



KITARI CONSULT LTD

“Achieving Affordable Housing Delivery in Nigeria by creating 500,000 Housing Units by the year 2016 ”

A lecture presentation to Aso Affordable Housing Conference and Exhibition in Abuja – April 2013



CONFIDENTIALITY

This presentation has been prepared by Kitari Consult Limited exclusively for the benefit of the internal use of the Aso Housing Conference and Exhibition, to whom it is directly addressed and delivered (including its subsidiaries and affiliates) in order to assist in creating awareness and building capacity in mortgage lending, housing development, land reforms and urban renewal, and does not carry any right of publication or disclosure, in whole or in part, to any other party.

This presentation is for discussion purposes only.

OUTLINE

Confidentiality

Outline

Who we are

Objectives

Preamble

Housing Markets

Facts

Why Land?

Why Housing?

Core Facts

- Why Mortgage?
- Key Challenges of the Mortgage Sector
- Structure of the Housing Finance System
- Challenges of Housing
- Role of Government
- Targeted Housing Subsidies
- Objectives of Subsidies
- Types of Subsidies
- Strategic Household Subsidies
- Needed Policy Improvements
- Summary Recommendations
- Critical Actions
- Conclusion



WHO WE ARE

Kitari Consult Limited is a private consulting and advisory services company registered under the laws of the Federal Republic of Nigeria to provide a platform for the provision of specialised services in the following:

- Housing Finance Consulting
- Asset Securitisation and REIT Deal Structuring
- Real Estate Development and Management
- Land Reforms and Urban Renewal Consulting
- Aviation and Airline Advisory Services

OBJECTIVES

- Create awareness about the importance of mortgages in creating an affordable housing market
- Create awareness about the importance of land and housing to economic development and stability
- Bring stakeholders together to discuss and take advantage of their silent wealth in housing
- Link Nigeria's mortgage market to the capital market for sustained liquidity to the sector
- Increase housing contribution to Nigeria's GDP
- Contribute to Nigeria's quest of being among the 20 largest economies of the World by or before year 2020

PREAMBLE

"Imagine a country where nobody can identify who owns what, addresses can not easily be verified, people can not be made to pay their debts and taxes, resources can not conveniently be turned into money, ownership can not easily be divided into shares, description of assets are not standardized and can not easily be compared, and the rules that govern property vary from region to region..."

"If there is so much dead capital in the hands of poor people, why have't governments in developing countries tried to tap into this potential wealth?"

(Hernando de Soto, The Mystery of Capital)

I believe that many of you will agree with me that the above two quotes describe Nigeria for the most part

HOUSING MARKETS FACTS

- Population----- About 162 Million (World Bank - 2011)
- GDP----- About \$236 Billion (World Bank - 2011)
- Rate of Population Growth (National)----- 2.8%
- Rate of Population Growth (Urban)----- 5.6%
- Mortgage Loans & Advances/GDP----- less than 0.1%
- Mortgage Loans/Total Bank Loans----- less than 0.5%
- Estimated Housing Deficit----- 16 Million (World Bank)
- Per capita income/year----- \$1575/ household
- High income inequality:
 - Highest 20% of population receives----- 85% of income
 - Lowest 80% receives only----- 14% of total income
- Majority of people have informal sector jobs
- Majority have unclear or no title to land
- Negligible proportion of newly formed households qualify for a mortgage

WHY LAND?

- Land is the main source of wealth as it is the main infrastructure of production
- Land is mineral resources
- Land is agriculture (food security)
- Land is wealth and Land is security
- Land supply has to be expanded and title perfection must be made faster, cheaper and easier.
- Developers must be given incentives (not money) to build affordable housing, as this will create absolute demand

WHY HOUSING?

- Housing is a psychogenic need, next to food and clothing
- Housing plays a special role in the social and political dialogue in most societies
- Housing is a major component in creating stable and healthy communities and is often the largest single household expense
- Housing can be a sector for stimulus of the national economy
- Housing is a source of family pride, national identity and national security

CORE FACTS

- Nigeria has experienced rapid urbanization with nearly 50 per cent of the population living in urban areas
- This urbanisation has proceeded in an uncontrolled and unplanned manner, which has given rise to congestion in urban housing
- There's an estimated deficit of about 16 Million homes, and household formation is very key to closing the gap
- Need to produce as many new houses in urban areas as new households arriving or forming in urban areas
- Critical importance of supply facilitation of housing products in the formal sector
- Cost of new urban housing should be in line with income levels of urban middle class
- There's urgency of reaching scale development and lower cost of housing

WHY MORTGAGE?

- Mortgage is the market creator for affordable housing
- Developers will not produce without end user finance
- Affordability is seriously impacted without finance
- Mortgage is savings and investment
- Mortgage is tax benefit
- Mortgage is credit enhancement
- Mortgage is economic stimulator
- Mortgage in national database for household address
- Mortgage is national security
- Mortgage is patriotism

CHALLENGES FACING THE MORTGAGE SECTOR

- Lenders always asking for up-front off-takers
- Missing credit information on potential mortgagors
- Governments hardly invest in infrastructure to open up new urban layouts
- High cost of housing precludes low-income earners from having access to suitable shelter
- Very high cost of serviced urban land
- The land Use Act of 1978
 - Consent to assign
 - Consent to mortgage
- Lack of central information management
- Encumbrances on transferability
- Little investment in new neighborhood infrastructure

STRUCTURE OF THE HOUSING FS

- Primary Market
 - Origination
 - Underwriting
 - Servicing
- Secondary Market
 - Loan purchase and portfolio packaging
- Capital Market
 - Liquidity Facility
 - Agency Bonds
 - Mortgage Bonds
 - Mortgage Securitisation

CHALLENGES FACING THE HOUSING FS

- Dysfunctional Secondary Market
 - No link to Capital Markets
- Market and Policy Failure
 - Macro-economic volatility
 - Government instruments have crowded the market
 - Capital Market more of an equities market, with very low private debt issuance
 - Judiciary obstacles to enforce credit laws
- Incomplete Credit Markets
 - Lack or asymmetry of information (on prices/credit)
 - Risks and costs to reach low/middle income segment are too high for markets to develop

ROLE OF GOVERNMENT

- Establish an effective land administration system to make land ownership available, accessible and easily transferable
- Fund an empirical research for the establishment of an efficient primary mortgage market
 - Provide information and research on the sector
- Establish an effective legal and regulatory framework (like a National Housing Commission) to enforce the control and monitoring of housing delivery
 - Bring housing/land regulations in line with incomes of low and lower-middle income groups
- Provide targeted subsidies to facilitate home ownership to lower income groups
 - Subsidize households to bring their housing consumption to acceptable standards

ROLE OF GOVERNMENT (CONT'D)

- Establish a mortgage and title insurance system that will mitigate credit risk
- Improve efficiency of debt finance systems
- Provide advocacy for the swift amendments of pending bills at the legislature
- Facilitate the linkage of the mortgage market to the capital market to provide sustained liquidity
- Support the knowledge base for the housing sector, as that may be the best investment of government

An efficient HFS will help develop the private debt market, and that will provide an alternative source of borrowing for project finance, which will subsequently reduce demand for bank borrowing

TARGETED HOUSING SUBSIDIES

- Subsidies are often perceived as giving or receiving something for free, which is wrong.
- That notion is misleading, it will therefore be helpful to more explicitly define the subsidy concept.
- We consider from a broad perspective that **“a subsidy is an incentive provided by government to enable and persuade a certain class of producers or consumers to do something they would not otherwise do, by lowering the opportunity cost, or otherwise increasing the potential benefit of doing so.”** (adapted from the US Congress 1969).
- *A Subsidy is about changing behavior of households or housing producers and lenders.....*

OBJECTIVES OF SUBSIDIES

- Improve efficiency of housing finance systems (lower cost) and expand housing finance to underserved markets
- Improve societal equity or political stability by assisting selected household groups to:
 - upgrade the quality of the physical housing capital (rental or ownership)
 - expand homeownership as a tenure choice
 - Create an underserved market

TYPES OF SUBSIDIES

- Subsidies to increase housing related purchasing power (rental or ownership)
 - Cash/land grant
 - Interest rate subsidies
 - Tax subsidies
- Subsidies to overcome constraints in accessing housing finance
 - Down payment assistance/Improve Loan-to-Value ratios
 - Collateral improvements
 - Counseling
 - Taking micro-finance institutions to underserved communities
- Sometimes both types are needed

STRATEGIC HOUSEHOLD SUBSIDIES

- Lump-sum cash grant towards down payment or loan
- Transparent interest rate subsidy/buy down for initial period of the loan
- Payment for mortgage default insurance
- Serviced lot as subsidy
- Improved access to market micro-finance (avoid government lending)
- Upgrade informal areas
- Free/cheaper and faster titling and registration to low income land and house owners

SUMMARY RECOMMENDATIONS

- Reduce the cost of housing production
- Provide primary infrastructure to open up new layouts
- Establish a functional secondary mortgage market operation to enhance liquidity in primary market
- Link the mortgage market to the capital market
- Introduce Uniform Underwriting Standards
- Provide accounting & tax incentives
- Reduce multiplicity of taxes
- Re-visit the NV20:2020 NTWG Report on Housing
- Advocate for the swift passage of pending legislations
 - Quick and cheap transferability of titles
 - Functional asset securitization
 - Clear and enforceable administrative foreclosure laws
 - Enforceable eviction policies

CRITICAL ACTIONS

- Provide **information and research** on the sector
- Stimulate establishment of **credit insurance** or share some of the risk in mortgage insurance
- Assist the strengthening of **micro-finance lenders**
- Provide funding for **borrower education** programs (highly successful in South Africa and US)
- Improve **collateral stability** by investing in risky neighborhoods
- Administer **targeted housing subsidy** to lower income class
- Open up new **serviced layouts** with primary infrastructure
- Provide **end user finance** to enhance affordability

CONCLUSION

- “By making assets capable of being mobilized, combined or divided to suit any transaction, by attaching owners to assets, assets to addresses, ownership to enforcement, and by making information on the history of assets and owners easily accessible, formal property systems will convert our people into a network of individually identifiable and accountable business owners, and it will make our country more prosperous, secure and sustainable”.
- “As in the Indian acres of diamonds story, the seeds of fortune are closed at hands, so our leaders need not wander around foreign capitals looking for FDI, because in the midst of our own poorest neighborhoods lie, if not acres of diamonds, trillions of dollars”. Hernando De Soto.