

REVEALING THE HOLISTIC SOLUTION TO AFFORDABLE HOUSING

INTRODUCTION

Many countries in sub-Saharan Africa have housing and mortgage markets that are struggling to develop efficient and effective delivery mechanisms in order to address persistent national housing deficits. Typically, mortgage lending lags behind the growth of other consumer banking services because such lending requires long-term funding, low interest rates, enabling legal provisions for property rights and enforcement of defaulting loans, all of which are typically difficult to establish in emerging markets. In addition, long-term investor sectors – whether insurance firms, private pension funds, endowment funds, mutual funds and others – are not sufficiently established in most countries to provide the support the housing sector needs. In a similar fashion, housing markets and construction of new housing stock, particularly affordable housing, lag in development because most would-be purchasers need financing to complete their acquisitions. Lack of urban planning and lagging investment in infrastructure contribute significantly to this situation.

Every country has its own unique story, its own strengths and weaknesses, and its own mix of issues to address. That is why each country needs a tailor-made solution. This concept note advances the notion that a transformational approach is called for and that this approach is generally applicable to most countries. We are not speaking of the usual bolstering of banking firms with one-off long-term lines of credit, sometimes accompanied by limited technical assistance of one sort or another. Instead, we propose a new approach.

We propose the formulation, in a holistic and integrated approach, of a national business plan for the development of these sectors via a well-considered set of investment projects, and the follow-on implementation of such plans over a multi-year horizon. This business plan needs to be supported by appropriate, targeted technical assistance. When taken as an integrated whole, such a tailor-made business plan will be transformative and mutually reinforcing to the sectors in question and beyond, as well to the national economy due to well-known linkages and multiplier effects.

THE LINK BETWEEN HOUSING DEVELOPMENT AND MORTGAGE FINANCE

In each country, there is a logjam, meaning that housing markets are not developing in scale to meet housing needs because mortgage finance is not available to help fund purchases of homes, and mortgages markets are underdeveloped because a sufficient flow of bankable and affordable housing is not being produced. The overall picture is certainly more complex, since, for example, housing and mortgage markets are always sensitive to the level of interest rates, and, as noted, the rules governing property rights and the inability of lenders to foreclose on defaulted loans are well-known impediments. The transformational approach stems from this interrelationship and requires addressing both mortgage lending and the supply of bankable and affordable housing in a co-joined set of carefully tailored investment initiatives to be implemented simultaneously.

INITIATIVE A: HOME LOANS

A new, modern, focused, specialized and innovative lender is needed. This kind of lender, almost unique in most markets of Africa today, is needed to disrupt existing and failed banking models and change the status quo. Most banking firms in these markets concentrate their business development efforts at the short end of the yield curve. This is partially due to the uncertainties inherent in these economies, but also due to far easier access to shorter term savings deposits needed to fund lending operations. We are proposing a new disruptive model for home loans that incorporates a strong link to the local capital markets where long-term funds are more available. This enterprise can be successful if it is understood that the supply of affordable housing will be plentiful. Initially, competition will not be formidable. As this changes, volume and profitability can improve, if the enterprise is managed correctly.

INITIATIVE B: HOUSING PRODUCTION

Real estate developers can tap into a vastly under-served market, previously ignored because of the scarcity of housing finance. The margins in homebuilding can be attractive and generate significant returns on invested capital as long as developers can rely on the supply of affordable housing finance matching the demand created from homebuilding.