view this email in your browser

Centre for Affordable Housing Finance in Africa

Understanding Nigeria's Housing Finance Market

13 October 2016

In 2015, the World Bank estimated Nigeria's population to be 182.2 million, accounting for approximately 47 percent of West Africa's population. Nigeria is rapidly urbanising: almost half of the population already lives in cities and this is anticipated to increase to 75 percent by 2050.According to the United Nations, 64 percent of Nigeria's population lives below the poverty line. Poverty remains highest in rural areas, remote communities and among female headed households.

During the month of August, Nigeria's National Bureau of Statistics confirmed that the country had officially slipped into a recession. The economy declined by 2.1 percent year on year in the second quarter of 2016, compared to a 0.36 percent drop in the previous period. The Naira has lost more than one third of its value since 20 June 2016, when the Central Bank of Nigeria removed a 197 – 199 Naira peg against the dollar. Additionally, the UN reports that Nigeria's revenue has fallen by 33 percent. In 2015, it was reported that there was 8.7 percent growth in Nigeria's real estate sector, but much of this was ultimately cancelled out by the 5.27 decline in the sector during the second quarter of 2016.

Most recently, the cost of cement has increased by about 40 percent. Cement which sold for N1 500 – N1 600 (US$4.7 - US$5) has now increased to N2 200 – N2 400 (US$7 - US$7.6). Anthony Chiejina, group head of corporate communications at Dangote, indicated that the increase is largely due to the acute shortage of forex, devaluation of the Naira, and an increase in the energy price of gas.

Nigeria's Bureau of Statistics counted 28 197 085 households in 2006. As at 2006, 51 percent of these households lived in free standing permanent houses, 14 percent in traditional/hut structures, 10 percent in flats, nine percent in semi-detached houses, 14 percent rented a room in someone's house, and one percent lived in informal houses. Eighty three percent of Nigerians owned the houses in which they lived, while 11.04 percent rented, 3.01 occupied rent free, 2.01 percent owned but had not yet fully paid off, and 0.52 percent squatted. No subsequent housing census has been conducted since.

The Nigerian Government continues to make strides towards decreasing its housing deficit, which is currently estimated to be 17 million units. Some efforts in this regard include the Presidency's recent announcement of an affordable housing scheme which will allow low income earners to acquire housing and land at an affordable rate. The Presidency has allocated N74 billion (US$ 235 million) to this initiative. The State of Lagos, in partnership with the Office of the Head of Service of the Federation have also announced the formation of the Federal Integrated Staff Housing (FISH) Programme, which will provide affordable homes to Federal and Lagos State civil servants. And, in August, Minister of Power, Works and Housing, Babatunde Fashola, announced that 24 states had donated land for mass housing initiatives to the Federal Government. The minister also noted in his 2016 budget, that N35 billion (US$ 111 million) had been allocated to housing initiatives. In his address to the September AUHF conference, Minister Fashola emphasised the importance of the housing and housing finance sectors, and the need for increased collaboration between the public and private sectors.

This note covers a broad overview of housing and housing finance markets in Nigeria. The Housing Finance in Africa Yearbook 2016 (7th Edition) was launched at the AUHF Conference and AGM, and this year it covers 51 countries and five regions across the continent. The full Nigeria profile was written for CAHF by Dolapo Adejuyigbe and Diekoye Oyeyinka, and can be found here and the West Africa profile can be found here.

Housing Finance in Africa Yearbook 2016 | A Country Overview of Housing Finance Markets in Nigeria

The Nigerian banking sector has grown tremendously over the past few years, both in volume of activity and sophistication. The commercial banking sector assets, according to the Central Bank of Nigeria, experienced growth of 13 percent between 2013 and 2014. There has also been on-going acquisition of banks within the sector, contributing to continued consolidation and the increase in competition among players.

In its stability report for 2015, the Central Bank noted an increase in the number of Other Financial Institutions, from 3 734 in June 2015 to 3 905 end December 2015. Included in this, is one Mortgage Refinance Company (the Nigeria Mortgage Refinance Company or NMRC), six development finance institutions, 35 primary mortgage banks, 66 finance companies, 19 registered banks which also offer mortgages, and 958 microfinance banks. However, provisional total assets of this sub-sector, as at end December 2015, decreased by 2.52 percent to N1 841.64 billion (US$ 5.9 billion). And, total loans and advances decreased by 9.31 percent to N1 078.81 billion (US$ 3.4 billion).

Much of the decline can be attributed to a primary mortgage bank which converted to a commercial bank, and the licences of some microfinance banks and finance companies being revoked. The total assets of primary mortgage banks decreased by 6.78 percent to N389.73 billion (US$ 1.24 billion). Additionally, total loans and advances, aggregate reserves and shareholders' funds increased by 12.10, 16.43 and 2.09 percentage points to N168.96 billion (US$ 536 million), N26.51 billion (US$ 84 million) and N138.92 billion (US$ 441 million), respectively.

In 2012, 39.2 million adult Nigerians were financially excluded, of which 54.4 percent were women, 73.8 percent less than 45 years old, and 34 percent had no formal education, while 80.4 percent lived in rural areas. In the same period, the Central Bank of Nigeria (CBN) reported that Nigeria had 21 banks where individuals could deposit money, with 6 000 branches and about 10 000 ATMS. And, in 2011 it was reported that Microfinance Banks collectively had 3.2 million clients, 65 percent of which using savings products, 14 percent used credit products and four percent used ATM cards.

In its 2012 Financial Inclusion Strategy, the CBN reported that it aims to decrease the number of Nigerians that are excluded from financial services to 20 percent of the population by 2020, and the number of those included in the formal sector to 70 percent, also by 2020. According to Global Findex (2014), between 2011 and 2014, access to finance grew from 30 percent to 44 percent. The increase has been driven by growth in payments; however there has been a significant lag in the impact on access to bank loans – two percent in 2011 to five percent in 2014. Mortgage finance is still a small percentage of Nigeria's GDP, at approximately 0.58 percent.

Key Figures

The 2016 Doing Business Report shows that Nigeria ranks 169 out of 189 countries on the Ease of Doing Business index. In the past year, however, Nigeria made transferring property in Lagos less costly by reducing fees for property transactions. In Kano and Lagos States, the government also strengthened minority investor protection by requiring that related party transactions be subject to external review and to approval by disinterested shareholders.

Nigeria ranks 139th on the ease of Starting a Business indicator, it takes an average of 30.8 days to register a business, requires an average of 8.7 procedures, and it costs 31.7 percent of the income per capita.

It ranks 175th on Dealing with Construction Permits, it requires 16.1 procedures, an average of 106.3 days, it costs 24.4 percent of the per capita income. Additionally Nigeria scored 6.8 (0 – 15) on the Building Quality Control Index.

With regards to registering a property, Nigeria ranks 181. It takes 12.1 procedures to register a property, 16.9 days, and it costs 10.5 percent of the property value. Additionally, Nigeria scored 3.6 (0 – 30) on the Quality of Land Administration Index
Nigeria does however lack building codes and standards for construction of buildings, according to the Nigerian Institute for Building, 84 buildings collapsed in the past 20 years killing more than 400 people.

KEY FIGURES

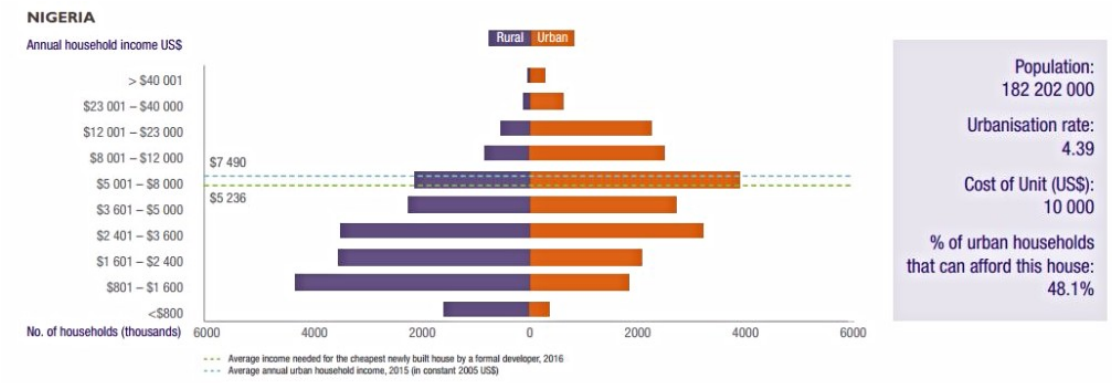
Main Urban Centres	Lagos (capital), Abuja, Port Harcourt
Exchange Rate: 1 US$ ***	298.38 Nigerian Naira (NGN)
Inflation 2014 | 2015 (est.) | 2016 (prov.) | 2017 (prov.) *	7.8 | 9.0 | 10.1 | 9.4
Population^ | Population growth rate (2013)^	182 202 000 | 2.63
Urban population (% of total)^ | Urbanisation rate (% in 2013)^	47.78 | 4.39
GDP per capita (current US$)^ | GDP growth rate (annual %)^	2 640 | 2.65
GDP (Current US$)^	481 066 152 870
GNI per capita, Atlas method (current US$) ^	2 820
Population below national poverty line *	46.0
Unemployment rate (%)*	7.5
Gini co-efficient (year of survey)^^	42.97 (2009)
HDI (Global Ranking)* | HDI (Country Index Score)*	152 | 0.514
Lending Interest Rate^	16.85
Unsecured lending interest rate (housing microloan)	32 /
Mortgage Interest Rate (%) | Mortgage Term (years)#	Prime – 19%, Max 31% | 20 years
Down Payment (%)	25.00
Credit % of GDP^	14.55 (2014)
Average Mortgages % of GDP*	0.58% (2011)
Estimated number of mortgages	--
Average loan size in US$ (mortgage)	18 000
Average loan size in US$ (non-mortgage/micro lending)	170
Price To Rent Ratio City Centre** | Outside City Centre**	5.87 | 20.82 (2015)
Gross Rental Yield City Centre** | Outside of City Centre**	17.03% | 4.80% (2015)
Construction as a % of GDP	3.68% //
Is there a deeds registry? / No. of resid. title deeds in registry	Yes
Outstanding home loan (% age 15+)##	6.26
What is the cost of standard 50kg bag of cement (in US$)? #	5.35
What is the price of the cheapest, newly built house by a formal developer or contractor (in US$)? #	10 000
What is the size of this house (in m²)? #	25m*30m
What is the average rental price for a formal unit (in US$/month)#	1 000 per annum for a 2 bedroom apartment (400m²)
What is the minimum plot size for residential property (in m²)#	25m*25m
Ease of doing business rank !	169
Number of procedures to register property !	12,10
Time (days) to register property !	70
Cost (% of property value) to register property !	10.50

*** Coinmill.com The Currency Converter/CAHF survey data
^ World Bank's World Development Indicators (2015)
* African Economic Outlook
– World Bank PovcalNet: an online poverty analysis tool, various years
^^ The World Bank's PovCalnet
* UNDP's International Human Development Indicators (2014)
* Various: Badev et al. "Housing Finance Across Countries: New Data and Analysis" – Unpublished paper / Hofinet / World Bank
Global Financial Inclusion Database (FINDEX)
CAHF Annual Survey Data (August 2016)
! World Bank's Doing Business Survey Data (2016)
** Numbeo Online User-Contributed Database
/ Microfinance gateway
// Central Bank

Housing Affordability

For the majority of Nigerians, mortgage finance is not an option due to limited affordability and Nigeria's still small mortgage sector. Nigeria has an homeownership rate of about 25 percent, lower than that of Indonesia (84 percent), Kenya (73 percent), and South Africa (56 percent). The major issues that continue to affect housing in Nigeria include inadequate access to finance, slow administrative procedures, and the high cost of land registration and titling.

Using C-GIDD (Canback Global Income Distribution) 2015 income data for Nigeria and 2015 CAHF survey input, we have explored housing affordability. The number of rural and urban households is illustrated per income bracket, defined below. Additionally, the graph provides the national average annual urban household income in 2015 (in constant 2005 US Dollars) and the average annual household income needed to afford the cheapest newly built house, built by a developer. This was calculated by CAHF and is a rough estimate, based on a number of assumptions.

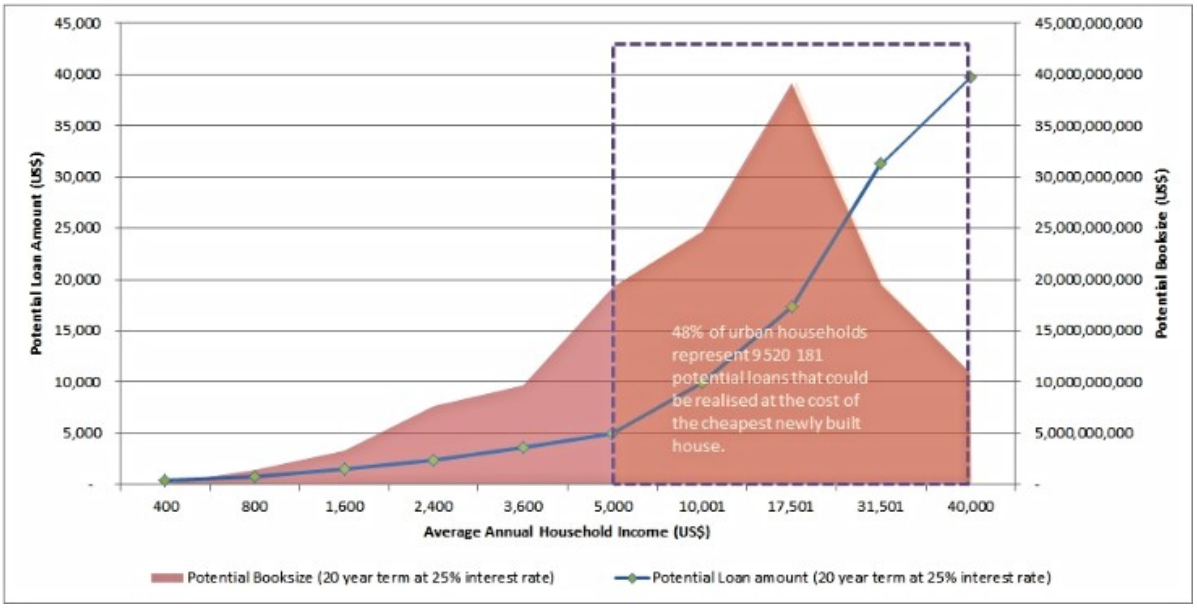


The average income across urban areas in Nigeria (2015 data reflected in 2005 constant US$) is estimated at N2 357 473 (US$7 490). In order to buy the cheapest newly built house (reported at about N3 152 500 in 2016), one would have to earn N1 648 028 (US$5 236), only about 48 percent of urban households can afford this house. Considering the 17 million housing unit deficit, this is just a start – and it highlights the opportunity for innovative housing and end user financing solutions which enhance access for those earning below the current average N1 648 028 (US$5 236).

The National Housing Fund (NHF), is an initiative of the Federal Government of Nigeria managed by the Federal Mortgage Bank of Nigeria (FMBN), which offers loans for the purpose of building, purchasing or renovating a house. The applicant for this loan, must however be a contributor to the NHF for a minimum of six months. An applicant can only receive a loan up to N15 billion (US$48 million), which may not equate to more than 90 percent of the cost or value of the property. A borrower must contribute 10 - 30 percent equity for a loan ranging between N5 billion (US$16 million) and N15 billion (US$48 million). The real benefit of a NHF loan is its low interest rate – promised to not exceed six percent, with a maximum repayment period of 30 years. However, its capacity to serve its contributors effectively is limited. As at March 2016, FMBN had raised N191.9 billion, from its 4.14 million registered contributors.

Given the various constraints, the predominant housing delivery approach is incremental house construction on a house-by-house basis. In some cases, this takes up to ten years to complete. As such, the majority of homes are financed through personal savings, cooperative societies or inheritances. Additionally, both low and middle income households usually purchase land in peripheral locations due to reduced land prices.

The graph below shows the affordability of market segments across urban areas in Nigeria, 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 (and assuming that this loan could actually buy a housing product that was suitable for their needs). This is shown assuming a bond term of 20 years and an interest rate of 25 percent. It is estimated that 48 percent of urban households could afford the cheapest newly built house, formally built by a developer, priced at US$ 10 000 in 2016. Effectively, this represents approximately 9 520 181 potential loans.



Of course, this raises two challenges: does Nigeria's construction sector have the capacity to build that many houses at that cost, and does Nigeria's finance sector have the capacity to offer that many mortgages?

The Nigerian real estate sector is growing fast and is now the sixth largest sector in the economy. The new government is framing its housing agenda on addressing legislative hurdles around housing and producing 1 million standardised affordable housing units yearly. In 2016, The Federal Government budgeted N40 billion (US$127 million) with the intent to build 250,000 homes. State Governments are also expected to collectively produce a further 250,000 units. Fifty percent of the housing supply deficit is expected to be covered by private investors. The Minister for Power, Works, and Housing, Babatunde Fashola has declared this as the policy the administration will follow while it finalises a specific national plan.

The 2006 National Policy on Housing set a target of delivering one million housing units every year, promising land swap initiatives, affordable and mass housing schemes, and more accessible mortgage finance to ensure low and middle income earners have access to safe, decent and affordable housing. Housing production, however, is at approximately 100 000 units per year - inadequate as 1 000 000 units are needed yearly to bridge the housing deficit, and insufficient to also address constant population growth of 2.7 percent per year. It is estimated that it will cost about US$ 363 billion to curb the current housing deficit.

As a result, the policies in place are yet to meet the housing deficit. The Affordable Housing Scheme, for example, can only provide about three percent of the required housing stock. A further attempt to address the challenge involves a collaboration between the Federal Government Staff Housing Loans Board (FGSHLB) and a Chinese Housing Development Company, China Nangtong Sanjian Construction Company (CNTC) signed in May 2016. The Memorandum of Understanding committed CNTC to deliver 1,000 houses for Federal Civil Servants. Similar agreements have also been signed with the Chinese for the Navy and Police.

The Federal Government is focused on the affordable housing market, but growth is stifled due to structural issues like the inferior quality housing and low number of titled land. Land prices are on the rise, driven by low availability, increase in inflation, and speculation. Real estate companies are increasingly selling more land parcels than houses, as a result of the higher impact the macroeconomic drivers have on the cost of building, which threatens their profit margins. Stakeholders in the real estate market have alluded to the speculative pricing approach of both land and houses, rather than the assessment of demand characteristics of the area where the land and housing units are located— poor data has been identified as one of the driving factors to this practice.

Where titles do exist, geospatial data and the formal registry system is inadequate, and bottlenecks arise in the property transfer system. Nigeria only has about 5,000 estate surveyors; this is grossly inadequate to service the property market, and this has allowed for speculators to increase prices ultimately distorting the market particularly in highbrow areas of Lagos, Abuja, and Port Harcourt.

Housing Types

The following of example of affordable housing for sale in Nigeria:

Low income housing, such as the image to the left can be found in areas such as Oshodi, Alimosho and Lagos. The annual rental cost is approximately N95 575 (US$300) and each unit could sell for N2 206 750 (US$7 000). These houses are generally constructed using cement, metal sheets, wood and mud. The units usually consist of a single bedroom with communal facilities.

Middle income housing in Nigeria can either be free standing or semi-detached and range from 3 – 4 bedroom housing units. These houses are usually constructed with cement, bricks and tiled roofs. The average rental cost per annum ranges between N1 576 250 (US$5 000) - N2 049 125 (US$6 500) and the average sale price ranges between N1 31 525 000 (US$100 000) - N63 050 000 (US$200 000).

The cost for a high income house ranges between N157 625 000 (US$500 000) - N378 300 000 (US$1 200 000), or alternatively, could be rented for N157 625 000 (US$25 000) - N378 300 000 (US$40 000) per annum. Generally, these houses have three to five bedrooms, and are usually constructed using steel, glass, cement, marble and brick.

Housing Policy

National Transformation Agenda 2011 – 2015
The Transformation Agenda is a summary of the Federal Government's key priority policies, programmes and projects, which together are planned transform the Nigerian economy to meet the future needs of people. Key development areas such as power, transportation, housing, ICT, FCT and Niger Delta: http://bit.ly/2dh8rm4

Final Draft Nigeria Land, Housing and Urban Development Roadmap: Transforming Land Administration, Housing Delivery and Urban Development in Nigeria 2014-2043
The Federal Ministry of Land, Housing and Urban Development (FMLHUD), articulates its broad objectives as well as the strategic thrusts for achieving them (over the next five years) in a detailed Land, Housing and Urban Development Roadmap document, which facilitates the achievement of the shared objectives in line with the National Transformation Agenda: http://bit.ly/2dOnxEw

Zero Draft National Land Policy
The land policy seeks to make land easily accessibility, strengthen land rights, enhance economic development, productivity, alleviate poverty, and regulate land resources exploitation: http://bit.ly/2dNc3vU

The Nigerian National Housing Policy (NHP 2006)
This policy encourages housing provision on the part of the Federal Government and emphasises partnerships with the private sector for privately developed housing. The goal of the policy is to ensure that Nigerians own or have access to decent, safe and healthy housing accommodation at affordable cost. http://bit.ly/2dUJqC5

Useful Websites

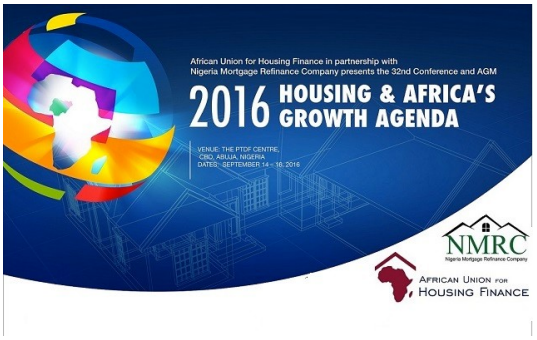
The Centre for Affordable Housing Finance in Africa has a breadth of information available on Nigeria, to access recent stories and case studies visit the Nigeria page on the CAHF website.

Other useful website include:

- http://www.auhf.co.za/conference/housing-and-africas-growth-agenda/ - The 32nd annual conference of the African Union for Housing Finance took place in Abuja, Nigeria, in September 2016, and included presentations detailing the housing situation in Nigeria. All presentations are available for download on the AUHF website.
- http://www.landsandhousing.gov.ng/ - this is the official website to Nigeria's Federal Ministry of Land, Housing and Urban Development.
- http://www.works.gov.ng/- this is the official website to Nigeria's Federal Ministry Power, Works and Housing.
- http://www.fmbn.gov.ng/- this is the official website to Nigeria's Federal Mortgage Bank of Nigeria.
- http://www.nigerianstat.gov.ng/- this is the official website to Nigeria's Federal Bureau of Statistics.
- http://www.finance.gov.ng/- this is the official website to Nigeria's Federal Ministry Finance.
- https://www.themix.org/mixmarket/countries-regions/nigeria - is a data hub where microfinance institutions (MFIs) and supporting organizations share institutional data to broaden transparency and market insight.
- http://www.worldbank.org/en/country/nigeria - provides data and research on a country basis.
- www.doingbusiness.org - the doing business indicators, is a World Bank publication on quantitative indicators on business regulations and the protection of property rights that can be compared across 189 economies over time.
- https://www.mfw4a.org/nigeria.html - The Making Finance Work for Africa Partnership is an initiative to support the development of African Financial Sectors.
- www.afdb.org - The aim of the African Development Bank (AfDB) Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. In order to achieve this, the Bank mobilizes and allocates resources for investment in RMCs and provides policy advice and technical assistance to support development efforts.

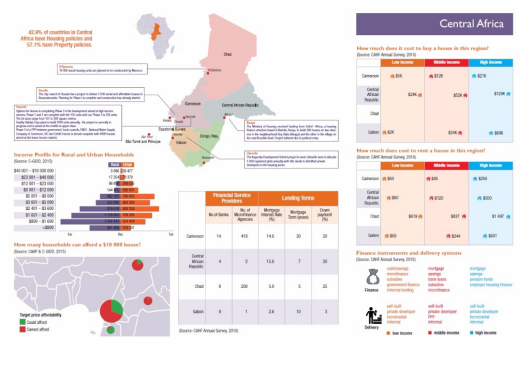
CAHF News

Housing Finance in Africa Yearbook 2016 (7th Edition) | The seventh edition of the Housing Finance in Africa Yearbook covers 51 African countries and five regions – an addition of three country profiles this year. We have again sought out new data and refined our approach to the affordability graphs. The 2016 Yearbook is available for download on the CAHF website.



AUHF 32nd Annual Conference and AGM | Titled Housing and Africa's Growth Agenda, the conference recently took place in Abuja, Nigeria. And, focused on five key areas, namely Public Private Partnerships to Enable Growth in Affordable Housing Delivery, Growing Africa's Mortgage Markets, Harnessing Opportunities on the Demand Side, Growing the Capacity of Housing Microfinance and, lastly Priming the Housing Sector to Foster Greater Growth. Presentations can be found on the AUHF website.

2016 Regional Infographics | This includes infographics derived from CAHF's 2016 housing and housing finance survey including, among other



information, the cost to purchase and rent, lending terms, key investments etc.

Case Study 9 | Build It Case Study: Housing Microfinance Value Chains | This case study explores the Built It business model, while looking at the opportunity (and constraints) for Built It and the four microlenders to offer a remittance product for housing.

Case Study 10 | Housing Microfinance for the Self-Employed in Ghana: The Case of Three Lenders | How do microlenders provide housing microfinance in a country where economic growth has slowed and interest rates have increased? In Ghana, three microlenders—Global Access, HFC Boafo and Sinapi Aba—have seen their housing microfinance lending move away from the construction of private dwellings to the construction of income-generating assets.

Copyright © 2016 Centre for Affordable Housing Finance in Africa. All rights reserved.

follow on Twitter | like on Facebook | follow in LinkedIn

visit our website | sign up to our mailing list

Our mailing address is:
Centre for Affordable Housing Finance in Africa
PO Box 72624,
Parkview, Gauteng,
South Africa, 2122

add us to your address book | unsubscribe | update subscription preferences

MailChimp