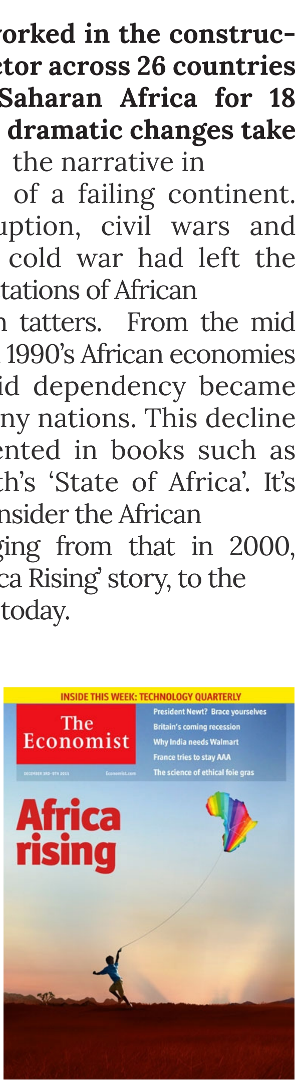
Affordable Housing Conundrum in sub-Saharan Africa

African cities become the new home to over 40,000 people every day. The UN projects that by 2050 there will be about 1.5 billion people within the region. With working population growing 4 fold 2000-2050.

This poses a housing challenge for all these countries, as many metropolitan areas lack housing infrastructure and some rural regions lack housing altogether. In 2010, in London United Nation's head of housing agency proclaimed that: "*After HIV and Aids, the biggest threat to sustainable development in Africa is rapid and chaotic urbanisation*".

....rising, rising, risen...?

Having worked in the construction sector across 26 countries in sub-Saharan Africa for 18 years, I've seen dramatic changes take place. In 2000, the narrative in Africa was one of a failing continent. Years of corruption, civil wars and proxies of the cold war had left the hopes and expectations of African Independence in tatters. From the mid 1960's to the mid 1990's African economies suffered and aid dependency became the norm in many nations. This decline is well documented in books such as Martin Meredith's 'State of Africa'. It's interesting to consider the African narrative, changing from that in 2000, through the 'Africa Rising' story, to the current position today.



The construction sector is often seen as a barometer of the health of an economy; quick to grow in a period of confidence; but one of the first to be hit in a downturn.
In 2000, the residue of the previous decades was still present and despite population growth, very little new housing stock reached the market. Informal housing dominated over new build and only individuals with sufficient funds were building their own homes in the formal sector.

18 years ago, with the exception of South Africa, the residential developer was something new. People built their own homes, sometimes over several years, building what they could afford to bit by bit. Mortgages were unheard of (and remain largely unavailable) and tract developments simply didn't exist. Over the next five years, this changed dramatically.

Developers came into the market at the high end, buying up land in wealthy districts; building and selling homes over US $250,000. In Ethiopia the government designated large areas of land on the outskirts of Addis Ababa for real estate development and issued real estate development licences to a number of companies. Developers such as Country Club Developments, Sunshine Real Estate, Varnero and others have all developed gated communities with house values in excess of $300,000.

In Kenya former farm lands surrounding Nairobi have been turned into high value developments. In 2001, a ¼ acre plot in Karen which sold for $50,000 are now valued over $500,000. Nigeria, Ghana, Zambia, Angola, Mozambique and others all experienced similar price rises. Developers were very successful, but demand at the high end of the market became saturated.

Attention turned to cater for the next tier, the upper middle income group. Smaller Town House properties targeting price ranges $60-$100,000 became the next growth segment. As the middle class across SSA continued to expand, the market for middle income developments continued to grow, in turn pushing up prices. Fears of a property value bubble failed to materialise simply because the demand for homes and middle class incomes, continued to rise beyond the level of supply.

***Country Club Development**- Addis Ababa*

Who's left behind?

Politicians and economists love it when a market regulates itself. Supply and Demand work hand in hand. However, not to deny the massive growth in real estate construction, the majority of the population has still been left behind. Land prices and the cost of construction simply remain well out of reach for most people. Even for those whose income would enable them to re-pay a long term low interest loan, such loans, through a formal mortgage market, simply don't exist.

HassConsult, - last year reported that while the upper and middle housing markets are facing glut, the lower middle class is finding it difficult to locate suitable housing, either for purchase or to rent. Already there is a shortage of housing, but with Africa's population set to grow to 1.5 billion by 2050, demand is set to rise. Coupled with this, the percentage of population reaching middle income status (according to the World Bank) is set to grow from 35 to 40%. By 2030, a further 200 million Africans will enter the housing market as first time buyers.

***Middle Income Housing**- Nairobi, Kenya*

Shortage of houses

Ghana
The 2000 Census reported 3.9 million dwelling units or which, less than half are classified as houses. Half of the dwellings were made of poor quality mud bricks and earth.

Uganda
60 per cent of Uganda's urban population live in slums, putting the government in a deficit of more than 700,000 decent housing units.

Kenya
housing shortage is estimated at 2 million units, increasing at a rate of 200,000 units per year, while only 50,000 new homes are built annually.

Nigeria
Bureau of Statistics put the housing shortage at 18 million units with only 100,000 new units being built annually.

South Africa
UN Habitat estimate by 2050 there will be 2 million people living in slums.

Tanzania
Oxford Business research estimates a shortage of 3 million homes. In 1990 there were 40 informal settlements in Dar es Salaam and now that number has climbed to more than 100. The IMF's survey found in Dar es Salaam that even if its model structure cost $10,000 instead of $30,000 (actual cost), it would still only be affordable for just 2.4% of Tanzanians.

Mortgage Market

What mortgage market?
Accessible finance would enable large numbers in Africa to build and invest in their own properties, but interest rates in local currencies are so high, with annual rates ranging anywhere from 14-26%, that long term loans are simply not an option. Private home builders will progress their projects slowly with short term loans, but long term mortgage finance is still a dream in most countries. One exception is Ivory Coast where government has intervened in the banking sector and mortgages are now available from 6%. This has encouraged large numbers to take up pre-qualification for mortgages but the supply side has yet to catch up and prices remain excruciatingly high for new properties.

***Residential Housing Estate Accra** - Ghana*

The next 12 months may see this rectified as many developers are now breaking ground, or seeking investment finance to build large numbers of tract housing. In other markets, it is being left to the private sector. There remains huge ambition from overseas investors to fund real estate development in SSA, but security of their investment remains the greatest challenge. In London in July, the Business Council for Africa held a round table meeting to discuss the issue and the role of government in bridging this apparent security gap was well noted.

If the demand exists for affordable mass housing (which it appears to) and sufficient numbers in the local population can afford sensible repayments (again – tick), then government has a role, if not an obligation to provide security for investors and developers willing to fund the construction. For the past few years governments have been seeking investors to build and finance development, but have not been willing to participate in off-take guarantees. Consequently, their success has been extremely limited.

***Private Development**- Kenya*

The Near Future

Relatively recently, there is a palatable sense that things are starting to change. Ed Harkins from GKB Ventures, working with NMSI Developers, both UK companies have experience in brokering finance deals that allow such projects to progress. Ed working closely with NMSI has been able to raise cost effective and long term funding support from the UK Government for large scale housing projects in Africa at very low and attractive interest rates. These structures would typically require a sovereign guarantee from the host African government to make the project bankable and fundable.

In Kenya, the government has launched a program to deliver 1 million new homes by 2022, with the first pilot project for 8000 units to be awarded in the near future. Lagos state recently announced they would be funding the construction of 20,000 new homes in 2018. Funding for 10,000 houses in Zambia is soon expected to be approved. There are similar initiatives across the continent. To date there are cases where international developers and finance have been able to put programs together, for specific cases, which have enabled development to take place; but even these have progressed with great patience and 'creativity' needed to overcome the obstacles presented (most often by governments).

Whether these successful models can be 'systemised' and replicated, or whether other models emerge (these may include long term financing from international finance at fixed hard currency rates) there is certainly a need and an appetite to succeed.

There is a pressing immediate need for large scale investment into quality, formal high density housing development across African cities. Complex and outdated systems of property law and land ownership are in need of reform by governments and restrictive business and regulatory environments, especially for foreign investors, need to be addressed.

Property ownership can have a huge impact on economic growth. If individuals can raise money against property collateral, they can invest in businesses, which increases spending and the multiplier effect goes to work, stimulating increased economic growth.

The Africa Rising narrative, sustained by the commodity super-cycle may be over, but in its wake, sustainable development initiatives, properly structured and financed, capable of holding their own against other international investment opportunities, stand to form the basis of a new growth horizon.

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