



Understanding Malawi's Housing Finance Market

12 April 2016

Malawi has an estimated population of 17.96 million, with almost half (46.73 percent) of which being between the ages of 0 – 14 years. Primarily rural, only 16.3 percent of Malawi's population lives in its two largest cities—Blantyre and Lilongwe. These cities experienced a combined urbanisation rate of 3.8 percent over a five year period, i.e. from 2010 – 2015. Despite a 5.7 percent growth in its economy in 2014 (which was largely driven by the agriculture sector) Malawi remains one of the poorest countries in the world with 61.64 percent of the population living on less than US\$ 1.25 a day. The agriculture, manufacturing, construction, wholesale and retail sectors were the strongest drivers to this economic growth; in 2015 the agriculture sector was negatively impacted by adverse weather and floods which disrupted agricultural activities and transport services.

This note covers a broad overview of housing and housing finance markets in Malawi. 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 Malawi profile regional profile can be found [here](#) and the SADC profile can be found [here](#).

Housing Finance in Africa Yearbook 2015: A Country Overview of Housing Finance Markets in Malawi

According to Findex 2015, only 16.1 percent of Malawian adults have a bank account with a registered financial institution; in Malawi there are 13 commercial banks registered with the Reserve Bank of Malawi. Formal lending activity is low with only six percent, of those with formal banking accounts having borrowed from a financial institution, and only six percent having an outstanding mortgage with a financial institution. Access to credit through formal channels is compromised by lack of collateral, the high cost of borrowing and a low level of financial literacy. Additionally, in 2014, high interest rates played a significant role in higher credit risk levels, this also contributed to low levels of access to credit.

Loans dispersed towards real estate related activities dropped to 1.1 percent in 2014, from 5 percent in 2013; loans for construction made up four percent of all loans dispersed by formal financial institutions. According to Malawi's December 2015 Financial Stability Report non-performing loans decreased to 11.4 percent in September 2015 from 14.8 percent in March 2015.

The New Building Society (now named NBS Bank) holds a 70 percent share of Malawi's tiny mortgage market; however the market appears to be broadening with new players including the National Bank and Standard Bank. NBS's maximum loan term is 15 years, with a maximum loan-to-value rate of 80 – 90 percent. But mortgages are very expensive: in August 2015 the base lending rate decreased from 38 percent to 32 percent; this base rate increases by 2.5 percent if the mortgage finance is used for commercial or rental property. Generally, and across the various formal financial institutions, strict eligibility criteria, including a minimum 10 percent cash deposit, a minimum of six months history with a bank and three months of payslips, further compromise access to mortgage finance.

As of September 2014, 41 MFIs were registered with the Reserve Bank, assets increased to US\$ 31.2 million in 2014 from US\$25 million in 2013. Epik Finance, a microfinance agency, made its entry into the sector in 2014, it specialises in housing finance and offers short term loans (up to 18 months) to low and middle income earners, and largely focuses on incremental building loans of up to US\$900 per cycle. Generally, repayment rates increased by almost 13 percent between April 2014 - September 2014; this improvement is largely attributed to a successful harvesting season.



Malawi is seeing an increase in activity and partnerships by notable housing and housing microfinance organisations; the Mchenga Fund, in conjunction with the Centre for Community Organisation and Development (CCODE), offers a housing microfinance product specifically targeting the poor. Habitat for Humanity Malawi has partnered with Opportunity International Bank of Malawi (OIBM), Habitat offers clients construction technical services (CTA), while OIBM offers small loans, savings, insurance and training. Habitat has assumed the same role in its partnership with Select Financial Services; Select offers retail financial services to non-banked and under-banked markets. Malawi currently has two credit reference bureaus, namely Credit Date CRB and CRB Africa.

Key Figures

Contrary to previous projections, the National Statistical Office of Malawi recently reported that inflation has increased from 19.7 percent in February 2015 to 23.4 percent in February 2016. Despite the significant increase in inflation, the cost of a standard bag of cement has decreased by almost two US\$2, from US\$13.06 in 2014 to US\$11 in 2015. The cost of a standard bag of cement in Malawi is higher than the SADC region average of approximately US\$8.6. According to the World Bank's Doing Business Indicators, there are three procedures to register property. The number of procedures to register a property is equal to the SADC region average of six. And at 9, Swaziland has the highest number of procedures in the region. The time taken to register a property in Malawi is 69 days which is above the region average of 48, with Angola taking the most amount of time at 190 days and Mauritius taking the least amount of time at 14 days. The cost to register a property in Malawi is 1.9 percent of the property value which is significantly lower than the region average of about 7.3 percent.

At 7.6 percent, unemployment is considerably low, however, a significant amount of the population continues to live under the poverty line. As a result, affordability for housing is low and is further compromised by constrained mortgage finance.

KEY FIGURES	
Main Urban Centres	Lilongwe (capital), Blantyre
Exchange Rate: 1 US\$***	464.94 Malawian Kwacha (MKW)
Inflation 2013 2014 (est.) 2015 (prov.) 2016 (prov.)*	27.7 24.1 14.9 10.1
Population^ Population growth rate (2013)^	17 964 697 3.32%
Urban population (% of total)^ Urbanisation rate (% in 2013)^	16.30 3.77%
GDP / capita (current US\$)^ GDP growth rate (annual %)^	253.02 5.70
GNI / capita, Atlas method (current US\$) ^	250
Population below national poverty line*	50.7
Unemployment rate (%)*	7.6
Gini co-efficient (year of survey)^	46.18 (2010)
HDI (Global Ranking)* HDI (Country Index Score)*	174 0.414
Lending Interest Rate^	32.4%
Mortgage Interest Rate (%) Mortgage Term (years)#	32.00 15
Credit % of GDP^	16.20
Average Mortgages % of GDP*	0.5% (2004)
Price To Rent Ratio City Centre** Outside City Centre**	—
Gross Rental Yield City Centre** Outside of City Centre**	—
Outstanding home loan (% age 15+)##	6.03
What is the cost of standard 50kg bag of cement (in US\$)? #	11.00
What is the price of the cheapest, newly built house by a formal developer or contractor (in US\$)? #	14 100
What is the size of this house (in m²)? #	50
What is the average rental price for a formal unit (in US\$/month)#	28 – 225
What is the minimum plot size for residential property (in m²)#	70
Ease of doing business rank !	164
Number of procedures to register property !	6
Time (days) to register property !	69
Cost (% of property value) to register property !	1.90

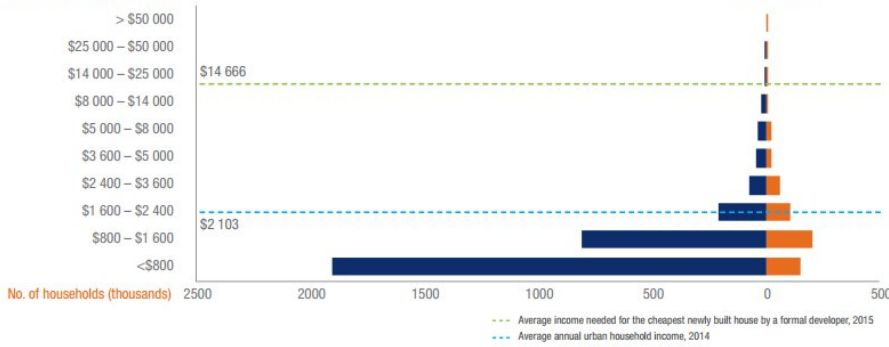
Click the image to see the stats. Visit the [Yearbook](#) for sources.

Housing Affordability

Using C-GIDD ([Canback Global Income Distribution](#)) 2014 income data for Malawi 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.

MALAWI

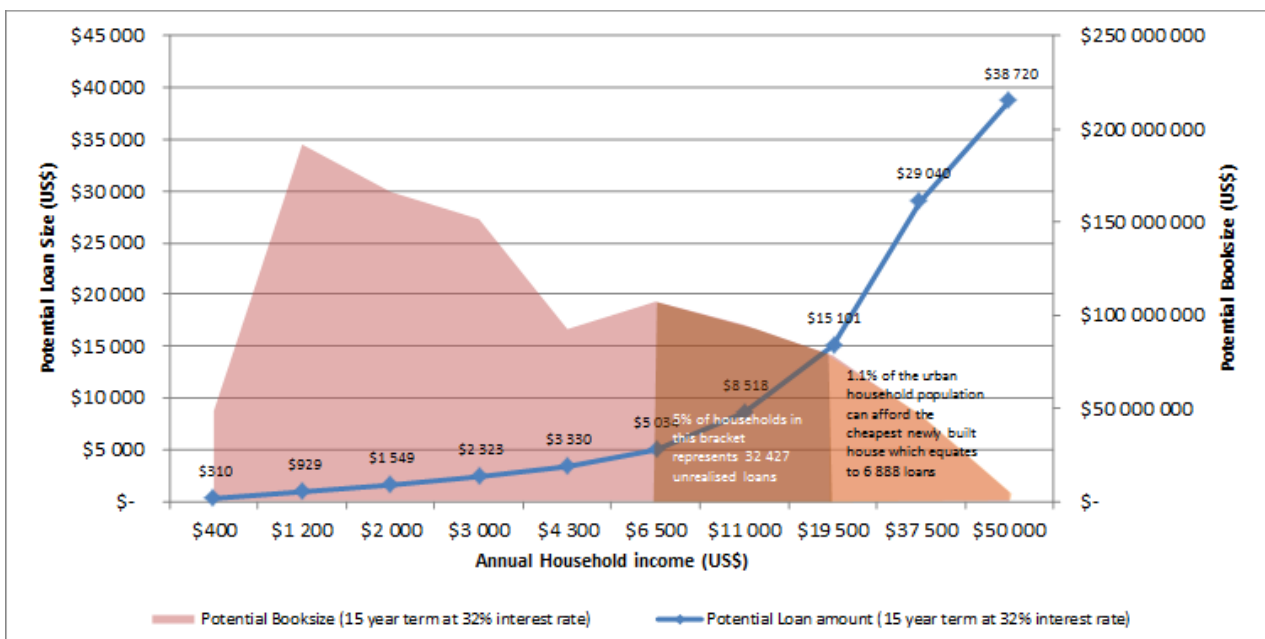
Annual household income US\$



Population:
 17 964 697
Urbanisation rate:
 3.77
Cost of Unit (US\$):
 14 100
% of urban households that can afford this house:
 1.1%

As with other similar countries, housing affordability, even for cheapest newly built house is low. Less than one percent of Malawians can afford a mortgage to buy an entry level house—non-mortgage housing finance would be much more relevant, given the income distribution of the population and the very high interest rates associated with long-term lending. According to the FinScope survey undertaken in 2014, 41 percent of adults earn a wage or salary, 23 percent earn their income through their own business, while 43 percent through farming. Select Africa, a microlender, indicated that they could potentially disburse US\$ 100 million in housing microloans due to the strong demand for housing. However, the more traditional banks appear to be less able to disburse loans which are tailored for the market. NBS Bank provides mortgages as small as US\$ 900, but these must be for home improvements as the cost for the cheapest newly built house is about US\$ 14 100. Given that only 30 percent of one’s monthly income may be used towards mortgage repayment, the borrower would have to earn approximately US\$ 1 222 to afford NBS Bank’s smallest mortgage. Standard Bank requires borrowers to earn a monthly net salary of US\$ 360; considering that 61.64 percent of the population lives on less than US\$ 1.25 a day, access to even the cheapest house is only available to highest income earners.

The graph below shows the affordability of market segments across urban areas in Malawi, 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 15 years, an interest rate of 32 percent and a 25 percent contribution of the household’s income. The 1.1 percent of households that can afford the cheapest newly built house (US\$14 000 in 2015) is indicated in the shading on the graph. The graph also highlights that the sweet spot for market opportunity—the affordable and middle income bands—includes households earning an annual income of US\$ 6 500 to US\$ 11 000. This is illustrated by the brown shading indicating that the 5% of the urban household population can contribute to 32 427 unrealised loans which will 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 over US\$ 201 million from only 5 percent of its household population. If GDP was about US\$ 13 billion in 2014, housing in this market segment would contribute almost 1.5 percent to national GDP. The graph also makes a stark suggestion: mortgage lending is not the way to address Malawians housing needs.



Individual builders dominate housing construction, with 90 percent of houses self-built. In contrast, the construction sector contributes only under three percent to the GDP—according to the Reserve Bank of Malawi, the construction sector accounts for an average of four percent of loans extended by the financial sector. Besides the individual builders, several other key players are involved in the construction of new houses, including the Malawi Housing Corporation (MHC)—the principal public housing deliverer—and private housing providers that cater to middle and high income earners. Among others, they include Press Properties Limited, Kanengo Northgate, NICO Assets, Knight Frank, Lilaga Communities. Some low-income earners receive housing and assistance from NGOs such as CCODE and Habitat for Humanity. Additionally, several government entities, notably the Ministry of Defence and the Malawi Police Service, provide housing for their employees.

MHC was established in 1964, and, since its inception, it has built 7000 housing units; its plan to build 4 200 more houses and develop 5 800 plots between 2007 – 2011 did not reach fruition, with only 481 houses completed. More recently, MHC's CEO announced a plan to build 25 000 housing units in Malawi's three major cities in an effort to meet the country's housing demand of 21 000 housing units per annum. As of March 2015, the government of Malawi had disbursed US\$ 163 400 for planning and orientation of key district council members and field officer training, through its Decent and Affordable Housing Subsidy Programme. This programme is allocated US\$ 12.6 million annually.

CCODE and the Malawi Homeless People's Federation (with 80 000 members) have been working with UK-based Real Estate for All (Reall) since 2013 in supporting poor urban communities to plan and implement their own solutions to the challenges of inadequate land, housing and infrastructure provision. Since 2014, this collaboration has successfully negotiated for more than 2 000 plots of land and constructed 780 low cost houses in Lilongwe, Mzuzu and Blantyre.

In its developer role, Habitat for Humanity Malawi has been operational since 1986, providing housing solutions to the low income segment of the population by facilitating the construction of new houses and repairs and rehabilitations to existing houses. Habitat reports that it has constructed over 3 000 low cost houses and latrines in Malawi. Additionally, by December 2012, 250 homes had been upgraded through its incremental building programme, in Lilongwe alone. In 2014, Lafarge Cement Company launched a social enterprise housing scheme, which provides plans for pre-designed houses (1 - 3 bedrooms) that can be built 20 - 40 percent cheaper and much quicker than a conventional house. With this, Lafarge is offering two financing approaches, one for self-financed construction and the other being for a loan facilitated by the company in partnership with an MFI.

Housing Types

According to the latest Integrated Household Panel Survey (2013), 41 percent of households reside in traditional housing (constructed of unfired mud brick and grass thatching for roofs), 26 percent reside in semi-permanent housing (constructed of a mix of tradition and permanent building materials), and the remaining 33 percent reside in permanent structures (constructed of iron sheets, tiles, burnt bricks and cement). There was a slight increase in permanent dwellings in 2013 to 32 percent (51 percent in urban areas and 28 percent in rural areas), compared to 28 percent in 2010. The average household size increased slightly from 4.7 persons in 2010 to 4.9 persons in 2013. In 2013, 78 percent of households lived in owner-occupied dwellings, while 12 percent rented the properties they live in. Rental is much more common in urban areas, with 46 percent of households renting in urban areas contrasted with only five percent in rural areas.

Access to housing varies significantly based on geographical location and household incomes. In rural areas, the purchase price for a traditional house made of unfired mud bricks and thatch grass is approximately US\$ 940 and, although houses are usually owner occupied for those renting, the average rental amount is US\$ 4. In urban areas, housing is more easily distinguished by income band. The purchase price for a traditional house, made of unfired mud bricks and thatch grass, *affordable* to low income earners is roughly US\$ 9 400, and although houses are usually owner occupied for those renting, the average rental amount is US\$ 9.

For middle income earners, the average purchase price for a permanent house made of burnt bricks, iron sheets and cement tiles ranges between US\$ 18 800 - 28 2000 and is usually financed through employee mortgages if the borrower is a bank employee. This type of housing is usually delivered by public and private developers, managers and/or property managers.

These houses are usually occupied by the owner and at times rented out; monthly rent is approximately US\$ 94.

And, lastly, for high income earners, the average purchase price for a permanent house, made of burnt bricks, iron sheets and cement tiles, ranges between US\$ 75 200 - 188 000 and is usually financed through mortgages from commercial banks. This type of housing is usually delivered by public and private developers, managers and/or property managers. These houses are usually occupied by the owner and at times rented out; monthly rent is approximately US\$ 280 - 750.

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

Housing Policy

A number of policy and frameworks are relevant to housing, urban planning and building. These policies outline the laws governing general provisions for types of plans, activities and tools, implementation plans for regrouped settlements, and the law governing occupation of buildings and construction.

Government policy does not sufficiently engage with the issue of housing finance markets—although the first Malawi Growth and Development Strategy of 2006 states that the availability of housing finance is a key barrier to increasing homeownership and improving the quality of shelter, it does so only in passing. Both the Land Bill, which was presented in 2013, and the National Housing Policy, drafted in 2007, are still under review. There are no defined laws that deal with property rights of customary land, making transferring customary property rights difficult. Thus, the formal mortgageable tenure system covers only eight percent of the land, and almost all of this land is in urban areas. This has resulted in tighter eligibility criteria that limits access to mortgages, as the property cannot be used as collateral for the mortgage. The role of housing is also recognised by the government in the second Malawi Growth and Development Strategy II (Sub-Theme 5 of Theme 4) and mentioned on the current government, the Democratic Progressive Party's (DPP) 2014-2019 manifesto. It urges the need to implement policies aimed at removing barriers and to create more opportunities for low-income earners to have increased access to housing.

- Land Bill - This bill aims to address land administration and land management issues.
 - National Urban Policy Malawi Framework - Aims to shift national development from its rural focus to urban growth in the light of the rapid urbanisation.
 - National Housing Policy - Advocates for broad access to housing for all, decentralisation, improving urban land markets, upgrading informal settlements and improving the quality of rural settlements. This document is still under review.
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Other Resources

A number of policy and frameworks are relevant to housing, urban planning and building. These policies outline the laws governing general provisions for types of plans, activities and tools, implementation plans for regrouped settlements, and the law governing occupation of buildings and construction. The [CAHF website](#) collects news updates. Filter by 'country' or 'theme'. Some recent studies available for Malawi include:

- [Stocktaking of the Housing Sector in Sub-Saharan Africa Vol.2: Challenges and Opportunities](#) - This report addresses issues related to availability of quality housing and the buildup of a functional housing sector, by enhancing evidence-based knowledge of the housing sector and expanding understanding of the relative importance of determinants for supply and demand of affordable housing in Sub-Saharan Africa.
- [Case Study 6 | Housing Microfinance Business Models: Three Case Studies](#) - This is a series of case studies

commissioned by CAHF commissioned on the business models of three housing microfinance lenders in order to contribute to the growing track record of novel solutions and initiatives, pioneered by policy makers, financiers, developers and households themselves that suggest that there are new opportunities for making the housing finance sector work for the poor in Africa.

- [World Investment Report 2015: Reforming International Investment Governance](#): This world investment report by the United Nations Conference on Trade and Development aims to inform global debates on the future of the international policy environment for crossborder investment.

In 2015, CAHF commissioned a [HOFINET](#) survey on the Malawian 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](#).

A forthcoming project commissioned by CAHF in 2015 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. Malawi is one of 16 countries that are being investigated. Once the research is complete, it will 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 Malawian economy.
- [Centre for Community Organisation and Development \(CCODE\)](#) - Works in alliance with the Federation of the Rural and Urban Poor in Malawi, a grassroots network of poor communities involved in community savings programmes. CCODE supports the Federation with slum upgrading and slum prevention, among other programmes.
- [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.
- [Select Africa](#) - A retail financial services group focusing primarily on the extension of retail unsecured, incremental housing microfinance, education loans and consumer loans. Select's focus is on servicing the un-banked or entry level retail credit market which is often overlooked by the formal banking sector as the clients are deemed too small, risky and/or unprofitable.
- [UN Habitat](#) - A United Nations programme working towards a better urban future, listing the latest news and all its work in Malawi.
- [World Bank](#) - For data and research on Malawi.

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