Tackling the Housing Affordability Challenge

Roland Igbinoba,
MD/CEO FHA MORTGAGE BANK &
FOUNDER, PISON HOUSING COMPANY
State of Housing in Nigeria
The economy plays a more than important role in the availability and affordability of housing for any country, especially as it pertains to affordability. The current economic situation in Nigeria, has not very much favored housing affordability. However, a London-based World Economics report declared that Nigeria’s economy is showing prospects and that the economy will recover from the recession by months to come.
Weakened Naira

Taming the Naira
The black market rate's trading near a record spread

- Official interbank rate
- Black market rate

Spread between black market and official rates

Source: Bloomberg, abokifx.com
2015/2016 Economic Effect

- 2016 recorded 8.20 per cent as sectoral contributions to GDP, which is a decline compared to 8.74 percent in 2015.

- With a maximum lending rate from most of the lending banks (87 per cent of them) being between 24-36 per cent per annum.

- Mortgage financing to property buyers is between 20 – 27 percent.

- Relatively difficult Q3 and Q4 in 2016, which was largely characterized by increasing inflation rate which closed at double digit 18.48%.

- High Dollar to Naira exchange rate; which gave rise to a lot of increase in materials required for Real Estate development.
According to the World Bank, only 3% of the population in Africa has an income sufficient to support a mortgage.

In part, this has to do with low levels of affordability for mortgage finance.

36.5% of Africa’s population earn less than US$ 2,00 per day. This is the international poverty line.

- 24% earn US$2 - $4 per day
- 9% earn US $4 - $10 per day
- 10.8% earn US$10 - $20 per day
- 18.8% earn above US$20 per day

In most cases, subsidies don’t bridge affordability to buy a new house. In others, they cause new affordability challenges.

Slide Source: Center for Affordable Housing Finance, 2012
The Nigerian Housing Market

DEMAND Vs. SUPPLY
Income Pyramid Vs Affordability

Chart 27 Socio-economic Classification by income Source: Pison Housing Company
There is a housing crisis in Nigeria
Do you see why?
Two sides of Nigerian cities: strong growth, clear demand, but poor housing

LAGOS

ABUJA

Slide Source & Inspiration: Center for Affordable Housing Finance, 2012
I. NIGERIAN MORTGAGE REFINANCE COMPANY

II. ECONOMIC RECOVERY GROWTH PLAN – N500 BILLION FOR HOUSING

III. FAMILY HOME FUNDS

IV. FEDERAL INTEGRATED STAFF HOUSING PROGRAM (FISH)

V. RECAPITALIZATION OF FMBN

VI. CENTRAL BANK OF NIGERIA REFORMS

VII. NIGERIAN HOUSING FINANCE PROGRAM – WORLD BANK ASSISTED

BUT GOOD NEWS.....
About NMRC – Ownership Structure

- NMRC will from time to time raise additional Tier 1 capital to meet regulatory requirement for expanding business scale.

- The Company’s Tier 2 Capital include a Subordinated Loan of N23.3 Billion (US$ 120 Million), a World Bank IDA Loan to the Federal Republic of Nigeria for funding of the Housing Finance Programme. The role of the IDA loan is: (i) To strengthen balance sheet and (ii) To ensure sustainability of the model as it will provide confidence in the credit standing of NMRC as a bond issuing entity.

- NMRC has drawn a total of US$120 Million being the first and second tranches from the IDA Facility following compliance with the effectiveness conditions of the World Bank.
The Country has a Fairly Regulated Market

Regulators

Federal

States

FMH&UD

CBN

Housing Cooperation's

Private Sector

Professional Institutions

Associations

FHA

FMBN

e.g. NIESV, NIQS, NIA, NIOB, NITP

e.g. REDAN, MBAN, HoFPAN
In order to have a fair view of what the housing affordability issues presently are in the country, we would be analyzing housing issues from the demand and supply perspectives. Taking a critical view at the two major cities in the country;

I. Abuja Housing demand analysis
II. Abuja Housing supply analysis.
III. Lagos Housing demand analysis
IV. Lagos Housing supply analysis

For Abuja because it is the Federal Capital Territory of the country, and Lagos because it happens to be the commercial capital of the country.
Rental Default

Rate of Rental Default at any point in time

29% 71%

Chart 37
What are people saying?

Prospective house owners: Preferred type of house

<table>
<thead>
<tr>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would prefer to own tenement house</td>
<td>2%</td>
</tr>
<tr>
<td>Would prefer to own semi-detached house</td>
<td>2%</td>
</tr>
<tr>
<td>Would prefer to own a detached house</td>
<td>9%</td>
</tr>
<tr>
<td>Would prefer to own a terrace</td>
<td>3%</td>
</tr>
<tr>
<td>Would prefer semi-detached bungalow</td>
<td>5%</td>
</tr>
<tr>
<td>Would prefer detached bungalow</td>
<td>27%</td>
</tr>
<tr>
<td>Would prefer to own flats</td>
<td>51%</td>
</tr>
</tbody>
</table>

Barriers to Housing Acquisition

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have not found one that suits my choice/spec (House type)</td>
<td>4%</td>
</tr>
<tr>
<td>Cost of maintenance is high as against renting one</td>
<td>7%</td>
</tr>
<tr>
<td>I would rather build/own in my home state first</td>
<td>10%</td>
</tr>
<tr>
<td>I have not found one that suits my location</td>
<td>11%</td>
</tr>
<tr>
<td>I cannot face the challenges of obtaining building approval</td>
<td>11%</td>
</tr>
<tr>
<td>I cannot face the challenges of obtaining C-of-O of land</td>
<td>12%</td>
</tr>
<tr>
<td>I can't afford the price of purchasing land</td>
<td>35%</td>
</tr>
<tr>
<td>I can't afford the cost of building materials</td>
<td>42%</td>
</tr>
<tr>
<td>My salary can't accommodate the money involved in buying a house</td>
<td>57%</td>
</tr>
</tbody>
</table>

Chart 54: Preferred type of house

Chart 44: Barriers to Housing Acquisition
Constraints to Affordable Housing in Nigeria

Source: IBAN – Business Model Generator
Abuja Housing Demand Analysis

The percentage of the people that actually own a home to those that do not, is one to be worried about, as most of the people that do not own homes are in that position simply because they can not afford it.
Abuja Housing Demand Analysis

Reasons for inability to own a house currently

- I cannot afford the cost of building materials: 46.6%
- I cannot afford the cost of purchasing land: 33.3%
- My salary cannot afford accommodation money: 18.3%
- Cost of acquiring a house is high: 6.2%
- Have not found one that suits my choice: 3.9%
- I would rather build/own in my home state: 3.5%
- Challenge of producing certificate of occupancy: 2.4%
- Have not found one that suits my location: 2.1%

Chart 19
Individuals are the major suppliers

Current Type of Environment

- Individual dwelling: 95.9%
- Government Estate: 2.3%
- Private Gated estate: 1.2%
- Gated street dwelling: 0.6%

Chart 30
Housing Finance Plan – Abuja

**Housing Finance Plan**

- **Personal saving**: 75.1%
- **Through government scheme**: 16.3%
- **Through instalment payment**: 4.6%
- **Through family savings**: 3.7%
- **Through mortgage loan from**: 3.7%
- **Through cooperatives**: 3.6%
- **Through microfinance loan**: 1.6%
- **Loan from a commercial bank**: 0.9%

*Chart 61*
Will they move to suburbs?

**Willingness to buy house outside FCT**

- Very unwilling: 3.3%
- Unwilling: 17.6%
- Neither unwilling nor willing: 9.9%
- Willing: 51.8%
- Very willing: 17.5%

*Chart 56*
In Lagos.....

**Intended Method of House Acquisition**

- **I will buy a land and personally supervise the building**: 54.9%
- **I will buy an already built house**: 27.1%
- **I will buy a land and ask a supervise the building**: 7.0%
- **I will buy an off plan sale**: 4.4%
- **I will buy an already built house and renovate**: 3.5%

*Chart 48*
How do they want to acquire Land?

Chart 49

Intended Method of Land purchase

- Land speculators: 1.0%
- Individual: 49.8%
- Government reserve: 47.0%
- Others: 2.2%
What house do they need?

Preferred Type of House to Own (Base - 3,049,590)

- 83.3% Would prefer to own a flat
- 5.3% Would prefer to own a bungalow
- 2.4% Would prefer to own a detached house
- 1.1% Would prefer to own a semi-detached house
- 1.0% Would prefer to own a tenement house
- 0.8% Would prefer to own a terrace
- 4.0% Others

Chart 54
Lagos Housing Demand Analysis (Contd.)

Barriers to Housing Acquisition

- I have not found one that suits my choice/spec (House type)
- Cost of maintenance is high as against renting one
- I would rather build/own in my home state first
- I have not found one that suits my location
- I cannot face the challenges of obtaining building approval
- I cannot face the challenges of obtaining C-of-O of land
- I can’t afford the price of purchasing land
- I can’t afford the cost of building materials
- My salary can’t accommodate the money involved in buying a house

Chart 44: Barriers to Housing Acquisition
Tracking Effective Demand - RI INDEX

LAGOS HOUSE PRICE MOVEMENT

Q1, 2016 | Q2, 2016 | Q3, 2016 | Q4, 2016 | Q1, 2017

5 Bedroom House | 4 Bedroom House | 3 Bedroom House

50 | 60 | 70 | 80 | 90 | 100 | 110
Tracking Effective Demand – RI INDEX

**ABUJA HOUSE PRICE MOVEMENT**

- **5 Bedroom House**
- **4 Bedroom House**
- **3 Bedroom House**

<table>
<thead>
<tr>
<th>Year</th>
<th>5 Bedroom House</th>
<th>4 Bedroom House</th>
<th>3 Bedroom House</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1, 2016</td>
<td>105</td>
<td>100</td>
<td>95</td>
</tr>
<tr>
<td>Q2, 2016</td>
<td>95</td>
<td>90</td>
<td>85</td>
</tr>
<tr>
<td>Q3, 2016</td>
<td>85</td>
<td>80</td>
<td>75</td>
</tr>
<tr>
<td>Q4, 2016</td>
<td>75</td>
<td>70</td>
<td>65</td>
</tr>
<tr>
<td>Q1, 2017</td>
<td>65</td>
<td>60</td>
<td>55</td>
</tr>
</tbody>
</table>
Dissemination of the right kind of information: A lot of people including the government still do not fully understand the REAL factors that are militating against the availability of affordable housing in the country.

But with conscious programs like a housing price index, and regular CONVERSATIONS BACKED WITH ACTIONS on the changes in the sector, the various players can make informed decision towards the provision of affordable housing solutions.

Implementation of effective housing policies and laws: the Federal government should make conscious efforts towards making investment into the sector more conducive for investors, by developing sustainable and inclusive ACTION PLANS

Provision of tax incentives for mortgagors, as well as title insurance.

SO WHAT NEEDS TO BE DONE?
SO WHAT NEEDS TO BE DONE?

- Provision of primary infrastructure and housing subsidy; all this would reduce the cost of housing production, which would translate to housing affordability.

- Continuous research on housing developments and changes in trends, like house prices, technological developments, and government policies.

- Aggressive development of site and service by Government

- Development of the Building Materials manufacturing by Government

- Waivers and Concession on Building Materials
MORE IMPORTANTLY
Deliberate Coordinated Efforts Across the Supply & Demand Related Institutions

A successfully coordinated approach at the institutional level will subsequently pave the way for a strategic and successful advocacy for tackling the affordability challenge in Nigeria and other markets in the sub-Saharan Africa region.

QUICK WINS:
A coordination of all the relevant agencies will in the immediate term attract foreign investors and new building technologies into the country.
“Problems cannot be solved by the same level of thinking that created them.”

Albert Einstein
The Land is still GREEN
Real Estate Information Centre
www.reic-ng.com

Property Listing Portal
www.reiclist.com
Thank you

Contact: rigbinoba@gmail.com