable housing?

What is a REIT?

- Company or trust that owns and often manages a portfolio of mortgages and / or real estate properties
- Operates in accordance with certain rules and regulations
- Allows investors to invest in portfolios of mortgages or large-scale properties through the purchase of shares.
- The shareholders of a REIT earn a share of the income stream produced by the investment portfolio

What are the distinguishing factors?

- REITs aggregate diverse sources of funding and target them into real estate portfolios that extend beyond the limitations of individual projects.
- REIT regulations and legislation provide for preferential tax treatment and require high rates of profit distribution.
- Together, these unique factors enable REITs to raise finance from investors who otherwise might lack access to – or be reticent to engage in – real estate markets.

Key challenges are [1] investor trust in the affordable market and [2] ability to achieve scale delivery.

Who builds this trust?

Are REIT investors patient enough?



Cooperatives and SACCOs amass & coordinate household savings into a viable proposition – can this grown to scale?

- Less than 10 % of all housing credit in Kenya comes in the form of mortgages from the banking sector – the remainder of housing finance comes from SACCOs and housing cooperative networks. (Kenya Economic Update, April 2017)

Key challenges are access to the value chain (land, development capacity) and to long term finance. Can the investor sector trust co-op and SACCO capacity?

- Is there a regulatory response?
- What is the institutional response? How do lenders work effectively with cooperatives?
- Do we understand the potential?



Rental improves affordability by aggregating ownership and management costs – **how can the management capacity be grown?**

- **Large scale landlordism**
 - Opportunity for pension funds investment
 - REIT investment target
 - Viability depends on scale
- **Small scale, household landlordism**
 - Backyard rental
 - Urban infill
 - Supported with housing microfinance

Key challenges are [1] management capacity and [2] scale for viability

Small scale landlords offer a niche opportunity

How do lenders structure their products to meet this diversity