

Access to finance

The necessary conditions for the development of an efficient housing market exist in Botswana. These include adequate housing finance; a stable macroeconomic environment; an adequate legal framework; a functional property market; mortgage market infrastructure; and various funding mechanisms.⁷

The financial sector can generally be divided into three categories: the banking sector (which generally tends to be regulated by the Bank of Botswana), statutory banks regulated by the Ministry of Finance, and the non-bank financial sector, which is regulated by the Non-Bank Financial Institutions Regulatory Authority.

The country has 10 commercial banks that are all foreign-owned, namely Standard Chartered Bank of Botswana; Absa Botswana (a member of the Absa group); First National Bank of Botswana; Stanbic Bank; Bank Gaborone; BancABC; First Capital Bank Limited; Bank of India; State Bank of India and Bank Baroda. Four of these banks are listed on the Botswana Stock Exchange.

There are also several quasi-government owned financial institutions, including the Botswana Building Society (BBS), Botswana Development Corporation, Botswana Savings Bank, National Development Bank (NDB), and the Citizen Entrepreneurial Development Agency (CEDA).

Banks have played a key role in extending mortgage lending, with loan-to-value (LTV) ratios of between 90 percent and 100 percent for commercial banks and up to 100 percent for quasi-government organisations. The continued availability of bank funding and an increase in customer deposits has improved the market liquidity of banks. Moreover, various banks compete with each other on their LTV ratios, sometimes offering more than 100 percent mortgages to reduce the deposit required from borrowers. Some commercial banks have been offering up to 85 percent for equity and refinance of home loans and mortgages. Banking strategy is made even more competitive by increasing the maximum loan sizes, as well as restricting high-risk lending terms regarding LTVs and interest-only loans. These lending practices aim to ensure that new borrowers will have less risky loans. However, highly indebted households remain the most vulnerable in the current economic climate, as they are more likely to fall behind on their repayments in the event of an economic shock.⁸

Banks have, however, committed to reschedule loans and offer payment holidays for affected individuals and companies due to the COVID-19 lockdown. It is estimated that the non-performing loans of most banks will reach five percent, including those debtors that are most at risk, particularly as the payment holiday comes to an end.

In general, mortgage uptake has been slow in Botswana. This can be attributed to low incomes and high property prices, with the average mortgage loan size increasing to P950 000 (US\$80 601) in 2019 from P830 000 (US\$70 420) in 2018. Initially, mortgage lending was expected to rise following the amendment of the Deeds Registry Act and Tribal Land Act in 2017 to facilitate the acquisition of title deeds countrywide. Mortgages are available for up to 25 years, or up to the age of 60 years, and are typically provided at an interest rate of prime plus six percent. The prime rate is currently 5.75 percent. The BOB Monetary Policy Report 2020 indicates that there has been a 0.4 percent drop in the uptake of home loans since 2019.⁹ Currently, there are an estimated 16 500 mortgages from banks in Botswana, with an average size of approximately P800 000 (US\$67 875), plus another 7 000 mortgages from BBS, CEDA and NDB.

Pension funds play a vital role in the financial system. The pension fund sector has an asset base estimated at 50 percent of the country's GDP, mostly invested in offshore funds, with no third-party loans or housing loans to its members. Informal savings and lending clubs also play a vital role in informing finances.

Botswana has 315 registered cooperatives with over 200 000 members. Out of these, 83 are Financial Cooperatives and Savings and Credit Cooperative Societies, with both types registered under the Cooperative Societies Act No. 5 of 1989. These entities pool savings to create a source of funds for lending among members with between 17 percent and 24 percent interest.¹⁰ A key aspect of these finance instruments is that they are designed for short-term projects and are thus not ideal for housing finance because of their relatively high interest rates and limited

COVID-19 response

- During the first week of March 2020, the government of Botswana provided free testing at various country border posts, and handwashing and sanitising was enforced at all public schools prior to lockdown. The Emergency Powers Act No. 61 of 2020 with regulations on COVID-19 was tabled soon after the start of lockdown on 21 March 2020.
- The Minister of Finance and Economic Development announced a plan for tax relief as part of broader measures to mitigate the impact of the COVID-19 pandemic, on 31 March 2020. This included a tax deferral of 75 percent of any two self-assessment tax quarterly payments due between March and September 2020, with payment to begin only in March 2021.
- A wage subsidy was introduced for companies affected by COVID-19 for salaries between P1 000 (US\$87) and P2 500 (US\$218). The government also proposed a loan guarantee scheme, as well as moratoriums on loan repayments.

repayment periods. These loans tend to be more expensive, and are not adequate for construction or the purchase of good-quality housing. However, they do play a role in incremental construction of housing and housing assets, such as fencing and home improvements.

Affordability

The unemployment rate in Botswana was 22.2 percent in December 2019, up from 20.7 percent in September 2019. Average cash earnings in the labour force dropped to P4 818 (US\$409) from P4 989 (US\$423) over the same period.¹¹ Of those employed in 2019, the average household disposable income for urban areas was P9 630 (US\$817), P5 731 (US\$486) for urban villages, and P3 251 (US\$2 750) for rural areas.¹² These figures include expenses such as housing, transport, and groceries.

However, salaries differ drastically between different jobs. The median salary is P11 364 (US\$1 040) a month, and the Botswana Multi-Topic Household Survey for 2015/2016 estimated household consumption and expenditure at P3 927 (US\$359).¹³ Moreover, it was shown that the average household expenditure on housing increases with urbanisation. Given that the debt-coverage ratio on housing is 40 percent with most lenders, urban households can afford a housing expense of P3 852 (US\$352) a month, while those in urban villages (semi-rural areas) can afford up to P2 229 (US\$209). The average house price in urban areas is P650 000 (US\$55 149), and P450 000 (US\$38 180) in urban villages. Generally, financial institutions do not approve mortgages below these amounts as lenders may not have adequate security on a property purchased below these prices. An average 54m² housing unit on a 400m² plot sells for around P550 000 (US\$46 664) from the Botswana Housing Corporation (BHC), with a minimum monthly payment of P4 500 (US\$382). At 30 percent affordability level, a household must earn a monthly income of more than P14 000 (US\$1 188) to afford such a house. Affordability has been eroded by the economic slowdown, rising unemployment, lower salaries, and rising local costs of imported materials that make up a considerable portion of the final sales price of residential units.

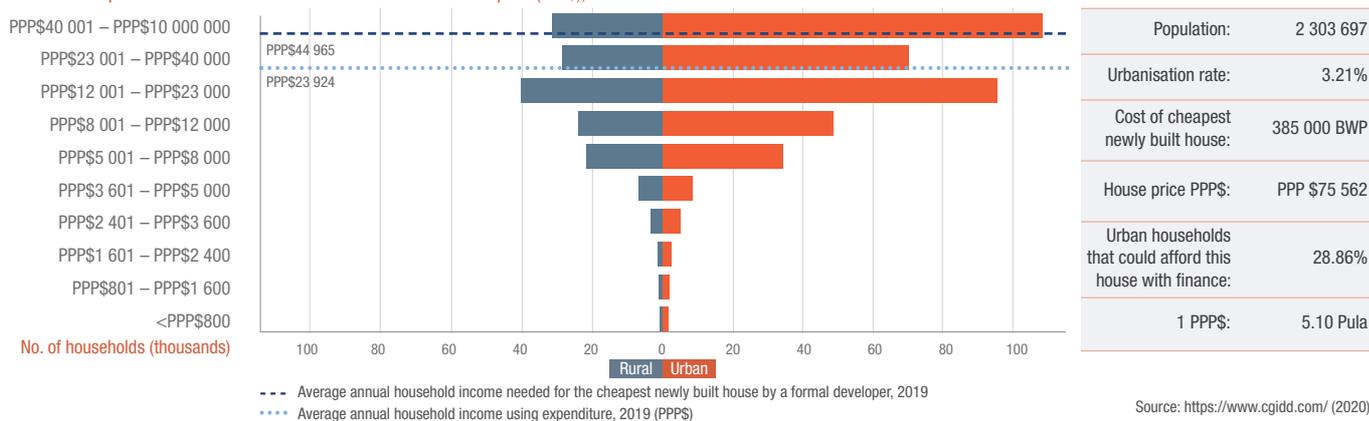
Of particular interest is the government initiative that finances younger lenders through the Youth Housing and Instalment Purchase scheme, which provides first-time homebuyers the opportunity to purchase high-density and multi-residential units. This is particularly aimed at those earning between P3 000 (US\$292) and P7 000 (US\$683). The key question is whether many of these individuals are creditworthy, as housing purchase is often a heavy debt route for the majority of young people who earn below P3 000 (US\$260).¹⁴

Other programmes include the following:

- Innovative property acquisition methods such as Instalment Purchase Schemes/Agreements, which have been sought by developers such as the BHC as an affordable housing strategy. Others, including the Public Officers Housing Initiative (POHI) and Youth Housing, have provided Botswana with

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Annual income profile for rural and urban households based on consumption (PPP\$, 2019)



more affordable alternatives. The POHI depends on BHC-built housing units in different parts of the country at a capped cost of just under P153 000 (US\$12 981). In most cases these houses are bought by citizens and rented out to the government to house civil servants.

- The Government Employee Motor Vehicle Advance Scheme is a state scheme that provides up to 80 percent bank loans for government employees, with remaining 20 percent provided by a financial institution.
- The Self Help Housing Agency (SHHA) is a government-financed scheme providing loans for low income housing. This is available for citizens of Botswana earning between P4 400 (US\$403) and P36 400 (US\$334) per annum. The maximum loan entitlement is P60 000 (US\$5 100). The repayment period for the scheme is 20 years at zero interest.
- The SHHA Turnkey programme involves the design and construction of basic houses for eligible low income households. On occupation, the beneficiaries pay the cost of the built houses for 20 years at P375 (US\$34) a month at zero percent. The turnkey loan amount for units is P90 000 (US\$8 240).

In Botswana, high land prices have generally exacerbated affordability problems, pushing many households into the rental market. Urban serviced land is priced at an average of P1 320 (US\$121) a square metre. Serviced rural village land within a 40 to 60 kilometre range of Gaborone is priced at P230 (US\$21), compared to serviced land in regular urban villages at P260 (US\$24) a square metre.¹⁵ This means that the smallest plot of 300m² in Gaborone is high – almost P396 000 (US\$36 275), which is affordable only for people earning P10 000 (US\$916) and above. The repayment period for this loan would be over 20 years.

In response to COVID-19, the government proposed a payment holiday on home loans, during which it provided guarantees and assistance to banks. Individual banks have since announced their own policies during lockdown, but most do offer monthly payment moratoriums to clients.¹⁶

Housing supply

There are many key actors in the formal housing process in Botswana. The BHC is a public enterprise that concentrates its efforts on main urban centres such as Gaborone, Francistown, Palapye, Mahalapye, Selebi-Phikwe, Lobatse and Jwaneng, where demand is greatest. The 2000 National Policy on Housing shifted some of the control of housing from state to private hands. Part of this policy includes the Poverty Alleviation and Housing Programme, whereby those who cannot afford to purchase a home can learn the skills necessary to build on their own. This self-help policy is particularly helpful for rural residents. This policy also allows the supply of sub-serviced land to private sector developers in urban areas.

For the period 2009 to 2018, about 2 991 privately-built new houses were developed in Gaborone according to Gaborone City Council records, despite receiving over 6 200 building plans.¹⁷ In 2011 the government targeted the construction of 20 000 low income houses by 2023 through the BHC.¹⁸ Since its establishment in 1970, BHC has so far delivered almost 25 400 houses. At least 14 422 houses have been sold to Botswana while the remaining 10 662 are rented out.¹⁹ However, rapid urbanisation means the provision of affordable housing in

urban centres is generally inadequate.²⁰ In contrast, private property developers have shown that they are profit motivated and their housing prices target upper middle and high income households. A two-bedroom unit of 45m² sells for around P600 000 (US\$52 200).²¹

The role that private property developers play in providing housing is worth noting, as it reduces pressure on state housing provision in Botswana. There are more than 685 property development companies in Botswana and just over 50 are registered with the Registrar of Companies. Freehold land available around urban zones sells for between P500 (US\$46) and P1 750 (US\$160) a square metre. This high rate has often deterred the government from buying land in a bid to expand cities. The unavailability of affordable land has therefore caused a spike in property prices and rentals, with the demand for housing overtaking supply.

The property market

Before the onset of COVID-19, the real estate cycle was already on a downward fall. Repossessions had grown by 40 percent over the past three years, and auctions were achieving only 60 percent of reserve prices after a fifth or sixth cycle. Moreover, household income has generally been stagnant during the past decade. Living expenses such as electricity bills, water bills, food, and fuel have been growing significantly for the same period.

The determinants of private investments indicate that Botswana is generally at the lower rung in global competitiveness. Between 2010 and 2019, the country slipped 24 positions from 66 to 90 in the Global Competitiveness Index and 35 positions (from 52 to 87) in the World Bank Doing Business ranking. The decline can be explained by the absence of economic improvement rather than worsening state policies. According to the 2019/20 Global Competitiveness Index, Botswana's primary weaknesses continue to include technological readiness, small market size, economic efficiency, and inadequate basic health provision.

Policy and legislation

The National Policy on Housing, first published in 1981, laid the foundation for the formation of a Department of Housing in Botswana. Its revision in 1997 formed the basis for the current National Policy on Housing of 2000. It addresses institutional capacity building, land, finance, subsidies, rentals, housing standards, building materials, housing legislation, SHHA, District Housing, BHC and private sector participation.

The Transfer Duty (Amendment) Act No. 24 of 2019 came into operation on 1 March 2020. This introduced a series of important economic changes and caused much debate in the Botswana tax discourse. The amendments adopted were motivated mainly to encourage land and property ownership by Botswana and discourage land acquisitions by foreigners. The main changes enable first-time citizen homeowners to be exempted from tax on home purchase amounts between P200 000 (US\$16 968) and P1 000 000 (US\$84 844) and also impose a 30 percent transfer duty tax for non-citizens.



During 2019, the Financial Intelligence Act No. 11 of 2019 was passed to combat financial crimes, particularly money laundering and financing of terrorism. Amendments to the Act have been put in place to provide more stringent and efficient mechanisms. There is still considerable uncertainty surrounding the Act, however, since actions consistent with a stricter anti-money laundering regime can result in less inflated housing markets. Housing sale transactions recorded from January to March 2020 (480 transactions) are almost the same as from January to April 2019 (570 transactions).²²

Opportunities

Current land prices in Botswana are generally considered untenable as they are too high. Urban serviced land averages P1 750 00 (US\$148) a square metre, while serviced land in villages within a 40km to 60km range of Gaborone is P230 (US\$19.5). This compares to a price in urban villages of P260 (US\$22) a square metre.²³ The lower price of land in urban villages is clearly an opportunity for developers to invest in these surrounding areas.

Despite high prices, Botswana is lucky to have comparably low inflation rates. This has fuelled property investment as home prices have not only kept up with inflation but outpaced it. Property developers thus earn a positive return through escalating rentals and home prices, and have propelled the market to develop more properties to increase the yield value.

The positive growth of the property market in Botswana generally receives favourable ratings. According to Transparency International (2017), Botswana is the least corrupt country in Africa and has been ranked comparably to several Organisation for Economic Co-operation and Development (OECD) and European countries for decades. Even more relevant, Botswana is ranked third in the African JLL Real Estate Transparency Index 2020, only bettered by South Africa in the region.²⁴ Consequently, it is relatively easy for real estate investors to access relevant information, and property rights are well protected.

Websites

Government of Botswana portal www.gov.bw
Bank of Botswana <http://www.bankofbotswana.bw/>
Statistics Botswana <http://www.statsbots.org.bw/>
Botswana Housing Corporation <https://www.bhc.bw/>

Availability of data on housing finance

Real estate data is not readily available in Botswana. Most information comes from public organisations and government departments, but is either outdated, subjective or incomplete. Private organisational data is usually available on subscription or by purchasing various reports, particularly since many tend to be secretive about their information, and to whom they choose to disclose it. The primary sources for housing finance are the following:

- BOB provides financial information such as interest rates, mortgage uptake, exchange rates and inflation rates on quarterly basis. They are available at <https://www.bankofbotswana.bw/>
- Statistics Botswana collects demographic information and conducts multiple surveys on business, household incomes and expenditure. Very little information exists on the real estate sector. They are available at <http://www.statsbots.org.bw/>
- BHC keeps information on property listings and developments in the sector. It is, however, not possible to find any price catalogues and property information from private developers. They are available at <https://www.bhc.bw/>

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⁴ Isaacs, S.M. and Manatsha, B.T. (2015). Will the Dreaded “Yellow Monster” Stop Roaring Again? An Appraisal of Botswana’s 2015 Land Policy. Special Issue on Humanities at UB and Botswana’s 50 Years of Independence. Pgs. 383-395.

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⁶ Vantage Properties. (2020). Property Market Outlook 2020. <https://www.vantagepropertiesbw.com/botswana-property-market-report-2020/> (Accessed 2 August 2020). Pg. 10.

⁷ Bege, C. and Jing, F. (2010). Housing Finance: A Case of Botswana. Stockholm School of Economics. <http://arc.hhs.se/download.aspx?MediumId=1102> (Accessed 22 July 2020). Pg. 1.

⁸ Bank of Botswana (2020). Financial Stability Report. <https://www.bankofbotswana.bw/sites/default/files/publications/FINANCIALpercent20STABILITYpercent20REPORTpercent20Julypercent2010percent20percent20Verypercent20Finalpercent20forpercent20Print.pdf> (Accessed 26 August 2020). Pg. 17.

⁹ Bank of Botswana (2020). Monetary Policy Report. April 2020. <https://www.bankofbotswana.bw/sites/default/files/publications/APRILpercent202020percent20Monetarypercent20Policypercent20Reportpercent20Final.pdf> (Accessed 26 August 2020). Pg. 15.

¹⁰ Government of Botswana (2019). Highlights for Botswana Cooperative Movement 2019/2020. <https://cafrica.coop/sites/default/files/basic-page-attachments/botswana-cooperative-movement-highlights-2019-520904475.pdf> (Accessed 20 August 2020). Pg. 2.

¹¹ Statistics Botswana (2020) Quarterly Multi-Topic Survey: Labour Force Module Report. Quarter 3 2019. <http://www.statsbots.org.bw/quarterly-multi-topic-survey-labour-force-module-report-quarter-3-2019> (Accessed 22 August 2020). Pg. 37.

¹² Statistics Botswana (2018). Botswana Multi-Topic Household Survey 2015/16. Poverty Brief Stats. January 2018. <http://www.statsbots.org.bw/sites/default/files/publications/BMTHSpercent20POVERTYpercent20STATSpercent20BRIEFpercent202018.pdf> (Accessed 15 August 2020). Pg. 78.

¹³ Statistics Botswana (2018) Botswana Multi-Topic Household Survey 2015/16. Poverty Brief Stats. January 2018. <http://www.statsbots.org.bw/sites/default/files/publications/BMTHSpercent20POVERTYpercent20STATSpercent20BRIEFpercent202018.pdf> (Accessed 26 August 2020). Pg. 11.

¹⁴ Mosha, A. (1996). An Evaluation of Botswana’s Strategies to Regularize Informal Settlements. Review of Urban & Regional Development Studies, 8: Pgs. 46-65.

¹⁵ Vantage Properties. (2019). Botswana’s Property Market Report 2019. Gaborone.

<https://www.vantagepropertiesbw.com/botswana-property-report-2019-2/pdf> (Accessed July 2020). Pg. 6.

¹⁶ KPMG (2020). Botswana – Government and institution measures in response to COVID-19. <https://home.kpmg/xx/en/home/insights/2020/04/botswana-government-and-institution-measures-in-response-to-covid.html> (Accessed 12 August 2020).

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¹⁸ Botswana Housing Corporation (2019). BHC Annual Report 2018. <http://www.bhc.bw/sites/default/files/BHCpercent20Annualpercent20Reportpercent202018.pdf> (Accessed 12 August 2020). Pg. 19.

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²⁰ Kampamba, J. (2017). An Investigation of the Role of Private Property Developers in Provision of Housing in Gaborone, Botswana. Volume 5, Issue 12 December 2017. Pgs. 20-31.

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²³ Statistics Botswana (2011). Population and Housing Census. <http://www.statsbots.org.bw/sites/default/files/publications/Populationpercent20percent26percent20Housingpercent20Censuspercent20Disseminationpercent20analyticalpercent20reportpercent20.pdf> (Accessed 27 August 2020).

²⁴ Jones Lang LaSalle Inc. (2018). Global Real Estate Transparency Index 2018. (Accessed 25 July 2020).