



Understanding
Ghana's
Housing Finance Market
06 June 2016

While Ghana has experienced strong and inclusive growth over the past two decades, the last few years have been difficult. The country has outperformed regional peers in reducing poverty and improving social indicators, and had high volumes of direct foreign investments (DFI). However, increasing public debt (GHC 97.2 billion, or US\$ 25.2 billion, as of December 2015), slowing economic growth (from a high of 14 percent in 2011 to 4 percent in 2014), increasing inflation (17.1 percent in 2015), high interest rates (the monetary policy rate is currently 26 percent, while the current interbank rate is 25.4 percent) and a depreciating currency (Ghanaian Cedi, GHc, has lost over sixty percent of its value against the US Dollar over the past five years) have affected the housing finance sector of the country.

Ghana's economic slowdown has been exacerbated by the current perennial energy crisis which, combined with high costs of local fuel products, has severely impacted most home-grown Ghanaian businesses. These include hairdressers, carpenters, welders, some microfinance businesses and most SMEs, which heavily depend on constant supply of electricity to do business.

In March 2015, Moody's downgraded the country's sovereign rating for the second time, from B2 to B3, mainly due to the country's deteriorating debt burden, large fiscal imbalances and the sharp weakening of the Cedi. However, with the recent positive review by the IMF, a partial bond guarantee by the World Bank and the resumption of donor support, the Cedi gained some ground against other major currencies. The government has maintained a tight monetary and fiscal policy, and a recovery of the GDP growth rate is expected in the medium term, to 5.8 percent in 2016 and 8.7 percent in 2017.

In terms of housing, in July 2013 the Ministry of Water Resources Works and Housing estimated the current housing deficit to be about 1.7 million houses. Only about 40 000 housing units are being delivered annually, compared to an annual housing demand of about 100 000 units. As much as 90 percent of Ghana's housing stock has been incrementally constructed by homeowners and small-scale contractors, with construction taking between 5 to 15 years.

This note covers a broad overview of housing and housing finance markets in Ghana. In October 2015, CAHF launched the [6th edition of the Housing Finance in Africa Yearbook](#), this time covering 48 countries and 5 regions across the continent. The full Ghana profile regional profile can be found [here](#).

Housing Finance in Africa Yearbook 2015 | A Country Overview of Housing Finance Markets in Ghana

According to Global Findex, the use of credit is fairly common – 39.2 percent of adults over 25 years of age report that they had a loan in 2015. However, very few Ghanaians have an outstanding loan to purchase a home: 1.9 percent of the top 60 percent of income earners and 3.1 percent of the bottom 40 percent of income earners. Only five of Ghana's 26 banks officially offer mortgage loans as a product —[HFC Bank](#), [Fidelity Bank](#), [CalBank](#), [Stanbic Bank](#) and [UT Bank](#), which grants mortgages on a limited basis to customers of its subsidiary UT Properties. In addition, [Ghana Home Loans \(GHL\)](#) is the country's only non-bank lender focusing exclusively on residential mortgage lending. Less than three percent of loans granted by banks in Ghana go into housing finance. The total home loans book in Ghana is in excess of US\$ 200 million and the number of borrowers just under 6 000, while the housing finance system (as a share of GDP) is only 0.5 percent.



Across the various institutions, there are generally four categories of home loan. The first is the home purchase mortgage, which is used for purchasing new houses. The borrower is expected to make a minimum 20 percent down payment of the cost of the property. The loan term is for 20 years, and the interest rates vary for the Cedi mortgage loans which range between 27 percent and 32 percent among the various banks (there are also US dollar-denominated mortgage loans that carry fixed interest rates between 12.5 percent and 14 percent among the various banks). The second product is the home improvement mortgage, which is for the renovation of an already acquired property. These types of mortgage usually carry a term of five years. The third product is the home completion mortgage, which is used to complete a house under construction. The last product is the home equity mortgage, which is used to realise equity locked up in a property. The home purchase mortgage dominates the market.

Pricing for mortgage loans is in either the local currency (the Cedi) or US Dollars. US Dollar loans are mostly given to Ghanaians in diaspora and resident Ghanaians who earn their incomes in US dollars. Everyone else is given a Cedi loan. There are also variations in the interest rates charged for both categories. While interest rate on Cedi loans varies by 30 percent, that of dollar loans is fixed between 12.5 to 14 percent (dependent on the lender). This is done to insulate the mortgage bankers from exchange rate risk when they have to pay back on their borrowings in US dollars from foreign sources. Mortgage lenders, such as Ghana Home Loans, have reported that despite the difficult operating terrain, the demand for home loans is very strong and most borrowers are firmly committed to meeting their loan obligations. Growth in the housing sector has put pressure on mortgage lenders who have struggled to raise funding to meet the demand. Furthermore, the mortgage loans market environment has recently seen signs of significant improvement. These include the introduction of credit bureaus that give lenders access to the credit history of borrowers within seconds; most banks and other financial institutions feel very reluctant to update the bureaus with credit activities on their customers and this makes it difficult to determine the true credit worthiness of borrowers.

With the discovery of oil and gas, the sector has opened up the housing industry to many Ghanaian and foreign investors. The Chinese, the Moroccans, the Brazilians and others are taking advantage of the prospects and are constructing large sections of houses for sale. However, there is the need for the banking sector to provide long-term construction finance to aid the local real estate developers to produce more units for the low to middle-income earners where there is the bulk of the housing demand. With greater awareness, access and acceptance of mortgage products in the country and finalisation of reforms to the land administration system, the mortgage industry can thrive and allow room for additional mortgage bankers.

There have also been a number of microfinance initiatives. In 2010, USAID launched and funded a housing microfinance pilot programme with Opportunity International, USA, International Land Systems and Sinapi Aba Trust. This programme provided US\$1 million funding to Opportunity International, USA for disbursement to Sinapi Aba and International Land Systems to promote housing microfinance within the Ashanti and Brong Ahafo regions for two years. After the success of this programme, [Sinapi Aba](#) has sourced its own funding to continue the program. In late 2012, the MasterCard Foundation and [Habitat for Humanity Ghana](#) jointly launched a five-year pilot project in Ghana to promote the growth of the housing microfinance and incremental housing construction. The US\$ 2.2 million initiative engaged with three microfinance companies in Ghana (Sinapi Aba Savings and Loan, Unicredit and Opportunity International Savings and Loan) to provide technical support in the development of housing microloan products. This programme ended in June 2015, however, with

two of the lenders citing lack of funding to continue the programme. Sinapi Abi has continued to operate in the housing microfinance space. Meanwhile, the target of 20 000 housing microloans to low-income earners in mostly the rural areas was never achieved. Global Access Savings and Loan also offers housing microfinance loans to low-income earners in both urban and rural Ashanti region. With the exception of HFC Boafo, Global Access and Sinapi Aba (all of which are featured in an up-coming in-depth CAHF case study), no other institutions provide housing microfinance to the rural low-income earners and this is an area that more players are needed to help individuals in the rural areas to improve on their housing needs.

Key Figures

Ghana's economy has been under significant pressure in the past year. Despite the high inflation, the cost of a standard bag of cement has decreased by almost US\$ 2, from US\$ 10.94 in 2014 to US\$ 8 in 2015. According to Doing Business Indicators, there are five procedures to register property. The time taken to register a property in Ghana is 46 days, which is significantly lower than that of Togo, Benin, Burkina Faso and Nigeria. The cost to register a property in Ghana is 1.1 percent of the property value—significantly lower than that of immediately surrounding countries.

The Ghana Statistical Services indicates that the unemployment rate is low at 5.3 percent. However, a significant amount of the population continues to live under the poverty line, resulting in a low affordability for housing.

Click the image to see the stats. Visit the [Yearbook](#) for sources.

KEY FIGURES

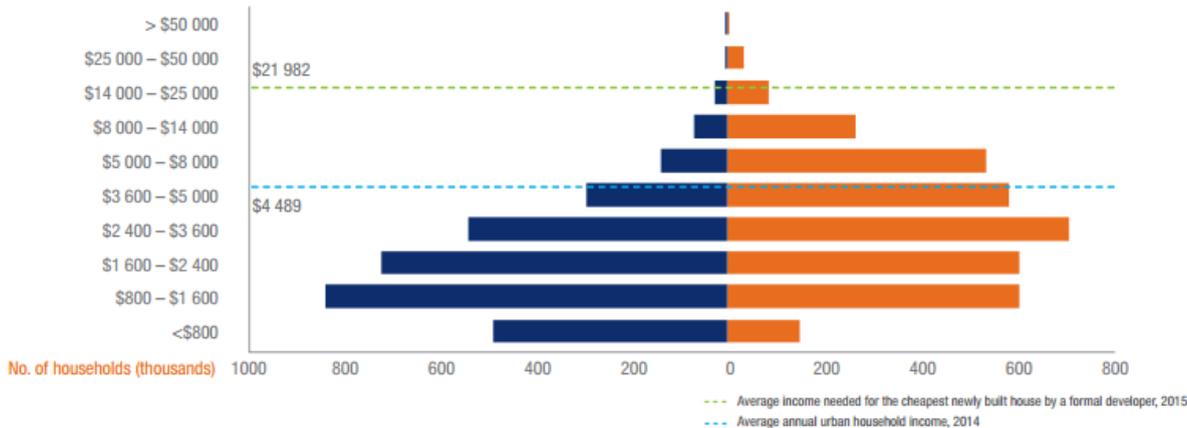
Main Urban Centres	Accra (capital), Kumasi
Exchange Rate: 1 US\$***	3.91 Ghanaian Cedi (GHS)
Inflation 2013 2014 (est.) 2015 (prov.) 2016 (prov.) *	11.7 17.0 8.3 8.7
Population^ Population growth rate (2013)^	26 442 178 2.05
Urban population (% of total)^ Urbanisation rate (% in 2013)^	53.39 3.29
GDP / capita (current US\$)^ GDP growth rate (annual %)^	1 461.61 4.18
GNI / capita, Atlas method (current US\$) ^	1 620
Population below national poverty line*	24.2
Unemployment rate (%)*	5.3
Gini co-efficient (year of survey)^	42.76 (2005)
HDI (Global Ranking)* HDI (Country Index Score)*	138 0.573
Lending Interest Rate^	12.5 – 35^*
Mortgage Interest Rate (%) Mortgage Term (years)#	28.00 20
Credit % of GDP^	...
Average Mortgages % of GDP°	0.25% (2010)
Price To Rent Ratio City Centre** Outside City Centre**	7.99 6.36
Gross Rental Yield City Centre** Outside of City Centre**	12.52% 15.73%
Outstanding home loan (% age 15+)##	12.03
What is the cost of standard 50kg bag of cement (in US\$)? #	8.00
What is the price of the cheapest, newly built house by a formal developer or contractor (in US\$)? #	24 358
What is the size of this house (in m²)? #	40
What is the average rental price for a formal unit (in US\$/month)#	500
What is the minimum plot size for residential property (in m²)#	111
Ease of doing business rank !	70
Number of procedures to register property !	5
Time (days) to register property !	46
Cost (% of property value) to register property !	1.10

Housing Affordability

Using C-GIDD ([Canback Global Income Distribution](#)) 2014 income data for Ghana and 2015 CAHF survey input, we have explored housing affordability. The following graph suggests the market segments where investors and developers might target their efforts. The number of rural and urban households is illustrated per income bracket defined. Additionally, the graph provides the national average annual urban household income in 2014 and the average annual household income needed to afford the cheapest newly built house by a developer. This was calculated by [CAHF](#) and is based on a number of assumptions.

GHANA

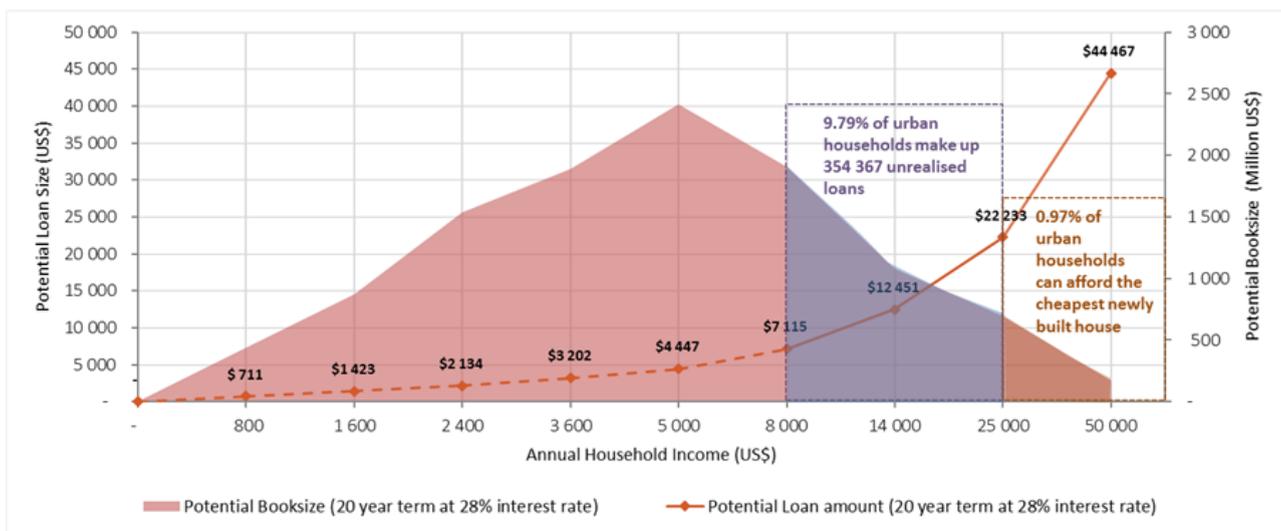
Annual household income US\$



As with other similar countries, housing affordability, even for the cheapest newly built house is low. In 2015, the cheapest newly built house in Ghana was US\$ 24 358. As calculated using key assumptions for the mortgage interest rate (2 percent), the term (20 years) and the down-payment (20 percent), the average annual household income needed for the cheapest newly built house is US\$ 21 982 per annum— higher than the average annual household income of US\$ 4 489. This means that only about 0.97 percent of urban households can afford the cheapest newly built house by a formal developer.

Most formal housing units are beyond the affordability level of the majority of the population. ASN Properties currently has the cheapest house on the market: it has two bedrooms, is on a plot sized 110 square metres and costs GHC 95 000 (US\$ 24 358). This is a basic house with no kitchen cabinets, floor tiles or wardrobes. For a house of this size, the monthly mortgage payment will be about GHC 955 (US\$ 245), after making a 20 percent deposit of GHC 17 400 (US\$ 4 600) in order to obtain the mortgage. This requires that the prospective borrower earn about GHC 2 387 (US\$ 612) a month to qualify. The range of salaries is between a minimum of GHC 600 (US\$ 153) to GHC 10 000 (US\$ 2 564) a month. This excludes a majority of formally employed households from the housing market.

The graph below shows investment potential in terms of market segments across urban areas in Ghana, in terms of the potential book size that might be achieved if each household in the band were to access the loan they could afford. This is shown assuming a bond term of 20 years, an interest rate of 28 percent and a 25 percent contribution of the household's income. The 0.97 percent of households that can afford the cheapest newly built house (US\$ 24 358 in 2015) is indicated by the darker shading on the graph. The graph also highlights that the sweet spot for market opportunity—the affordable and middle-income bands—, which includes households earning an annual income of between US\$ 8 000 to US\$ 25 000. This is illustrated by the purple shading indicating that the 9.79 percent urban household's can contribute to 354 367 unrealised loans. This would make up a considerable portion of the potential book size. Broadly, this shows that if the challenges hindering housing supply in this market segment could be solved, housing has the potential to create a book size of just under US\$ 3 billion from 9.79 percent of its household population. If GDP was about US\$ 38.62 billion in 2014, housing in this market segment would be equal to almost 9 percent to GDP. The graph also makes a stark suggestion that there is an adequate market size for mortgage financing—that is, if the cost of housing could be reduced to match the affordability of lower income Ghanaians.



Most households who cannot afford a mortgage pay developers in tranches of an equal percent after a formal contract has been executed (this is arranged between the developer and customer), with the final payment being made for the completion of the property. In urban areas, renting is the most common form of accommodation. In terms of rental, constraints in supply have led to exploitative practices by landlords, who demand two to three years in advance rental payments. As a result, households who cannot afford these high upfront payments end up in overcrowded housing. According to the 2010 national census, almost one-third of Ghanaian's do not own a dwelling or pay rent of any kind. In addition, land and construction materials are expensive, as much as 80 percent of building materials are imported. Therefore, housing affordability constraints make housing microfinance an important component of the overall housing finance sector.

The Ghana Real Estate Developers Association (GREDA) represents the main players in the housing delivery market, who deliver about 40 percent of all units. Greda members predominantly operate in just three urban areas: Greater Accra, Kumasi and Takoradi. There are about 400 registered members, around 150 of which are actively delivering quality houses in the range of GHC 215 000 (US\$ 55 000) to GHC 1 170 000 (US\$ 300 000). GREDA has both local and foreign developers as its members, including government players such as Tema Development Corporation and State Housing Company (SHC). Some members of the association, such as Devtraco, Taysec, Trassacco and Regimanuel, produce houses for the upscale market that sell for between US\$ 300 000 and US\$ 1 million.

Housing Types

Access to housing varies significantly based on geographical location and household incomes. In rural areas, the purchase price for community compound rooms is approximately US\$ 5 000 and rent for US\$ 5 per month. These community compound room are generally constructed using cement blocks and are built incrementally.

For low-income earners, the average purchase price for a two-bedroom house in Oyibi, Accra, costs US\$ 24 297 and rents for about US\$ 50 per month. These are usually financed by mortgages and developed by an estate developer.

For middle-income earners, the average purchase price for a two-to-three-bedroom house constructed from cement blocks is US\$ 80 000 in Tema, Accra, for example, and rents for US\$ 250 per month. This type of housing is usually delivered by estate developers using mortgage financing.

And, lastly, for high-income earners, the average purchase price for a four-to-six-bedroom house, constructed from cement blocks, is about US\$ 300 000 in Kumasi, and is usually financed through mortgages from commercial banks. This type of housing is usually delivered by estate developers and monthly rent is US\$ 2 500.

Feel free to [contact us](#) with any updated information.

Housing Policy

Policy and regulation governing housing and housing finance is important to understand as these set out the regulatory framework for related activities in a country:

[The Borrowers and Lenders Act of 2008](#) and the [Central Securities Depository Act of 2007](#) were enacted to speed up the foreclosure process (from 18 months to 90 days) and to allow for the immediate online registration of collateral with the Bank of Ghana. They set out the credit agreement between the lender and borrower, the registration of documents, as well as the foreclosure procedures. They also set out the registration of securities, as well as the certification of mortgages and all other valuables taken as collateral for loans.

Housing in the country has never been a significant component of national economic planning. Rather, it is seen to be part of its welfare sector. In 2014, a [national housing policy](#) was drafted by the Ministry of Water Resources, Works and Housing. The policy focuses on six thematic areas: a national housing vision, goals and objectives; land for housing; housing finance, housing design and construction; institutional reforms; and a housing governance. This housing policy takes the same form as previous ones enacted, including provisions for tax holidays, financial guarantees for real estate developers, and zero tax on equipment and machinery imported for housing construction. However, this new housing policy document failed to consider incentives to stimulate private sector engagement or enhance housing affordability.

In 2012, the Ghana Housing Finance Association started work with stakeholders to draft a Condominium Property Bill to govern the development of units for ownership, constructed in buildings rather than free standing on plots. This condominium property bill sets out the requirements for management of common areas and the title definitions for ownership. This document has been finalised and presented to the Ministry of Water Resources, Works and Housing for onward presentation to Cabinet for deliberations before it is presented to parliament for passage. As at the end of August 2015, this bill is yet to be presented to cabinet.

In 2012, Ghana Union Assurance launched the first collateral policy to provide cover to finance houses on construction. The Collateral Replacement Indemnity (CRI) targets borrowers in the lower to middle-income mortgage market (with incomes below GHC 4 400, or US\$ 1 128) who do not have the deposit required by mortgage lenders, but who have the capacity to pay if the debt is spread over a period of time. Working with the support of Home Finance Guarantors Africa Reinsurance Limited, a member of the African Union for Housing Finance, the CRI enables borrowers to access a 100 percent loan.

Other Resources

The [CAHF website](#) collects news updates. Filter by 'country' or 'theme'. Some recent studies available for Ghana include:

- [Impact of Ghana's Economic Slowdown on Habitat's Building Assets, Unlocking Access Project](#): This report discusses the experience of Habitat for Humanity's Building Assets, Unlocking Access Project that was launched in Ghana in 2012.
- [Housing Microfinance in Ghana: Housing Finance or Entrepreneurial Building Investment?](#): CAHF hosted a side event on housing microfinance at the Habitat III Thematic Meeting on Informal Settlements, with the African Union for Housing Finance, Development Workshop Angola and Select Africa. This is the presentation by Bezant Chongo and Hanna Laufer, of Positive Planet. The presentation looks at the Ghanaian housing value chain and discusses the use of housing microfinance through a number of case studies in Ghana. A longer case study on this research will be published by CAHF in the coming weeks.
- [Ghana Housing Profile, 2012](#): Ghana's housing history has never been a large component of national economic planning but rather a part of the welfare sector, with international agencies funding most housing programmes. Housing is now seen as a driver of economic growth and as such Ghana is preparing a National Housing policy. Issues such as access to land, land management, key players, housing finance, infrastructure and building materials are some of the important topics that are covered in the report.
- [HOFINET](#) has data on the Ghanaian housing finance market. The results of the survey, which includes general macro-economic data, and data on housing finance systems and housing policy, can be found [here](#).
- In the coming weeks, CAHF will publish an indepth case study on three housing microfinance providers in Ghana: HFC Bofo, Global Access and Sinapi Aba. The case study explores how each company offers housing microfinance, as well as how households use the loans.
- A forthcoming project from CAHF seeks to understand and track housing costs across Africa. The aim is to explore the cost of a basic, entry-level house across different countries in Africa, and to understand what drives cost

differences. Ghana is one of 16 countries that are being investigated. Once the research is complete, it will be available on [CAHFs website](#). For more information please contact [David Gardner](#).

Useful Websites

- [African Development Bank \(AfDB\)](#) - Established with the mandate to spur sustainable economic development and reduce poverty in Africa. AfDB mobilises and allocates resources for investment in African countries, while providing policy advice and technical assistance in order to support development efforts.
 - [African Economic Outlook](#) - An excellent yearly publication looking at all aspects of the Ghanaian economy.
 - [Doing Business Indicators](#) - A World Bank publication of quantitative indicators on business regulations and the protection of property rights that can be compared across 189 economies over time.
 - [Making Finance Work for Africa](#) - An initiative to support the development of African financial sectors.
 - [Mix Market](#) - A data hub where microfinance institutions (MFIs) and supporting organisations share institutional data to broaden transparency and market insight.
 - [HFC Bank](#) (Ghana) - HFC remains the leading mortgage provider in terms of volumes in the country. HFC has over 30 percent share of the mortgage industry and is a member of the [African Union for Housing Finance](#).
 - [UN Habitat](#) - A United Nations programme working towards a better urban future, listing the latest news and all its work in Ghana.
 - [World Bank](#) - For data and research on Ghana.
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