HOUSING INVESTMENT LANDSCAPES
NORTH AFRICA REGIONAL REPORT

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Acronyms and abbreviations

AFD Agence Française de Développement
AfDB African Development Bank
AMU Arab Maghreb Union
BIAT International Arab Bank of Tunisia
CAHF Centre for Affordable Housing Finance in Africa
COMESA Common Market for Eastern and Southern Africa
DFI Development Finance Institution
FOPROLOS Fonds pour la Promotion des Logements aux Salariés; Housing Promotion Fund for Salaried People
IFC International Finance Corporation
MENA Middle East and North Africa
MoHU Ministry of Housing and Urban Policy
VSB villes sans bidonvilles; cities without slums
Background

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 localized construction material industry and innovations in housing finance such the emergence of Real Estate Investment Trusts and mortgage liquidity facilities across Africa.

However, a key barrier to this growth remains the chronic lack of rigorous data on the breadth and character of financial infrastructure investment. This is particularly true for the housing sector as stimulating targeted investments requires highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in underserved 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 catalyze scale interventions. Without this data, targeted interventions to stimulate housing sector investment become challenging and result in unresponsive

- housing finance packages and poor uptake of new residential developments. Within this context, the need for more rigorous and nuanced data collection, analysis and interpretation is central to facilitating evidence-based decision making in the sector. In the current environment, little information is available on investment activities and trends. Specific information gaps that urgently need to be filled include:

- Market overview data: This includes data on who is investing in the housing delivery and financing value chains and at what level this investment takes place. It is important to understand the geographic distribution of this investment, the type of the capital used to invest and what the investment vehicles are. It is also crucial to relate this to reliable data on the investment environment and the ways it enables or stifles investor interest.

- Market performance data: This needs to be segmented by target market, housing type or investment intervention, and geography. Understanding the top performing investment instruments provides future investors with a map to navigate the investment environment in Africa.

- Competitive market horizon: The size, financial capacity, geographic reach and market share of participants in the housing sector and in the housing finance (mortgage, home equity, personal loan, consumer loan, and housing microfinance) sectors. What are their investment objectives?

This 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 and analysis into the depth and breadth of investment in the continent’s housing and housing finance sector. The report is the North African segment of this study. The overall goal of this project is to quantify the breadth of investment activity in 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. Aiming 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 North African Region.

The countries in the North African region are part of multiple regions and economic treaties. As part of the Middle East North Africa (MENA) region, the area stretches across cultures and continents. They are also part of the Arab Maghreb Union (AMU), and the Common Market for Eastern and Southern Africa (COMESA). The countries in North Africa avail themselves of various funding and capital investment streams, including from the Gulf States, the Mediterranean, and Sub-Saharan Africa.

Since the Arab Spring in 2011, North African economies have generally undergone a number of liberal reforms and have some of the larger economies on the continent. Some countries in North Africa have made significant leaps in areas such as education and public sector reform, but several threats remain to long-term sustainable growth, with impacts on housing investment. Morocco and Tunisia both have mature mortgage and housing finance markets and represent some positive opportunities for investment. These two countries were already seeing successes before 2011. Housing is a crucial part of the region’s various urban contexts. Libya, however,
remains a divided state with a collapsed economy and sectarian violence. Investment in Libya is currently not feasible.

The following is a brief, descriptive overview of the investment landscape for housing in North Africa and should not be considered an exhaustive account.

1 Profiles of investors in the North Africa region

1.1 Local investors

National governments

Governments continue to play a significant role in housing delivery in North Africa. Traditionally, North African states have had robust and far-reaching government housing programmes that, for a time, worked extremely well to reduce housing deficits and led to high levels of homeownership in some countries. In Libya, there was an excess of housing through government-led social housing programmes, only to see a deficit reappear in the 1980s. Morocco, Algeria, Tunisia, and Egypt have all continued to have governments play a significant role in housing, but liberalization and opening up of markets has increased, particularly in Morocco and Tunisia, with many analysts suggesting similar programmes be implemented across the region.

The Centre for Affordable Housing Finance in Africa (CAHF) counts 19 recent regulatory changes and policies related to housing in North Africa, mostly addressing issues in construction, land, sales and transfer, and finance. Government programmes, however, have not been entirely successful at making housing more affordable. Even in Morocco and Tunisia, down payments of 30 percent are required and most development is focused on luxury units, a problem across the region.

One of the most successful government investments and social housing initiatives in the region has been Morocco’s “villes sans bidonvilles” (VSB) or “cities without slums” programme. The Government of Morocco has invested over MAD 10 billion (approximately US$ 1 billion) into the “villes sans bidonvilles” programme, initiated in 2004, affecting more than 277,000 households. In addition to financial investments, the Moroccan Government has provided other assets and investments in the form of land, subsidies, and tax incentives for affordable housing development, fostering an enabling investment environment.

For many years, the state-owned Housing Bank in Tunisia (Banque de l’Habitat) was by far the leader in the mortgage market. Even after opening up the mortgage market and partially privatizing the Housing Bank, the bank “is still the exclusive manager of a state-subsidised housing loan for low income salaried people, called FOPROLOS (Fonds pour la Promotion des Logements aux Salariés, or Housing Promotion Fund for Salaried People).” Tunisian Government investments continue to play a major role in the housing sector, but adjustments need to be made to fulfil the goal of the subsidy programmes to reduce the affordability gap.

In Egypt, the government is engaged in, or has plans to implement, large-scale affordable housing, urban development, and relocation efforts. For example, the Tahya Masr (literally, “Egypt forever”) housing project and fund is expected to house people from 351 of Egypt’s most dangerous slums. The first two phases of the project were built in only 11 months and will house 100,000 people. This is part of an initiative to add one million subsidized homes in Egypt, of which 150,000 have been delivered and some 260,000 are being built (as of January 2018). The army is also a major developer of housing in Egypt. Social and affordable housing projects in Egypt are under the authority of the Ministry of Housing, Utilities, and Urban Communities and managed by associated agencies such as the Social Housing Fund.

In general, because governments in the region consider housing an economic, social, and political priority and are willing to set out ambitious goals, investment will likely continue or grow in the most stable and promising urban areas and countries. Combined with liberalizing markets, the opportunities to form longer-term public-
private partnership in the affordable housing sector are worth exploring. Macroeconomic imbalances and social unrest are persistent obstacles and risks to investment.

**Commercial banks and capital markets**

Morocco and Tunisia both have well established stock markets: the Casablanca stock exchange in Morocco, and the TUNISINDEX in Tunisia. Three real estate development companies are listed on the Casablanca stock exchange. The local capital markets in Tunisia are not significantly leveraged for affordable housing investments. In 2005 and 2006, the International Arab Bank of Tunisia (BIAT) performed two transactions on the secondary markets to fund long-term mortgage finance. The Housing Bank in Tunisia also issues stocks and bonds on the markets.⁵

Despite large government involvement in many North African markets, “Commercial banks currently dominate the housing finance market …” across the North Africa region, “at the expense of mortgage companies, which are restricted by the lack of regulatory frameworks in most countries.”⁶ Most of these private banks focus entirely on the middle to upper-income markets. Banking and housing financial markets are relatively well developed in Tunisia and Morocco compared to the rest of the North African countries, but products need to be redesigned to meet the needs and demand of citizens seeking affordable options for homeownership, rental, and development.

Across North Africa, there is the trend of using real estate as an investment, rather than as a primary residence or home. Many new homes, particularly, in Egypt are vacant investment tools.

### 1.2 Foreign institutional investors

Most capital resources provided by foreign institutional investors come from multilateral development finance institutions such as the World Bank and the International Finance Corporation (IFC); the continentally-based African Development Bank (AfDB); and development institutions from former European colonialist countries such as France’s Agence Francais Developpement (AFD). However, in recent years, the emphasis of foreign institutional investors has shifted from housing-related investments and loans toward developing small and medium sized enterprises (SMEs), microfinance, energy, and agricultural development. Urban and infrastructure initiatives exist, but do not always include a component that regards affordable housing as essential infrastructure in urban contexts.

In Morocco, most DFI involvement in the housing sector ended after the year 2000, but DFIs have invested nearly US$10 billion in the country since then, with some allocated for improvements to the housing sector. More indirect investment from DFIs into finance and microfinance institutions has continued in the last decade.

The World Bank has not invested directly in housing in Algeria since a project beginning in 1998. The World Bank has, however, had projects such as the “Mortgage Finance Technical Assistance Project,” a US$8.2 million project aimed at institutional assistance to “legal and administrative measures to improve property rights, mortgage efficiency, and property titling and registration systems.”⁷

In Egypt, the World Bank is involved in a five-year housing programme to address multiple areas of housing finance. The “Inclusive Housing Finance Programme” will ultimately disburse US$500 million by 2020. The World Bank’s stated objective is to “... improve the affordability of formal housing for low income households in the Arab Republic of Egypt and to strengthen the Social Housing Fund’s capacity to design policies and coordinate programmes in the social housing sector.”⁸ The AfDB is engaged in a US$560 million project in Egypt for the “Informal Settlements Development Project”.

The countries in North Africa can also receive investment and interest from the Gulf States. In the last decade or so, large Gulf state developers like the Bukhatir Group from the United Arab Emirates have shown interest.

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⁵ Ibid.
in Tunisia, Morocco, and Algeria. These projects, however, are often mega projects, such as the Sport City in Tunis, and focus on master-planned development with luxury housing and commercial space for services industries. It is important to stress the need for affordable options in these projects as well.

Every country in North Africa has some public agency or authority whose role is to attend to the concerns of foreign direct investors and to help them through the investment processes. For example, the Government of Tunisia set up the Tunisian Investment Authority to “act as a one-stop-shop to facilitate the procedures required for investors” who are looking to explore business opportunities in the country. The capacity of such an entity can be one of the ways to mitigate risk for private investors, whether institutional or individuals, as they look for common attributes that can act as strong predictors of success, no matter the region or country.

Figure 1: Investor motivation factors in Tunisia

In Egypt, the General Authority for Investments lists 48 real estate investment projects on its website. Projects range from worker housing in Fayoum to other residential and commercial real estate investments. Egypt’s World Bank Doing Business ranking for 2018 is 128 but has a ranking of 66 for construction permits. Morocco’s state investment authority is the Moroccan Investment Development Agency and there are 10 major steps to creating a business in Morocco. However, acquiring land for development is a complicated procedure. Nevertheless, the World Bank ranks Morocco 17th for dealing with construction permits and 68th overall in their Doing Business report for 2018. Tunisia’s Doing Business rank is 88th overall, but 95th for construction permits.

The Tunisian Investment Authority has drawn mixed assessments about reform implementation in recent years, but Tunisia’s young and educated urban populations should attract more investment in the service sector and will need affordable rental housing near employment hubs. Algeria and Libya both rank lower in the World Bank’s Doing Business list at 166th and 185th respectively. Algeria’s economy is still overly dependent on the energy sector and is focused on diversification and consolidation. The national Agency of Investment Development in Algeria is supposed to operate as a “one-stop-shop,” but the site for the agency is hosted on the Ministry of Industry and Mines, so there may be a significant lack of capacity for other types of development investments such as housing. State control over much of the economy in Algeria is also a major obstacle to FDI activity. Considerable political and social instability in Libya continues to pose a threat to any serious attempts at investment in the country, let alone affordable housing investments. 

9 Invest in Egypt website (n.d.). http://www.investinegypt.gov.eg/English/Pages/explore.aspx?map=true
2 Impact of investments on North Africa’s housing industry

2.1 The breadth and depth of housing and housing finance products

Mortgages

Some countries in North Africa have mature mortgage markets (Morocco, Algeria, and Tunisia), while Egypt’s and Libya’s mortgage markets are comparatively underdeveloped. Morocco’s mortgage market is an estimated 17.56 percent of GDP with interest rates at 5.85 percent and 25-year terms. Algeria’s mortgage market is 1.2 percent of GDP, with an average loan size of US$19,200, at a rate of 7.5 percent and terms of 30 years. Tunisia’s mortgage interest rate is 8 percent over 25 years and the market makes up 17.11 percent of GDP. Libya’s mortgage market is only estimated to be 1 percent of GDP and mortgage interest rates are 6 percent at 30 years. The political crisis in Libya, however, makes assessments more complicated, since there are essentially two rival governments, each with their own central bank and national oil company operating in the country. Egypt’s mortgage market is the least developed in the region, despite real estate activity representing the largest domestic economic sector. Average mortgages as a percentage of GDP are less than 1 percent. The mortgage interest rate is 5 percent at 30-year terms. Average mortgage loan size is US$277,777.11

Property developments

Morocco has ambitious state initiatives to deliver social housing units. The Ministry of Housing and Urban Policy (MoHu) reported 810,000 units by 2004 under a government programme, and another 912,326 units from 2005 to 2009. Since 2010, only 693,000 units have been built out of a planned 1.2 million. The pace has fallen to less than 100,000 units a year and there are issues of construction quality. Despite the ambitious government plans to supply housing for middle and low income households, most of the units in these programmes are actually delivered by the private sector.12 In Egypt, the private sector develops about 20,000 units a year, but has a housing gap of three-million units. More than 100,000 units have been built in areas outside of Cairo that are housing families from some of Egypt’s poorest slums, and another 260,000 were being built as of January 2018 under a government programme to build one-million homes. Instability in Libya has seriously restricted the development of housing supply. More than 130,000 units were under construction in 2012, according to government figures, and more than 11,000 units had been built.13 Tunisia’s estimated annual demand is 77,000 units a year, with a sizable proportion of this demand met by informal building. Development in Tunisia is primarily carried out by individual households, either building a primary residence or as urban professionals building an investment/rental property. In 2013, more than 42,000 building permits were issued with “approximately 80 percent … constructed by individual households … two percent by public developers and 18 percent by registered developers.”14

3 Challenges to improving the investment landscape in North Africa

The major challenges to improving the investment landscape in North Africa are a combination of a constant threat of instability, despite significant liberal democratic gains in recent years, and persistent macroeconomic imbalances that make affordability and the production of even middle class housing difficult. Countries across the region have either made good faith attempts to attract investors, both foreign and domestic, with enabling legislation, relaxing of industry restrictions, or offering incentives. Governments have traditionally been overinvolved on both the supply and demand sides of the value chain, which has both resulted in major housing initiatives with some defective aspects (sometimes quality, sometimes offtake), or a reliance on the private sector to fulfill the ambitions of government programmes fueled by political pressure. The more advanced private developers, however, have been focused on the luxury and higher-end markets, while the financial

13 Ibid.
14 Ibid.
sector needs to make more progress in going down-market with products, and governments need to adjust their subsidy programmes to reflect the realities of the current markets.

More targeted mortgage products in the microfinance sector, already a growing and important part of the region’s markets, can help to drive commercial banks toward more impactful products. According to Dübel and Hassler, “Short maturities and the unstable interest rate environment,” make “ … long-term housing finance risky for consumer and provider.” Developing long-term finance is key to stabilizing primary markets and establishing secondary mortgage markets in the countries that already demonstrate deeper market penetration and sector maturity.

In addition, extended periods of stability, growth (however modest), and reform, will add to continued interest for investments in North Africa, already a region in Africa that draws proportionally more investments from FDI than others.
References


Invest in Egypt website (n.d.). http://www.investinegypt.gov.eg/English/Pages/explore.aspx?map=true


