

Malawi



Overview

Malawi is a small, landlocked country with an estimated population of 18.6 million people,¹ which is expected to grow to 20.2 million by 2020.² The country has a young and predominantly rural population. Based on 2017 data, 64.9 percent of the population are under the age of 24³ and 83.4 percent of the population live in rural areas.⁴ However, Malawi's urban population is growing faster than the rural population. In 2017, the annual urban population growth rate was 4.1 percent while the rural population growth rate was 2.6 percent.⁵ The majority of the urban population reside in four main areas including Lilongwe, Blantyre, Mzuzu and Zomba.⁶

Malawi ranks amongst the world's poorest countries and performs poorly on various indicators. Gross domestic product (GDP) per capita in 2017 hit a record high (but still very low) of US\$486.45, while inflation was recorded at 8.6 percent in June 2018.⁷ In 2017, Malawi's GDP growth rate picked up to 4 percent, up from 2.5 percent in 2016.⁸ However, the country's growth prospects are expected to be slightly lower in 2018 following adverse weather conditions and an army worm infestation affecting the agriculture sector.⁹ Malawi also continues to score low on the United Nations Development Programme (UNDP) Human Development Index (HDI), coming in 171th place out of 189 countries on the 2018 statistical update.¹⁰

Malawi's construction sector saw good growth in 2017 at 4.8 percent compared to 3.4 percent in 2016.¹¹ This was largely driven by improved public investment towards large infrastructure projects including the heavily delayed Kamuzu Barrage in the Machinga District¹² and the construction of a dual carriageway in Lilongwe.¹³ Despite the increased public investment, the construction sector only accounts for approximately 3 percent of the country's annual GDP.¹⁴

Access to finance

Malawi's financial sector has consolidated in the last three years following a number of acquisitions including that of the state-owned Malawi Savings Bank (MSB) by FDH Holdings Limited in 2015,¹⁵ and the acquisition of IndeBank by the National Bank of Malawi (NBW) in 2016.¹⁶ While there are 10 banks operating in the country (down from 12 in 2016),¹⁷ the sector is concentrated around two banks which own almost half of the sector's total assets and total deposits.¹⁸

According to the Reserve Bank of Malawi (RBM), the country's banking sector is profitable, liquid, and adequately capitalised. While total assets declined by 3.7 percent to K1 514.9 billion (US\$2.08 billion)¹⁹ during the 6-month period from December 2017 to June 2018, asset quality improved with the ratio of non-

KEY FIGURES

Main urban centres	Lilongwe Blantyre
Exchange rate: 1 US\$ = [a] 6 Aug 2018	725.99 Malawian kwacha
PPP Exchange rate (Local currency/PPP\$) 1 Malawian kwacha = [b]	205.60
Inflation 2016 [a] Inflation 2017 [a] Inflation 2018 [a]	0.20 7.10 8.60
Population [c] Urban population size 2016 [d]	19 209 248 3 172 780
Population growth rate Urbanisation rate	2.80% 3.80%
Percentage of the total population below National Poverty Line [e]	51.0%
Unemployment rate [f]	6%
GDP (Current US\$) 2017 [e] GDP growth rate annual 2017	US\$6 300 million 4.6%
GDP per capita (Current US\$) 2017 [b]	US\$338
GNI per capita (Current US\$) 2017 [b]	US\$320
Gini co-efficient [g]	45.0
HDI global ranking 2017 [h] HD country index score 2017 [h]	171 0.477
Is there a deeds registry?	Yes
Number of residential properties that have a title deed	31.64%
Lending interest rate [a]	n/a
Mortgage interest rate Mortgage term (years)	n/a n/a
Downpayment	n/a
Mortgage book as a percentage of the GDP	n/a
Estimated number of mortgages	n/a
Price to Rent Ratio in City Centre Outside City Centre	n/a n/a
Gross Rental Yield in City Centre Outside City Centre	n/a n/a
Construction as a % of GDP [i]	n/a
What is the cost of standard 50kg bag of cement?	US\$8.27
What is the price of the cheapest, newly built house by a formal developer or contractor? (Local currency) [j]	15 000 000 Malawian kwacha
What is the price of the cheapest, newly built house by a formal developer or contractor? (US\$) [j]	US\$20 657
What is the size of this house (m ²)? [j]	75m ²
What is the average rental price for this unit (US\$)? [j]	US\$234
What is the minimum stand or plot size for residential property? [j]	300m ²
Ease of Doing Business Rank [k]	110
Number of procedures to register property	6
Time to register property (days)	69 Days
Cost to register property (as % of property value) [k]	1.60%

NB: Figures are for 2018 unless stated otherwise.

[a] The Reserve Bank of Malawi

[b] World Bank World Development Indicators

[c] Worldpopulationreview.com

[d] Worldometers

[e] Trading Economics

[f] ieconomics.com

[g] Oxfam Malawi

[h] UNDP Development Indicators

[i] Indexmundi

[j] Malawi Housing Corporation

[k] World Bank Doing Business

performing loans decreasing to 12.7 percent from 15.7 percent. However, this is still far above the regulatory benchmark of 5.0 percent. Lending to the real estate sector also remains low at 0.4 percent of the loan book.

Financial inclusion remains a challenge in Malawi. According to the 2017 Global Findex data, 23 percent of adults (15 years or older) in Malawi report having an account (either a personal or shared account) at a bank or another type of financial institution.²⁰ Including mobile money services, this proportion increases to 33.7 percent.

Given the relatively low levels of financial inclusion, it is unsurprising that there are very low levels of consumer borrowing in the country. In 2017, only 8.6 percent of adults (15 years or older) reported borrowing money from a financial institution or using a credit card in the past 12 months.²¹ In the same period, less than 6 percent of adults reported having an outstanding housing loan (either personally or together with someone else).

Financial inclusion is in part constrained due to limited access to suitable formal financial products and services in rural areas. According to the Microfinance Information Exchange (MIX), 46 percent of all financial access points are located in Malawi's two largest cities, Lilongwe and Blantyre.²²

Until recently, the lack of credit information in the country constrained lending. The legal framework for credit information sharing was established following the enactment of the Credit Reference Bureau (CRB) Act in 2010. The Act was amended in 2015 to remove ambiguities which had hindered its roll out and by August 2016, the country had its first operational credit bureau (CRB).²³ However, the establishment of the CRB has not been without challenges and it is reported that the banking institutions are not utilising its services as they are expected to.²⁴

Few banks offer mortgages in Malawi, namely the National Bank of Malawi (NBM), Standard Bank, FDH Bank and New Building Society (NBS). However, overall, access to mortgage finance is limited by household affordability and strict eligibility criteria including a minimum 10 percent cash deposit, a minimum of three to six months history with the bank and three months of payslips. Furthermore, banks only offer mortgages on properties located in areas “deemed acceptable to the Bank”.²⁵ This means that the unbanked population and the casually self-employed (for example, small-scale farmers) are largely excluded.

In the fourth quarter of 2017, the RBM revised the base lending rate to 16 percent from 18 percent, maintaining the downward trend of the past two years.²⁶ The main mortgage financiers have responded to the policy rate by equally reducing their lending interest rates. As at January 2018, NBS, the largest mortgage provider, charge 25.5 percent on mortgage loans (down from 27.5 percent in June 2017).²⁷ NBM currently have the lowest rates on mortgages at 23 percent, while CDH Investment and FDH charge 24.5 percent and 25 percent respectively.^{28, 29}

Most banks have excess liquidity, their funds consisting primarily of a combination of equity plus retail funds from savers. Some have external lines of credit, but only for special schemes such as SME lending or access to foreign exchange. The main source of funds for mortgages remains retail funds, with most surplus funds being invested in Treasury bills.

The microfinance sector also offers a broad range of loans that provides some leeway to housing finance. As at December 2017, there were 45 registered microfinance institutions in Malawi.³⁰ Total assets for the microfinance sector increased from K35.3 billion (US\$48.5 million) in December 2017 to K39.9 billion (US\$54.8 million) in June 2018.³¹ However, during the same period, the loan portfolio for the sector decreased from K19.9 billion (US\$27.3 million) to K18.5 billion (US\$25.4 million).

The deposit-taking subsector (comprised of one MFI, FINCA Malawi Ltd) registered a profit of K101.7 million (US\$139 856) in June 2018 compared to K45.0 million (US\$61 883) in June 2017. The improved profit is largely due to growth in income from investments. Conversely, the recorded losses in the non-deposit taking sector continue to deepen. As at June 2018, the registered loss in this subsector was K246.5 million (US\$338 984) compared to a K206.5 million (US\$283 976) loss in the previous year. Contributing to this loss was the increase in NPLs from 16.5 percent in December 2017 to 21.8 percent in June 2018.

The primary MFIs that offer short-term housing loans include: Select Financial Services, Epik Finance, and Greenroot Microfinance. Epik Finance, for example, offers incremental building loans to low and middle income earners; the maximum loan value is US\$900 (K500 000), repayable over 18 months. Habitat for Humanity (HfH) has sustained its partnerships with two housing microfinance lenders: Opportunity Bank of Malawi (OBM) and Select Financial Services. Through this partnership, low income households access small habitat loans from the microlenders and HfH provide them Construction Technical Assistance (CTA).

Malawi’s pension sector has grown in recent years due to growing membership numbers and the performance of the Malawian Stock Exchange. The sector’s investment is primarily directed towards listed equities and government securities. Investment in real estate currently stands at 6.1 percent.³²

While limited tenure security may still be an issue with regard to accessing housing finance in Malawi, the lack of a national identification system should soon no longer be an issue. The National Registration and Identification System (NRIS project) was launched in October 2016 with the support of the UNDP.³³ The mass ID registration campaign started in May 2017 and is expected to be completed by 2019.

Affordability

According to data published by the International Monetary Fund in April 2018, Malawi is the third poorest country in the world based on GDP per capita figures.³⁴ Furthermore, based on a subjective-assessment of economic wellbeing, in 2016, close to 70 percent of households in Malawi considered themselves to “poor” or “very poor”.³⁵

According to the latest available labour force data from 2013, the majority of economically active adults (aged 15 – 64 years old) in Malawi work in the agriculture sector and levels of self-employment are high (54.4 percent of employed adults are employers or own-account workers). Informal employment relationships also dominate the labour market.³⁶

In July 2017, the Malawi Government raised the daily minimum wage from K787.70 (US\$1.07) to K962.00 (US\$1.30).³⁷ Assuming a worker is employed for the full month (20 working days) at the revised minimum wage, they can expect to earn a gross monthly income of approximately K19 240 (US\$26.50). However, given the high levels of informal employment, many workers might earn even less than this.

Given the low levels of income and high rate of informal employment, few Malawians qualify for mortgage finance. Prices of a newly built entry-level house, built by a developer, average K8.5 million (US\$11 643).³⁸ Since only 30 percent of a household’s income is allowed towards servicing of loans or mortgage payments, a borrower needs to earn at least K700 000 (US\$978.9) to afford the house. Thus even the cheapest house is only accessible to highest income earners. Furthermore, most mortgage lenders target salaried individuals thereby excluding a large portion of the Malawian workforce. National Bank provides a mortgage as small as K500 000 (US\$684.9); and the least mortgage value at Standard Bank is approximately K4 million (US\$5 479.80). Repayment periods range between 15 and 20 years.

Housing supply

According to the IHPS 2016 data, there is a decreasing trend in the number of owner-occupied and renter households in Malawi. In 2016, approximately 68 percent of households owned their dwellings (down from 73 percent in 2010), while 18 percent rented (down from 19 percent in 2010). This appears to be driven by an increase in households taking up free dwellings (9.8 in 2016 compared to 4.8 percent in 2010). Owner-occupied dwellings are concentrated in rural areas (79.2 percent of rural households report owning their dwellings), while renter households dominate in urban areas (49.9 percent of urban households report renting their dwellings). Approximately 38 percent of urban households own their dwellings.³⁹

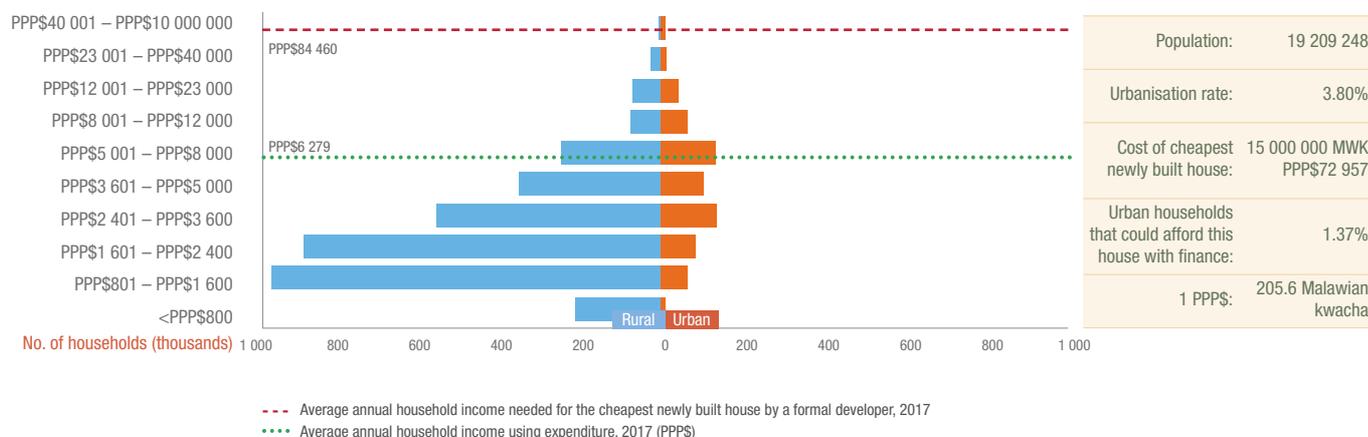
In 2016, approximately 68 percent of dwellings were constructed using permanent or semi-permanent materials, while 32 percent were constructed using traditional materials (down from 42 percent in 2010).⁴⁰ In 2016, the average household size was 4.8 persons (this is the same in both rural and urban areas). Furthermore, 16.8 percent of all households were overcrowded (have four or more people per habitable room).

As can be expected, there is a vast difference in terms of access to services among urban and rural households. In 2016, the dominant source of drinking water in rural areas was borehole water (72.1 percent), while in urban areas it was piped water into a yard/communal area (61.9 percent). Approximately 18 percent of households in urban areas reported having piped water into their dwelling.⁴¹ In terms of electricity, 49.6 percent of households in urban areas reported having access to electricity (up from 40.1 percent in 2013), compared to only 5.8 percent of rural households. However, access to flush toilets remains low; only 15.3 percent of urban households reported having access to a flush toilet in 2016.⁴²

Despite some improvements in access to services, an increasing proportion of households in Malawi consider their housing situation to be inadequate. According to the IHPS 2016, over half of all households surveyed reported inadequate housing (up from 44.2 percent in 2010). Habitat for Humanity Malawi estimates that 21 000 new housing units are needed every year for the next 10 years to meet housing demand.⁴³

MALAWI

Annual income profile for rural and urban households based on consumption (PPP\$)



Source <https://www.cgidd.com/>

Housing developers in Malawi include public and private providers. Parastatal Malawi Housing Corporation (MHC) is the main public provider that builds and rents out relatively cheap houses targeting low, middle and high income urban households. Historically, rentals for most of MHC's residential properties have not kept pace with increases in cost limiting MHC's capacity to scale and sustain services. Since 2011, MHC rentals have increased by an average 12.3 percent but each adjustment has been met with resistance from tenants. However, a recent ruling by the High Court in October 2017 has allowed the MHC to proceed with rental increases of approximately 48 percent.⁴⁴

In 2017, the cheapest MHC house, a bedsitter, attracted a monthly rentals of K9 000 (US\$12.30) while the most expensive is rented for K300 000 (US\$410.95). Occasionally, the Corporation puts some houses for sell and existing tenants are given first option to purchase the houses.

MHC owns approximately 6 000 housing units countrywide⁴⁵ with a reported waiting list of over 60 000 Malawians.⁴⁶ MHC has a poor track record of delivering on its plans to build new houses. The institution was expected to build 4 200 houses and develop 5 800 plots between 2007 and 2011, however only 481 houses were completed. Similarly, in 2015, MHC's CEO announced that they were planning to construct 25 000 houses in the country's three major cities, however, as of June 2016, the Corporation had only started constructing 17 houses.⁴⁷ The latest reports suggest that MHC is planning to construct 15 000 houses with 2 500 expected to start in 2018/19.⁴⁸ A recent development for the MHC was the passing of the MHC Amendment Bill 2016 which allows the organisation to run as a commercial entity.⁴⁹

The Decent and Affordable Housing Subsidy Programme (DAHSP) launched by the government in 2014 aimed to help the poor own decent, well-constructed homes. However, according to news reports, the programme has failed to make any significant impact.⁵⁰ Low income earners, especially those living in peri-urban and rural communities, have also benefited from previous projects by NGOs and public private partnerships. Habitat for Humanity (HfH) is reported to have built over 3 000 low-cost houses and latrines in Malawi.

Previously, both the Centre for Community Organisation and Development (CCODE) and HfH also provided housing loans to low income households, but they both changed their approaches to only provide construction training assistance.⁵¹ Furthermore, the Cities Alliance, a global partnership for urban poverty reduction, initiated a slum upgrading programme in partnership with UN-Habitat in January 2011 focusing on the cities of Blantyre, Lilongwe, Mzuzu and Zomba.

As of 2015, Enterprise Development Holdings (EDH), a social enterprise formed from CCODE, had successfully negotiated for more than 2 000 plots of land and constructed over 780 low cost rental houses in Lilongwe and Blantyre. However, EDH has stopped construction of new units and most of its housing stock has been put up for sale.⁵²

More recently, Lafarge launched the Maziko House project in 2014. The project aimed to provide low income families with 'economical but decent houses' using innovative construction techniques and materials that claimed to cut construction costs and time significantly.⁵³ It is unclear how many houses were built under this scheme. Lafarge has since launched a new affordable housing product in Malawi called DURABIC Homes which uses the same innovative construction material (a soil-stabilised earth-cement brick) as that used in the Maziko House project.⁵⁴ Private housing suppliers in the country include; Press Properties Limited, Kanengo Northgate, NICO Assets, Knight Frank, Enterprise Development Holdings, and FSD Limited.

Property markets

Land in Malawi is managed by either the Ministry of Lands, Housing, and Urban Development, Malawi Housing Corporation, City Councils, traditional leaders, and private entities. Most households live in unplanned settlements using customary practices due to the scarcity of serviced land for low income housing.

According to Knight Frank, a drop in demand for residential rental properties in Lilongwe from international donors and business communities has led to an oversupply of properties with rentals indexed to the US dollar.⁵⁵ Furthermore, the report states that there is trend towards less expensive rental properties in medium density areas that are quoted in the local currency. However, these market changes do not appear to have translated into lower rental prices, yet. As of August 2018, rental for single bedroom units in the city centre ranged from K145 435 (US\$200) to K363 587 (US\$ 500) while a three bedroom in the city centre ranged from K290 870 (US\$400) to K799 891 (US\$1 100).⁵⁶ These costs are slightly higher than last year's rates.

Knight Frank further report that residential sales have slowed down in 2017/18 due the difficult economic environment. However, the country's property market has been struggling since the initial devaluation of the Kwacha in 2012 which resulted in a fall in both the rental and sales markets⁵⁷ and the continued devaluation of the currency to the US dollar throughout 2015/16.⁵⁸

In terms of the ease of registering a property in the country, the World Bank ranked Malawi 96th out of 190 countries in the 2018 Doing Business Index. The process involves six procedures, over 69 days at a total cost of 1.6 percent of the property value. In terms of the quality of land administration, out of a score of 0 – 30 (with 30 representing the best quality), Malawi scored 10.5 in 2018.⁵⁹

Policy and regulation

Housing-related policies feature amongst national priorities in Malawi's strategic papers. Malawi's Vision 2020 places greater focus on developing and upgrading human settlements for 'equitable access to housing for all'. Further, the new Malawi Growth and Development Strategy (MGDS III) recognises that Malawi lacks a human settlement framework and that the majority of urban residents live in sub-standard housing and/or informal settlements. The MGDS III intends to bridge

the housing gap by “increasing access and availability of affordable and decent houses”. Strategies included in the MGDS III include: the registration of customary land parcels and the digitization of land records, as well as property valuations and assessments.

The country has also ratified the Global Agenda for Housing, Habitat III, which binds governments to ensure everyone has access to “adequate, safe and affordable housing and basic services” by 2030.⁶⁰

Despite not having a National Housing Policy in place (it has been in draft form since 2007), in recent years, a number of land-related Bills have been passed by parliament. These include a revised: Land Act, Physical Planning Act, Customary Land Act, Registered Land Act, Land Acquisition Act, Local Government Act, and Malawi Housing Corporation Act.⁶¹ The Customary Land Act has ignited debate over the role of chiefs in land administration with opposers of the bill arguing it strips chiefs of their traditional powers over land and overburdens poor people to pay for land leases. Proponents argue the new law gives rural communities an opportunity to own land individually, which they can then register and use as collateral in the future. In line with the MGDS III, the Registered Land (Amendment) Act provides for title registration throughout the country for all land categories including customary estates.⁶²

With the passing of the Land Act 2016 and Customary land Act 2016, two major departures have been made to the country’s historic tenure system. Firstly, land in Malawi is now only classified into public or private land, whereas customary land used to have its own classification.⁶³ Customary land is now classified as private land except for unallocated customary land which is classified as public. Secondly, all land is vested to the Republic in perpetuity, as opposed to it being vested to the president.⁶⁴ However, a potential deterrent for foreign investors is the clause relating to foreign ownership of land in the amended Land Act. The Act limits the maximum period of leasehold to non-Malawian citizens to 50 years, with the caveat that longer leasehold’s may be permitted if more time is required for the realisation of an investment.⁶⁵

To date, some of the major constraints to the development of Malawi’s mortgage market include limited access to privately-owned land, lack of secure tenure, inability to use rural-based land and houses as collateral and an inefficient land registration system. The successful implementation of the above-mentioned policies and legislation and should, hopefully, ease these constraints in the coming years.

Opportunities

Malawi has faced tough economic conditions in recent years and continues to perform poorly on various macroeconomic indicators. Poverty levels remain high and affordability and access to decent housing remains a major challenge for the country. However, recent improvements in land reform policies and planned improvements to the country’s land registration system and title deed system are encouraging prospects.

A key development in recent years has been the reclassification of customary land to private land. The primary benefit of this being that a large portion of the predominantly rural population will now be able to own land individually and potentially use this land as collateral for future housing investments.

Furthermore, the base lending rate in Malawi continues to decline and currently stands at 16 percent down from 18 percent in 2017. The banks and other lending institutions have responded accordingly by cutting their rates thereby improving access to and affordability of loans, including mortgages. The country’s housing market continues to struggle following the devaluation of the Malawian Kwacha and subsequent depreciation of the currency to the US dollar in the following years. However, the recent developments in land policy and the government’s commitment to improving housing conditions, as set out on the MGDS III, signal positive prospects for the country’s housing market in years to come.

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