By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
LEVERAGING CAPITAL MARKETS FOR HOUSING FINANCE

Charles Inyangete, PhD
Chief Executive Officer
Nigeria Mortgage Refinance Company (NMRC)

May, 2016
A Value Chain Approach to Housing Finance

(Centre for Affordable Housing Finance in Africa, 2015)
A Value Chain Approach to Housing Finance

- **Land assembly / acquisition:** High cost of land & zoning pushes people out to the periphery: Kigali & Luanda … or onto hazardous land: Dakar.
- **Title / tenure:** Tiny mortgage markets because land cannot be secured: across Sub-Saharan Africa. Without secure tenure, poor housing investment by households fearing eviction leads to slums in Nairobi, slum landlords use political clout to maintain rental stream.
- **Bulk infrastructure:** Municipal under-investment and failure to provide infrastructure leads to higher housing prices / Poor road networks increases the cost of cement, leads to housing constructed with informal materials: Malawi, South Sudan, DRC / New city “islands” with private services: Tatu City in Nairobi.
- **House construction:** Absence or high cost of developer finance leads to small housing projects; up-front payments limit affordability. Few developers means little competition, houses expensive DRC, Zambia. Imported building materials means prices fluctuate. Standards that don’t accommodate affordability are never met, so quality is not achieved.
- **Sales & transfer:** The majority, even the wealthy, build their housing incrementally, themselves, so scale is not achieved.
- **Maintenance & ongoing improvements:** End-user finance hugely dependent on macro-economic health: impact on loan term, size, and cost: Malawi, Mozambique, Nigeria, Rwanda, etc.
- **Social and economic infrastructure:** Most housing paid with cash & savings; only the very wealthy afford formality: the Gambia. Absence of non-mortgage (housing micro) finance systems can also perpetuate slums.
MORTGAGE (RE)FINANCE and Economic Development

Mortgage finance is a mature and large industry across most developed economies, and is seeing rapid growth in emerging economies.

Mortgage Debt to GDP Ratio (in 2013 across multiple countries)

A good correlation is seen between the level of development and size of mortgage finance market.

There has been a strong push towards increasing homeownership as it is associated with improved saving and investment opportunities for households.

Mortgage market development is tightly linked with the quality of institutions and particularly the legal framework that governs financial contracts.
Nigeria <1%

- **Mortgage to GDP ratios** for emerging market economies with functional *Secondary Markets and Mortgage Refinance Facilities* are of significant values with the exception of Nigeria.

- It is however expected that Nigeria’s GDP to Mortgage numbers will grow in the next 5 years in view of NMRC’s activities and proposed partnerships with *State and Municipal Governments* across the country.
Affordable Housing in Africa The Need for Capital Markets

- 113 African companies listed on the London Stock Exchange (majority on the AIM)
- Total MCAP > $200bn
- Raised > $26bn in past 10 years
- London Africa’s fourth exchange by capital raised in 2015

Source: Thomson One / Baker & McKenzie
African Debt – Challenging times

• Sub-Saharan African Debt Credible Investment Option
• African Sovereign Bonds less attractive in past year due to;
  • China’s economic slowdown
  • Falling commodity prices
  • Rising US interest rates

❖ African Eurobonds yields spread increased from an average of 5.7% in April 2015 to 9.4% in February 2016. yields, in other emerging markets average yields increased from 4.6% to 5.4% over same period. (Source Bloomberg USD Emerging Markets Sovereign Bond Index)

❖ Effect is adverse impact on new issuance
- Zambia – 2012 Bond Issue 6 times oversubscribed
- Zambia - 2015 Bond Issue 2 times oversubscribed ($1.25bn offer)
- Kwacha – Worst performing currency in Africa in 2015
- Currency depreciation leads to higher costs of debt repayments
- Initial yield on Zambia’s 2012 bond – 5.63%
- Yield on Zambia’s 2015 bond – 9.38%
$1.25bn Eurobond in November 2015 is a growing risk due to falling oil income and lack of economic diversification, despite large scale infrastructure investment.

Despite estimated GDP growth of 3.5% in 2015, IMF outlook is a widening of current account deficit from 1.5% of GDP in 2014 to 7.6%.

Devaluation of the Kwanza twice – Inflation rose to 21.8% by January 2016.
Ghana’s recent Eurobond issue yield 10.75% despite a 40% World Bank Guarantee

10 of worlds 20 worst performing bonds in 2015 issued by African Governments
## Debt Profile of top 10 African Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Debt Outstanding (Current)</th>
<th>% of GDP 2015</th>
<th>% of GDP 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>+ $234.3bn</td>
<td>+ 45.4%</td>
<td>+ 44.8%</td>
</tr>
<tr>
<td>Egypt</td>
<td>+ $195.2bn</td>
<td>+ 91.7%</td>
<td>+ 93.7%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>+ $73.6bn</td>
<td>+ 11.7%</td>
<td>+ 10.8%</td>
</tr>
<tr>
<td>Morocco</td>
<td>+ $50.7bn</td>
<td>+ 73.4%</td>
<td>+ 73.8%</td>
</tr>
<tr>
<td>Kenya</td>
<td>+ $21.7bn</td>
<td>+ 48.6%</td>
<td>+ 46.3%</td>
</tr>
<tr>
<td>Angola</td>
<td>+ $20.7bn</td>
<td>+ 56.7%</td>
<td>+ 34.9%</td>
</tr>
<tr>
<td>Ghana</td>
<td>+ $16.8bn</td>
<td>+ 76.0%</td>
<td>+ 70.9%</td>
</tr>
<tr>
<td>Cote D Ivorie</td>
<td>+ $14.2bn</td>
<td>+ 52.3%</td>
<td>+ 45.5%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>+ $9.7bn</td>
<td>+ 52.6%</td>
<td>+ 50.5%</td>
</tr>
<tr>
<td>Zambia</td>
<td>+ $8.5bn</td>
<td>+ 60.3%</td>
<td>+ 37.3%</td>
</tr>
</tbody>
</table>

### African Debt Market

>$693bn

- The size of African Sovereign debt market has grown to over $693bn as at April, 2016.
- Debt outstanding for top ten African countries represents 93.1% of total outstanding debt in Africa for 2015.
- The percentage of debt to GDP for most African countries increased between 2014 and 2015.
Investor Response

- Cutting exposure to more high-risk debt, reducing demand for African bonds
- Total debt issuance in 2015 was $15.5 bn with 22% decline from 2014

Debt sustainability concerns. Ghana debt to GDP increase from 18% in 2006 to 41% in early 2016

Planned issues 2016
- DR Congo debt $1bn
Alternative Investments Opportunities

• **Securitisation Opportunities** – E.g. Solar Power boom –

• In East Africa, residential photovoltaic (PV) units and Solar Kiosks bring electricity to hundreds of thousands of homes.

• Maiden issue raised $500,000 from 2500 Kenyan contracts with average maturity 30 months
  - New bonds issued every 3 months in Kenya and Rwanda. Nigeria to follow.
  - Target $2bn in financing over 5 years set by UK’s BBOXX

• Niche Market becoming mainstream for both customers and investors. Structuring in a way understandable to institutional investors
Alternative Investments Opportunities contd…

• Islamic Finance

  Cote D’Ivoire, Gambia, Nigeria, South Africa and Sudan already launched Sukuk. Kenya to join.

*Regional Bond Trading platform in East Africa (East African Securities Association)*
– Mobile Trading Platform for treasury bond and integration of stock exchange to Kenya, Ugandan and Rwanda
• African business cannot grow without growing African capital markets.
• At regional / continental level, Africa needs to bring together policy makers, regulators, institutional investors and exchanges to address the challenges
Government securities, corporate bonds, commercial paper
Gives global visibility through inclusion in FMDQ Bloomberg e-Bond Trading System, transparency and price discovery
Member of the African Securities Exchanges Association (ASEA) and affiliate of International capital market association (ICMA)
**Market size** – Turnover value **N104 Trillion ($520bn)** in 2014 higher than the Nigeria Stock Exchange of N1.3 Trillion ($6.5bn). In **2015 Turnover N137 Trillion ($685bn)**
Adopts IOSCO’s principles for financial benchmarks and documented governance standards over NIBOR
CPs quoted N80.4bn ($402m) (StanbicIBTC, WEMA Bank)
Established 0.88 correlation of between crude oil price and the Naira

2016 Development
Development and listing of non-interest Islamic (Sukuk) products
A sustainable secondary mortgage market requires an efficient primary mortgage market.

**Standardisation**
- NMRC’s Uniform Underwriting Standards for eligible mortgage loans has now been finalized
- This process will effectively convert mortgage loans into commodities and lower costs of due diligence
- It will enable investors and rating agencies to quantify credit risk

**Legislative Reforms**
- The Model Mortgage and Foreclosure Law is being finalized for passage by Pilot States
- Successful passage will fast track the process for creating legal mortgages, ensure timely resolution of disputes and create an efficient foreclosure process

**Performance Data**
- NMRC is initiating an IT Framework that will link NMRC’s system directly to the participating mortgage lending banks’ mortgage information system
- Availability of credible historical performance data on mortgage loans (e.g., default and prepayment) will enhance risk assessment and pricing of NMRC’s credit risk

“NMRC has devoted considerable time to technical activities important in managing the risks inherent in mortgage lending and improving the enabling environment for the long-term benefit of market development and sustainability of the mortgage market”
NMRC brings with it huge Catalytic effect on the Capital Market as well as the Nigerian Economy as it creates an efficient primary mortgage market.

0.15% | N18.5 trillion (Current Residential Mortgage Value, CBN 2013)

“Whilst Mortgage Debt to GDP (Residential & Commercial Mortgage Loans) is c.0.35%, Residential Mortgage Loans to GDP is 0.15%”

Residential Mortgage Loan-to-GDP ratio in perspective, 2.0%

“If Residential Mortgage Loan-to-GDP ratio is increased from 0.15% to 2%, an additional mortgage loan of N1.2 trillion could be refinanced through the capital markets”

Note: The GDP figure is based on 2013 estimate and a GDP rise is expected in future.
Unlike most Emerging Economies, Nigeria has a developed Capital Market, NMRC is leveraging on this to create a new asset class for long term investors.

“With Potential Pool of investors grossing about thirty trillion naira, NMRC is an intermediation vehicle that will deepen the Nigerian Fixed Income Market.”

Key Potential Investors:

- **Total Pension Assets**: N4.2 trillion
- **Total Banking Assets**: N24.5 trillion
- **Total Insurance Assets**: N0.57 trillion
- **Total Assets (Potentially)**: N29.9 trillion
NMRC’s successful impact will create a Multiplier Effect on the Nigerian Economy

Cumulative Number of Houses financed by Cagamas

Cagamas refinanced 50,000 mortgages in 1987 and within 10 years, had refinanced 4.2 million houses. “NMRC can potentially refinance and achieve a similar feat in the Nigerian market.”

“For example, building of 100 new houses, will create 80 direct and indirect construction jobs and 42 jobs from other induced efforts”

In addition to these “real-time” jobs and economic activity, building 100 social housing units also leads to the long-term creation of 30 new jobs that support the ongoing consumer activity of these homes’ new residents

Housing Provision and Housing Finance-Linkages

- Land: Assembly/Acquisition
- Title/Tenure
- Infrastructure
- Housing Construction

Primary Market:
- Mortgage Creation

Secondary Market:
- Mortgage Refinancing

Securitization

Mortgage Finance Products - Guarantee Programme
Mortgage Development and Refinance Pipeline

Over 20 strategic and high profiled project valued at ₦5.73trn ($17.00bn) have been identified by NMRC for mortgage development.

20% (₦1.06trn or $3.3Bn) of Targeted Mortgage development over a 5yr period is Refinanceable by NMRC, which translates to ₦212bn or $0.66bn yearly.
Galls Law: A complete system that works is invariably found to have evolved from a simple system that worked… You have to start… with a working simple system.

– John Gall (1975, p.71)

NMRC IS A WORKING SYSTEM CONNECTING MORTGAGES TO CAPITAL MARKETS
THANK YOU
Housing finance in sub-Saharan Africa

Kecia Rust

Housing 2030

7th Global Housing Finance Conference
25-26 May 2016, Washington D.C.
What is different about housing today?

... in the face of persistent population growth & urbanisation, deteriorating government capacity and declining resources for subsidisation, and market interest looking for new niches...
African mortgage markets are tiny (and data is limited). Lower interest rates seem to correlate with larger mortgage markets.
Most countries offer mortgages at rates above 10%, and for less than 20 years, highlighting very real macro-economic issues that challenge housing affordability. In Malawi, one might as well buy a house with a credit card.
The limitations of housing affordability for even a $10,000 house

Enter your estimated house price in the box to the left to compare housing affordability across Africa. Click on the map to see country specific data to the right.

What is the monthly mortgage repayment for this house?

How many urban households can afford this house in Malawi?

To change the country of this graph, click on the map to the left.

What is the annual income distribution of households in Malawi?

© OpenStreetMap contributors

Data: CAHF survey, 2015

1 Targeted innovation

Mortgage liquidity facilities
- Draws investors and lenders into the mortgage market
- Encourages government to engage in market development
- Creates investment precedent and a documented track record
- Signal to the housing sector that finance is available
- Focuses efforts on opportunities for growth

Real Estate Investment Trusts
- Internationally accepted investment structure
- Aggregators: enabling big money to meet small projects
- In Kenya, Tanzania, South Africa, Zimbabwe: different versions of Development REITs and Investment REITs

New models to go down market
- Rent-to-buy
- Housing microfinance
- Employer-supported housing
- Social rental & small scale landlordism

Growing track record & investor interest
2 Better technology

- **Big data** platforms offer a better connection to the target market
- Merging datasets on **GIS platforms** shows spatial investment opportunities
- Innovative “alternative” **building technologies** reduce construction costs and realise other efficiencies
- **Blockchain technology** overcomes issues of recording ownership: Bitnation, in Northern Ghana

New opportunities for efficiency & targeting
3 Sharpening practice

- NGOs and social movements adopting commercial practice
  - REALL, with NGOs in in Mozambique, Malawi, Kenya, South Africa, Tanzania
  - Habitat for Humanity
  - Kuyasa Fund, South Africa
  - NACHU, Kenya

- Lenders broadening their business model to accommodate opportunities and engage with constraints
  - Select Africa in Malawi, Kenya, Swaziland
  - KixiCredito in Angola
  - Trust for Urban Housing Finance in South Africa
  - Shelter Afrique

- Investors coming better to understand their niche markets
  - International Housing Solutions
  - Phatisa’s Pan African Housing Fund
  - Lions Head Global Partners

Consolidating the sector
Housing Finance Kenya’s approach to the capital markets

4 Government interest & reporting

- Kenya Central Bank Report
- Tanzania Central Bank Report
- Nigeria Housing Finance Hub (NMRC)

- Enabling environment – housing part of a growth agenda
The time and / or cost is coming down in many countries:

**Time:** Rwanda, Burundi, Morocco, Lesotho, Cote d’Ivoire, Guinea Bissau, Sierra Leone, Senegal. Up in Namibia

**Cost:** Rwanda, Malawi, Angola, Mozambique, Niger, Togo, DRC, Cote d’Ivoire, Comores, Sierra Leone, Senegal, Nigeria. Up in Zambia, Namibia

Thank you!

Kecia Rust
kecia@housingfinanceafrica.org
www.housingfinanceafrica.org
+2783 785 4964

https://www.facebook.com/HousingFinanceAfrica?
ref=hl
Twitter @CAHF_Africa
Twitter @AUHF_Housing

Join us:

The Housing Finance in Africa 2015 Yearbook can be downloaded from